THE FINANCIAL IMPLICATIONS
OF PAYING COLLEGE
ATHLETES

by

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INTRODUCTION

"Underlying most arguments against the free market is a lack of belief in freedom itself." Milton Friedman's words echo the classrooms of most economics classes in the United States. America is foundationally engrained in a market economy and it is what determines prices. Simply put, supply and demand determine prices. When there is a large demand for a good or service, e.g. sports in the United States, prices for things such as contracts, tickets, concessions, television contracts, etc. will be much higher. Theoretically, supply and demand should be equal in a free market. One of the more important tenets of the free market is the idea that supply and demand should be unhindered by the control of a monopoly. Monopolies control prices and exploit consumers because the monopoly knows that the consumer has limited choice. A labor monopoly (or monopsony) sets the wages its employees can earn, which means that the monopoly is making more from consumers and having to pay suppliers less. In the United States, there are anti-trust laws to prevent the creation of such monopolies.

I examine whether the NCAA is a labor monopoly and if the current college sports structure needs to be altered. The National Collegiate Athletic Association (NCAA) is a non-profit organization that organizes the athletic programs for many colleges and universities in the United States and Canada. It is headquartered in Indianapolis, Indiana and its president is Dr. Mark Emmert. According to its website, the NCAA protects student-athletes and continues to implement that principle with an emphasis on both academics and athletics (NCAA.org). "Student-athlete" is the main term used to describe college athletes. However, many believe student-athletes represent the latter part. It is generally accepted that the NCAA can promote these athletes and generate revenue from the athletes' efforts. For 2011-12, the most recent audited year for the NCAA, revenue was $871.6 million. In 2010, CBS and Turner Broadcasting agreed to pay $10.8 billion to broadcast the NCAA men's basketball tournament from 2011 to 2024 (Nocera, 2012). The CBS and Turner deal represents around 90% of the NCAA's yearly revenue. The organization is non-profit and most of their revenue goes back to the member institutions to support their athletic programs and student-athletes. At the surface, the NCAA appears to be a great support system for its member institutions and student-athletes. Recently, however, critics of the NCAA scrutinize the organization.

REVIEW OF LITERATURE

Criticism

Critics of the NCAA believe the organization is a cartel and operating as a labor monopoly. The United States has many anti-trust laws that ban monopolies so that markets stay efficient and competitive. The NCAA puts caps on the amounts that its employees (student-athletes) can make in the form of an athletic scholarship. So why is the NCAA allowed to operate in this manner where they can set prices and wages? The NCAA believes that scholarships are more than sufficient payments for the students. At first glance, a scholarship to a school should be enough for many athletes as they are given a free education to succeed in their professional careers. There are millions of college students that would love the opportunity to go to school for free, but there is a growing sentiment that athletes should be offered more for their contributions to universities. One of the major arguments is that student-athletes are being exploited. There are generally two arguments used to demonstrate the exploitation of student-athletes. The first is student-athletes, many of whom are making large amounts of money for their schools, often are not receiving any kind of legitimate, quality education. The second is compensation student-athletes receive in the form of athletic scholarships is not comparable to the marginal revenue products they individually generate for colleges (Wertheimer, 2007; Brown & Jewell, 2004). The NCAA manual, however, states that the mission of the NCAA is "to protect student-athletes from exploitation by professional and commercial enterprises" (NCAA Manual 2011, p. 4). Many critics believe that this is hypocrisy, and that the NCAA is not protecting its student-athletes but rather the enterprise that is exploiting them.

In most businesses, employees receive larger salaries and bonuses when they create financial surplus for their companies. Student-athletes generate millions of dollars in revenue for their universities, yet their compensation is capped each year at the value of a scholarship. So are student-athletes being exploited? And what are the financial implications for the NCAA, universities, athletic departments, and student-athletes?

Example of a Student-Athlete

College sports have become one of the largest forms of entertainment in the United States. The television contracts are enormous and revenue is flowing into universities at an unprecedented rate. It seems that football and basketball rankings are becoming more important to perspective students than rankings in business, journalism, nursing, etc. There is a key reason to this phenomenon: advertising, and specifically free advertising. For instance, a study by Joyce Julius & Associates found that, last season alone, Johnny Manziel was worth $37 million in "media exposure" (free advertising) for Texas A&M University (Reilly, 2013). Manziel is the quarterback for the Texas A&M football team, and he happened to win the Heisman Trophy (award given to the most outstanding college football player) in his freshman year. He was the face of the Aggies in their inaugural season in the Southeastern Conference, and did not disappoint. The Texas A&M bookstore sold out of 2,500 replica jerseys by December. His nickname is "Johnny Football" and one man on eBay sold 625 "Johnny Football" shirts for $20 each. Texas A&M saw a large increase in donations and applications, and the football coach all received raises after the football season (Reilly, 2013). How much money did Manziel see of all this? He did not get one penny. The NCAA does not allow their student-athletes to receive any compensation outside of their athletic scholarship. If Manziel sold one autographed jersey, he would be violating NCAA rules. In a free market, Manziel would be entitled to a share in the profits but the NCAA does not operate in a free market.

Arguments against Paying Athletes

Should Manziel get paid? There are several objections to the argument of paying college athletes, and the common ones are as follows: (1) Top-tier college athletes are paid in the form of scholarships. (2) They are "student-athletes" and paying them wages would take away from the student aspect. This would transform college sports into professional and take away from the education of the universities. (3) It is unfair that some student-athletes generate enormous revenues for their schools and do not get any of the benefits, but paying the athletes would be a logistical nightmare and impossible to make a fair revenue distribution scheme (Currie, 2011).

Scholarships

All of these objections are compelling and will be addressed individually. The argument that the students are already getting "paid" in the form of scholarships is valid, but data shows that for many Division I athletes it is not near equal to the revenue the athletes bring to the universities. The wins produced calculation is used in the professional basketball league (NBA) in the United States to determine how many wins each individual is responsible for and how much each win is worth. David Berri is a sports economist and professor at Southern Utah University. He used the same wins produced calculation for the 2012-2013 Indiana University basketball team. Using conservative estimates, he found that each win is worth $100,000. The following table shows the results (Berri, 2013).

Indiana 2012-13	**Wins Produced**	**Wins Produced per 40 minutes**	**Marginal Revenue Product**
Victor Oladipo	7.37	0.318	$737,129
Cody Zeller	5.66	0.233	$565,992
Jordan Hulls	4.56	0.189	$456,377
Kevin Ferrell	3.23	0.139	$323,131
Christian Watford	2.92	0.128	$291,740
Will Sheehey	2.42	0.133	$242,386
Remy Abell	1.64	0.160	$164,178
Jeremy Hollowell	0.60	0.082	$60,374
Maurice Creek	0.43	0.094	$42,661
Hanner Mosquera-Perea	0.28	0.105	$28,060
Jeff Howard	0.25	0.278	$24,976
Austin Etherington	0.24	0.208	$24,457
Derek Elston	0.14	0.050	$13,742
Raphael Smith	0.10	0.225	$10,139
Taylor Wayer	0.02	0.086	$2,138
Peter Jurkin	-0.03	-0.165	-$2,879
TOTALS	29.85		$2,984,604

A full scholarship to Indiana University is worth about $30,000 so nine of the players above generated more revenue than the value of their scholarship. Many players generated far more revenue than the value of a scholarship. This makes an argument for an equity-model, which pays players based on the amount of revenue they bring in to the school. Of course, there are also seven players that did not generate enough revenue to cover their scholarship. The argument could be made that Indiana basketball generates more revenue than most schools and certainly other college sports. Leo Kahane, an associate professor of economics at Providence College, found that top-flight college hockey players generate between $131,000 and $165,000 in added revenues to schools. The NCAA reports that the average value of an athletic scholarship for 2008 is between $14,000 for in-state public schools to $32,000 for private schools (National Collegiate Athletic Association, 2010). This implies that a premium college hockey player generates rents in excess of $100,000 per year for the typical institution (Kahane, 2012). College football and basketball are not the only sports that drive revenue for universities, but they will remain the focus because of television exposure.

Education

The next argument is grounded in the fact that the student-athletes are still students and if they received wages than it would take away from the education of the colleges and universities. This is a valid argument because through their scholarships, student-athletes are required to make certain grade point averages in order to remain on their specific team. Graduation rates are increasing for student-athletes, which is a good thing when fewer than 2% of college athletes turn professional. Student-athletes are students that go to class and put in study hours, but they are far more restricted than the average college student. College students on work-study and that hold campus jobs are allowed to be paid by the university, and any student can accept donations from alumni. However, college athletes can get their university sanctions from the NCAA if they accept anything from donors or boosters. Another point of contention is that it is difficult for athletes to take full loads in semesters where their sport is being played. Scholarships are only offered up to four years (except when players are red-shirted) and many student athletes are not even allowed to take enough classes to graduate in four years. Student-athlete is the main term used by the NCAA, however, it appears the argument can be made that student-athletes are hardly students at all.

Logistical Issues

Several economics research articles have estimated the marginal revenue product (MRP) of a student-athlete in major college sports. The most recent study finds that the median MRP was about $44,000, which exceeds the average value of a scholarship, and that the mean MRP was over $91,000. For the best players, MRP exceeds $1,000,000. This evidence demonstrates that the NCAA limit on financial aid not only is a binding constraint on colleges but that it reflects the exercise of considerable market power. (Robert W. Brown, "An Estimate of the Rent Generated by a Premium College Football Player," *Economic Inquiry* Vol. 31 (1993), pp. 671-84; Robert W. Brown, "Measuring the Cartel Rents in the College Basketball Player Recruitment Market," *Applied Economics* Vol. 26 (1994), pp. 27-34; Robert W. Brown and R. Todd Jewell, "Measuring Marginal Revenue Product in College Athletics: Updated Estimates," in John Fizel and Rodney Fort, *Economics of College Sports* (2004), Praeger, pp. 153-162; Robert W. Brown, "Research Note: Estimates of College Football Player Rents," *Journal of Sports Economics* Vol. 12 (2011), pp. 200-12; and John Leonard and Joseph Prinzinger, "An Investigation into the Monopsonistic Market Structure of Division One NCAA Football and Its Effect on College Football Players," *Eastern Economic Journal*, Vol. 10 (1984), pp. 4557-67. For a review of some of this research see Lawrence M. Kahn, "Markets:

Cartel Behavior and Amateurism in College Sports," *Journal of Economic Perspectives* Vol. 21 (2007), pp. 209-26. Erin Lane, Juan Nagle and Janet S. Netz, "Alternative Approaches to Measuring MRP: Are All Men's College Basketball Players Exploited?" *Journal of Sports Economics*) However, how would you pay these athletes that are being limited in the financial aid that they can receive? Would the schools pay for the athletes to enroll their universities? These are all valid arguments and part of the reason that the NCAA has not changed their ruling on paying players. When asked if the NCAA would move to start paying student-athletes, President Emmert replied "If we move toward a pay-for-play model – if we were to convert our student athletes to employees of the university – that would be the death of college athletics. Then they are subcontractors. Why would you even want them to be students? Why would you care about their behavior?"

(Nocera, 2012)

Competitive Landscape

The NCAA believes that paying athletes would destroy the competitive landscape of college sports. A few years ago, Jim Peach, a professor of economics at New Mexico State, offered a relatively straightforward analysis of competitive balance in college sports. For NCAA basketball, Peach looked at how many different teams advanced to the Final Four over time. He found that from 1950 to 2006, thirteen schools accounted for 50% of all Final Four appearances. (Berri, 2012 Peach, 2007) For more than half a century, it was the same story in football with the distribution of the top eight AP ranked teams. Five teams account for 25% of top eight finishes, 10 teams account for more than half of all top eight appearances, and twenty two teams account for three-quarters of all top eight finishes (Peach, p.16). There is not a competitive balance even though the NCAA argues that any team can win on any given day, and this is not surprising because professional sports use the same argument. The NCAA's conduct causes harm to competition in four ways. First, it transfers wealth from student-athletes to the colleges that belong to the NCAA. Second, it causes an efficiency loss because, by raising the net price to student-athletes of attending college, it causes some students to decline scholarship offers or to leave school early due to financial pressures. Third, NCAA restrictions on payments to student-athletes have caused a loss of choice among consumers in the availability of licensed products. The NCAA's inconsistent policies regarding which products can be sold by which licensee have eliminated products for which all parties, including the NCAA, agree are valuable to consumers. A prime example is video games that bear the names and likenesses of members of the team. Fourth, restrictions imposed by the NCAA on competition among colleges for student-athletes leads to inefficient substitution of expenditures to other elements of the budget for athletics that can be used to attract students. Examples are coaches, training facilities, and cheating on both the letter and the spirit of NCAA rules (O'Bannon vs. The NCAA). All of these examples of harm to competition are market-level phenomenon, and proof of each involves information and analysis that is predominantly common to class members.

Current Events

Before they can compete in Division I sports, athletes must sign a seven-page Student-Athlete Statement. These forms ensure that the student-athletes will keep their amateur status and will not receive any compensation for playing. According to a current lawsuit, in the Statement, student-athletes must "forgo their identity rights in perpetuity" because the student-athletes signed the document. Ed O'Bannon played at UCLA from 1991-1995. In 1995, UCLA won the national championship and O'Bannon won national player of the year. Although he was drafted ninth overall in the NBA draft, he only played two seasons in the NBA and then played another 8 years professionally in six different countries. O'Bannon is now the lead plaintiff in a lawsuit against the NCAA. This lawsuit has the potential to be earth-shattering if the courts rule in favor of the O'Bannon side. O'Bannon is suing the NCAA for using his likeness in an EA Sports video game. The plaintiffs suggest that players should receive fifty percent of television revenue. The president of the Big Ten Conference, Jim Delaney, commented on the case: "If that were to happen I think our presidents, our faculties and our boards of trustees would just opt out," Delany said. "I don't know what the opt-out means, whether that's Division III or another model" (Staples, 2013). The NCAA believes the college athletes are not being exploited because the athletes signed over their likeness to the NCAA before they even began their careers.

Hypotheses

I speculate that the NCAA does set prices and does not allow for a free market to exist for its "student-athletes." I will set up two different scenarios on how to pay college athletes to determine if it is logistically possible. The first scenario will build off the O'Bannon lawsuit. The second scenario will elaborate the "Olympic model," which states that the athletes can receive sponsorships and payments from boosters. Based on previous research, I expect that even if the models work and the NCAA is setting prices, nothing will change in the college athletic environment for some time. There is a belief that college players only play for the love of the game and the name on the front of the jersey, and this notion is engrained into the general public's mind. It will not change for a while.

METHODS

O'Bannon Lawsuit Elaboration

The O'Bannon vs. NCAA certification hearing will determine whether the lawsuit can proceed is schedule for June 20, 2013. If this lawsuit comes to fruition, there will be major changes to the NCAA structure. Ed O'Bannon filed this antitrust lawsuit in 2009, claiming that athletes should be able to profit off their own image and likeness. If the case gets settled and the schools and NCAA decide to make a deal with the plaintiffs, there are an endless amount of possibilities. One power conference athletic director believes that if the case is settled the most logical outcome will be each school setting aside revenue for the athletes. The athletic director believes that $2 million a year in revenue will be set aside to pay these players (Staples, 2013). The distribution plan from the plaintiffs indicates that the money will be placed in a trust and given to the athletes once the athlete obtains a degree.

Using this model, I examine how it will affect the athletic revenue and profit for Texas Christian University in the academic year of 2011-2012.

2011-2012 Data:

Revenue	$51,943,543
Expenses	68,050,907
Profit (Loss)	$(16,107,364)

Department Member	Compensation	% of Total Revenue	% of Sport Revenue
Patterson (Football)	3,467,926	6.68%	13.35%
Del Conte (AD)	695,769	1.34%	n/a
Christian (M. Basketball)	653,725	1.26%	10.86%
Schlossnagle (Baseball)	433,698	0.83%	n/a
Mittie (W. Basketball)	408,812	0.79%	11.38%

Sport	Revenue	% of Total Revenue
Football	25,984,011	50.02%
M. Basketball	6,020,481	11.59%
W. Basketball	3,593,335	6.92%
Other	16,345,716	31.47%

O'Bannon Effect	
Revenue	$51,943,543
Expenses	70,050,907
Profit (Loss)	$(18,107,364)

For TCU, the athletic department loss would be equal to about $18 million. The logical reasoning is that TCU does not have the funds to cover the plaintiffs' recommendation. But the plaintiffs will argue that there are several budget cuts that could be made and coach salaries are too high at the moment. This makes sense when the football coach is the highest paid employee at most schools. At TCU, Coach Patterson's yearly salary is worth almost 7% of the annual athletic revenue. Schools are seeing revenues from sports come in at record numbers, but the athletes are not seeing anyone of that money going into their pockets. The O'Bannon case does not say how many specific players will make from the $2 million, and that will definitely fuel a different debate.

Olympic Model

University of New Haven business professor Allen Sack, a former Notre Dame Football player, believes there's a way for students to be compensated without forcing schools to pay them. He said NCAA athletes should take a page from the Olympic model of amateurism. They should be allowed to take control of their own marketing rights: to hire agents, sign endorsement deals and engage in other "entrepreneurial" activities. "Anybody who can write a business plan is able to make money from big-time college sports—except the athletes themselves," he said (Cohen, 2011).

Unlike a system that offers stipends or pays athletes directly, the Olympic model will not cost the NCAA or member institutions anything. The financial burden would fall to Nike, Adidas, Reebok and other shoe companies, multinational corporations and local companies that want university athletes to endorse their products. Drexel sports-management professor Ellen Staurowsky said this sort of arrangement might help protect schools from the "underground economy" that gives star athletes benefits under the table (Cohen, 2011).

One common criticism of adopting the Olympic model is that it might allow boosters to lavish millions on athletes on their favorite teams under the guise of sponsorship. For example, rather than supporting the Oregon athletic department, Nike founder Phil Knight could simply pay Oregon's players to wear Nike gear.

Ramogi Huma, the president of the National Collegiate Players Association, is a supporter of the Olympic model. "The NCAA has created a black market. You can choose between the black market and fair market," he said (Cohen, 2011). The organization's report said competitive equity and a level playing field are already shaky notions.

With the Olympic model in place, university boosters will start paying prospective athletes to come to their schools. In the past, rogue boosters have tried this method to get top prospects to enroll into universities. In the 1985 season, an unnamed booster at Southern Methodist University paid 13 players a total $61,000 from a slush fund with the approval of key members of the SMU athletic staff (Sullivan, Neff, 1987). The NCAA has already punished SMU six times in the past and the university was already on probation for recruiting violations. In what would be known as “the death penalty,” the NCAA suspended SMU from competition during the 1987 football season. The SMU program has not been able to rebuild itself to the national power it once was. In 1986, the NCAA placed TCU on a three-year probation after they found six boosters were giving football players cash and other forms of payment. TCU had to give up scholarships in the years following and had to forfeit television revenue for the 1983 and 1984 season.

Many believe that if boosters start paying players than small schools will not have a chance to compete because the larger schools’ alums will have more money to throw at players. The fact is that even competition does not exist during the current era, nor has it ever during the scholarship model. TCU and SMU proved that with help from generous donors, small private schools could compete on the national stage. The universities will not be losing money because donors will be paying for the players, and the better product on the field will lead to more media exposure for the university. As it stands now, donations to players create a large black eye with the NCAA and sanctions are imminent. The public will also take time to warm up to the idea that it will be acceptable to pay college athletes. Payments from boosters currently exist in the black market, but the Olympic model will finally create a free market.

RESULTS

The O'Bannon case gives a total amount that schools will have to pay to student-athletes, but it does not show how much money individual athletes will receive. The idea of a trust that athletes can only receive if they graduate and obtain a degree will be seen as a better alternative than paying the players directly. The case does not expound what will happen to funds in the trust if the students do not graduate, but a logical option would be putting it back into the athletic department. The best argument against this option is the logistics behind how the players will receive money. Questions that must be answered are as follows: Will all athletes receive the same amount? Will all sports receive the same amount? How can universities afford to pay their athletes when they are already running deficits? All of these questions to not have immediate or easy answers, and the decisions will most likely be made by each university. Furthermore, this method does not create a free market, which is why the NCAA is under scrutiny to begin with. However, if the plaintiffs win the O'Bannon vs. NCAA case, it will create a different atmosphere in the college sports world. Schools would have to spend less on facilities and upgrades, and coaching salaries will vastly decrease. The bigger schools will still be better off if the case is settled because they have much more money to spend each year from athletic revenues causing competition to weaken and will create super-powers at the top. It would greater a huge advantage in recruiting to the large conferences because the smaller conferences would be hard-pressed to afford paying their athletes. Nonetheless, the Big Ten (one of the largest conferences) commissioner, Jim Delaney, believes that the presidents of his schools would opt to downsize to a Division III or non-scholarship model. Ultimately, this method does not logistically make sense because at state universities, the players would be considered government employees. That brings tax and worker's compensation issues into the equation.

The Olympic model has potential to be the solution that breaks the NCAA trust, and opens a free market in college sports. The NCAA and universities will not be losing out on revenues as the players will be receive funds from sponsorships, and outside investors (boosters). Student-athletes will still not be employees of the university, but will still bring in the revenue. There is no valid argument or data that allowing compensation to athletes would compromise the mission of the NCAA. Presently, sponsorships and payments from boosters eliminate athletes from an "amateur" status. The NCAA will not give up the fight to keep their athletes as amateurs. The Olympic model provides the athletes the ability to keep the amateur status but receive sponsorships. The model argues that barriers need to be removed that limit an athlete from receiving fair compensation for his or her image and likeness. Athletes should be allowed to enter into legitimate contracts to hire agents, do paid appearances, appear in advertisements, endorse shoes and apparel, and generally profit off their name and likeness. The Olympic model is the fairest way to compensate college athletes. It will not sink the current system that generates revenue to schools nor limit the NCAA's massive television profits. The best reason for the model is that it will not limit the men and women's education. They will still be enrolled in universities without getting paid by them, and they will still have to go to class in order to stay in school.

DISCUSSION

There will not be a change in the way college sports are played, coached, or paid for in this country for some time. College sports are known for being pure and fun. The athletes are believed to be out there for the love of the game, and not for huge contracts. The debate on whether college athletes should be paid will not end soon, and who knows if there is even a correct answer. From the research there can be a few conclusions: the NCAA does set the prices of their "employees" as well as profit off their current image and likeness, there is no easy solution to pay college athletes, and the Olympic model could be a possible solution.

An instrument argument against paying college athletes cannot be answered through research because there is no way of knowing the effect until athletes are paid. That argument is that students will not go to class if they are making more money than the teacher of the class. What is the incentive to learn if they already are making a good sum of money, and why would they want to learn from someone that makes less than them? This issue is one of the better reasons as to not pay players because there is simply no way to find out how students and professors will react. However, there are flaws in this argument as well. For example, millionaire NFL players, such as former San Diego Chargers running back LaDainian Tomlinson, have gone back to universities in order to obtain a degree. They have a higher net worth (most likely) than the professor of the class, and they are still willing to come back and graduate college. Of course, it would be much different if the same institution paid bot the student-athlete and the professor. The O'Bannon model pays athletes after they graduate so it would solve the issue of attending class, but most universities will not be able to afford paying for athletes.

The Olympic model has the best chance of working because the universities will not be funding the money to pay for athletes. It also creates a free market to replace the current black market of paying for talented athletes. The free market is a standard of the United States economy and will end the ethical debate of the NCAA fixing prices and profiting off student-athletes. The other forms of paying players would be so complicated that it would be a logistical nightmare. The Olympic model will allow sponsors and boosters to pay what they believe top recruits are worth. Other than the athletes receiving money on the side, the current system will remain in place. Universities will still be able to pay their coaches, upgrade facilities, and profit off of student athletes.

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ABSTRACT

This study questions the actions of the NCAA and the financial future for college athletics. Specifically, I examine whether it is possible to pay college athletes and the implications if payments are to occur. Based on the Olympic model, which asserts that players can retain their amateur status while receiving sponsorships and hiring agents, I discern that it is a possibility that athletes can be paid without costing the universities or NCAA more money. Ultimately, I conclude that the NCAA currently acts as a labor monopoly (monopsony) in that it profits off the image and likeness of student-athletes, and caps their salaries at the cost of tuition for a university. Ultimately, student-athletes will not get paid for some time because there are too many logistical issues to solve the problem, but the easiest solution will be the Olympic model.