

BY ALLEN R. SANDERSON AND JOHN J. SIEGFRIED

As America goes through the annual rituals of college football bowl games and the national basketball tournaments (aka March Madness), one seemingly straightforward question hardly ever gets asked: why is the nation's higher-education system home to a vast organization of big-money sports? After all, not a single one of the institutions that spend tens of millions supporting intercollegiate athletics mentions the goal of providing commercial entertainment in its charter.

But that question is now being asked, albeit indirectly, by a variety of courts trying to reconcile the commercial aspects of intercollegiate sports with the conventional views of the job of the nation's colleges and universities. How this will play out is anyone's guess.

HOW WE GOT HERE

While only 15 years old, this century has already seen both the best and worst of times for the National Collegiate Athletic Association and its member universities. On the one hand, massive revenues and robust television ratings from football and men's basketball – not to mention the celebrity status and seven-figure compensation packages going to the most successful college coaches – attest to the popularity and vitality of the college game. On the other, the NCAA has never been so regularly on the defensive regarding the image of its players and coaches.

ALLEN SANDERSON and JOHN SIEGFRIED are economists at the University of Chicago and Vanderbilt University, respectively. This essay is based on the authors' article in the Winter 2015 issue of *Journal of Economic Perspectives*.

The disjuncture between the NCAA-peddled myth of college athletes as "amateurs" who are first and foremost "student-athletes" and the reality that they are poorly paid professionals who all too often are not up to the academic demands of higher education has led to scandals with monotonous regularity. In many cases, underpaid star players are caught with their hands in the cookie jar. For example, the 2005 Heisman Trophy award to USC running back Reggie Bush was vacated after discovery that he and his family received massive concealed payments.

In many other cases, athletics programs are caught greasing the academic wheels for athletes who could not otherwise have (literally) made the grade. National Basketball Association star Derrick Rose submitted fraudulent SAT scores to the University of Memphis, whose coach at the time was John Calipari. Memphis was slapped on the wrist for the transgression, but the coach moved on to even greener pastures at Kentucky. Meanwhile, the University of North Carolina (Chapel Hill) was caught enrolling players in ghost courses to keep non-student-athletes on the roster –



PASTIMES, SERIOUSLY

a practice that had apparently been going on for decades. Not to be outdone, University of Georgia coach Jim Harrick was fired over academic fraud involving bogus courses and grading.

These various forms of cheating shock – just shock! – the talking heads of sports and provide plenty of fodder for righteous newspaper editorials. But once the ripples die down, one can be almost certain that nothing much will change. The same cannot be said, though, for the current round of legal challenges to the organization of big-time college sports.

- In a petition to the National Labor Relations Board, several Northwestern University football players argued that they were employees rather than students and thus should be entitled to employee medical benefits and be allowed to bargain collectively over compensation and work conditions. And in March 2014, a regional NLRB regulator agreed, raising the prospect that college sports programs will be treated like the businesses they sometimes are.

- In the same vein, a collection of cases challenge the legal authority of the NCAA and the big sports conferences to cap grants-in-aid (read: salaries) for “student-athletes.” These cases, incidentally, may be turbocharged by a class-action lawsuit in federal court against the NCAA and the conferences by sports attorney Jeffrey Kessler, claiming injury to all college athletes harmed by limitations on compensation.

- A lawsuit brought by former UCLA player Ed O’Bannon argues that, after players leave college, they are entitled to a share of revenues generated by the commercial use of their images. And in July 2014, Federal District Court Judge Claudia Wilken ruled in favor of O’Bannon. Indeed, she went further, suggesting that any collective agreement to cap player

compensation constituted restraint of trade under the Sherman Antitrust Act, leaving the next shoe to drop to a federal appeals court.

But we get ahead of ourselves. The validity of these challenges can be evaluated only in the context of the remarkable state of NCAA sports.

THE COLLEGE ATHLETICS LANDSCAPE

Most colleges and universities in America field a variety of men’s and women’s intercollegiate sports teams. Given that all but a score of these programs lose money in a strict bottom-line accounting sense, one must ask why financially pressed institutions continue to subsidize them with a combination of mandatory student fees, general institutional funds, cash pried from state legislatures, and contributions solicited from alumni and well-heeled donors. All this money, one should note, might have been directed toward reducing tuition or improving academic programs.

In the private sector, recurring losses serve as a signal to redeploy assets elsewhere. But in intercollegiate athletics, losses seem more likely to induce university administrators to double-down, attracting winning coaches with salaries worthy of Fortune 500 CEOs and spending lavishly on recruiting and physical facilities.

USA Today annually compiles stats on these direct and indirect subsidies for individual universities. We used these data to get some perspective on the magnitude of the support at a sampling of public universities with Division I teams.

Not all state-supported universities with Division I teams need outside help. In 2013, Texas, Ohio State, Oklahoma, Louisiana State, Penn State, Nebraska and Purdue covered all of their intercollegiate athletic expenses with sports-generated revenues. And some universities that did subsidize athletics – for exam-

MEDIAN FINANCIAL STATS FOR 126 DIVISION I UNIVERSITIES WITH BOWL-ELIGIBLE FOOTBALL TEAMS (\$ MILLIONS, EXCEPT AS NOTED)

TOTAL YEAR	GENERATED REVENUE	ALLOCATED REVENUE	SUBSIDY REVENUE	AVERAGE PERCENTAGE	# OF ATHLETES REVENUE	ON SCHOLARSHIP
2004	\$28.3	\$22.8	\$5.4	19.1%	\$28.3	577
2005	32.8	24.3	8.5	25.9	31.6	589
2006	35.4	26.4	9.0	25.4	32.4	588
2007	37.6	26.1	11.5	30.6	33.5	598
2008	41.1	30.5	10.6	25.8	34.8	602
2009	45.7	32.3	13.4	29.3	37.9	603
2010	48.3	35.3	13.0	26.9	39.7	611
2011	52.7	38.8	13.9	26.4	42.3	616
2012	56.0	40.6	15.4	27.5	44.2	615
2013	61.9	41.9	20.0	32.3	48.2	611

ple, by paying the tuition component of grants-in-aid out of general university funds – earned sufficient revenues so that they did not need those subsidies to break even. This group includes Alabama, Michigan, Florida, Oregon, Michigan State, Kentucky, Kansas, Washington, Indiana, Missouri, Texas Tech, Kansas State and Mississippi State.

But these exceptions are the few and far between. More than 90 percent of Division I public universities do subsidize their intercollegiate athletics programs. In 2013, the highest subsidy was at Rutgers, which was in the red by almost \$50 million. That, however, amounted to less than \$1,500 per undergraduate student because of Rutgers’s large enrollment. Many of the highest sports subsidies per student, frequently exceeding \$2,000, are at the half-dozen or so academically selective private universities with more-modest enrollments that field teams in the five major conferences (Atlantic Coast, Big 12, Big Ten, Pac-12 and Southeastern). Alabama-Birmingham is included in our sampling because it announced last year that it would discontinue Division I football due to escalating costs. The subsidy data explain that decision.

The last column in the table above reports the percentage by which 2014 in-state tuition

UNIVERSITY	SUBSIDY (\$ MILLIONS, 2013)	2013 SUBSIDY/ UNDERGRADUATE STUDENT	SUBSIDY AS % IN-STATE 2014 TUITION
Alabama-Birmingham	\$18.1	\$1,601	22.2
Arizona	7.3	232	2.5
Connecticut	18.9	1,076	11.6
Delaware	26.1	1,435	13.5
Georgia State	22.6	917	14.7
Minnesota	8.1	235	1.9
North Carolina-Chapel Hill	9.2	495	7.7
Rutgers	47.0	1,487	13.9
Tennessee	2.4	594	6.9
UCLA	2.6	94	0.8

could have been reduced if all of the intercollegiate athletics subsidies had been diverted to that end. It ranges as high as 14 percent, even if Alabama-Birmingham and Georgia State are excluded. (The latter is just entering Division I, so the high outlays may reflect only startup costs.) It is thus clear that intercollegiate athletics constitutes a non-trivial part of tuition paid by many students and their families to public universities.

AND FOR WHAT?

This substantial addition to the cost of a university degree (so the argument goes) is worthwhile to the students, families or taxpayers



who foot the bill. Specifically, supporters of the status quo say that success in intercollegiate athletics convinces state legislatures to increase appropriations for other university programs, as well as attracting private donations from alumni and local boosters who call the teams their own. A modest accumulation of research supports this argument. But even

the most successful sports programs have a way of expanding their budgets to absorb the surplus. As a result, the amounts that are actually available for use beyond the athletic departments are never very large.

Does the presence of high-profile intercollegiate athletic programs attract better qualified applicants or students paying full tuition?



Again, the evidence suggests some favorable effects for successful teams. But the advantages are fleeting, and, in any case, success serves no greater societal purpose since it serves only to shuffle enrollments by applicants who were planning to go to college in the first place. Moreover, it is likely that the government funds used to subsidize intercol-

legiate athletics could have had a greater positive impact on the relevant institutions if they were instead allocated directly to university fund-raising efforts or marketing to prospective applicants – or even, heaven forbid, to moderating the seemingly relentless rate of increase in college tuition.

SEVENTY YEARS AND COUNTING

In the early 1950s, to hold down its costs, the NCAA established a binding ceiling on the remuneration that could be given to an intercollegiate athlete – a grant-in-aid restricted to room, board, tuition, fees and books. A collective practice like this would be illegal in almost any other enterprise. But it flourishes in colleges, especially in cooperation with the professional sports leagues. Minimum age requirements established by the National Football League and the National Basketball Association restrict alternatives available to prospective college athletes, giving the NCAA virtually total control over the labor market for young athletes who hope to become professionals. In return, the professional leagues can foist the costs of training their future recruits on universities.

The NCAA's market power is not only reflected in substantially below-market compensation for the best players, but also leads to overuse of this chief "input" in sports entertainment through a steady expansion of regular-season football and bowl games (which now number 39, with some teams without winning records participating), monymaking post-season conference basketball tournaments and steady expansion of the March Madness field (now up to 68 for the men's tournament). The long, long seasons reduce the time available for the athletes to even pretend to be students, and increase the risk of injuries that will prevent the very best players from ever cashing in with the pros.



College players, it goes without saying, have no voice in decisions to expand schedules, and no claim on the incremental revenues that are generated by additional games, expanded playoff schedules and post-season tournaments.

The core issue is not, as often claimed by advocates for intercollegiate sports, whether college athletes should be paid. Apart from a few “walk-ons,” most of the players are, in fact, already being paid via grants-in-aid that cover

most of their expenses. In our view, amateur status should not be defined by whether student-athletes are paid directly or have their bills paid for them, but rather by the nature of the relationship between the player and the institution. The real issue is restraint of trade – that, through the NCAA, universities collectively agree to cap their players’ compensation, which in other businesses would violate Section 1 of the Sherman Antitrust Act.

This is not to say that the average college

athlete is “underpaid.” We know this is not the case because virtually all university sports programs require subsidies to stay afloat. But it changes the distribution of compensation dramatically. The artificial ceiling holds down benefits that otherwise would accrue to the most talented collegiate football and men’s basketball players, many of whom are African-Americans from low-income households. In contrast, athletes in non-revenue sports, most of whom are white and middle-class, are winners. Consider, too, that the restraint of trade facilitates the diversion of surpluses to coaches’ salaries, which in many cases exceed the compensation of university presidents.

Coaches were not always paid employees. Prior to 1892, college football coaches were all volunteers. That ended when the University of Chicago offered legendary coach Amos Alonzo Stagg a salary to leave Springfield College and take over the helm of the Chicago team – which he managed so successfully that the Cook County stadium (where the atomic bomb was developed during World War II) was later renamed for him.

The question that naturally follows is why players should be unpaid volunteers. Why shouldn’t teams be forced to compete for student-athletes’ services the way other employers compete for CEOs or security guards (and the way intercollegiate teams compete for coaches)? After all, the American Library Association does not coordinate a maximum wage for student library employees at colleges across the country.

The explosion of revenues flowing to NCAA members from television revenues, stadium seat sales and brand licensing has created growing unease in the media and the court of public opinion over the distribution of the largesse. The amounts are truly staggering. The NCAA organization itself enjoyed total revenue of almost \$1 billion in the

2013-14 fiscal year, in addition to fees collected directly by its member colleges and universities. Its surplus reached \$80 million, a 30 percent increase over the prior year. The NCAA’s accumulated surpluses now amount to \$700 million – quite a sum for a not-for-profit organization, and apparently sufficient to justify paying its chief executive officer \$1.7 million and his second-in-command about \$1 million during calendar year 2012 (the latest year that figures are available).

HALF MEASURES

In an effort to head off serious challenges to its business model, the NCAA recently made modest upgrades to rules governing maximum player compensation in the five “power conferences,” adding unrestricted meal plans and multiyear scholarships and meeting other incidental out-of-pocket costs for players. But these changes fall well short of competitive labor-market compensation for star players and are mainly an attempt by the NCAA to stay one town ahead of the sheriff. The incentives to overuse players and the glaring disparity in pay between coaches and athletic department administrators, and the players doing the heavy lifting on the field, have hardly changed.

As several pending lawsuits (noted above) involving various aspects of NCAA collective action play out, commercialized intercollegiate athletics a decade from now could become very different. If labor and antitrust laws are applied to college sports, universities will no longer be able to exercise market power that transfers income from young minority players (and, arguably, from the pockets of degree-seeking students hard-pressed to cover tuition) to the paychecks of coaches and athletic directors. Indeed, in 40 of the 50 states, the most highly paid public employee is a university football or basketball coach,

PASTIMES, SERIOUSLY

with most of them earning that distinction in competition with medical-school deans and university presidents.

MOVING FORWARD

The current arrangements in the labor market for big-time college athletes are inefficient, inequitable – and probably unsustainable under current law. Some 40 years ago, professional sports leagues were forced to ease restrictions on their player labor markets, moving from total league control of salaries to a hybrid model mixing broad constraints on compensation with more balanced individual and collective bargaining. It's now time to end the price-fixing that restrains compensation received by college players and let them share in the windfalls generated by Americans' enthusiasm for college spectator sports.

When asked about one of the pending lawsuits that seeks an injunction against the NCAA's practice of restricting player compensation to expenses, NCAA president Mark Emmert said it would "blow up college sports."

Moving to a free market for intercollegiate athletes would, indeed, be disruptive. But we believe that big-time college athletics would not be demolished because the market value of the entertainment is so high. For one thing, paying star players what they're worth in a competitive market would require a major adjustment in outlook from both the players who would be left behind and from university communities as a whole that have swallowed the notion that student-athletes are truly a part of higher education.

More tangibly, it is likely to increase the investment required of universities that want to compete at the highest levels in men's football and basketball. While one would expect that some of the cash needed to pay more to star players would come out of the surpluses now

used to bid up the salaries of coaches and administrators, it could take a long time to reach that equilibrium. As a result, many more university trustees and state legislators will be forced to ask whether it is ethical or politic to pass on the costs to tuition-paying students.

Intercollegiate athletics seems poised to move in the direction we describe, fostering net gains in productivity. But, as with most changes in market institutions that increase efficiency – think freer international trade, anti-discrimination laws, tax reform, regulation that internalizes the costs of pollution – there will be losers as well as winners. While some athletes will be paid more, some will see their grants-in-aid trimmed. Meanwhile, some Division 1 sports programs are likely to fold, or at least downsize, implying fewer chances for less accomplished athletes to participate in intercollegiate athletics.

The key to successful change is to prevent the potential losers from vetoing adaptation. In this case, that might not seem an especially daunting hurdle since the courts that are forcing change are partly insulated from interest-group pressure. But the NCAA and the high-profile coaches whose seven-figure salaries would ultimately be at risk would almost certainly press for legislation to exempt college sports from the antitrust and labor laws. And resistance to such rollbacks might not hold. Who, after all, could be counted on to defend the rights of a few thousand mostly poor, mostly minority student-athletes, some of whom are likely to get rich anyway once they put in their years as college players?

Truth is, Americans created a monster when they integrated big-time spectator sports with higher education. Taming the beast – forcing it to live by the rules we've set for other commercial enterprises – will not be a walk in the park. 