

The Economics of the National Collegiate Athletic Association

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INTRODUCTION

One of the truly unique aspects of American ‘exceptionalism’ is commercialized sports on college campuses. There is no evidence that big-time intercollegiate athletics helps to create or disseminate knowledge, yet many leading American universities sponsor sports programs that generate over \$8 billion annually. Their team names have become their institutions’ brands. The organization that governs these activities is the National Collegiate Athletic Association (NCAA).

We trace the evolution of intercollegiate athletics and its governing body, and the rationale for their existence. We explain how the NCAA reduces costs and increases revenues for the sports programs of its member institutions. We identify important contributions economists have made to understanding how the NCAA and the college sports market operate and identify important remaining research opportunities.

A SHORT HISTORY OF COLLEGE SPORTS

There were approximately 200 mostly small, private colleges and universities in the United States by 1860. The number grew substantially after the

Morrill Act of 1862 created the federal land-grant system that spawned large state universities, which today field most of the big-time intercollegiate football and basketball programs. As colleges and universities grew in number and size after the Civil War, competition for students intensified. Sports programs were used to attract more students.

Rowing was the first sporting competition between students at different colleges; Yale met Harvard on Lake Winnepesaukee in 1852. The first intercollegiate basketball game using five players on each team occurred in 1896, between the University of Chicago and the University of Iowa. The first intercollegiate football game was staged in 1869 between Rutgers and Princeton. By the 1890s gate receipts had grown to serious levels. Harvard built the first permanent college stadium in 1903, with a capacity of 31,000 fans. Other universities followed. Once substantial fixed costs were invested, steady revenues became indispensable to pay the mortgage.

WHY DO COLLEGES AND UNIVERSITIES SPONSOR COMMERCIALIZED INTERCOLLEGIATE SPORTS?

University sponsorship of commercialized sports is especially odd because providing commercial

entertainment is not a stated purpose in the charter of any university. And while about 400 do operate commercial intercollegiate athletics programs, the vast majority of American colleges and universities do not. Moreover, only a score of institutions with big-time athletics programs reap a net financial surplus from them. If this occurred in manufacturing, there surely would be a steady exit. Yet only two major universities have dropped big-time football over the last century – Washington University and the University of Chicago (Clotfelter, 2011, pp. 49–50). Before we dismiss commercialized intercollegiate sports programs as a colossal mistake, we should ask why they have survived so long while operating mostly in the red.

Most Americans believe that intercollegiate athletics contributes money to their universities.¹ NCAA data, however, reveal that only 24 of the 128 top-level (called Football Bowl Subdivision) universities earned an operating surplus on intercollegiate athletics in 2015 (Fulks, 2016), and only a tiny portion of those surpluses were transferred to the academic side of their universities. Moreover, at most institutions, capital costs and ancillary expenses such as game security are not charged against the income statement of intercollegiate athletics.

How can so many large intercollegiate sports programs survive while losing money? In 2013, *USA Today* reported that over \$1 billion of student tuition or fees moved annually to the support of intercollegiate sports (Berkowitz, Upton, and Brady, 2013). The amounts redirected from academic to athletic purposes at most of the colleges and universities playing big-time sports are remarkable at a time of shrinking state support for public universities and incessant complaints about rising tuition from students and their parents. There are several possible explanations.

First, intercollegiate athletics may attract greater appropriations from legislators concerned about their constituents' perceptions of public universities in their states, especially in light of the fact that the median voter in most states is *not* a college graduate, and is likely to be more interested in the quality of the flagship university's sports teams than its library or research. Among 570 public universities, Humphreys (2006) found that those with big-time football programs receive about eight percent more funding than comparable ones without football; participation seems to matter more than winning. Alexander and Kern (2010) found similar results for basketball.

Second, intercollegiate athletics may boost private donations. Numerous studies have explored the effects of intercollegiate athletics on contributions to colleges: some find no effect, while others report a modest positive gain (for a review of these,

see Getz and Siegfried, 2012). Playing in football bowl games appears to stimulate the most donations. Because most of the incremental contributions are steered to athletic departments (Anderson, 2012), it is not clear whether this effect produces much benefit to universities in general. It would be helpful to know, however, not just whether the presence of big-time college sports increases donations, but whether it increases them by more than it costs.

Third, as was anticipated at the inception of intercollegiate sports competitions, high-profile sports programs, like other campus amenities, may attract applicants and additional enrollment, which is especially beneficial if fixed-cost facilities (e.g. dormitories) are underutilized. Evidence confirms that participating in post-season competition generates student interest in a university, although the gains are modest and fleeting. It appears that simply fielding big-time sports teams matters more for student recruitment than winning, and football matters more than basketball, perhaps because it is played during the college application season. More spending on intercollegiate athletics may alter the institutions to which high school seniors apply and which they attend, but there is no evidence that big-time athletics increases overall college attendance (Getz and Siegfried, 2012, p. 359).

Fourth, spending on sports programs resembles an arms race. Successful programs bid aggressively for high-profile coaches and enhance their physical facilities to lure recruits. Small spending differences can yield big recruiting advantages and, subsequently, augment winning. Unprofitable programs have little option but to ratchet up spending, or they may drop even farther behind in the competition for coaches and players, with devastating effects on their financial condition. Thus, the positive net revenues of a few dozen teams drive up costs for all competitive teams, requiring universities with already unprofitable intercollegiate athletics programs to further expand internal subsidies.²

Fifth, many colleges set tuition well below operating expenses. Students with specific talents and characteristics (including financially successful parents) are admitted selectively, in the hope that some mature into appreciative multi-millionaires willing to share their good fortune with their alma maters (Hoxby, 2014). To enhance the prospects that financially successful graduates remember them at estate planning time, the institutions invest in developing and maintaining emotional ties. They arrange alumni cruises, send faculty to alumni club talks, and sponsor 'homecoming' events that feature a football game. The challenge to universities is to weigh on the margin the value of funds devoted immediately to improving teaching and research against the expected future value of a more visible and successful intercollegiate athletics program.

The hope, of course, is that the successful athletic program might someday attract sufficiently larger contributions to the non-athletic side of the institution, such that, when discounted, it generates an even greater boost to teaching and research.³

DEVELOPMENT OF THE NCAA⁴

The development of the NCAA is closely tied to the complicated development of intercollegiate football. Over time rules changes morphed it from a game like soccer into one similar to rugby, and eventually into American football. In the 1880s, important rules changes occurred when a snap from scrimmage replaced the rugby scrum, teams had three tries to gain at least five yards, and blocking was permitted. Violence in football intensified after 1888, when tackling below the waist was legalized. A tactic in which blockers interlocked arms and ran together into defenders was introduced. One version was called the Flying Wedge, where the players took a running start before the ball was snapped. From 1890 through 1905, over 300 college and university students died from injuries sustained playing intercollegiate football (Zimbalist, 1999, p. 8). News reports about football deaths and injuries prompted Theodore Roosevelt to summon to the White House representatives from the then football powerhouses Harvard, Yale, and Princeton. They promised the President to change the rules to reduce violence in the game.

Further impetus for reform arose in 1905 when a Union College player died after being hit by the New York University offensive line. A witness, NYU's chancellor, resolved to end the violence. He assembled representatives from 62 colleges to consider reform; they organized the Intercollegiate Athletic Association of the United States (IAAUS) and established a rules committee, which promptly required that at least seven offensive players be on the line of scrimmage when the ball is snapped, thereby ending the Flying Wedge.

Formal rulemaking authority was necessary to reduce the brutality in football because violence led to victories and winning generated gate receipts. No team would unilaterally refrain from dangerous practices because that would lead to the worst possible outcome for it, even though continued violence seemed likely to reduce overall demand for intercollegiate football.

In 1906, 39 colleges and universities ratified the IAAUS constitution. In 1910, the IAAUS changed its name to National Collegiate Athletic Association (NCAA); by 1911 it had 95 members

and was entrenched as the self-regulatory body overseeing collegiate athletics. In 1935 it allowed athletic-related scholarships for players.

The next significant changes in NCAA rules occurred after World War II. To better control costs, which were at risk of devouring the growing athletic revenues collected by universities, the NCAA forbid the payment of *any* compensation to players. However, by 1951 athletic scholarships returned to stay. While player compensation has been restricted to a grant-in-aid (tuition, room, board, books, and fees) since 1951, player costs were not really controlled until 1973, when limitations on the number of scholarships (but not the number of players on a team) were instituted. To ease student-athletes' adjustment to college, from 1939 through 1968 first-year students were ineligible to play in NCAA championships. To reduce costs, in 1972 they became eligible.

In 1973 the NCAA divided into Divisions I, II, and III. Division I contains large universities competing at the highest level in most sports; Division II institutions are usually smaller, and offer fewer scholarships; Division III awards no athletic scholarships. In 1978 Division I was further split into three groups for governing (just) football, Football Bowl Subdivision (FBS) now containing 128 teams competing at the highest level, Football Championship Division (FCS) for about 120 teams that compete at a lower level, and about 100 universities that have competitive basketball teams, but do not play football. In addition to the approximately 350 Division I teams, there currently are about 300 in Division II and 450 in Division III.

NCAA interest in economics increased after World War II. Once player safety improved, interest in limiting the cost of players intensified because greater revenues tempted universities to squander their new-found largesse competing for players. Once costs were under control, attention turned to expanding revenues further.

A confluence of independent events boosted intercollegiate sports revenues after World War II. First, the G.I. bill augmented college enrollment by over a million students per year from 1940 to 1950, enhancing spectator demand for college sports. But that was only a start. The number of enrolled college students rose from 2.3 million in 1950 to 20.3 million by 2015.⁶ Second, the post-war baby boom increased the demand for college sports as the population of teenage boys spiked during the late 1960s. Third, the rapid post-war expansion of television receivers added broadcast demand to the steadily growing spectator demand at games.

In 1940 the University of Pennsylvania (Penn) started televising its home football games. By 1950 Penn was earning \$150,000 (1950 dollars)

for annual broadcast rights. In 1951, however, the NCAA prohibited televising college football games because it might reduce gate receipts of other games. With so much money at stake, Penn refused to stop, whereupon the NCAA threatened to expel Penn by having its opponents refuse to play the Quakers. Penn backed down. To 'stabilize' college football broadcasting, in 1952 the NCAA initiated a 'television plan,' which lasted 32 years. It was an agreement among members to televise only one weekly Saturday afternoon game (or a set of simultaneously aired regional games) and restricted the number of appearances by a team. The value of television broadcasting rights rose rapidly over succeeding decades. When combined with the 'March Madness' basketball tournament, TV revenues reached \$91 million annually by 1984 (Raiborn, 1986).⁷ In 2018, the men's basketball tournament alone brought in \$1.1 billion.

Basic Components of NCAA Regulation

The principal components of the NCAA's cartel operations are agreements to: (1) restrict the number of games available for sale to broadcast networks (through 1984, and thereafter subdivide the country by region for conferences to exploit market power); and (2) limit the compensation and demand for players. The latter lowers costs relative to what they would be in a competitive player market, while the former enhances revenues compared to their competitive level.

Broadcasting College Sports

The NCAA 'television plan' limited football broadcasts to just one game per week, creating artificial scarcity. Bids for the rights escalated, with three over-the-air networks chasing a single source of game content. Team appearances were restricted because most of the rights revenue was distributed on the basis of appearances, and limiting appearances spread revenues over more teams, expanding political support for the plan. Dissatisfied with their share of revenues, eventually the universities of Oklahoma and Georgia filed an antitrust suit against the NCAA for conspiracy in restraint of trade in the market for college football broadcasts. After winding through the courts for several years, *Board of Regents of the University of Oklahoma vs. NCAA*⁸ was decided in June 1984, with the Supreme Court ruling that not-for-profit colleges are subject to the Sherman Antitrust Act, and that by agreeing to limit the number of games on offer

for broadcast each week, the colleges had violated the law. The decision ended the NCAA's nationwide football television contract.

Immediately following the decision, the number of televised games expanded, and rights fees per game plummeted (Siegfried and Burba, 2004, p. 807). However, the short-lived decline in broadcast revenues to about one-third the 1983 level was followed by three decades during which broadcast revenues exploded⁹ (Carroll and Humphreys, 2016) in spite of a more competitive market for rights. Several factors caused this growth in revenues, some orchestrated by the NCAA and its member institutions, some a result of evolving demographics, and others emanating from rapidly changing broadcast technology.

Those who predicted that broadcast rights would decline sharply after 1984 failed to anticipate the rapid growth of television networks demanding football and men's basketball game content, and the degree to which college football demand, in particular, is regional, preserving market power for the (largely regional) conferences that negotiated broadcast rights sales after 1984.

Interest in college sports, especially football, is regional partly because many alumni reside near their alma maters,¹⁰ and they and current students constitute a substantial base demand for both live attendance and television broadcasts. Once broadcast rights sales devolved to the conferences, the five power conferences¹¹ quickly expanded in order to solidify their regional dominance. All five added teams during the 1990s and early twenty-first century.

After a brief period of confusion at the beginning of the 1984 college football season, during which home and visiting teams sometimes each sold 'exclusive' rights to the same game to different broadcasters, a duopoly emerged. The College Football Association (CFA), formerly an internal NCAA interest group, negotiated television rights for teams in the Southeastern Conference (SEC), Atlantic Coast Conference (ACC), and Big Eight (which has since evolved into the Big-12), plus Notre Dame and Penn State, two successful independents at the time. The Big-Ten (now with 14 members) and Pac-10 (now with 12 members and a new name – Pac-12) combined to offer networks an alternative television package. This duopoly was not challenged by antitrust authorities, but eventually proved to be unstable. The CFA dissolved in 1995 amid internal wrangling over revenue shares (Siegfried and Burba, 2004). The Big-Ten and Pac-10 had separated in 1990, for similar reasons. Since 1995 each power conference has negotiated broadcast rights separately for its members.

While the power conferences consolidated market power, technological developments increased

the relative value of televising events that viewers prefer to watch live – ‘breaking news’ and live sporting events. Because watching an event live and recording it to view later after skipping the commercials are mutually exclusive, viewers cannot easily avoid commercials in live sports broadcasts, thereby increasing the relative value of advertising.

Consequently, live sports programming is among the most valuable content on television. Thirty seconds of advertising time during the 2015 NCAA men’s basketball championship game cost \$1.55 million. The highest prime time show, ‘The Big Bang Theory,’ charged \$290,000 for 30 seconds. Saturday night college football attracted \$84,000 on Fox and \$104,000 on ABC, while the highest non-football show on Saturday night (‘Dateline Mysteries’) commanded only \$44,000 for a 30-second-advertisement (Steinberg, 2015).

Compensating ‘student-athletes’

In contrast to professional leagues that control player costs by revenue sharing, penalties on ‘excessive’ payrolls, aggregate payroll caps, and limits on individual player compensation negotiated with players’ unions, colleges have agreed among themselves simply to limit player compensation to a grant-in-aid. Because there is no players’ union involved, such an agreement is not protected from antitrust liability by the 1935 National Labor Relations Act, as are the practices that professional leagues use to control compensation.

One might ask why players accept only a grant-in-aid to work in an essentially full-time job. The answer lies partially in help provided by the NFL and the NBA, which have reduced paid alternatives available to talented young football and basketball players. Since 1990 the NFL has refused to employ players who are fewer than three years past high school. Since 2006, the NBA has declared ineligible players who are less than a year beyond high school. Other than play for college teams for a year, elite basketball players could play professionally overseas for a year, but few do. Football players do not have even that option, because American-style football is not played outside North America. In return for restricting young players’ alternatives, the professional leagues secure free employee training. The ban on younger players also reduces the risk to professional teams from hiring immature players whose behavior might sully the league’s reputation, or of contracting with injury-prone players.

Coaches’ and athletic directors’ compensation is not limited by the NCAA. The NCAA does not control what an institution spends on athletic

facilities, such as stadiums, training facilities, or locker rooms. The NCAA does, however, restrict recruiting expenditures in order to preserve the benefits available to those whose compensation is not limited.

NCAA CARTEL OPERATIONS: FOUR SIGNIFICANT CHALLENGES

Every successful cartel must: (1) reach agreement, (2) avoid the erosion of cartel profits by either non-price competition or member cheating, (3) deter new entry attracted by the prospect of sharing cartel profits, and (4) distribute cartel benefits in a manner that is viewed as equitable by the participants.

Achieving agreement can be challenging for heterogeneous cartel members. Colleges and universities incur different athletic program costs and have divergent goals. Costs differ because private and public universities face different opportunity costs of offering a grant-in-aid to a student-athlete.¹² Objectives diverge because institutions differ in terms of emphasis on teaching, research, and public service.

Small liberal arts colleges usually field a wide array of intercollegiate athletic teams so as to provide athletic opportunities for students. In contrast, large state universities usually field fewer athletic teams, excluding many sports that do not generate much revenue. Big-time programs focus on football and men’s basketball.

Even within the (now) six separate NCAA football governance categories, substantial differences persist. Stanford, Northwestern, and Duke are each in a power conference, along with Washington State, Nebraska, and Florida State. These two sets of institutions are quite different in terms of tuition, student characteristics, emphasis on faculty research, academic programs offered, and public service responsibilities. With such differences among members, it is remarkable the NCAA has survived as a cohesive economic cartel.¹³

Reaching and maintaining an agreement among competitors to reduce competition in selling broadcast rights and in acquiring player talent might arouse antitrust challenges. But so far, the NCAA has avoided charges of conspiring to fix player compensation by promoting an image of its players as ‘student-athletes’ rather than employees. Since 1984, there has been no challenge to the sale of broadcast rights now coordinated at the conference level.

Second, the cartel must protect its rents from erosion by either non-price competition or cheating. Because each unit sold earns excess profits, cartel

members will try to add sales at the expense of rivals – called non-price competition. If all cartel members confront similar incentives, such non-price competitive efforts likely cancel out. Eventually the only change is that everyone's costs rise.

Opportunities for non-price competition to attract additional television broadcast sales consist of spending more money to elevate the attractiveness of teams to broadcast networks. On the labor side of operations there are many opportunities for individual cartel members to spend money to make themselves more attractive than rivals. Intense recruiting feeds the egos of high school players, their families, and their coaches. Better training and playing facilities, special academic tutoring, superior culinary experiences, travel to attractive locations for non-league games, and professional marketing of successful players seeking recognition (as well as cash payments, phony jobs, and benefits channeled to family members) can all sway a 17-year-old's university choice.

Absent direct salary competition, non-price benefits increasingly affect prospective players' institutional preferences, which impacts skill balance among teams, although the direction is unclear. How cash compensation would affect competitive balance depends on the relative preferences of various talented players for cash versus their perceived value of the non-pecuniary benefits of playing for different institutions. Since there must be some talented players who favor cash, relaxing the compensation cap would likely divert some players to universities that could not attract them with just program prestige and modern facilities.

Even if competitive balance were to decline, demand may not. Currently, intercollegiate athletics is popular despite considerable imbalance. The popularity of dominant teams and the enjoyment fans of non-dominant teams receive when their team periodically upsets an elite team may overshadow the value of more competitive balance (Coates, Humphreys, and Zhou, 2014). But a larger challenge to maintaining demand could arise if players receive cash compensation. The demand for college sports may depend on the fact that the players are perceived primarily as 'students.'

Teams are tempted to cheat on cartel agreements regarding number of games played, games televised and player pay. If everyone cheats, however, the restriction on output necessary to support the elevated price or depressed player compensation evaporates. To deter cheating, it must be detectable so it can be discouraged by punishment. In sports, where two teams are required to produce a game, the offending team's scheduled opponent can refuse to play the cheater. Competitors can drive a defector's output to zero.

Cheating on the agreement to restrict player compensation and limit recruiting expenses is difficult to monitor. Because it is easier to hide illicit payments to players, furnish benefits indirectly (e.g. funneled to friends or relatives, or as payment for a fake job), and virtually impossible to monitor efficiently millions of contacts between coaches and prospective players, violating the compensation and recruiting cost rules of the cartel is more likely than selling additional games to broadcast networks. But it does not jeopardize cartel stability as directly as does cheating on broadcast limits, because the stakes in each transaction are much smaller.

The enticement to cheat depends on balancing the value of the expected advantage the defection creates against the cost of being caught, which, depends, in turn, on the combined likelihood of being caught and the severity of punishment if caught. Over 50 years ago, George Stigler (1964) observed that the probability of defecting depends on the number of participants, because the effect of widely dispersed cheating in cartels with many participants is difficult for other members to detect. Because over 100 NCAA football teams compete for elite high school football players, and over 300 chase premier basketball players, it would seem that the NCAA cartel would swiftly collapse.

To minimize the chances of such an outcome, the NCAA employs an investigation staff to identify and evaluate claims of rule violations. The real pain in the possible cost of cheating comes not from the likelihood of detection, however, but rather from the severe penalties the NCAA can levy, including bans on post-season play and the corresponding sacrifice of financial and status benefits from such appearances, as well as limits on the number of future scholarships, and thereby future team strength. In extreme cases, the NCAA can even close a program.¹⁴

The incentive to cartelize is irresistible in college sports. Because costs associated with fielding college sports teams are largely fixed, including stadium and player costs, extra revenue falls directly to the bottom line.¹⁵ A high ratio of fixed-to-variable costs also facilitates agreement in order to prevent a broadcasting price war or player bidding war, because in such circumstances broadcast rights prices could be cut substantially or player pay elevated significantly while still leaving revenues comfortably above variable costs.

The third challenge confronting a successful cartel is to prevent profit erosion by competition with new entrants attracted by its success. The NCAA's Division I FBS, which receives most of the revenues, has successfully fended off entry. There are many major universities without

a commercialized intercollegiate athletics program (e.g. MIT, Carnegie-Mellon, University of Rochester) that could try to enter the big-time. But entry has not created much new competition for the elite programs because the teams that have upgraded were already NCAA members and agreed to abide by the rules. Moreover, upgrades are discouraged by NCAA requirements on the capacity of playing facilities, minimum number of games scheduled against Division I teams that are difficult to arrange, and a minimum number of scholarships that must be awarded (raising costs for entrants). Only 14 universities have gained NCAA Division I FBS status (the top 128 institutions) since 2000. The challenge of gaining access to one of the power conferences (none of the 14 entrants since 2000 is a member of a power conference), to bowl games, or to March Madness are additional hurdles facing new competitors.

The fourth challenge to a successful cartel is to convince its members that the fruits of their efforts are distributed equitably. This can be daunting if members disagree about what is 'fair.' Those who do not contribute televised games are likely to favor more equal distribution, while those who do produce televised games are likely to favor distribution based on production. All potential competitors should share in the spoils, because even those whose output is constrained to zero help to elevate price.

The NCAA used some of the revenues from its football broadcast rights cartel from 1951 through 1983 to cover the association's operating costs, so all members benefitted by not having to pay dues.¹⁶ It also limited annual television appearances per team to force a wider distribution of revenues. But the wider distribution also limited the revenues accruing to teams that spent the most on their programs and felt they deserved a larger share. This is what eventually led the universities of Oklahoma and Georgia to sue the NCAA.

A TWENTY-FIRST-CENTURY CHALLENGE

When the Supreme Court decided *NCAA v. Board of Regents of the University of Oklahoma* in 1984, Apple had just introduced the Macintosh computer. In 1984 the internet was largely unknown. With the advent of widescreen and high-definition television,¹⁷ cable TV and satellite TV, the internet, video games, smartphones, social media sites, and streaming capabilities, technological advances that were unforeseen in 1984 have altered broadcast viewing choices forever, upsetting the balance between in-venue versus at-home viewing options for fans.

Current broadcast rights for just one major December bowl game exceed the amount paid for the entire 1984 college football season. For the current football playoff system, begun in 2015, ESPN has a \$7.3 billion, 12-year contract to televise seven football games a year – four December/January bowl games plus a three-game national championship series each January.

With 50,000 people in the stands in Tuscaloosa on a Saturday in fall 1980, the Alabama-Georgia game, not selected as ABC's football game-of-the-week, was essentially a private good because in order to watch it you had to buy a ticket. But after 1984 that game took on characteristics of a public good, as millions of fans tuned in on commercial, cable or satellite TV to watch the contest, including many who did not buy a ticket or pay for television service. During the game in virtually real time, viewers can interact via social media with countless other fans, perhaps increasing the value of viewing the game.

For the NCAA and universities like Georgia and Alabama, this widespread exposure and television rights fees now dominate the revenue flows. With the development of new institutional and conference-wide cable and network packages, part of the public-good can be converted to a private-good again, as some non-payers are turned away by new technologies and blocking services. Nevertheless, broadcasting college sporting events still exhibits the other characteristic of a public-good – low marginal cost – so that the efficient price is practically zero, threatening the viability of a service that generates a large welfare surplus.

The Fox network now rivals CBS, NBC and ABC, competing for broadcast rights for most premier sporting events. By the 1980s, live cable programming was widespread, with sports content playing a central role in its expansion. More recently, individual conferences, and sometimes even individual teams, have formed networks to televise college sports. The entry of Fox, ESPN and other cable sports networks and the formation of new networks by conferences and individual teams has intensified bidding for game content. This has redistributed broadcast revenues, concentrating more of the largesse among the elite teams, which may eventually lead these teams in power conferences to break-off from regulation by the NCAA.¹⁸

INTERNAL REFORMS AND LAWSUITS

In April 2014 the NCAA's Division I voted to allow members to offer unlimited meals and snacks to their athletes, a clear break from cost

control efforts, spawning a new intercollegiate competition in food provision.¹⁹ Soon thereafter, the NCAA altered its structure to allow the power conferences and Notre Dame to operate under a different set of rules than other teams for governing football.²⁰ This allows power conference teams to provide benefits to their athletes that would be difficult for other teams to afford.

But tinkering with player compensation rules falls well short of a competitive labor market for college athletes (Sanderson and Siegfried, 2015), which is the goal of several contemporary lawsuits. First is the 2014 *O'Bannon v. NCAA* decision. Ed O'Bannon, a member of a UCLA national championship basketball team, argued that once players leave college they should benefit financially from the commercial use of their image. But the NCAA asserts lifetime control over such use. The case expanded to include television broadcast rights of players while they are in college.

US District Court Judge Claudia Wilken ruled that the NCAA's cap on player compensation is collusion in restraint of trade. She suggested that a stipend set \$5,000 above current grants-in-aid might be legal. Upon appeal the Ninth Circuit agreed that the cap on player compensation is illegal but stipulated 'full-cost-of-attendance' rather than \$5,000 over the traditional grant-in-aid as maximum compensation. Both decisions cap player compensation *by the courts*, rendering the NCAA agreement irrelevant. In September 2016, the US Supreme Court declined to hear an appeal of *O'Bannon*, leaving the conflict between the District Court and Appeals Court over appropriate compensation unresolved.

The confusion precipitated by *O'Bannon* may be resolved by another case moving through the Ninth Circuit. In March 2014, sports labor attorney Jeffrey Kessler filed a lawsuit on behalf of Shawne Alston, a former West Virginia University football player. Alston specifically requested an injunction to end all collectively imposed limitations on player pay. In March 2019 Judge Claudia Wilken ruled again that an NCAA coordinated cap on player compensation is collusion in restraint of trade and therefore illegal, and that universities are free to offer players more than just a grant-in-aid covering tuition, room, and board. However, the additional benefits offered to players may not include cash, and must be education related, e.g. computers, musical instruments, science equipment. Neither plaintiff Alston nor the NCAA are happy with the decision. Both are considering an appeal.

The eventual outcome of the Alston case is unknown at the time of this writing, but the precedents from two earlier NCAA legal defeats – the 1984 television broadcast rights price-fixing case and the fourth assistant basketball coaches' 1998

wage-fixing case²¹ – suggest the NCAA is in dangerous territory with its agreement to restrict player compensation to a grant-in-aid even if supplemented with a computer, piano and Bunsen burner.

What might happen if elite college athletes can sell their services in a truly competitive market? It is inevitable that with no pay restraint some universities will offer their better players financial incentives to remain on their team and will include cash in bids for new recruits. Other teams will follow suit. Deteriorating financial conditions will probably cause some colleges to drop big-time intercollegiate athletics. The roster size of many football teams is likely to shrink so as to free some revenue to pay the stars,²² and relatively more of the players will be 'walk-ons,' receiving neither cash nor a scholarship.²³ A victory by Alston probably finishes off the NCAA's current business model. Concurring with this conclusion, NCAA President, Mark Emmert, said that a victory by Kessler would 'blow up college sports' (Strauss, 2014).²⁴

WHAT DOES THE FUTURE HOLD?

Even if the NCAA's collective agreement to limit the pay for players is declared illegal, because of multi-year contracts, expenditures that have been soaking up the rents are unlikely to diminish much in the short run. Revenues could grow to cover some additional costs of paying star players, but it is difficult to predict broadcast revenues even ten years in the future, as technology is likely to restructure the amount and distribution of revenues faster than that. Rights fees received by universities could increase or decrease. Alternative technologies that access live sports programming or that block advertisements may enhance or undermine the current value of rights.

If player pay increases, the costs of big-time athletics programs will rise, and demand may wane if fans lose interest because the myth of the 'student-athlete' is deflated.²⁵ Consequently, the surpluses earned by programs that currently have a positive balance before capital and indirect costs are considered could fade, while subsidies from other university funds to intercollegiate athletics at those institutions currently reporting a loss grow. University presidents will confront difficult questions: 'How much of a subsidy is too much? When do the indirect benefits from fielding a competitive FBS football or a tournament-level basketball team begin to fall short of the value of the research and teaching forfeited to support the team financially?'

Unless Congress legalizes the NCAA's cartel behavior limiting player compensation by exempting it from antitrust liability, which is not implausible in view of the political hazards confronting Congressional representatives who vote to change college athletics substantially, it seems unlikely that the organization of big-time commercialized intercollegiate athletics ten years in the future will resemble today's arrangement. Alternatively, it is possible that the NCAA's umbrella control might be replaced by just the 65 teams in the five power conferences dictating the rules of big-time college athletics, while other colleges and universities are abandoned to fend for themselves.²⁶ Such a structure might satisfy antitrust constraints because it ostensibly enhances competition among college sports [conference](#).

Notes

- 1 Based on a Knight Commission (2006) survey, 78 percent of Americans believe intercollegiate athletics is profitable.
- 2 While median revenue generated from intercollegiate sports increased by 110 percent from 2004 through 2015 at the 128 largest programs, expenses rose by 129 percent at the same programs (Fulks, 2016, Table 2.1).
- 3 Fort and Winfree (2015) discuss within-institution trade-offs, such as between the athletic department and other parts of the university, arms races, and other factors that escalate expenditures within athletic departments.
- 4 For a comprehensive history of the development of the NCAA, see Grant, Leadley, and Zygmunt (2008) or Fleisher, Goff, and Tollison (1992).
- 5 Walter Byers first called the players 'student-athletes' in 1951, when he became Executive Director of the NCAA, in order to justify their continued unpaid amateur status (Byers, 1995).
- 6 US Department of Education, *Digest of Education Statistics*, 2017, Table 301.2.
- 7 For 2016, *Forbes* estimates TV-related revenue, including 'both rights fees and, for the conferences with network ownership stakes, estimated profit shares' for the 10 Division I conferences, including the Southeastern Conference (SEC), the Big-Ten, the Big-12, the Pac-12, the Atlantic Coast Conference (ACC), the American, the Big East, the Mountain West, the Conference USA, and the Mid-American as \$1.38 billion, an increase by a factor of 15 over 32 years (Smith, 2016).
- 8 The 7–2 decision was announced on June 27, 1984.
- 9 In nominal dollars, the median intercollegiate athletics program among the 128 largest generated \$48 million in 2015, 110 percent more than the median of \$23 million in 2004 (Fulks, 2016, Table 2.1).
- 10 Between 71 (New England) and 88 (Pacific) percent of recent college graduates live in the same region as the college they graduated from (based on nine US geographic regions) one year after graduation (Sasser, 2008).
- 11 The Atlantic Coast Conference (ACC), Southeastern Conference (SEC), Big Ten Conference (Big-Ten), Big 12 Conference (Big-12), and Pac 12 Conference (Pac-12).
- 12 In addition to variation in the cost of a grant-in-aid to universities with different tuition and fees, those institutions with excess capacity face only marginal cost of enrolling an additional athlete on a grant-in-aid, while institutions operating at capacity face losing the average net revenues from a non-athlete when they add a scholarship athlete.
- 13 Humphreys and Ruseski (2009) describe how the NCAA overcomes the difficulties of maintaining stability among heterogeneous members.
- 14 In 1987 and 1988 the NCAA closed the football program at Southern Methodist University because of 'a lack of institutional control,' when it discovered that athletic department employees were assisting in providing cash payments to players.
- 15 The largely fixed cost nature of the sports production function also encourages expanding the length of the regular sports season, and the addition of ever more post-season games.
- 16 Since the football television plan was dissolved in 1984, revenues from March Madness have covered NCAA operating costs.
- 17 Large flat-screen televisions were developed in the 1960s, but for practical purposes they are a twenty-first-century invention.
- 18 Sports marketing and sponsorship growth came as a natural by-product as television allowed for 'product placements' through which audiences could see what their favorite players and teams were wearing. Apparel became the largest category of sponsorships. Sports sponsorship was an \$11 billion per year industry 20 years ago; today it exceeds \$30 billion (Morgan, Johnson, and Summers, 2005).
- 19 This change was provoked by University of Connecticut basketball player Shabazz Napier announcing on national television immediately after the Huskies won the 2014 national collegiate men's basketball title that he frequently went to bed hungry because of NCAA restrictions on 'excess food.'
- 20 This action added a sixth division to the NCAA for football governance purposes.
- 21 The NCAA once fixed the salaries of the fourth assistant basketball coach, but a 1998 Court of Appeals ruling held that this was collusion in restraint of trade, costing the NCAA a judgment

- of \$66 million (Law v. National Collegiate Athletic Association, 134 F.3d 1010 [10th Circuit 1998]).
- 22 Division II football teams seem able to field complete teams with a 63, rather than 85, as in Division I, scholarship limit. Brown (1993) estimated that a star college football player earned about half a million dollars per season for his team in the early 1990s. The amount would be much more today.
 - 23 Lane, Nagel, and Netz (2014) successively relate player performance to winning, and winning to gate receipts to measure individual NCAA basketball players' marginal revenue products. They find that the playing contributions of about 60 percent of the players generate revenues exceeding the value of their grants-in-aid. An analogous study of football players would help to identify the winners and losers if the pay cap were relaxed.
 - 24 For a thorough discussion about the current market for college athletes, see Sanderson and Siegfried, 2015.
 - 25 Fan reaction to paying players is probably the most important unanswered research question affecting college sports today. A first effort addressing fan reaction to paying players has found that consumer demand does not depend on preserving regulations that limit athletic compensation (Baker, Edelman, and Watanabe, 2018).
 - 26 An assessment of changes in inequality within and among Division I FBS power conferences, Division I FBS non-power conferences, and Division I FCS institutions in terms of winning percentages, [coaches salaries, attendance for an insight](#).

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