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An Exploration of the Ethics of Paying Salaries to College Athletes



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An Exploration of the Ethics of Paying Salaries to College Athletes

by

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I hereby recognize and pledge to fulfill my responsibilities as defined in the Honor Code and to maintain the integrity of both myself and the College as a whole.

Patrick Cole

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Abstract

Our nation's obsession with young athletes has allowed intercollegiate sports to evolve into a multi-billion dollar industry, generating enormous revenues for some. However, due to an NCAA ban on any payment to athletes other than scholarships, the athletes are not among those who receive a portion of this revenue. As a result, debates about whether or not athletes should be paid salaries continually arise.

This paper explores whether the current system of compensating NCAA Division I athletes strictly through scholarships is ethical, and if not, what type of fair compensation system could be pragmatically implemented. Distributive justice and utilitarianism principles are used as the centerpieces of the ethical investigation. Analyzing other authors' research, the college athlete labor market, the profitability of individual institutions, and the economic value of college athletes provides an in-depth understanding of why this discussion holds great value. My findings from the literature review and the empirical data lead me to conclude that withholding revenues in excess of a scholarship from the athletes is an unethical practice. Therefore, I will propose a more ethical system under which collegiate athlete receive greater compensation.

1. Introduction

Steve, the nation's premier point-guard, led his team to the NCAA basketball title game in his freshman year. From this deep March Madness run, his school recorded all-time highs in ticket and merchandise sales, especially for his coveted #13 jersey, signed a record television revenue deal, and set a new mark for athletic department revenues. Steve's contribution to the school's bottom line was estimated at $750,000 per year, yet he received an annual scholarship worth only $25,000 while his coach raked in $2.5 million. Bypassing the NBA draft where he was certain to be a top 5 draft pick with a guaranteed contract worth tens of millions of dollars, he returned for his sophomore season with hopes of an NCAA Championship only to suffer a career-ending knee injury and subsequently dropped out of school.

Jack, a senior in high school with a bare minimum class-load, eked out a 2.0 GPA and scored a 17 on the ACT. He, however, happened to be a five-star football recruit who ran a 4.3 second 40-yard dash and received not only a full-ride to one of the nation's finest private colleges, but also a $40,000 annual salary for signing with the football team. As a college athlete, he receives special housing, an athletes-only dining room, and private tutoring for the bare-bones curriculum he is taking. Outside of football, his main concern is achieving the minimum GPA required to maintain his eligibility and scholarship until he declares for the NFL draft.

The first scenario represents a reality of the current collegiate sports system and the second is a hypothetical representation of what may happen if college athletes receive salaries. This raises many ethical questions: is a $25,000 scholarship enough compensation for a standout college athlete? Why is a coach's salary often worth 100 times the value of

an athlete's scholarship? Do colleges have the right to profit from the performance of an 18-year-old freshman while he must pay out of his own pocket just to travel home for Christmas break? Should an academically underperforming athlete pocket thousands of dollars for playing college sports? These hypothetical scenarios highlight a number of real ethical dilemmas in college sports today and raise numerous questions that polarize the American public as well as college administrators. The biggest question surrounding college sports today is whether or not athletes should be paid a salary. This paper explores whether the current system of compensating NCAA Division I athletes strictly through scholarships is ethical, and if not, what type of fair compensation system could be pragmatically implemented.

In order to develop this research question throughout the paper, Chapter 2 will discuss two specific ethical principles and the many reasons for and against paying athletes. In Chapter 3, relevant empirical data will be presented to discuss how athletes are being unfairly compensated. This data includes a case study of revenues and expenses for two Division I universities, salaries of coaches, and the true financial value of athletes in big time sports programs. Finally, Chapter 4 offers a proposed solution that implements a salary system that more adequately and ethically compensates athletes while minimizing economic harm to the universities.

While talk of salaries for college athletes has seemed far-fetched and purely hypothetical for many years, a recent ruling by the National Labor Relations Board (NLRB) may rapidly turn this into a reality. A former Northwestern University football player led a campaign to form a union for the athletes at the school. In a landmark ruling on March 26, 2014, the NLRB declared that football players at Northwestern should actually be

considered employees of the university, rather than student-athletes, meaning they may form a union and seek collective bargaining rights (Fornelli, 2014). This small victory for college athletes currently applies only to private schools and does not mean everyone will be paid, but it does "set the wheels in motion of college athletes forming a union in the coming years" (Fornelli, 2014, para. 13).

Although it is doubtful a solution that works in everyone's best interests will ever be found, an overwhelming amount of evidence shows that there is a need for a change. Legendary track athlete Sir Roger Bannister once said, "Sport, is a fit study for ethics" (McIntosh, 1979, p.1). This paper scrutinizes the ethics of college sports in an attempt to offer a fair and practical solution that might reduce the cries heard across the country against the unethical treatment of college athletes.

2. Literature Review

An obsession with intercollegiate sports has swept across the United States in the past several decades. Football and men's basketball, especially, have become America's newest pastime. Eighteen, nineteen, and early twenty year-olds perform high value entertainment on behalf of their institutions for the enjoyment of millions of spectators. College sports entered the American education system in the 1800s as a means to enhance the overall college experience. Rutgers defeated Princeton in the nation's first college football game in 1869, and its popularity has risen exponentially ever since (Lapchick, 2006, p. 5). The dangers of the game led to numerous deaths and hundreds more injuries on the field, which prompted the creation of the National Collegiate Athletic Association (NCAA) in 1906. Its goal was to restore the amateur status of athletes and physically protect them, and today its mission is to "maintain intercollegiate athletics as an integral part of the educational program and the athlete as an integral part of the student, and by doing so, retain a clear line of demarcation between intercollegiate athletics and professional sports" (Zimbalist, 1999, p. 3). As this paper will clearly outline, this is a daunting task.

The impact of the media creating celebrity statuses on campuses for athletes combined with the tremendous revenue athletes produce constructs morally challenging conflicts regarding the allocation of profits. This stems from the athletes' amateur status: "an amateur athlete is one who engages in a particular sport for the educational, physical, mental and social benefits derived therefrom and to whom participation in that sport is an avocation" (Lapchick & Slaughter, 2006, p. 74). There is nothing ethically wrong with the NCAA requiring an athlete to hold an amateur status so long as he or she is not exploited.

However, former professional basketball player and current ESPN analyst Jay Bilas (2010) provides an interpretation of how exploitation may exist in college sports:

> "An athlete is not exploited when he is fairly compensated in a business transaction outside of the institution. To the contrary, one could more persuasively argue that an athlete is exploited when he is expressly disallowed from realizing his value while his reputation and skill are being used to realize a profit for others" (Huma & Staurosky, 2010, p. 10).

Many authors share this concern of exploitation given the structure of the sports market. An amateur status creates additional issues because the athletes' inability to receive gifts other than a scholarship does not necessarily restrict the institution from providing illegal benefits to attract and keep top athletes. The challenge here is legislating integrity. The NCAA creates many rules to govern collegiate athletics, but monitoring compliance is a separate issue. However, this issue may diminish or disappear with the implementation of salaries since payment and other benefits would become legal. Arguably, many faults exist in the current collegiate athletics system, including the strict code of amateur athletes, the lack of educational focus in higher education for athletes, and the distribution of athletic department profits. One thing for certain is that in recent years, the conversation regarding paying salaries to college athletes has become hotter than ever.

2.1 Business Ethics

In order to understand the logic of this paper, there needs to be an understanding of the meaning of *ethics*. "Ethical principles are rules by which an individual can…examine his or her moral standards and verify his or her value judgments" (Hosmer, 1994, p. 24). Larue

Hosmer and Lynn Paine discuss the importance of ethical actions in their articles "Strategic Planning as if Ethics Mattered" (1994), and "Managing for Organizational Integrity" (1994). Both authors conclude that no matter the case, ethics is a central facet of management and must be present in any competitive sense. Hosmer develops this definition by making a critical distinction between moral standards, value judgments and ethical principles. Moral standards are "the means by which we judge our actions, and those of our neighbors", and value judgments are another means people use to determine what is right, just, or fair, usually for more complex managerial dilemmas (Hosmer, 1994, p. 23). While all three processes help to determine the rightness or justness of an action, it is essential to realize that ethical principles do not differ between people. Moral judgments and value judgments vary across genders, races, and countries, but ethical principles are consistent for everyone and must be implemented into management as such. Applying ethics to a business setting, business ethics takes on its own definition: "a set of corporate values and codes of principles…by which a company evaluates its actions and business-related decisions" (Gruble, 2012, para. 1). In this paper, "business-related decisions" take the shape of decisions made by the NCAA and its member institutions. While the NCAA and institutions do not exist for profit-maximizing reasons like most businesses, they are still entities that have similar processes where one would expect to find business ethics in place. Nonprofit organizations must be grounded in the passions and values of their members – in the case of the NCAA, this would be the athletes and member institutions (Rothschild & Milofsky, 2006, p. 137). Nonprofits often feel pressured to adapt conventional styles of for-profit management and lose their focus such that hierarchical and bureaucratic management forms may infiltrate the non-profit organizations (Rothschild & Milofsky, 2006, p. 138).

The billions of dollars generated by intercollegiate athletics, perhaps, create a societal pressure away from the NCAA's core values and ethics, sometimes resulting in actions that are not consistent with the members' members' best interests.

One of the greatest ethical challenges that managers and people of power face is having the will to stand up to unethical action. Athletic directors, school presidents, coaches, and boosters face this challenge in college sports. Hosmer (1994) discusses a three-step process required for a company to be of good ethical standing: first, it must recognize the existence of moral problems, second, it must resolve the problems, and third, it must have the moral courage to insist upon recognition and resolution (p. 29). Additionally, Paine (1994) asserts that managers who fail to appropriately implement leadership that promotes ethical conduct share the responsibility with those who benefit from those misdeeds, and the commonly held belief that legality corresponds with ethicality does not hold true (p. 106). While many of these statements about ethics might be second nature to some, the collegiate athletics culture often feels and acts differently.

In his book *New Game Plan for College Sport*, Richard Lapchick discusses ethics in sports. He argues that learning ethical principles should be the basis for studying sports ethics, rather than studying unethical practices (Lapchick, 2006, p. 75). He references three different thought processes that people use for moral justification when they break rules and promises: (1) the unethical action was ethical because "muddy waters" make it look just; (2) the unethical action caused no harm to others; and (3) a rule was violated but there was more good done than harm caused (Lapchick, 2006, p. 79-80). Although it may seem clear to a bystander that an act was unethical, humans have been trained to use these excuses, and these thought processes flow into the athletic departments of many schools.

2.2 Ethical Scopes: Utilitarianism and Distributive Justice

For conciseness in this paper, the very broad notion of ethics will be concentrated into two ethical scopes: utilitarianism and distributive justice. The topic of payment to college athletes generates a great number of opinionated articles with conflicting viewpoints, and the best way to construct consistent thoughts throughout the paper is by applying a specific ethical mindset.

Utilitarian principles state that one must "never take any action that does not result in greater good than harm for the society of which you are a part" (Hosmer, 1994, p.21). Hosmer argues that the self-interest of individuals creates one of the greatest conflicts with utilitarianism. Though self-interests generally create an individual focus, these interests may be followed when they achieve the "greatest good for the greatest number" (Hosmer, 1994, p. 21). In the context of college athletics, utilitarian principles will be applied to assess the ethicality of the large number of athletes being denied payment and how athletic department revenues are distributed.

Similarly, *distributive justice* ultimately holds everyone's best interests in mind. A theory based on the work of John Rawls, it is defined as "never take any action in which the least among us are harmed in some way" (Hosmer, 1994, p. 22). Often the market distributes goods or services unjustly, and Rawls promotes distributive justice to keep in mind the poor, uneducated, or unemployed, and ensure they are not made worse off. College athletes are more fortunate than many people their age, but the National Collegiate Players Association (NCPA) found the living expense portion of a "full" scholarship leaves 85% of on-campus and 86% of off-campus athletes at or below the poverty line (Huma & Staurowsky, 2012, p. 4). Worse yet, the average full scholarship falls over $3,000 short of

the actual cost of attending college for a year, thus some athletes are categorized as "the least among us" (Huma & Staurowsky, 2012, p. 4). While not all athletes fall into this categorization, it is unjust to deny someone adequate compensation when he or she provides something valuable.

The majority of arguments in favor of either paying the athletes or not can be separated into two categories: academic reasons and financial reasons. While the case to pay athletes is mostly financial, the case against it relies on predominantly academic motives.

2.3 Should Athletes be Paid? – An Academic Focus

The overarching academic argument for not paying athletes rests on the transformation of "student-athletes" into "athlete-students". Walter Byers first coined the term "student-athlete" in 1953, but recently collegiate athletes are turning into "athlete-students", meaning athletics trumps academics as the students' primary interest. The athletic department conflicts with the mission statement of many institutions through an excessive emphasis placed on sports. The media impact and American culture give more importance to athletic success than academic, allowing this mindset to infiltrate all levels of the college sports hierarchy. Starting with the NCAA, Randy Grant (2008) questions the motives of this association in his book *The Economics of Intercollegiate Sports*. He argues that if the NCAA was *really* concerned about the educational quality of athletes, there would still be a freshman ban and a guaranteed four-year scholarship for athletes (p. 179). Prior to 1972, all freshmen were ineligible to compete in order to get acclimated to college life and adjust to its academic rigors. Additionally, until 1973 athletic scholarships guaranteed

tuition coverage for all four years, regardless of injury, ineligibility, or role on the team (Grant, 2008, p. 180). Grant states that the decisions to remove these requirements prove the lack of care given to the academic success of athletes. Moving down the hierarchy, university presidents, athletic directors, and coaches all contribute to the athletics-first culture. In fact, athletes are sometimes encouraged to take easy majors and classes in order to dedicate more time to their sport.

This overemphasis on athletics takes a toll on the students, often resulting in drastic consequences. Despite taking easier course loads, the poor grades of athletes further demonstrate the lack of attention given to academics. A 1980 study of academic performance by the Knight Commission found that 35 of the 100 big time Division I schools had graduation rates below 20% for basketball, and 14 football programs reported the same dismal number (Fizel, 2004, p. 40). While the numbers have improved, profit making sports teams – football and men's basketball – still fall below the graduation rates of the athletic department as a whole, as well as those of non-athletes. Grant found that in 2004, the Division I six-year graduation rate was 61%, but football and men's basketball rates were only 54% and 46%, respectively (Grant, 2008, p. 196). Additionally, freshmen football and basketball athletes enter into the college's bottom 25% academically (Grant, 2008, p. 196). As a result, these athletes often receive preferential treatment during the admission process by being accepted solely for their athletic ability rather than academic talent. Shockingly, some schools even illegally assist athletes with grades by falsely boosting their GPAs and allowing plagiarism. This lack of academic attention promoted by the NCAA and illegal favors given by individual institutions is worrisome to many authors. The great fear is that the decreasing emphasis placed on academics would deteriorate even

further if athletes were allowed to receive salaries; the athletes' mindset of pursuing eligibility rather than a degree would become more of a reality than before. These authors argue that instead of allowing this trend to continue, institutions should implement regulations to reverse this inclination and ensure an academic emphasis is the foremost priority for athletes. Allowing salaries would not help this movement. Lapchick (2006) suggests removing athletic scholarships entirely in favor of solely need-based and academic aid to refocus college on education and benefit the athletes in the long run through increased academic demand (p. 68). Don Canham, a former University of Michigan athletic director, once said, "You know what these idiots in Admissions have done? They have refused to admit two of the best basketball players in the country!" (Grant, 2008, p. 177). Former University of Arkansas basketball coach Nolan Richardson stated, "They hired me…to win. I'd never heard anybody ask me anything about my graduation rates" (Grant, 2008, p. 177). These two quotes clearly capture the severity and reality of the disastrous trend away from academics, and salaries would enhance the challenge of turning this trend around.

On the other hand, some authors, albeit a much smaller group, use academic life as a reason for why athletes should be paid. Dennis Johnson (2012) discusses these reasons in his article "Point/Counterpoint: Paying College Athletes" in *The Sports Journal*. He claims even though sports were instituted to enhance the college experience, the labor required to compete at a high level consumes so much of the athlete's life that he or she misses out on what the campus has to offer (Johnson & Acquaviva, 2012). The pressure of having to perform well in order to keep a scholarship results in athletes dedicating more time to practice, lifting, and watching film than to academics. This dedication often means athletes

cannot participate in academic clubs or extracurricular activities. Additionally, the combination of many athletes having to take easy classes and very few actually graduating creates an issue after college. Johnson believes there exists an unethical exploitation of athletes due to these phenomena and salaries would work towards solving this problem.

2.4 Should Athletes be Paid? – A Financial Focus

Whereas authors who focus their arguments on the academic performance side of the debate more heavily favors not paying college athletes, those who focus on the current financial system within college athletics do just the opposite. Grant, one of the stronger proponents of paying athletes, articulates many of the financial reasons for why they deserve to be paid. College sports have erupted into a $60 billion industry in the past several decades allowing presidents, athletic directors, conference commissioners, and coaches to haul in millions of dollars in revenue while leaving the players with none. Many football and basketball coaches receive salaries in the range of $3-5 million, with the potential to earn even more through bonuses based on the team's results. This vast disparity between coach compensation and player scholarships seems unethical to many. The University of Texas led the country in football program revenue in 2012 with $103.8 million in total revenue, netting $77.9 million (Gregory, 2013, p. 40). Grant uses a *marginal revenue product* analysis to show the disproportionate compensation athletes receive in comparison to the revenue they bring to their school. Marginal revenue product is defined as the additional revenue generated from one additional unit – an athlete – ceteris paribus. Performing this analysis for Marshawn Lynch during his collegiate football years from 2004-2006 shows that he generated $800,000 per year to the University of California, yet

his scholarship was valued at less than $17,000 per year (Grant, 2008, p. 148). On average, a top-notch basketball player produces nearly $1.2 million per year for his school and football players just over $400,000 (Gregory, 2008, p. 40-41). This wage gap is referred to as *monopsonistic rent*, a form of profit for the athletic department that economists consider to be economic exploitation of athletes (Grant, 2008, p. 141). Monopsony involves a single buyer controlling a good or service (Oxford English Dictionary). In the case of the NCAA, once an athlete commits to an institution, that institution controls his or her services. Players wishing to transfer to another school must forfeit a year of eligibility and coaches are allowed to limit their athletes' mobility by denying a transfer to any number of schools at their discretion. The significant marginal revenue product numbers above and the institutional control over athletes often leads to the ethics of the current scholarship system being questioned.

Many authors on this subject wonder why athletes are denied a piece of the revenue when it is widely accepted that they earn far more money for their universities than they receive through scholarships. Grant argues that paying athletes would not decrease the size of the athletic department's revenues, but rather would redistribute it. Scholarships at Ohio State University consume only 4% of the team's total revenues, which means there is plenty more cash to distribute to the players (Grant, 2008, p. 448). Gregory (2013) compares the revenue cut professional athletes receive to a potential salary system for college athletes in his *Time* article "It's Time to Pay College Athletes". Professional football and basketball players receive 46.5% and 50% of team revenue, respectively, and if the top grossing college teams equally paid all of their athletes, University of Texas football players would each receive nearly $550,000, and University of Louisville basketball players just

over $1.6 million (Gregory, 2013, p. 40). While the athletes would enjoy being paid an equal percentage of revenues as professional athletes, salaries this extreme cannot happen due to the many necessary institutional uses for these revenues, mainly funding the non-revenue generating sports. However, given the small portion of revenue that scholarships currently consume in the collegiate model, it appears feasible for more money to be spent on the athletes.

Many believe athletes to be employees of the college. Time spent dedicated to athletics can reach up to 60 hours per week with the coach acting as their boss, scheduling practice and meeting times, and deciding the starting lineup. The irony of athletes essentially holding a full time job playing athletics and being denied the ability to hold an on-campus job by the NCAA adds to the discussion another ethical reason to institute pay. The rest of the student body can make money in various ways without risk, including work study jobs, teaching-assistantships, and the sale of artwork, yet athletes are held to a different standard. In a *WallStreet Journal* article, "The Case for Paying College Athletes", Ben Cohen (2011) claims college athletes are unfairly held to the strictest code in amateur sports (para. 5). Olympians and other amateurs may sign sponsorship deals and autographs for money, but college athletes cannot. Some authors who disagree with paying them salaries believe the NCAA should at least allow sponsorship deals to the best athletes. This would create no institutional challenges on an ethical level and would allow the athlete to act independently for profit.

Alternatively, Andrew Zimbalist's *Unpaid Professionals* and Allen Sack and Ellen Staurowsky's *College Athletes for Hire*, discuss some of the major financial reasons against salaries. Many athletic departments and universities argue that athletic triumph triggers a

sequence of fame, increased applications, greater selectivity, and more donations from alumni and boosters. However, Zimbalist finds this does not hold true. The fact that few Division I universities show profit from the athletic department presents a convincing argument against salaries. A 2013 study by USA Today found less than ten percent of Division I programs profited from the athletic department in 2011 without the assistance of subsidies (Berkowitz, para 2)! While many necessary department expenses are supported by athletic revenue and a portion does help fund the non-revenue generating sports teams, the next chapter will show that many of these "expenses" are actually discretionary allocations of profit. Some believe if too much money ends up in the pockets of football and basketball players, the other sports may not survive. Given the attention received by the Title IX motion and other equality actions, eliminating sports in favor of paying a small elite group of athletes appears quite unethical.

Another argument considers the scholarship as "pay". The cash value of a full scholarship at most Division I schools ranges from $20,000-$40,000 per year, but to an economist the actual value is much greater. High profile athletes not only receive housing, food, and books, but also professional counseling, academic tutors, health coaches, trainers, and other services that are unavailable to most students, boosting the value of a scholarship (Dorfman, 2013, para. 3). Jeffrey Dorfman (2013) proclaims in his *Forbes* article "Pay College Athletes? They're Already Paid Up To $125,000 Per Year" that many athletes receive over $100,000 per year in economic value through the perks of a scholarship, and he believes this to be more than enough compensation for their athletic contribution (para. 4). Finally, the actual implementation of salaries would bring new financial challenges to the table. Smaller Division I schools would be forced to pay salaries

to remain competitive and might lose more money on the athletic department. Opponents of salaries find this to be unethical since it puts a large and potentially impossible financial burden on smaller schools. If the athletes receive a piece of the revenue, something must give; university presidents, coaches, athletic directors or the non-revenue generating sports would have to take a hit. Also, the NCAA would likely be obligated to implement a set of guidelines regarding salaries. These issues may include a salary cap, equal rights for women, and punishments for violations. For this reason, paying athletes may create just as many new problems as it solves.

2.5 Conclusion

Nearly every aspect of this discussion can be viewed within the context of ethics. The current system as well as the salary system for athletes each has ethical issues and, arguably, solves ethical problems. The challenge, then, becomes determining the most ethical and equitable outcome. James Duderstadt, former University of Michigan President, states, "The NCAA has been charged with the formidable task of simultaneously guarding the integrity of intercollegiate athletics while generating hundreds of millions of dollars in income for its member institutions" (Grant, 2008, p. 448). Relating utilitarian and distributive justice principles to this topic is a simple task, but choosing the socially optimal outcome is as formidable of a task as the NCAA's.

In the next chapter I will perform empirical analysis to determine the feasibility of Division I schools paying their athletes salaries and calculate the value of the best players in the game. Data, including athletic department income statements, coach salaries, high school recruit rankings, and marginal revenue product, will be essential to my analysis.

3. Empirical Analysis

In this chapter I will examine evidence relevant to the ethics of paying athletes salaries. Speaking about the ethics of paying salaries to athletes requires an understanding of the financial system governing intercollegiate sports. Without money to be spent, whether or not the athletes should receive salaries becomes a moot point. This chapter contains three sections that are significant to this analysis. First, I will discuss how the NCAA functions as a cartel and how this influences the flow of money in college athletics. Second, I will examine where athletic departments spend their money and take a close look at the athletic department financial statements of two Division I schools to explore whether the money supply makes player salaries feasible at these schools. Third, I will explain how to find the true value of top athletes to their institutions and what they potentially could be paid.

3.1 The NCAA as a Cartel

Consider the Organization of the Petroleum Exporting Companies (OPEC). These 12 countries control much of the world's crude oil production and have formed an alliance to dictate the supply and price of oil, rather than let free market forces come into play. This, in essence, represents the actions of a cartel. A cartel is defined as "producers in the same line of business designed to eliminate competition" and cartels are the "antithesis of competition" due to their practices of limiting production and increasing prices – which are completely contrary to the two basic functions of competitive markets (Stocking & Watson, 1984, p. 3). The financial structure of collegiate athletics starts at the very top with the NCAA and many sports economists claim that the NCAA functions as a cartel. If true, this,

potentially, creates an ethical and legal issue since cartels are illegal in the United States. Grant (2008) states cartels thrive on cooperation with competitors, which allow for price-fixing and leave the consumer with no option other than paying the high set price for the product (p. 70). He defines cartels as "a more structured form of collusion, with formal agreements on how much each firm will produce and sell, and limits on other forms of competition, such as advertising" (Grant, 2008, p. 71).

The most successful cartels achieve a low elasticity of demand and a low elasticity of supply. When the elasticity of demand is low, the firm may reduce output minimally and create a comparatively large increase in price and profits (Grant, 2008, p. 78). The NCAA is able to take full advantage of this factor given the lack of substitutes for collegiate athletics. For example, consumers, event-goers and television watchers just to name a few, have placed such a high importance on college sports that they will pay the increasing ticket and television broadcast price. Additionally, the NCAA achieves a low elasticity of supply. This occurs when an input cartel decreases the price paid for an input and in return sees only a small decline in the quantity (Grant, 2008, p. 78). This theory is evident in the athlete labor market; the NCAA "decreases" the price paid for athletes through the ban of any payment outside scholarships, yet it still attracts thousands of athletes every year who have very limited or no outside options to pursue their sport ambitions.

Furthermore, Grant proposes three revealing characteristics of cartel activity: high profits, low input prices, and high output prices. Applying these factors to the NCAA suggest it functions like a cartel. While the NCAA is technically non-profit and many schools report losses in their athletic departments, the fact remains that college sports are a multi-billion dollar industry that creates enormous profits. This issue will be discussed in

greater detail later in the chapter. As discussed before, low input prices and high output prices are clearly seen in college athletics. In addition to restricting pay for athletes, the NCAA reduces input prices through recruiting regulations, scholarship control, and scholarships being set well below a player's marginal revenue product. The NCAA's limitation on memberships and competitions enables higher prices from the sellers, which sets the players' marginal revenue product values very high. As a result, high output prices are evident through bowl game revenues, the NCAA Basketball Championship Tournament (also known as March Madness), ticket prices, and broadcast contracts. ESPN recently signed a deal to broadcast the new college football playoff games for the next twelve years, 2015-2026, which is expected to be worth $470 million annually (Bachman, 2012). Time Warner and CBS also signed a fourteen-year broadcasting rights contract for the March Madness Tournament worth nearly $11 billion dollars for the duration (NCAA, 2010).

3.1.1 The College Athlete Labor Market

Given the evidence of cartel behavior by the NCAA, it must have some impact on the college athlete labor market. Economic theory states that efficient markets function competitively, however the restrictions put in place by the NCAA create an uncompetitive market since institutions cannot compete on price for each athlete. Effectively, this creates a small number of dominant sports teams, due to a few key elements such as past winning history and reputation, since smaller and less well-known schools without these influencing factors cannot fairly compete for the top recruits. Thus, these lesser known schools have an incentive to act unethically by providing recruits with illegal forms of payment, as they cannot effectively compete with the large schools through legal recruiting

means (Grant, 2008, p. 157). As discussed later in the chapter, there are rents for institutions to capture by signing the top athletes. Unfortunately, cheating and illegal activity will almost always invade collegiate athletic programs, but it is likely that a free market would reduce such actions. While the goals of the NCAA on its website never mention profit or revenue, this discussion about cartels and the huge rents generated supports Koch's statement that the NCAA is "a business cartel composed of university-firms which have varying desires to restrict competition and maximize profits in the area of intercollegiate athletics" (Koch, 1973, p. 135).

3.2 Profitability of Institutions

Year after year the college athletics industry increases its value, yet individual institutions struggle to keep their heads above water on the athletic department income statement. As mentioned in the previous chapter, roughly ten percent of schools in 2011 generated enough revenue to cover their own expenses in the athletic department without requiring subsidies: only 23 of the 228 public Division I schools (Berkowitz, para 2). While many schools generate over $100 million in revenues, their expenses are often even higher.

Figure 3.1 illustrates the vast differences between the most and least successful universities in terms of revenues and expenses. The disparity is astounding as the bottom ten schools generate only approximately 5% of the revenue of the top ten schools. Even universities like Auburn that generate over $100 million in athletic revenue rely on subsidies to support the program. Without this extra cash the department would be running a deficit for the school year. This brings up an economic inquiry: can the schools that require subsidies or generate very little revenues sustain salaries for their athletes and

compete with the larger schools? If they cannot, is it ethical to promote salaries? While many athletic department income statements show little or no profit, an analysis of their expenses sheds light on the unnecessary costs many schools claim as expenses.

Table 3.1: 2011 Athletic Departments – Top and bottom ten revenue generating Division I public universities.

Rank	School	Total Revenues	Total Expenses	Profit	Subsidies	Profit without Subsidies
1	Texas	$150,295,926	$133,686,815	$16,609,111	$0	$16,609,111
2	Ohio State	$131,815,821	$122,286,869	$9,528,952	$0	$9,528,952
3	Alabama	$124,498,616	$105,068,152	$19,430,464	$5,235,300	$14,195,164
4	Florida	$123,514,257	$107,157,831	$16,356,426	$4,367,071	$11,989,355
5	Michigan	$122,739,052	$111,844,553	$10,894,499	$272,684	$10,621,815
6	Penn State	$116,118,025	$101,336,483	$14,781,542	$0	$14,781,542
7	LSU	$107,259,352	$91,796,925	$15,462,427	$0	$15,462,427
8	Tennessee	$104,368,992	$97,580,406	$6,788,586	$1,000,000	$5,788,586
9	Oklahoma	$104,338,844	$94,363,928	$9,974,916	$0	$9,974,916
10	Auburn	$103,982,441	$100,497,784	$3,484,657	4,307,040	($822,383)
219	Savannah State	$6,673,458	$6,412,911	$260,547	$5,221,562	($4,961,015)
220	IUPUI	$6,495,982	$6,472,226	$23,756	$5,747,639	($5,723,883)
221	Grambling State	$6,212,914	$6,212,914	$0	$2,890,963	($2,890,963)
222	Alabama A&M	$6,003,172	$6,980,583	($977,411)	$4,513,325	($5,490,736)
223	Alcorn State	$5,995,743	$5,576,931	$418,812	$4,160,650	($3,741,838)
224	Chicago State	$5,033,060	$5,196,546	($163,486)	$4,254,592	($4,418,078)
225	Maryland-Eastern Shore	$4,889,052	$4,889,052	$0	$4,157,400	($4,157,400)
226	North Carolina Asheville	$4,643,565	$4,792,752	($149,187)	$3,489,213	($3,638,400)
227	Mississippi Valley State	$4,182,130	$4,182,130	$0	$2,423,152	($2,423,152)
228	Coppin State	$3,484,823	$4,088,874	($604,051)	$2,874,884	($3,391,935)

Source: Data from Berkowitz, S., Upton, J. & Brady, E., (2013).

3.2.1 University of Michigan and Colorado State University

To illustrate this point I will use the University of Michigan (hereinafter referred to as Michigan) and Colorado State University (hereinafter referred to as Colorado State) as case studies, comparing their finances. Throughout the chapter I will reference the schools in regards to the current topic of discussion. Historically, Michigan is a top-tier athletic program in terms of revenues and athletic talent. Qualifying for a bowl game and March

Madness are minimal expectations for the athletes and fans of the program. On the other hand, Colorado State is an average program in terms of revenues and athletic success. While its athletic program cannot compare to Michigan's in terms of on-field success, it is nothing to scoff at: Colorado State's football and basketball teams are in the mix of teams competing for an invitation to a bowl game and the March Madness tournament each year, successfully qualifying for both in the last two seasons.

As shown in Table 3.1, Michigan generated the fifth most revenue of public Division I schools in 2011 with $122.7 million, and although not shown in the table, Colorado State came in at number 71, with $29.4 million. Most of the schools in the American Athletic Conference, Athletic Coast Conference, Big Ten Conference, Big 12 Conference, Pacific 12 Conference, and Southeastern Conference (the six automatic qualifiers for the college football Bowl Championship Series) successfully bring in huge sums of revenue. Yet, net income is minuscule compared to total revenues, and often in the red (Berkowitz, 2013). When James Duderstadt became President of Michigan in 1988, Michigan won the Big Ten Championship in football, won the Rose Bowl, and won the National Championship in basketball (Duderstadt, 2000, p. 127). Despite these incredible accomplishments all in the same year, the department showed a profit of only one million dollars (Duderstadt, 2000, p. 127). How is this possible? Schools that generate large sums of revenue often incur very high expenses, and Table 3.2 details this idea by showing some of the major revenue and expense items for Michigan and Colorado State athletics.

Table 3.2: 2011 Michigan and Colorado State revenue and expense comparison.

	Michigan	Colorado State
Revenues:		
Ticket Sales	$41,668,589	$2,929,003
Student Fees	-	4,938,165
Money from playing in away games	283,619	221,000
Contributions and donations	27,961,623	2,970,589
Payment to coaches and staff from a third party	-	37,800
University Subsidy	272,684	7,334,514
NCAA, Conferences	24,264,579	3,659,720
Licensing, royalties, ads and sponsorships	19,077,794	2,926,681
Other	9,210,164	4,355,311
Total Operating Revenues	122,739,052	29,372,783
Expenses:		
Tuition and aid for student athletes	16,323,215	6,227,779
Money paid to visiting teams	1,835,309	202,468
Coaches' salaries and benefits from the university	15,813,816	4,910,614
Staff and administrative salaries and benefits	21,941,020	3,651,868
Recruiting	1,480,357	540,678
Team travel	6,603,147	1,764,192
Game day expenses	3,821,596	1,302,820
Fundraising and marketing	1,856,394	1,179,438
Medical expenses and insurance	456,251	394,814
Other	41,713,448	5,773,831
Total Operating Expenses	111,844,553	25,948,502
Profit	$10,894,499	$3,424,281

Source: Data from *ESPN,* (2011).

A larger school like Michigan that attracts much attention will receive greater revenues in most categories, including tickets, sponsorships, NCAA benefits, and ad revenues, but also face much higher expenses in areas such as team travel, fundraising and marketing, recruiting, and game day expenses. Likewise, Michigan fields more sports teams than

Colorado State so the aid for student athletes, and coaches and administrative salaries categories are also much greater.

As discussed in Chapter 2, the financial aspect of the debate usually benefits the side in favor of paying athletes. Here I will look at two examples of how rents are absorbed by the athletic departments instead of compensating the athletes: first, enormous salaries to college coaches draw major criticisms, and second, the athletics arms race has increased rapidly in the past few decades, greatly increasing athletic department expenditures.

3.2.2 Salaries of Coaches

The value of coaching salaries presents an ethical concern due to the division of revenues. At many schools, a very small percentage of money generated from the athletic department goes to the actual athletes. For Michigan and Colorado State, salaries paid to coaches nearly equal the combined scholarships of all of the athletes, and if staff and administration wages are included, they overwhelmingly outweigh the aid given to players. The aid to the 849 student-athletes at Michigan barely outnumbers the wages paid to the 107 coaches, and Colorado State shows similar results with 370 athletes and 62 coaches. At Michigan, athletic scholarships make up just over 13% of the department revenue while coaching salaries consume slightly below 13% (Equity in Athletics Data Analysis). At Colorado State, a greater portion is given to the athletes: scholarships and coach salaries account for 21% and 17% of total revenue, respectively (Equity in Athletics Data Analysis). At Colorado State the 14 head coaches receive average salaries of $292,000, and at Michigan the average of the 28 salaries is $345,000 (Equity in Athletics Data Analysis). These are large numbers given that the average athletic scholarship averages only $20,000-

$30,000 per year. Figure 3.1 compares college and professional head coaching salaries to give a reference point for these numbers and the division of profit for a sports team.

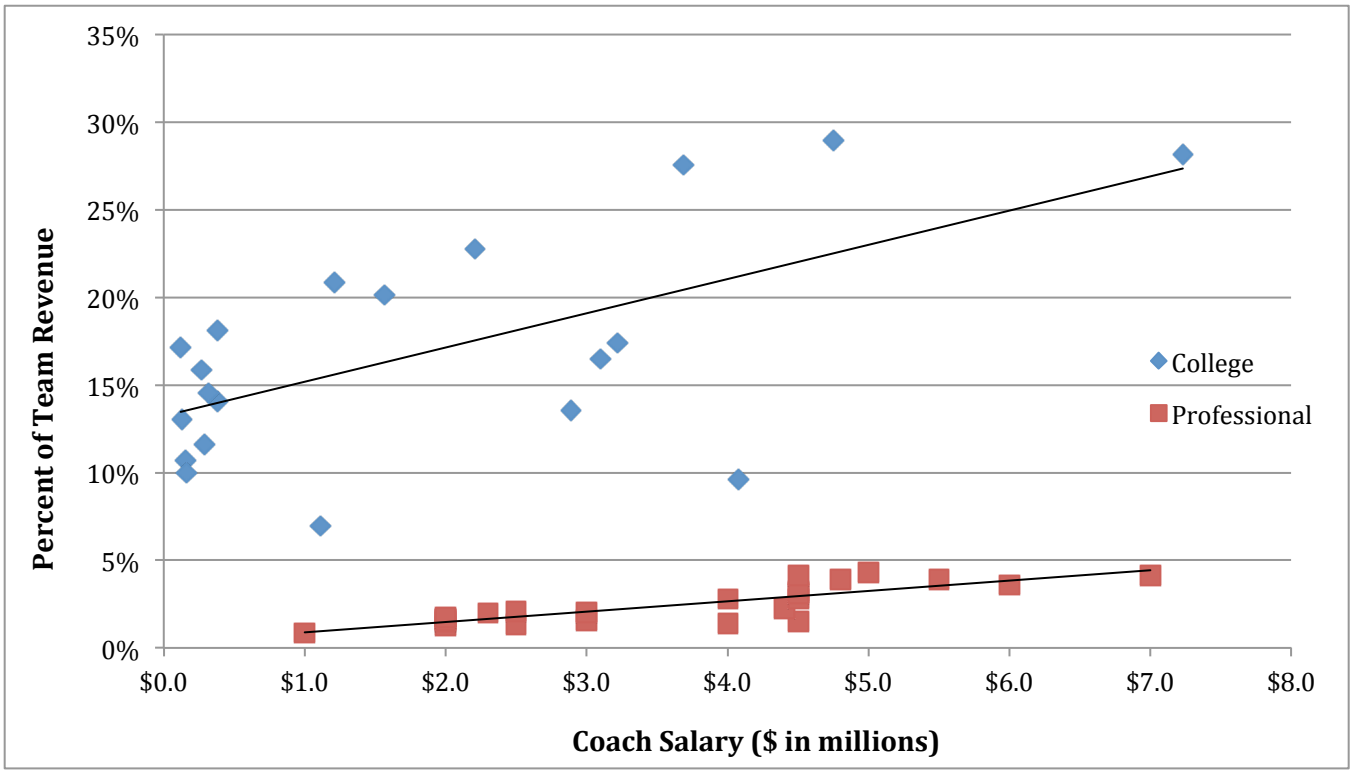

Figure 3.1: 2012-2013 – College and professional head basketball coach salaries as a percent of team revenues.
Source: Author creation based on Equity in Athletics Data Analysis (2012), and Berkowitz, (2013).

From this data, it is quite evident that college head coaches receive a much greater portion of team revenues than their professional counterparts. The above figure contains data from 25 of the 30 National Basketball Association (NBA) teams and 20 Division I college basketball teams from the 2012-2013 season. To select a representative group of college athletic programs in size, talent, and head coaching salary, I used the 2013 March Madness teams. The top and bottom three seeded teams from each of the four regions in the tournament bracket were chosen in order to acquire this range of universities, and a sample size similar to that of the NBA teams. Four of the 24 selected universities are

private and withhold financial information. In regards to the NBA, I hoped to use a pool of all 30 teams, but five did not release coach salaries for last season. As one can see, professional coaches generally receive higher salaries, but in terms of percentage of team revenue college coaches dominate. Shockingly, the highest paid coach in college basketball makes more money than the highest paid professional coach! So how do the case study schools compare? Michigan's head coach has a salary worth $1.8 million per year, totaling 12% of team revenue (Berkowitz, 2013; Equity in Athletics Data Analysis). Colorado State's head coach makes only $500,000 annually, the highest in the Mountain West Conference, but receives a similar percentage of team revenue at 11% (Berkowitz, 2013; Equity in Athletics Data Analysis). Both coaches' salaries fall fairly low on the graph in terms of percent of team revenue when compared to the assortment of teams represented. Still, they all outperform the professional league coaches.

In Berri's (2011) article "How About a Free Market for College Athletes", Zimbalist estimates NBA teams generate approximately ten times the revenue of college basketball teams. Despite this inequality, Zimbalist claims the college market is artificially influenced by factors that do not reflect free market forces, resulting in a large portion of athletic revenue being given to the coaches:

> "(a) no monetary compensation is paid to the workforce, the athletes; (b) intercollegiate sports benefit from substantial tax privileges; (c) there are no shareholders demanding dividend distributions or boards demanding higher profits; (d) athletic departments are nourished by university and state financial support; and (e) coaches' salaries are negotiated by athletic directors whose own worth rises with the salaries of their employees" (Berri, 2011, para. 10).

Rather than allowing these factors to boost coach salaries, this money could be given to the workforce. College coach salaries have increased at a much greater rate than salaries of any other position at a university. Between 1986 and 2007, head football and basketball coach salaries rose 500% and 400%, respectively, while university presidents only rose 100% and full-time professors a mere 30% (Zimbalist, 2010). Similarly, the comparison of college and professional head football coach salaries very closely resembles that of basketball coaches, as seen in Figure 3.2.

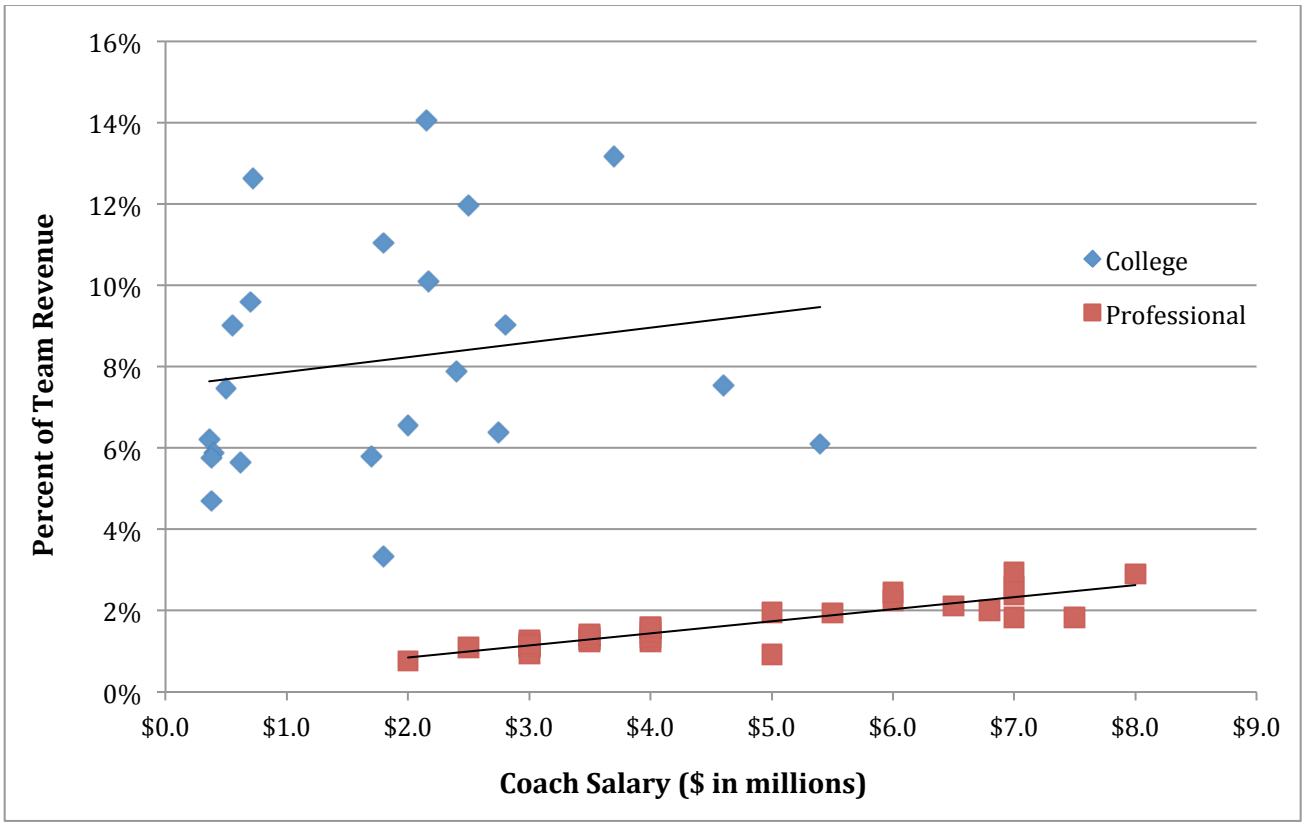

Figure 3.2: 2012-2013 – College and professional head football coach salaries as a percent of team revenues.
Source: Author creation based on Equity in Athletics Data Analysis (2012), and Berkowitz, (2013).

All 32 professional football teams' revenues and head coach salaries are reflected in Figure 3.2. In regards to the college coach salaries, another attempt was made to acquire a representative group of universities. For each of the 11 Division I-A conferences, I used the first and last place teams from the 2011-2012 year-end standings to include in the graph. Teams include powerhouses such as Alabama, Oregon, and Ohio State, as well as weaker schools like Arkansas State, Utah State, and Akron. Just as we saw in Figure 3.1, the college coaches receive a drastically larger portion of the team's revenue. Once again we take a look at the case study schools. Michigan's head football coach's salary of $4.15 million ranks as the eighth highest salary in the country and accounts for 5% of team revenues (Berkowitz, 2013; Equity in Athletics Data Analysis). Colorado State's head coach earns $1.35 million and amounts to 12% of team revenues (Berkowitz, 2013; Equity in Athletics Data Analysis). We see that both schools give a much greater portion of revenues to the head coaches than in the NFL. Astonishingly, college head football coaches earn even a greater percent of the *entire* athletic department revenues than the percent of *team* revenues professional head coaches receive.

3.2.3 Collegiate Athletics

As seen previously, coaching salaries have increased at rates far greater than other university employees. So too, has spending on facilities, equipment, recruiting, and other areas intended to bolster athletic programs. Schools believe this spending will draw better recruits, achieve more successful athletic results, and gain national attention to increase enrollment. This idea is referred to as the *athletics arms race*. Analogous to the military arms race, institutions feel the need to outspend their competitors to gain an athletic

advantage. As a result, the increasing financial support and emphasis given to athletics in the past decade is staggering and the gap between athletic and academic spending per student is growing out of proportion. According to Zimbalist's study of 90 Football Bowl Series schools (the football teams who compete in the highest division), academic spending per student between 2005 and 2011 rose 8% while athletic spending per athlete rose more than 38% (Zimbalist, 2010). Furthermore, in 2011, average academic spending per student was less than $14,000 whereas spending per athlete nearly exceeded $100,000 (Zimbalist, 2010). Although this spending indirectly benefits the athlete, these large expenses are highly subjective and the spending could be given directly to the athletes, instead. Regardless of this massive spike in athletic spending, the ultimate goal of national attention and higher enrollment is rarely achieved simply from this motive. Many schools spend millions of dollars to renovate or build new athletic facilities even when they are not *necessarily* needed. Boosters of the programs often receive lofty treatment such as priority seating at events and chartered planes to bowl games. Looking at one of our case study schools, Michigan spent $420,000 on booster expenses and $13.2 million on facility improvements in 2010 (Regents Communication, 2011). Surprisingly, these are relatively small expenses for a single year. In 2007, the University of Kentucky built a $30 million basketball practice facility, the University of Georgia spent $31 million on a weightlifting and practice center, and Ohio State University reported $197 million of debt from athletic facility projects in recent years (Knight Commission, 2009, p. 17). These represent only a few examples and the total cost of athletic facilities between 1995 and 2005 is estimated at over $15 billion (Knight Commission, 2009, p. 16).

Looking at the specific expenditures of university athletic departments reveals that there *is* money to be given to the athletes. It is understood that most universities lose money from their athletic department, but many of the costs are highly subjective. These costs consume revenues to make profits appear small or nonexistent. Although schools like Colorado State with less athletic revenue than the elite universities may find it more challenging to pay their athletes, it appears very feasible to implement salaries if the athletic department expenses are scrutinized. As Grant (2008) notes, paying athletes will not decrease the size of athletic departments' available expenditure; it will simply redistribute it (p. 151).

3.3 The True Value of College Athletes

After establishing the feasibility of paying college athletes, there must be an analysis of their economic worth to universities. Generally speaking, these top athletes are the most highly regarded high school players and receive much attention from colleges during the recruiting process. The value of college athletes to individual institutions must be realized in order to promote an efficient recruiting market and to determine a reasonable salary for the top players.

3.3.1 The Importance of Recruiting

As one may expect, standing atop the college football and basketball team rankings requires elite recruiting. But how can the teams in the middle of the pack emerge as national contenders when they have limited recruiting resources? The recruiting process challenges these schools since recent success generally attracts the top talent. Berri (2011)

and Grant (2008) stress the lack of an efficient recruiting market as a great problem in college sports. Sports economists believe allowing salaries will create a more competitive market, giving historically weaker schools a chance to become elite. The best high school athletes, many with aspirations of competing at the professional level, want to attend a college with a winning history, national reputation, and a chance to win a championship in order to boost their draft stock. While these aspirations will remain in place with or without salaries, paying athletes gives them one more aspect to consider when committing to a college.

For example, let us consider a high school basketball All-American athlete deciding between our two case study schools. Historically, Michigan is a nationally recognized football program that often contends for a conference championship in one of the strongest basketball conferences, while Colorado State, potentially a school unknown to many recruits, usually finishes in the middle of an average Mountain West Conference. Without salaries, this decision is simple for many players: they commit to Michigan. However, allowing salaries might change this outcome. If Michigan has exhausted its financial resources on other athletes, Colorado State could offer the All-American a higher wage, increasing the probability the recruit commits there. Berri (2011) and Grant (2008) argue that salaries will work to increase competition in the recruiting process and reduce the current dominance of a few teams in college sports. Between 1950 and 2006, only 13 college basketball teams accounted for 50% of all Final Four appearances in the March Madness Tournament (Berri, 2013). This discovery is mirrored in college football; only 12 schools have combined for 50% of the top eight finishes in the AP poll rankings from 1950-2008 (Berri, 2013). Reducing the dominance of a few teams will create more competition

in the recruiting market. In turn, this will increase the value of the athletes, allowing them to benefit from the valuable good they produce.

This emphasis on recruiting holds little importance until it becomes clear that excellent recruiting directly relates to success. Based on Rivals.com football ratings, which rates high school players between two and five stars with five being the best, the teams that recruit the greatest number of highly rated players have sustained remarkable win-loss records from 2010-2012. Table 3.3 and Figure 3.3 rank the big six conference (AAC, ACC, Big Ten, Big 12, Pac 12, and SEC) football teams based on their *recruiting classes* (note: individual high school recruits are rated 2-5 stars, but the college *team* ratings range from 1-5 stars). Matt Hinton (2013) generates the team star ratings strictly based on the individual star ratings of recruits. Based on their 1,028 head-to-head matchups over the last three years, the results were assembled. These charts prove that the best recruits result in dominant football teams.

Table 3.3: 2010-2012 – College football team head-to-head win-loss records and percentages based on the talent of its recruiting class.

Head to Head Record by Recruiting Class (Rivals), 2010-12

2010	vs. 5-Star	vs. 4-Star	vs. 3-Star	vs. 2-Star	vs. 1-Star	vs. All	vs. Lower Class
5-Star	.500 (10-10)	.645 (20-11)	.606 (20-13)	.750 (18-6)	.889 (8-1)	.650 (76-41)	.680 (66-31)
4-Star	.355 (11-20)	.500 (18-18)	.600 (21-14)	.652 (15-8)	1.000 (11-0)	.556 (75-60)	.681 (47-22)
3-Star	.394 (13-20)	.400 (14-21)	.500 (22-22)	.682 (30-14)	.759 (22-7)	.546 (101-84)	.712 (52-21)
2-Star	.250 (6-18)	.348 (8-15)	.318 (14-30)	.500 (13-13)	.535 (14-12)	.385 (55-88)	.535 (14-12)
1-Star	.111 (1-8)	.000 (0-11)	.241 (7-22)	.462 (12-14)	.500 (6-6)	.299 (26-61)	–
2011	**vs. 5-Star**	**vs. 4-Star**	**vs. 3-Star**	**vs. 2-Star**	**vs. 1-Star**	**vs. All**	**vs. Lower Class**
5-Star	.500 (14-14)	.692 (18-8)	.645 (20-11)	.739 (17-6)	.889 (8-1)	.658 (77-40)	.708 (63-26)
4-Star	.308 (8-18)	.500 (15-15)	.526 (20-18)	.655 (19-10)	.933 (14-1)	.551 (76-62)	.646 (53-29)
3-Star	.355 (11-20)	.474 (18-20)	.500 (24-24)	.556 (25-20)	.645 (20-11)	.508 (98-95)	.592 (45-31)
2-Star	.261 (6-17)	.345 (10-19)	.444 (20-25)	.500 (14-14)	.591 (13-9)	.429 (63-84)	.591 (13-9)
1-Star	.111 (1-8)	.067 (1-14)	.355 (11-20)	.409 (9-13)	.500 (6-6)	.315 (28-61)	–
2012	**vs. 5-Star**	**vs. 4-Star**	**vs. 3-Star**	**vs. 2-Star**	**vs. 1-Star**	**vs. All**	**vs. Lower Class**
5-Star	.500 (9-9)	.655 (19-10)	.793 (23-6)	.808 (21-5)	1.000 (8-0)	.727 (80-30)	.772 (71-21)
4-Star	.345 (10-19)	.500 (13-13)	.790 (30-8)	.654 (17-9)	.769 (10-3)	.606 (80-52)	.740 (57-20)
3-Star	.207 (6-23)	.211 (8-30)	.500 (29-29)	.512 (21-20)	.576 (19-14)	.417 (83-116)	.541 (40-34)
2-Star	.192 (5-21)	.346 (9-17)	.488 (20-21)	.500 (20-20)	.481 (13-14)	.419 (67-93)	.481 (13-14)
1-Star	.000 (0-8)	.231 (3-10)	.424 (14-19)	.519 (14-13)	.500 (10-10)	.400 (40-60)	–
Overall	**vs. 5-Star**	**vs. 4-Star**	**vs. 3-Star**	**vs. 2-Star**	**vs. 1-Star**	**vs. All**	**vs. Lower Class**
5-Star	.500 (33-33)	.663 (57-29)	.667 (63-30)	.767 (56-17)	.923 (24-2)	.677 (233-111)	.719 (200-78)
4-Star	.337 (29-57)	.500 (46-46)	.640 (71-40)	.654 (51-27)	.897 (35-4)	.573 (233-174)	.689 (157-71)
3-Star	.313 (30-63)	.360 (40-71)	.550 (75-75)	.585 (76-54)	.656 (61-32)	.489 (282-295)	.614 (137-86)
2-Star	.233 (17-56)	.346 (27-51)	.415 (54-76)	.500 (47-47)	.533 (40-35)	.411 (185-265)	.533 (40-35)
1-Star	.077 (2-24)	.103 (4-35)	.344 (32-61)	.467 (35-40)	.500 (22-22)	.343 (95-182)	–

Source: Table from Hinton, M. (2013).

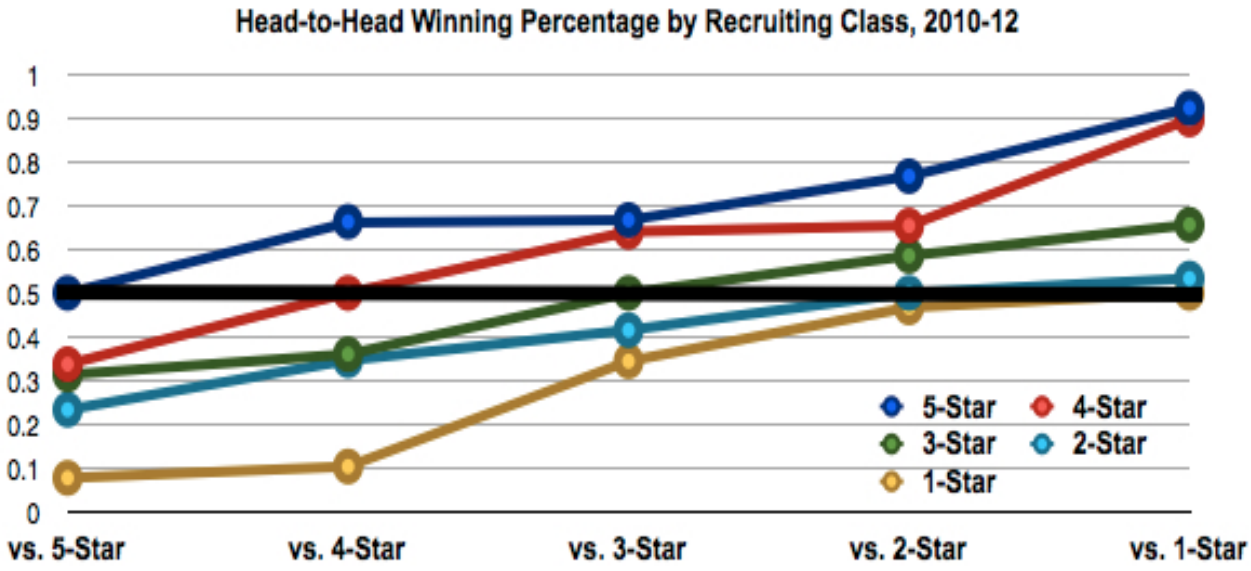

Figure 3.3: 2010-2012 – Head-to-head winning percentage by recruiting class.
This figure is a graphical representation of the data presented in Table 3.3.
Source: Figure from Hinton, M. (2013).

Consequently, schools put much time, effort, and money into the recruiting process; Michigan spent nearly $1.5 million recruiting athletes in 2011. This year's national championship football game between Florida State University and Auburn University contained outstanding recruiting classes. The five years of recruiting classes playing in the game for Auburn and Florida State's football teams consisted of 54% and 53% 4 or 5-star players, respectively, with both teams ranking in the top 10 national recruiting classes (Hinton, 2013). The gap between 4 and 5-star recruits and everyone else is immense. The chance of becoming an All-American college football player rises exponentially with a higher recruiting ranking: one in six 5-star recruits and one in sixteen 4-star recruits achieve this status, while the average for all college football signees is one in 45 (Hinton, 2013). Additionally, 11 of the first 18 first-round draft picks in the 2013 NFL draft entered college as a 4 or 5-star recruit (Cooper, 2013).

These top-star athletes create winning programs, which bring wealth to their schools. Using 2011 football and men's basketball win-loss records from the top and bottom revenue generating teams listed in Chapter 2, the top revenue generating teams produced remarkably more wins. The top 10 schools posted a combined 293-172 win-loss record while the bottom 10 achieved a 139-236 record. Although wins and losses are not the only contributing factor to athletic revenues, it plays a large role.

3.3.2 Wins Produced and Marginal Revenue Product

Knowing that the top recruits are responsible for much of their teams' revenue, sports economists attempt to calculate their precise economic worth. Estimating a player's marginal revenue product determines each player's worth to the university. One method is through the number of wins produced by each player. Mathematical formulas using sports statistics determine the number of wins for which each player is responsible. For basketball, the *wins produced model* estimates an individual's contribution to winning through offensive and defensive efficiency. *Offensive efficiency* is defined as "points scored divided by possessions employed" and *defensive efficiency* as "points surrendered divided by possessions acquired" (Berri, Schmidt, & Brook). Using these statistics as a starting point, each player's initial wins produced value is adjusted through the addition of other variables, such as teammate performance, to obtain a final number.

In Berri's (2013) article "How About a Free Market for College Athletes?", he analyzes the 2012-2013 Indiana University basketball team. Indiana's basketball team finished the season with a stellar 29-7 record and a #1 seed in the March Madness Tournament. As one of the most outstanding teams in the country last year, the basketball

team generated over $23 million in revenue for the university. Berri (2013) acknowledges the true value of a win at a school like Indiana is still a work in progress, but he takes a "conservative estimate" that each of its 29 wins is worth *at least* $100,000 (para. 5). After calculating each of the 16 players' wins produced value and multiplying it by $100,000, Berri constructs Table 3.4 to represent the inequality between the scholarships given to players and their value to the university.

Table 3.4: Indiana University 2012-2013 basketball team – Player wins produced and respective marginal revenue product values, given a $100,000 value per team win.

Player	Wins Produced	Marginal Revenue Product
Victor Oladipo	7.37	$737,129
Cody Zeller	5.66	565,992
Jordan Hulls	4.56	456,377
Kevin Ferrell	3.23	323,131
Christian Watford	2.92	291,740
Will Sheehey	2.42	242,386
Remy Abell	1.64	164,178
Jeremy Hollowell	0.60	60,374
Maurice Creek	0.43	42,661
Hanner Mosquera-Perea	0.28	28,060
Jeff Howard	0.25	24,976
Austin Etherington	0.24	24,457
Derek Elston	0.14	13,742
Raphael Smith	0.10	10,139
Taylor Wayer	0.02	2,138
Peter Jurkin	(0.03)	(2,879)
Team Totals	29.83	$2,984,601

Source: Table from Berri, D. (2013).

The total wins produced of 29.83 suggest great accuracy of this model as the team won 29 games last year. This process was applied to NBA teams and found similar success: a study

of all 30 teams produced an average difference of only 2.61 games won between the total wins produced value and the team's actual win-loss record (Berri, Schmidt & Brook). The marginal revenue product column on the right represents each player's value to the university in the 2012-2013 school year. Clearly, many of these values significantly outweigh the value of a one-year scholarship and many of them are over 10 times the value. To understand this inequality, Division I basketball teams are allowed 15 scholarships per year. At Indiana University, in state tuition costs roughly $21,000 and out of state $43,000, so an estimate of the average one-year cost of tuition for a basketball player is $32,000. This means the 15 scholarships cost the school approximately $480,000, and from above we see the marginal revenue product from all the players reaches nearly $3 million. Furthermore, Indiana's head coach Tom Crean has a salary worth $2.24 million per year. Concrete findings such as these illustrate that universities redistribute the considerable rents generated by the athletes to other individuals.

This same trend survives in college football, as well. Robert Brown (1993) uses regression analysis to determine the rents generated by premier college football players. He defines rent as "the difference between the revenue generated by the player and his effective compensation", with the effective compensation being an athletic scholarship (Brown, 1993, p. 681). Brown (1993) discovered each NFL capable recruit generates $646,150 for his university annually, thus over $2 million over the duration of a four-year career. This data supports Berri's (2013) finding that that the schools use athletes for financial gain and Brown insists that these rents incentivize schools to illegally recruit. Brown (1993) believes the combination of advantages from future professional-level players on college teams and the monopsonistic nature of the recruitment market create

ethical harms that may be righted through the implementation of salaries. Additionally, Sean Gregory (2013) studied the financial impacts of Texas A&M's quarterback Johnny Manziel two seasons ago. This red-shirted freshman led his team to an 11-2 record, including a bowl victory and a Heisman Trophy (Gregory, 2013). While Manziel receives a scholarship of $21,000 per year, his performance on the football field generated incredible revenues for others. Gregory (2013) estimates Texas A&M received $37 million from media and exposure rights, the head coach collected a $1.1 million raise, and the NCAA profited from selling Manziel's jersey on their website at $64.75 apiece (p. 39). Based on these findings and more, he states, "The idea of paying players is no longer just fodder for academic debate. It's an ethical imperative" (Gregory, 2013, p. 41).

In summary, this chapter holds two key findings. First, large athletic department revenues are eaten up by subjective costs, and second, the athletes who generate these revenues have large marginal revenue product values. Keeping in mind utilitarianism and distributive justice, this creates an ethical concern because the creators of value are being held with limited compensation while the revenues are distributed elsewhere. Given these findings, in the next chapter I will present a recommendation for how to approach this problem while abiding by the ethical scopes.

4. Ethical Shortcomings and a Proposition

As discussed in Chapter 2, distributive justice and utilitarianism were chosen as the two classes of ethical behavior that would be utilized within the context of this paper. Distributive justice is defined as never taking actions to harm the least among us in any way, while utilitarianism is the belief that morally good actions are those that result in the greatest good for the greatest number of people (Hosmer, 1994, p. 21,24). Applying these concepts to the findings of the literature review and empirical chapter clearly demonstrate that there are ethical shortcomings in the NCAA's treatment of collegiate athletes. Simply because the current system of prohibiting payment to college athletes has existed for many years does not mean that it cannot be changed. The rules in college and professional sports leagues are continually evolving. For example, in the past month the NBA has discussed changing the dimensions of the court and adding a four-point shot line, and the NFL is looking into eliminating the extra-point from the game. These would be substantial modifications to the respective games, but with compelling rationale behind them, the motions may pass. Based on the findings of this paper, I believe numerous compelling and ethical reasons exist to implement salaries for the players.

4.1 A Flawed System of College Sports

The first category of ethical struggle is distributive justice. The major concern is that the athletes create enormous wealth for others, while the institutions fail to fairly compensate them for their contribution. The athletes often dedicate 30-40 hours or more per week to produce a multi-billion dollar industry, and are often viewed as employees of the college. The difference between the athletes and employees, however, is who holds the

power in each circumstance. In a traditional workplace, employees have the power to leave their current job to search for another if they desire greater wages, benefits, or for nearly any reason at all. In college sports, the NCAA and head coaches "own" the players. The NCAA places restrictions on the mobility and financial aid given to athletes. For example, if a star quarterback gets injured or fails to claim the first string position on the roster, his scholarship may be withdrawn. Furthermore, Division I athletes who wish to transfer to another Division I institution are ineligible to compete for one year, and their coaches even hold the power to restrict them from receiving a scholarship at any number of other schools they designate (Bishop, 2013). In recent years, the NCAA has set limits for when an athlete may enter his respective professional league. Before entering the NFL Draft, college players must compete for at least three years, and the NBA no longer allows high school graduates to enter the draft, like superstars LeBron James and Kobe Bryant did. Tim Keown (2013) argues against this collusion between the NCAA and major league sports, calling this system "self-serving, hypocritical, and borderline socialistic" (para. 4). These restrictions being forced upon the athletes do not hold their best interests in mind, contrary to justice principles.

Some authors claim that athletes receive fair compensation through the worth of their education, special treatment at the college, the exposure to agents and the chance to play professionally, and other perks. However, the statistics from Chapter 2 show that a low number of football and men's basketball players ever graduate college when compared to the student body as a whole, and many who graduate have majors that do not yield great job opportunities or salaries. Some of the most common majors for football players include Sociology, Sport and Exercise, General Studies, and Social Work (Wall Street Journal, 2010).

Many schools use athletes as revenue-generating assets, encouraging them to take less challenging majors and appear to have little concern for their future. Furthermore, the percent of college athletes who make it to the pros is very small. For football and men's basketball, only 1.7% and 1.2% play at the next level (Manfred, 2012). Given these small numbers, justifying the arguments that the education and professional football careers will compensate college athletes is difficult. Finally, as stated previously, the scholarships the athletes receive place them near the poverty line and the schools' emphasis on sports fails to look out for their long-tern well-being.

The second category of ethical shortcomings fall under utilitarian ideologies, with the main concern being the distribution of wealth in the athletic departments. The empirical chapter illustrated the economic value that thousands of athletes produce for universities, yet a relatively small portion of people receives the benefit. Without the need to pay athletes, universities choose to allocate large sums of capital to coaches, boosters, and lavish facilities, to name a few. The inherent nature of the NCAA cartel negatively impacts more people than it helps. The NCAA sets limits on the number of competitions allowed and games broadcast per season in order to drive up ticket sales and TV revenues. While this may be considered a strategic business tactic that adds value to the product, its ethicality is in question when the athletes are denied a portion of revenues. Additionally, Zimbalist states some athletic directors set coach salaries very high out of self-interest in hopes that their own worth rises as a result (Berri, 2011).

Most universities generate substantial revenues that can be shared with their athletes but claim to run deficits in the athletic department budgets. The empirical chapter included an analysis of the finances of two schools which found that it is feasible to

distribute wages to the athletes. Providing salary compensation to the players would benefit a large number of people, the ultimate goal of utilitarianism.

4.2 Food for Thought: A Proposed Solution

From these results, I recommend that the NCAA implement a payment system for athletes. At a very basic level, if a university were to cut $2 million from a multi-million dollar athletic budget, this would allow, for example, 100 salaries of $20,000 to be paid to the school's most valuable athletes. To demonstrate such a possibility with real-life numbers, I will use the Michigan and Colorado State athletic departments as representative cases.

My suggested method for paying college athletes is to reduce the amount spent on coaches and facilities in order to redistribute the athletic wealth. While this method involves a pre-administered pay scale to simply present the possibility of one type of salary system, market forces will no doubt play a large role in determining the salaries if payment to athletes is ever legislated. Reducing expenses in the aforementioned areas will permit funds for salaries without requiring additional resources to make salaries possible. These funds will be distributed to the sports teams based on the percentage of total athletic department revenues the respective team generates. Football and men's basketball generate the most revenue, but other sports such as hockey and women's basketball produce small profits, too. For example, say a college's football team generates 50% of the total department revenues, an amount very common in Division I, and has $2 million for athlete salaries; the football team would then receive $1 million for player salaries. Before looking at the models in detail, it is important to note that I am holding revenues from the

2011 season fixed. However, I understand that the introduction of salaries may change these values for two main reasons. First, salaries may affect the competitiveness or quality of a team or conference; as a result, the revenues and expenses for athletic departments and each team may increase or decrease due to attendance, broadcasting, and sponsorships. Second, allowing salaries may increase the donation amounts from boosters and dedicated alumni. The competitive nature of college sports will likely draw more funding from the aforementioned resources, resulting in more funds available for the players. Table 4.1 details the specific areas where I suggest reducing costs, and an estimation of the total salary funds available to be distributed to the athletes.

Table 4.1: Proposed redistribution of athletic wealth in order to fund salaries.

	Michigan	**Colorado State**
Head Football Coach	$4,150,000	$1,350,000
New Salary (75%)	$3,112,500	$1,012,500
Funds Available	$1,037,500	$337,500
Head Basketball Coach	$1,800,000	$500,000
New Salary (75%)	$1,350,000	$375,000
Funds Available	$450,000	$125,000
All Other Coaches	$9,850,000	$3,050,000
New Other Total (85%)	$8,372,500	$2,592,500
Funds Available	$1,477,500	$457,500
Average Coach	$115,882	$72,619
New Average Coach	$98,500	$61,726
Facility Expense	$13,200,000	$240,000,000[1]
New Expense (90%)	$11,880,000	$215,400,000
Funds Available	$1,320,000	$1,000,000[2]
Total Funds Available for Athletes[3]	$4,285,000	$1,920,000

[1]This value represents the cost of a 2013 proposal to build a new football stadium.
[2]Reducing the stadium cost by 10% and allocating the cut revenues to the salary funds over 25 years amounts to approximately $1 million per year.
[3]Total Funds Available for Athletes equals the sum of all "Funds Available" line items.
Source: Author creation based on data from Equity in Athletics Data Analysis, (2012), Regents Communication, (2011), and Bachman, (2013).

As shown in Table 4.1, I propose cutting the football and men's basketball head coach salaries by 25% and all other coaching positions by 15%, similar to a progressive tax bracket where the highest paid coaches receive the largest salary reduction. Twenty-five percent is a large number, but do college football and basketball coaches really need, or deserve, multi-million dollar salaries? Michigan's football and basketball coaches would still make $3.11 million and $1.35 million annually, and while Colorado State's respective coaches start with smaller salaries, $1.01 million and $375,000 annual paychecks after the

salary cut are very reasonable salaries. While I propose cutting the salaries of existing coaches rather than hiring new coaches at a reduced salary, it is understood that market forces will play a role in the coaching personnel. Some coaches may not be willing to work for reduced pay but someone else likely will. In this scenario, the school may need to consider how they wish to allocate pay to the coaches and athletes. The "All Other Coaches" category was included to provide a perspective on what the less-highly paid coaches would make after the cut. Michigan employs 87 coaches, 28 head and 59 assistants, and the $115,882 average refers to the salaries of the remaining 85 coaches, after the removal of the head football and men's basketball coaches. After these salary cuts, the remaining coaches would make an average of $98,500 per year. This process was applied to the Colorado State coaching staff to acquire similar results.

Furthermore, facilities expense would be reduced by 10%. In 2011, Michigan spent $13.2 million on facilities, thus a 10% decrease would yield $1.32 million that could be contributed to the salary fund. Although Colorado State did not have specific facility expenses listed for 2011, I will modify a proposal for a new football stadium in order to generate money for the school's salary funds. Colorado State is currently proposing to build a 40,000-seat stadium that will cost $246 million (Bachman, 2013). Reducing the cost by 10%, similar to the adjustment in Michigan's facility expenses, would free up $24.6 million dollars. Since a project of this size surfaces only once in many years, allocating just $1 million per year for salary funds means Colorado State would cover 24 years of facility-related wealth redistribution for my model. After reducing the cost by 10%, the $6,150 per-seat cost structure of the new stadium would limit it to 36,000 seats. However, given the fact that the school fails to sell out its existing 32,500-seat stadium, this stadium cost-

cutting method holds substantial value (Bachman, 2013). Given these changes, Michigan would free up $4.28 million and Colorado State $1.92 million. To put this amount of money into perspective and look at a total utilitarian approach, each athlete at Michigan and Colorado State could receive $5,047 and $5,189 per year, respectively. Sharing this money based on the percentage of revenues produced by each team, a more distributive justice approach, the Michigan and Colorado State football and basketball teams would be allocated significant amounts of money to pay the players.

Table 4.2 displays the substantial salaries that the athletes could collect through this process. Even with player salaries, the Michigan football and basketball coaches would still be millionaires, the Colorado State coaches would still have large salaries, the athletic departments would receive minimal harms, and the arrangement would be in line with the ethical principles of this paper. While it is unlikely, and potentially unethical, that salaries would be paid equally to members of the same sports teams, Table 4.2 gives values for what an even distribution of funds would look like for a better understanding of exactly how far the given salary funds spread.

Table 4.2: Michigan and Colorado State 2011-2012 Football and Basketball Programs – Revenue breakdown and potential athlete salaries.

Michigan	**Football**	**Basketball**
Number of Athletes	110	16
Revenue Generated by Team	$81,475,191	$14,799,440
Athletic Department Revenue	$122,739,052	$122,739,052
Percent of Total Department Revenue	66.4%	12.1%
Allocated Salary Money for School	$4,285,000	$4,285,000
Salary Money for Team	$2,844,418	$516,670
Money Per Player	$25,858	$32,292
Colorado State	**Football**	**Basketball**
Number of Athletes	120	16
Revenue Generated by Team	$11,253,326	$4,461,810
Athletic Department Revenue	$32,535,454	$32,535,454
Percent of Total Department Revenue	34.6%	13.7%
Allocated Salary Money for School	$1,920,000	$1,920,000
Salary Money for Team	$664,087	$263,303
Money Per Player	$6,037	$16,456

Source: Author calculation based on Equity in Athletics Data Analysis, (2012).

A more likely scenario involves the sports teams paying players based on their value. One possibility would be paying athletes on a tiered system such that the starters would be paid the most, and subsequent backup players get paid less as their value to the team decreases. The players most responsible for bringing their university large revenues would receive the greatest compensation. Consider Michigan's football team: the 22 starting players (11 offensive and 11 defensive) would each earn $77,575 per year! On the basketball court, the five starting players would receive $62,000. Table 4.3 shows the entire payment breakdown for a three-tier payment system for football and men's basketball.

Table 4.3: Football and basketball team revenue breakdown – Proposal using a 3-tier payment system based on each player's worth to his respective team.

Football:	**Michigan**	**Colorado State**
First string players	22	22
Percent of team funds	60%	60%
Salary per player	$77,575	$18,111
Second & third string	44	44
Percent of team funds	25%	25%
Salary per player	$16,161	$3,773
Everyone else	44	44
Percent of team funds	15%	15%
Salary per player	$9,697	$2,264

Basketball:	**Michigan**	**Colorado State**
Starting players	5	5
Percent of funds	60%	60%
Salary per player	$62,000	$31,596
Best bench players	5	5
Percent of funds	25%	25%
Salary per player	$25,834	$13,165
Everyone else	6	6
Percent of funds	15%	15%
Salary per player	$12,917	$6,583

Source: Author calculation based on Table 4.2 and Equity in Athletics Data Analysis, (2012).

In regards to competition among the schools, it is unlikely Colorado State will be able to compete with Michigan for the top athletes. Dividing the funds evenly for all players, as shown in Table 4.2, demonstrates Colorado State players cannot earn the same amount as Michigan's players. However, I believe salaries will likely create competition in two areas. First, competition for lower star recruits will increase. Based on my salary system and as shown in Table 4.3, a first string football or basketball player at Colorado

State would earn more than a second string athlete in the same sport at Michigan. Given the talent level of the two schools' football programs, it is realistic that a second string athlete at Michigan could earn a starting role at Colorado State. Without salaries, an average quarterback recruit may commit to Michigan and play a backup role in order to be part of a more reputable program, but salaries could change his mind and earn Colorado State a more talented starting quarterback. Admittedly, this concept will not always hold true, as some schools salaries will improve their chances of signing a star athlete, while others will continue to struggle.

Second, competition within a given conference will increase. Authors such as Berri, Grant, and Koch, who speak of the competitive aspect salaries will bring college sports, understand that salaries will not allow *all* schools to compete evenly. Colorado State and most schools outside the top tier of revenue-generating schools simply cannot compete for premier athletes with or without salaries. However, the various conferences in sports often assemble universities with similar finance structures, and conference opponents are the greatest rivals. Salaries, then, would permit intense competition amongst many conference schools. Colorado State's first priority is competing with fellow Mountain West rivals such as Wyoming, Utah State, and New Mexico. Table 4.4 details the athletic department revenue for schools in the Mountain West and Big Ten Conferences in 2011 (Berkowitz, 2013).

Table 4.4: 2011 Big Ten and Mountain West Conferences athletic department revenues.

Big Ten Conference:		**Mountain West Conference:**	
University	Revenues	University	Revenues
Ohio State	$131.8	Nevada-Las Vegas	$59.5
Michigan	$122.7	San Diego State	$45.2
Penn State	$116.1	Boise State	$43.4
Wisconsin	$96.2	New Mexico	$40.3
Iowa	$93.5	Air Force	$39.8
Michigan State	$84.5	Fresno State	$30.7
Nebraska	$83.7	Colorado State	$29.4
Minnesota	$78.9	Wyoming	$27.6
Illinois	$77.8	San Jose State	$23.9
Indiana	$71.0	Nevada	$21.5
Purdue	$66.2	Utah State	$21.0

Source: Berkowitz, S., Upton, J. & Brady, E. (2013).

For the majority of these schools, the competition for athletes on price would be fierce due to their similar athletic department budgets. While many may take advantage of this competition, the great disparity between the top and bottom revenue schools in each conference means that not everyone will benefit. Nonetheless, adjusting the distribution of revenues and providing salaries to the creators of athletic wealth would be a large ethical step in the right direction.

5. Conclusion

In this paper I set out to explore the ethics of the current compensation system in Division I athletics, specifically in football and men's basketball. It is evident that an ethical dilemma regarding the level of compensation for athletes has evolved. The eroding academic focus of collegiate athletes spearheads the discussion against salaries, while the tremendous financial value the athletes bring institutions presents a significant reason for implementing pay. By developing a thorough understanding of business ethics, specifically distributive justice and utilitarianism, and the financial distribution of revenues in the athletic department, I have found that a reform to the college sports compensation system is imperative for ethical improvements.

Institutions paying salaries to their athletes is the most popular reform solution for the current college sports industry, but many other ideas exist. Within the paying salaries model, sub-solutions include paying all athletes, only the revenue generating athletes, only the best athletes, and letting agents sign with and pay athletes. Solutions such as allowing the top performing athletes to earn revenue on their own through sponsorships and implementing minor leagues for college-aged athletes have also received attention. The minor league method allows the best athletes to skip college to focus on their professional sports dream and earn a salary immediately after high school. The majority of athletes who cannot compete professionally and are more serious about academics may then choose to play college sports and earn a degree while playing in a less demanding collegiate industry.

Every reform method will come with costs and benefits. As seen throughout the paper, the current structure has many costs and benefits, and my proposed salary system in Chapter 4 is no exception to the rule. While it solves a number of ethical problems, there

will be concerns, too. Historically successful teams like Alabama and Ohio State in football and Duke and Kentucky in basketball will continue to stand amongst the best teams in the nation with or without salaries. Coaches will still be paid large salaries and athletic buildings will continue to grow spatially and financially. Paying salaries to college athletes will create more debates on equality for gender, the role of academics, and more. However, the purpose of this paper was not to argue a perfect system for college sports. Rather, it was to portray the ethical concerns and demonstrate the system's potential to be changed. While it cannot be expected for an entirely remodeled compensation system to be drawn up for next season, founding a board consisting of representatives from all hierarchical levels of the college sports industry to look into this matter and start planning for the future would be a significant and ethical step. As mentioned earlier, a critical first step may have already been achieved when the NLRB recently ruled that Northwestern's football players were indeed employees. This enhances the possibility of salaries or some payment system being implemented in the near future. Athletes play the central role in college sports and there is too much wealth involved for them to not receive their fair share based on ethical principles.

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