

The Economics of College Sports

Public Affairs Forum

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FEDERAL
RESERVE
BANK
of ATLANTA

ECONOMICS OF THE PLAYERS' LABOR MARKET

Primary Questions

- 1. Aren't intercollegiate sports a fiscal drag on most universities?**
- 2. Won't pay-for-play exacerbate this problem?**
- 3. If revenue-sports players are paid, won't most other sports be eliminated?**
- 4. Isn't the increasing cost of sports a burden for the rest of the student body?**
- 5. Are unions an option?**
- 6. Title IX?**

SOME FACTS

- **Big-time college sports have TV and stadium audiences and generate revenues comparable to their professional sports counterparts**
 - NCAA Division 1 Football
 - D1 Men's Basketball
- **Intercollegiate college sports as a commercial endeavor is unique to America**
- **The NCAA has 1000+ members**
 - 128 are FBS football, 200 more D1 basketball
 - Majority of intercollegiate college sports are little more than participation opportunities for the athletes

WHAT IS THE UNIVERSITY'S OBJECTIVE?

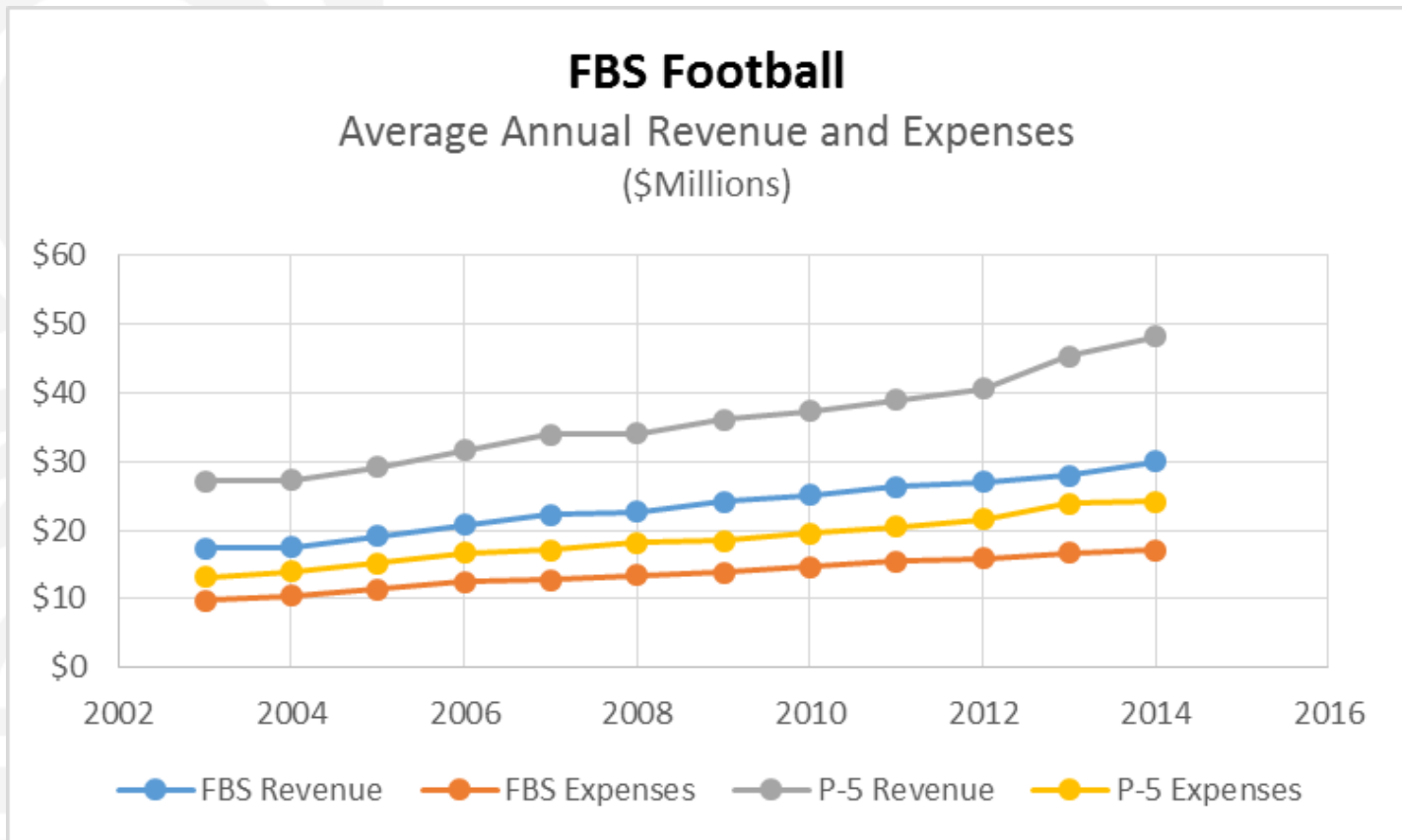
Those sponsoring NCAA sports are nonprofit institutions

- **Prestige maximizers**
 - and individual units may be revenue maximizers
- **Attract students (customers) but**
 - also the best possible students...and faculty... and donations for facilities, the endowment etc.
- **Intercollegiate athletics delivers toward this goal**
 - Publicity—Advertising
 - Revenue
 - Amenities

FINANCIAL CONTRIBUTION: FOOTBALL

FBS Football Is a Profit Center.

Profits are increasing at 6% per year above inflation

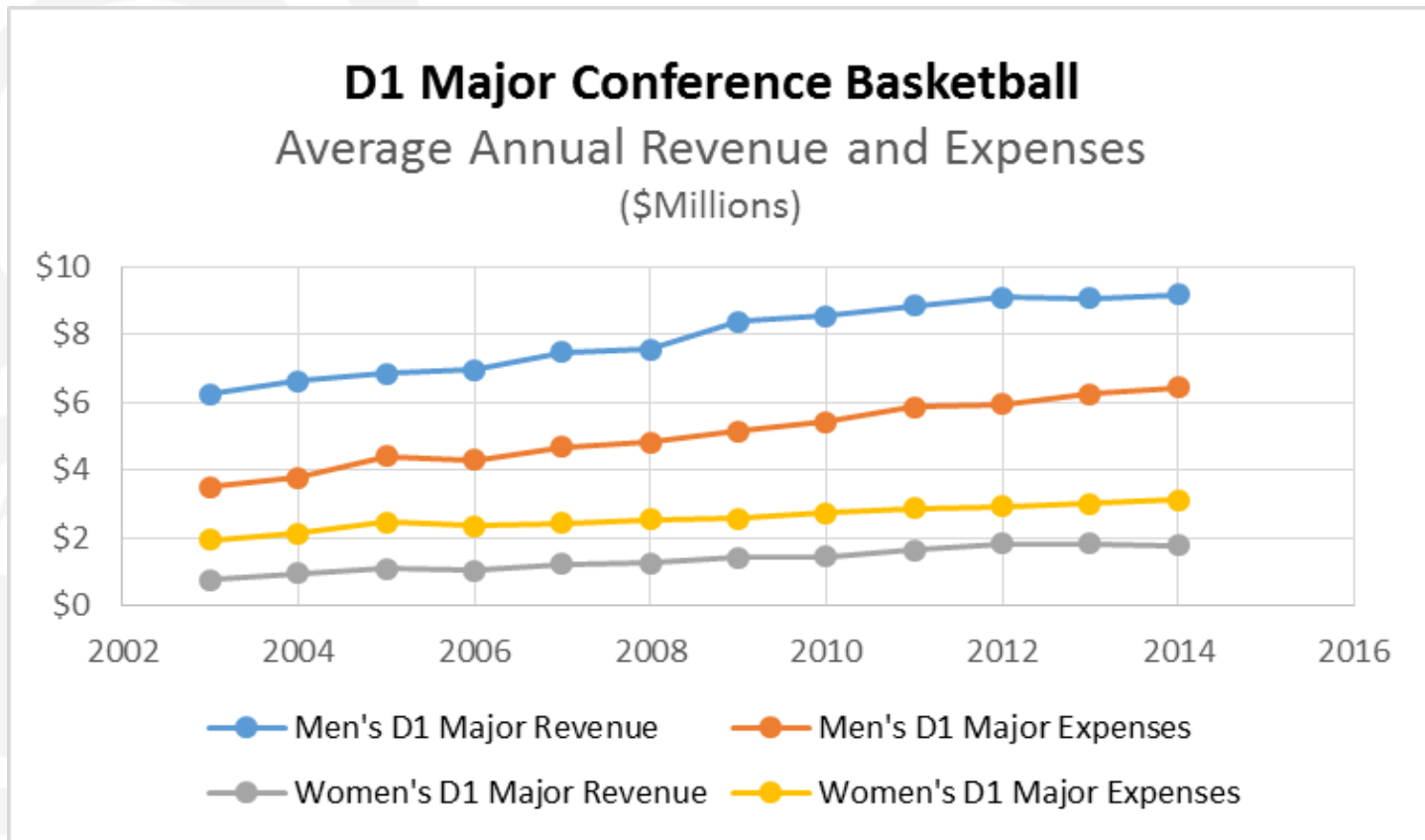


Based on data from US EADA disclosure. Adjusted for inflation to 2014 prices.

FINANCIAL CONTRIBUTION: BASKETBALL

Men's Major Conference basketball is also profitable

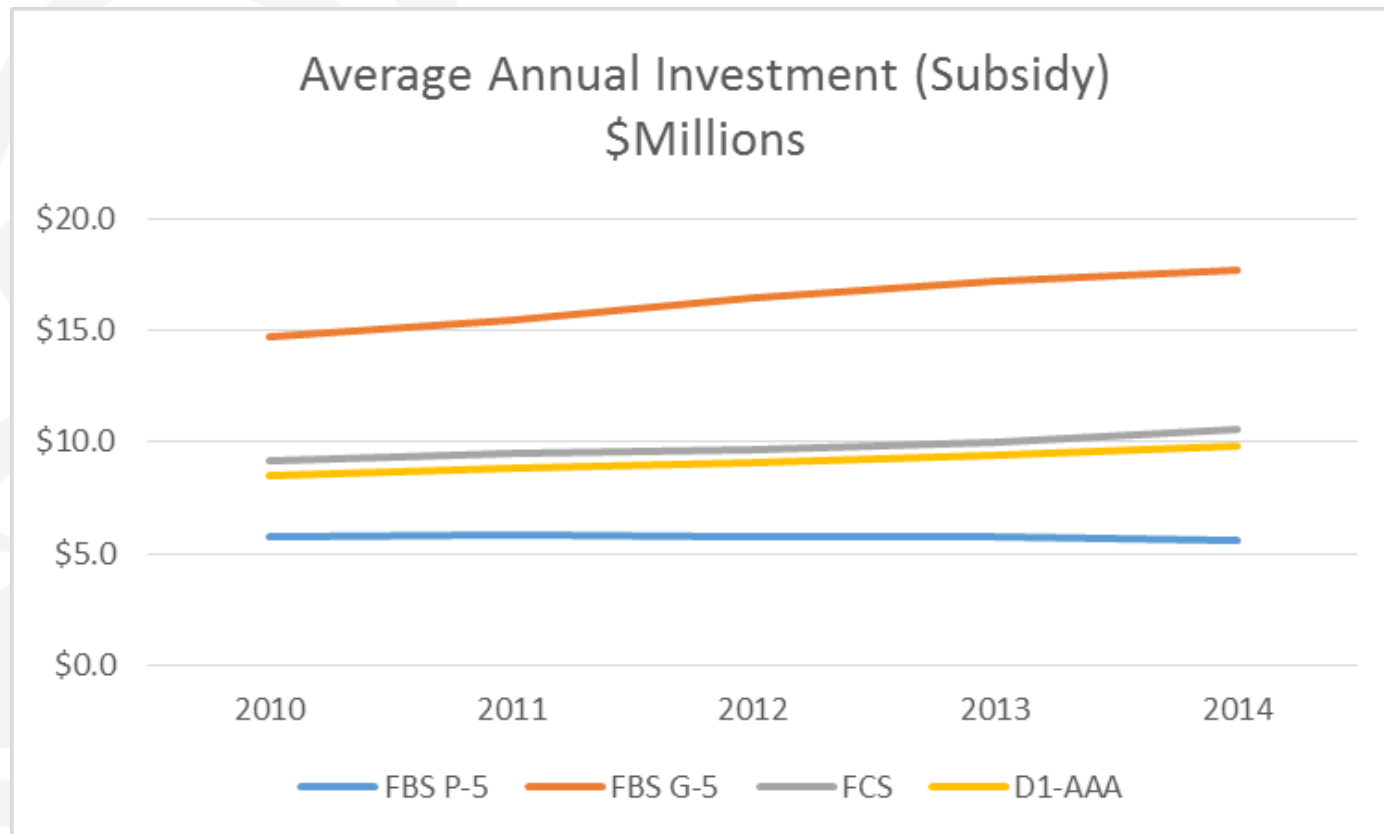
Women's basketball generates significant revenue, but is not profitable



Based on data from US EADA disclosure. Adjusted for inflation to 2014 prices.

FINANCIAL INVESTMENT: D1 ATHLETICS

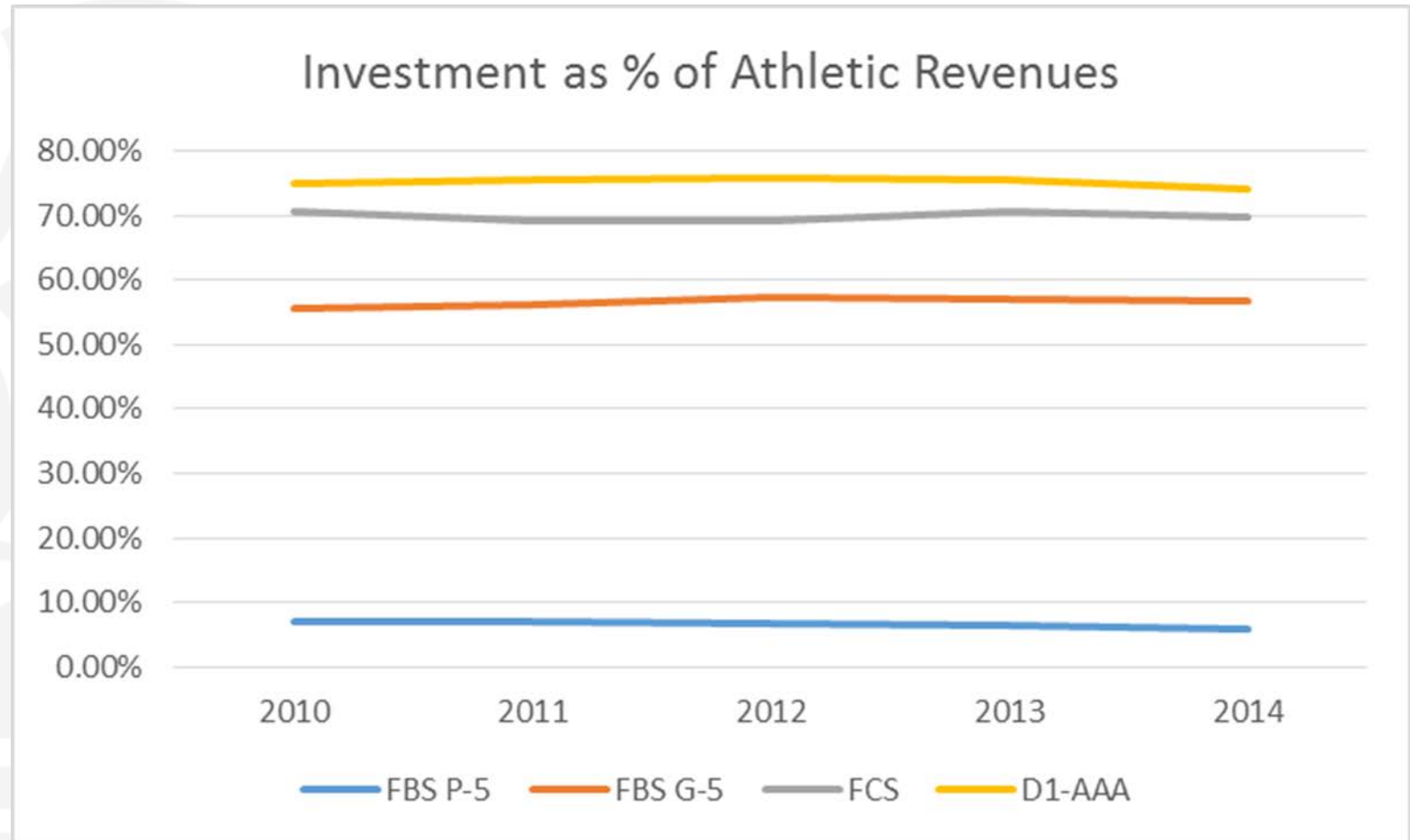
**FBS Group of Five conferences show the highest levels of investment
Power 5 conferences the lowest**



Based on data from the *Chronicle of Higher Education* database. Adjusted for inflation to 2014 prices.

FINANCIAL INVESTMENT: D1 ATHLETICS

Non-football and lower division football make the largest investments



Based on data from the *Chronicle of Higher Education* database. Adjusted for inflation to 2014 prices.

ROI OF ATHLETIC INVESTMENT TO UNIVERSITY OBJECTIVES

1. Increase in size and depth applicant pool

- (Flutie effect)
- Academic research is quite consistent on this finding (e.g. Pope & Pope, 2009; Chung, 2013)

2. Increase in gifts

- Alumni, others

3. Increased state appropriations

4. Intangible benefits

- Community, identity, other feel-good outcomes

CONVERSION TO TANGIBLE SPILLOVER VALUES

Anecdotal Examples:

- 1. Butler: Men's Final Four runs in 2010 & 2011**
 - Estimated \$1 billion in publicity value
- 2. Alabama: 4 FBS championships since 2009**
 - Nonresident students who pay 2.5 times more tuition have more than doubled from 27% to 63% of incoming students
- 3. Kansas State: Turnaround from the worst in D1 football to regular bowl participant and contender in the 1990s**
 - Enrollment nearly doubled from 12k to 23K, fundraising increased tenfold, says prez.
- 4. TCU moves to P-5 in 2012 and has become a top FBS championship contender**
 - Out of state enrollment increased by 20% in six years

WINNING MAGNIFIES THE BENEFITS

- **Wins are finite, zero sum, and highly valuable**
- **The key to winning is talented players**
- **College teams compete determinedly for the best talent**
- **A market with a rigid price ceiling clearly exists**
- **Non-price competition rules the day**
 - **Persuasive recruiter coaches**
 - **Lavish facilities**

COACHES ARE WELL PAID

USA TODAY NCAA COACHES SALARIES 2015



2. \$7,087,481



32. \$3,305,200



4. \$6,875,376



1. \$7,299,666



3. \$7,004,000

COMPARISON TO PROFESSIONAL SPORTS

Coaches' pay in college football: 3.5% of a team's revenue.

Coaches' pay in the NFL: 1.5% of team revenues

NCAA basketball coaches: 11.2%

NBA coaches: 3.2%

Salary growth rate 2007–12

NCAA football: 9.7%

NFL: 4.5%

FACILITIES ARE LAVISH



Oregon 2013 \$138M



SAND VOLLEYBALL & YARD GAMES

OUTDOOR KITCHEN & GRILLING AREA



Clemson 2016 \$55m



UGA \$30 M 2017



FOOTBALL FACILITY SPENDING

UGA Heritage Hall 1987

\$12 million (\$25M in 2016)

Tennessee 1988

\$10 million (\$20M in 2006)

UGA 2017

**\$30 million indoor
practice building**

Tennessee 2013

\$45 million

Clemson 2016

\$55 million

Oregon 2013

\$138 million

PURPOSE OF SPENDING IS TO ENTICE THE ATHLETES

- **Wins are of great value**
- **More wins serve all elements of university's objective function**
- **Talent is needed to produce wins**
- **Wins are finite**
- **The competition to lure the best athletes is intense in FBS football and D1 basketball**
 - **And only in-kind exchanges are permitted**

THE PECKING ORDER

- **Football wins are usually the most valuable...**
 - ...the revenue maximizer will invest earnings back into football
- **For example, 2013 shows a significant increase in P-5 revenues that is immediately followed by major increases in football coaches' pay**
- **Football and basketball do not pay for other sports**
- **Universities invest because they also have value**

SUMMARY

- **College sports are valuable commodities for many universities**
- **The NCAA maintenance of the economic cartel brings about the market power advantages in the production of the sports product**
- **Monopsony over the (labor) input market is of great redistributive value**
 - The most valuable input is underpaid
 - Others collect significant shares
- **Amateurism rules are passé almost everywhere else**
- **Yet the NCAA remains unmatched with its deft preservation of this power**
- **Collective action is best bet for players**
 - As with their professional peers of 50 years ago
 - There are certainly more complications for unions in NCAA sports
 - However it is not inconceivable

Thank you!

