

EconoFact Chats: The Economics of College Sports

Andrew Zimbalist, Smith College

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Michael Klein:

I am Michael Klein, executive editor of EconoFact, a nonpartisan web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:

The Wildcats of the University of Arizona, the Wildcats of the University of Kentucky, the Wildcats of Kansas State, the Wildcats of Villanova. These college sports teams share much besides their nicknames, as do the football and basketball teams at other Division I schools. The football and basketball teams at Division I colleges and universities produce billions of dollars of revenue every year for their schools. The head football coaches are paid salaries that professors can't even imagine. But the athletes themselves do not receive salaries. Should they? And how does the money raised through these sports support the academic mission of these colleges and universities, if at all?

To answer these questions and others about college sports, I'm very pleased to welcome to EconoFact Chats professor Andrew Zimbalist of Smith College. Andy is a leading expert on the economics of sports. He has published 28 books with his most recent one titled *Whither College Sports: Essays on Amateurism, Academic Integrity, NILS, Finance, Health and Safety*. He has also served as a consultant on a very large number of sports-related legal and arbitration cases, including the NFL Players Association efforts to obtain free agency rights, the Major League Baseball Players Association in their collective bargaining, and a number of cases involving the building of sports stadiums. Andy, welcome to EconoFact Chats.

Andrew Zimbalist:

Thanks, Michael. It's pleasure to be with you.

Michael Klein:

Andy, the 1950 movie Knute Rockne, All American tells the story of how Rockne starred in Notre Dame's victory over Army in 1913, and then went on to teach chemistry and be the assistant football coach for the Fighting Irish, perhaps most famously, he visits the player, George Gipp, who on his deathbed tells Rockne to 'win one for the Gipper' in their final game of the 1920 season. By today's standards, this is all very quaint. College sports has come a long way since then to become a huge industry. What prompted this change? Was it some combination of greater college enrollment, and perhaps more importantly, the advent of TV sports?

Andrew Zimbalist:

There are several factors at play here, Michael. First, there's America's love affair with football. Second, in 1984, the Supreme Court in the Oklahoma Board of Regents versus NCAA case validated a competitive market for college sports TV rights. Third, football has, as you suggest, benefited enormously from the growth of television sports. The emergence of ESPN, of cable sports, of regional sports channels in the 1980s, video replay technology in the 1990s and 2000s, and the introduction of streaming over the last 10 years. Fourth, as you suggest, the growth of college enrollment has also contributed. And last but

not least by a far shot, is the complicity of US universities and the NCAA in promoting the untrammeled commercialization of big time college football.

Michael Klein:

So this commercialization, in fact, how big a business is college sports in terms of attendance at games, TV viewership, revenues, other factors?

Andrew Zimbalist:

Division I college sports generates about \$16 billion in revenue every year. 80% of that comes from football. It's significant to note that there are at least five college football stadiums that have a seating capacity over a hundred thousand, with the University of Michigan being the largest almost at 108,000. In contrast, the largest NFL stadium is MetLife, where the Giants and Jets play, with a capacity of only 82,500.

Michael Klein:

Go Big Blue, eh?

Andrew Zimbalist:

They need all the help they can get Michael.

Michael Klein:

But college sports is not a business in that it doesn't have stockholders and in fact is embedded in institutions whose mission is education not sports, or at least it's meant to be that.

Andrew Zimbalist:

Yeah, athletic departments do not have stockholders who demand bottom line profits. Instead, they have stakeholders; boosters, alumni, students, administrators who demand victories. Whenever a new pile of money falls into the lap of an athletic director, it is deployed to promote more victories and athletic departments therefore run at substantial losses. Without cost discipline, the median athletic program in 2019, the last year for which we have data before the pandemic, in FBS had an operating deficit of \$18.8 million. In FCS, it was \$14.3 million deficit, and in Division I without football, the median deficit was \$14.4 million.

Michael Klein:

And these acronyms, Andy, FBS, FCS, and DI.

Andrew Zimbalist:

Right. So Division I is of course the top level of college athletics. It has 350 schools. Within Division I, there are three subdivisions. FBS is 131 of the most commercialized programs. Then there's FCS, which has 125 of the second most commercialized programs. And then there's what they call Division I without football that does not... It plays in Division I. Their schools could be in the March Madness Basketball tournament, but they don't run a football program.

Michael Klein:

So from a business perspective, college sports is a losing proposition. How do colleges then fund big ticket sports like football and basketball?

Andrew Zimbalist:

Large and persistent athletic department deficits lead schools to increase student athletic fees. Many schools have athletic fees of over a thousand dollars per student per year, and of course to increase tuition. As the cost of attending colleges rises, so does student debt, which reached a record of \$1.6 trillion in the United States in 2021. Of course, colleges also cover losses by borrowing massive sums and appealing to state legislatures for increased funding.

Michael Klein:

Is there no sense that donations from alumni help make up this shortfall?

Andrew Zimbalist:

They do. In FBS, donations account for probably between 20 and 25% of the shortfall... not of the shortfall, but of total funding. But the deficits that I cited already include that money. So they exist. That 18.8 million median deficit in FBS is after the receipt of donations from alums.

Michael Klein:

So we're talking about football and basketball. What about other sports? Is there cross subsidization by the big ticket sports of football and basketball to other sports and importantly to women's sports, especially in the light of Title IX?

Andrew Zimbalist:

Yeah, absolutely. Approximately half the men's basketball teams and football teams in FBS generate a surplus. A clear majority of players on these teams are students of color. The surplus from these teams is then used to finance non-revenue sports where a clear majority of players are white. Thus, athletics, athletes and football and men's basketball are subsidizing the Olympic sports and students of color are subsidizing white students. Lastly, coaches are getting paid the revenue generated by the athletes who are not allowed to be paid by the school.

Michael Klein:

Andy, you published a book in 1999 titled, Unpaid Professionals: Commercialism and Conflict in Big-Time College Sports. New York Times Review of the book said that you follow the money instead of the ball in the emotion charged world of college sports. College athletes are not paid, as you mentioned, and college football and basketball are like baseball's development leagues. And at D-1 schools, these student athletes get free tuition. First off, if a high school football or basketball player gets recruited to a big time college program and attends a D-1 school, what's the likelihood that he'll play professional sports?

Andrew Zimbalist:

Fewer than 2% of college football and men's basketball athletes ever play a single game in the NFL or NBA.

Michael Klein:

This reminds me of that terrific movie Hoop Dreams where people were sort of going to these colleges and as dangled in front of them as possibility, but in fact, the possibility was vanishingly small for those people.

Andrew Zimbalist:

Yeah. Well, the graduation rates of student athletes in Division I are not as high as the NCAA would like to believe they should be. 52% of all NCAA Division I men's basketball players do not get a degree after six years. 38% of Division I football players do not get a degree after six years. And 38% of all Division I women's basketball players who...all of these people are on full scholarship and required to be full-time students, and none of them graduated within six years.

Also consider the fact that the NCAA Division I athletics enterprise generates \$15.8 billion in annual revenues, of which only 2.9 billion or 18.2% is returned to the athletes in the form of athletic scholarships. And only 1% is spent on medical treatment and insurance protections compared to 35% spent on administrative and coach compensation, and 18% spent on lavish facilities. So on the one hand, the athletes do not get paid by the school, and on the other, unacceptably large percentages of them in the revenue-producing sports do not graduate.

Michael Klein:

So this isn't the impression that one would get from the NCAA ads that run during the football bowl games or during March Madness.

Andrew Zimbalist:

The NCAA developed their own graduation statistic called GSR, and the GSR does not include the athletes who drop out of a program, they just throw them out of the sample. If you use the federal graduation rate, the rates are 20 to 25 and sometimes 30% below the NCAA made up rate, which they call GSR. The other thing that the NCAA does is when they issue these statistics, they do it for all of the sports programs. If you break it down by sport, you see that the revenue-generating sports, football and men's basketball, have much, much lower rates of graduation.

Michael Klein:

So it does seem like there are some changes coming about Andy, for example, the ability of athletes to sell their images or be paid in other ways. What are these and how big do you think the effect will be?

Andrew Zimbalist:

Yeah. Thanks to several antitrust cases that have been brought over the last 20 years against the NCAA, students are now allowed to receive something that's called cost of attendance, which are stipends up to about \$6,000 over and above the standard scholarship. Students are also able now in part because of antitrust cases, and in part because of legislation in various states, students are allowed to receive name, image, and likeness revenue from third parties, not from the college, but from third parties. And some students are reportedly earning as high as seven figures from name, image, and likeness revenue. Since payment is from third parties and not the school, the athletes can continue to remain as students at the school rather than employees of the school.

There's also currently in the ninth circuit, an antitrust case called House. House is the main plaintiff, and in that case, the House plaintiffs are asking for 50% of all television revenue to go to athlete compensation. That case is still being adjudicated. And there's another case being adjudicated in the third circuit called the Johnson case, where the athletes are seeking to be declared employees under the Fair Labor Standards Act and hence to be covered by minimum wages, overtime, workman's comp and unemployment insurance. If athletes are paid eventually by the university in any of these forms, it's likely that all income will be taxable in contrast to what currently happens with tuition scholarships.

Michael Klein:

For people looking at these cases, how likely does it seem that the athletes will prevail?

Andrew Zimbalist:

I don't think anybody knows, frankly, Michael. What happens in the judicial system is a fickle product of what district court it lands in, and in what circuit it lands in, and who finally at the end of the day is sitting on the Supreme Court and what kind of a decision they make. And we've gotten all sorts of indication from the court system. These cases, these antitrust cases can run up a bill of a hundred million dollars, and they can take many years to resolve themselves. So I think it's a very capricious path if you're looking at what's going to happen in the court system.

There's also the possibility that US Congress would take some action. And during the last Congress, the 117th Congress, there are seven or eight different bills that were attempting to reform college sports in one way or the other. Many of those will be reintroduced in the 118th Congress, but as you know, there are a number of entraps when you try to get legislation passed in the United States these days. So we'll have to wait and see what happens there. The other possibility, of course, is the NCAA could reform itself. But the NCAA has been around since 1905 and there've been 117 years to straighten out their mess, and they've repeatedly shown no indication or willingness that they're going to do that.

Michael Klein:

There have been some high-profile stories about the NCAA, and the fate of athletes and the way in which the revenues are not shared. Do you think these are having an impact on what the NCAA might do?

Andrew Zimbalist:

No, I think the NCAA is now doing what it's been forced to do by state legislatures and by the court system, and they will never do more than they're absolutely forced to do. They're trying to, of course, paint it all with a pretty brush and make it sound like this is stuff that they were planning to do in any event. But they now have something called a transformation committee. In fact, they have three transformation committees, one Division I, one Division II, and one Division III. The Division I transformation committee was supposed to come out with its report in mid-October. They still haven't come out with a report and some of the indications about what's going to be in the report, which has to come out by January when the NCAA has its annual meeting, some of the indications are they're just tinkering.

The NCAA fundamentally is a trade association that's run by coaches, conference commissioners, and athletic directors. They're benefiting, those individuals are benefiting enormously from the system; as the system, as I said before, where the athletes pay is suppressed. And what happens is the value that the athletes produce, their marginal revenue product, if you will, is going to the coaches and athletic directors and conference commissioners. So that's the system they want to protect. If they're forced to, they'll make a minimum amount of reforms in order to continue to stay in business. But I think that there's been enough publicity at this point, and there's enough knowledge that the system isn't working, that it's still a very exploitative system, that it undermines education, and that is generating enormous deficits that the college then has to maneuver around. All of these things are making the current system unviable going forward. There's going to have to be reform. In my own view, the best opportunity for reform is the US Congress, but that's by no means a simple matter.

Michael Klein:

You mentioned undermining education. I teach at a Division III school, and I imagine at Smith there's not much of a football team.

Andrew Zimbalist:

We're undefeated, in fact,

Michael Klein:

That's true. In what way do you see big name college sports at D-1 schools undermining the educational mission of these schools?

Andrew Zimbalist:

Well, there what they call special admits, so that colleges have standards about class rank, class GPA, standardized testing, SAT scores. But what they do when it comes to the big time revenue-generating sports is they look the other way and they make exceptions. And sometimes they make massive exceptions where people who are two or three standard deviations below the mean at the school are getting accepted. And those athletes are not being properly remediated prior to getting to school, and they're being put in classes that are jiggered classes. They're being put with professors who are known to be friendly to athletes. They're being given tutors who do the work for them. All sorts of ways in which the educational process is widely recognized to be illegitimate, or at least incomplete, and inadequate for the athletes involved.

Of course, there are some athletes who do well, who actually are well prepared and take a normal course load and take the majors they want to take, and they come out with a degree. So there are individuals who are successful. But in Division I men's basketball, only 48% graduate. So this is a system that has kind of run amuck. It's not paying attention to its heralded world-class education that it tells the athletes who are enrolling in the school that they're going to get. So the athletes are on the one hand, taken advantage of financially, and on the other hand, they're not allowed to take the majors they want. They're not allowed to take the courses they want, and they in large numbers are not graduating.

Michael Klein:

So this affects the, say, 15 basketball players and 60 members of the football squad at a school that might have tens of thousands of students. Are there other ways, maybe other pernicious ways that these big time sports might affect the educational mission of the school? Are resources being drained away? Are other things happening that could affect overall what's going on in these schools?

Andrew Zimbalist:

Well, I think it changes the value system of the school when the school president or CEO and the school provost, the school deans, other members of the faculty are supporting the system, overtly supporting the system. And when the median program in FBS is running an \$18.8 million deficit... and by the way, that number's smaller than the real number because it doesn't include a lot of capital expenses, and it doesn't include a lot of indirect administration expenditures. So it's at least \$18.8 million and might be considerably higher than that. That's \$18.8 million that's not available to the general educational budget of the university. So of course, there's a depletion in resources that hurts the educational mission.

Michael Klein:

Well, I guess I'll be watching the bowl games this year with a little bit of a different view given this conversation. And it is a big issue, and it's a big issue, as you mentioned, not just for the athletes in what they're told they will be able to achieve and what they actually end up achieving, but also as you mentioned for the colleges and universities as a whole. Andy, thank you very much for joining me today on EconoFact Chats.

Andrew Zimbalist:

My pleasure, Michael. Thank you.

Michael Klein:

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