

Winthrop University

The Impacts of Financial Compensation for NCAA
Division I Men's Basketball Student-Athletes
on the Market of Collegiate Athletics

Gabriel Boscardin Dias
Labor Economics (ECON345)
Dr. Louis Pantuosco
Spring 2020

Abstract

The purpose of this study is to identify the impact of financial compensation for men's basketball student-athletes at the NCAA Division I schools on the market of collegiate athletics. As the NCAA is facing issues involving governmental pressure to allow student-athletes to receive monetary compensation for the use of their name, image and likeness (NLI), the consequences will inevitably impact the entire sports industry. The main pressure the Association is facing now involves the compensation of men's basketball student-athletes as they are part of the sport that brings the largest amount of revenue via sponsors and television contracts. Due to the fact that the process of regulation of these factors are being investigated during this research, the study is seeking to find an accurate prediction on how the changes in intercollegiate athletic model will affect student-athletes and their teammates, the professional and amateur competitiveness of basketball, and the sports industry. The study will be based on data and official statements offered by the NCAA as well as previous research papers on the matter.

Background and Introduction

The National Collegiate Athletic Association (NCAA) is a nonprofit organization that regulates more than 1,200 North American institutions and conferences. The Association was founded in 1906 with the main purpose of regulating athletic events among students from different institutions that compete against each other representing their colleges and universities.¹ Since its foundation, the nationwide Association created several different legislations and policies to promote fairness and well-being for its members, one of them being the term "student-athlete". A student-athlete is a full-time student and athlete participating in a competitive sport sponsored by the educational institution where they are enrolled. According to NCAA's regulations, a student-

athlete may receive an athletic scholarship to represent its institution in intercollegiate events but is forbidden to accept any other type of financial compensation as it interferes their amateur status.² The term student-athlete was coined in 1964 by then NCAA's Executive Director Walter Byers as a response to counter governmental attempts to require universities to pay workers' compensation to the students competing in intercollegiate events.³

Even though many individuals benefit from athletic scholarships and use the opportunity of being student-athletes to continue their studies while improving their athletic skills, many interpret the relationship between NCAA and student-athletes as labor abusive. According to the NCAA, the Association took in approximately \$933 million in revenue during the 2018-2019 fiscal year when factoring in media rights, ticket sales, and sponsorship, which over 80% was generated by the NCAA Division I Men's Basketball Tournament alone.⁴ Popularly known as "March Madness," the tournament puts together 68 of the best Division I men's basketball programs in the nation to compete against each other in a single-elimination bracket. Even though the tournament is one of America's largest and most profitable sporting events, the protagonists of the tournament, NCAA's student-athletes, are not allowed to receive any type of financial compensation for the use of their athletic skills.

In order to empower student-athletes, governmental entities are once again pressuring the Association to allow their student-athletes to make financial profits of their athletic skills while competing in intercollegiate sports. In September of 2019, California Governor Gavin Newsom passed a bill known as Fair Pay to Play Act that allows college student-athletes to profit from the use of their name, image and likeness starting in 2023. Following California's initiative, over 30 U.S. states already introduced or passed bills that support the financial compensation of student-athletes.⁵ As a response to the fastmoving chain of events, the NCAA's top governing body

directed the three divisions to pursue rules changes that will permit student-athletes to benefit from the use of their name, image and likeness. For the next months the NCAA will be examining current rules and propose changes while maintaining a clear distinction between college sports and professional sports as the Association claims that student-athletes are not their employees. As the NCAA works to reshape its business model, the entire sports industry is waiting to hear and eventually adapt to what will inevitably change the intercollegiate athletics structure forever. As the main source of the Association's revenue comes from March Madness, the restructure of intercollegiate model will certainly have vast impact on men's basketball student-athletes. The purpose of this research project is to forecast the impacts that the changes in policies involving financial compensation of men's basketball student-athletes inside the NCAA will have in the market of collegiate athletics.

Literature Review

The following websites and research papers were utilized in this study in order to obtain information and data to analyze the impacts that the NCAA's regulations involving the financial compensation of men's basketball student-athletes for the use of their name, image and likeness will have in the market of collegiate athletics:

- NCAA: Name, Image and Likeness⁶
- NCAA: Membership Resources on Name, Image and Likeness⁷
- NCAA: Division I Graduation Rate Trends⁸
- NCAA: Estimated Probability of Competing in Professional Athletics⁹
- NCAA: Life Outcomes of Former Student-Athletes¹⁰
- SSRN: Change of Be Changed: A Proposal for the NCAA to Combat Corruption and Unfairness by Proactively Reforming Its Regulations of Athlete Publicity Rights¹¹

- SSRN: A Critique of the NCAA – A Comparative Analysis of US Federal Law and California State Law in Criticism of NCAA Rules¹²
- SSRN: After Further Reviews: How the N.C.A.A.’s Division I Should Implement Name, Image, and Likeness Rights to Save Themselves and Best Preserve the Integrity of College Athletics¹³

Data and Findings

In order to come with appropriate solutions for the matter, the NCAA created in May of 2019 a Federal and State Legislation Working Group. The group is composed of member representatives from all three divisions and its main focus is to examine issues emphasized in recently proposed legislation related to name, image and likeness.¹⁴ The working group is the Association’s main liaison to provide a critical viewpoint of the matter as well as to propose recommendations, principles, and a regulatory framework. During the convention that took place in California in January of 2020, the NCAA presented the principles that will serve as guidelines for the creation of legislation involving the financial compensation of student-athletes. Throughout a forum led by Kevin Lennon, Vice President of Division I, the Association made it very clear that one of the main principles of the working group is that the financial compensation of student-athletes will not interfere in the amateurism status of collegiate athletes. Furthermore, the Association stated that the compensation of student-athletes shall not be based on athletic performance and that education will continue to be the main priority of the NCAA. Moreover, the Association-wide principles regarding the financial compensation of its student-athletes were stated as follow:

1. Payment to a student-athletes for use of his or her name, image or likeness should not be pay for athletics performance or participation; nor should the payment serve as an inducement to select a particular school.¹⁵

2. Regulation of a student-athlete's name, image or likeness use should be transparent, narrowly tailored and enforceable, and it should facilitate the principle of fair competition among schools in a division, including the integrity of the recruiting process.¹⁶
3. A student-athlete should be able to use his or her name, image and likeness similar to college students who are not student-athletes unless there is a compelling reason to differentiate.¹⁷

Even though much has been discussed by the NCAA about the matter, the association-wide principles are so far the only definitive position the NCAA has made on the topic. The Association stated that the working group will continue to brainstorm solutions and will propose changes that will be voted by its members no later than January 2021.

The Association's relief on profitable legislations will eventually allow men's basketball student-athletes to make a revenue out of their name, image and likeness. However, many student-athletes' enter college pursuing the dream to turn into professional athletes, and it is not different from men's basketball players. Although playing in the NBA is the dream of several young athletes, the reality is much different from that. As shown in a research conducted by the NCAA in 2019, only 1.2% of NCAA men's basketball student-athletes end up playing at the NBA.¹⁸ However, the same research shows that approximately 20% of all NCAA men's basketball student-athletes end up playing in professional leagues either overseas or in the D-League. As shown in Table 1, from 18,816 NCAA men's basketball participants approximately only 4,181 are qualified to enter the draft due to eligibility reasons. Moreover, the research shows that 18% of draft-eligible players from the five Division I conference with autonomous governance (ACC, Big Ten, Big 12, Pac-12 and SEC) were drafted by the NCAA in 2019 and that 11 international players have been drafted on average each year since 2009. Even though making the transition from playing

basketball in college to the professional leagues is not an easy task, researches prove that the chances of a high school basketball player to compete in NCAA are even smaller. As shown in Table 2, only 3.5% of over half a million high school basketball players are able to compete in the NCAA. Moreover, only 1% of them are able to compete in the Division I level, the second smaller probability of competing in college athletics among all men's sports only behind volleyball. From a financial standpoint, playing at the NBA is generally much more profitable than playing in any other league worldwide. According to basketball-reference.com, the NBA has currently 545 players playing in 30 teams across the nation with an average salary of \$6,936,154 and the median salary of \$2,905,800.¹⁹ On the other hand, North American who travels oversea can expect to get earn anywhere between \$65,000 and \$100,000 depending on the league and the market and salaries in the D-League vary from \$12,000 to \$24,000 per season, according to StepienRules.com.²⁰

On the academic side, the success of men's basketball student-athletes competing in the NCAA is calculated in different ways. In October 2019 the NCAA released a study named "Trends in Graduation Success Rates and Federal Graduation Rates at NCAA Division I Schools" where it compared the academic success of student-athletes based on graduation rates. Even though men's basketball is a sport with a historically low graduation rate, the study shows that the Graduation Success Rate (GSR) in the sport of men's basketball was 83% in 2019. The rate means a 27% increase over the past 17 years, the largest increase in any Division I sport reported at the study. On an even brighter side, the study shows that black men's basketball had a 33% increase in graduation rates since 2002. Even though men's basketball had overall rates that lag behind the rates of all males in the student body, the rates for black student-athletes in men's basketball is higher than black males in the student body by 4% since 2012.²¹ The academic success of the student-athletes is directly related to their post-graduate wellbeing. According to a research

conducted by Gallup, a management consulting company, student-athletes have a higher employment rate than non-student-athletes.²²

The research papers mentioned previously also present interesting positions on matters involving name, image, and likeness. Firstly, David G. Bayard presents ten different recommendations for Division I name, image and likeness policies on a study named “After Further Reviews: How the N.C.A.A.’s Division I Should Implement Name, Image, and Likeness Rights to Save Themselves and Best Preserve the Integrity of College Athletics.” Bayard recommends that the Association should estipulate a NIL Tax as well as an Individual Post-Eligibility Account (IPEA) to “guarantee that athletes have a portion of what they have earned after their eligibility has been exhausted to enable them to pay for things when they go pro in something other than sports.” The author also states that the NCAA should not set a limit for compensation of student-athletes as it would harm the entire group of college athletes and that the Association should mandate each school’s athletic staff to regulate student-athletes’ payments.²³ Secondly, James Landry and Dr. Thomas A. Baker III discuss on their study named “A Proposal for the NCAA to Combat Corruption and Unfairness by Proactively Reforming Its Regulations of Athlete Publicity Rights” manners in which the NCAA can fight the black market for the collegiate athlete by creating policies that allow the financial compensation of student-athletes especially by the use of their name, image and likeness. The authors also offer proposals for changing the NCAA NIL rules including creating the creation of an educational mission as well as pieces of advice that would help the Association to preserve the amateurism of its student-athletes.²⁴ Lastly, Jens Cole presents a very interesting estimated economic value of college basketball players that played at Duke University during the 2014-2015 season on a research paper named “A Critique of the NCAA – A Comparative Analysis of US Federal Law and California State Law in Criticism of

NCAA Rules.” The author presents two different tables being one of them based on minutes played and one based on wins produced. In each table, the economic value of each player was significantly greater than the total cost of attendance at Duke University during that year.²⁵

Discussion of Data and Findings

Theoretically, the relationship between the NCAA and its student-athletes can be classified as a monopsony. A monopsony is a labor economical term defined as a market condition in which there is only one buyer that controls the market major purchaser of goods and services offered by many potential sellers. In the intercollegiate athletics scenario, the NCAA is perceived as the buyer that controls the market by setting policies for members to follow while the student-athletes are the sellers without power. The creation of legislation that allows student-athletes to profit out of their name, image and likeness will not necessarily end the current monopsony situation of collegiate athletics but will allow the student-athletes to bargain. Based on the Association-wide principles, it is clear that the NCAA is aiming to shape its financial compensation regulations in ways that its student-athletes will have the right to negotiate with third parties and not directly with the institution they are representing. By doing that, student-athletes will not be employees of the university and the NCAA will once again set universities free from having to pay workers’ compensation. As a matter of fact, institutions will likely be benefited by the pass of these legislations as the participation of its student-athletes in commercials and sponsorship opportunities will expand the visibility of their teams.

From a professional basketball standpoint, the changes in regulations will give future professional athletes the chance to start their earnings earlier in their careers. Furthermore, the compensation of student-athletes will provide a better opportunity for those that end up not having

the chance to play the sport professionally. As mentioned previously, about only 20% of Division I men's basketball student-athletes have the chance to compete at the NBA, D-League or a professional league overseas. Although the financial compensation of some leagues is much inferior to others, student-athletes will have the chance to use their abilities to generate revenue while keeping their amateurism status and pursuing a college degree. Moreover, the statistics provided by the NCAA prove that there is an extremely high level of difficulty for high school basketball players to play at a collegial level. By allowing student-athletes to profit out of their name, image and likeness, the NCAA will be allowing student-athletes to be recognized for being part of the 1% group that was able to play at the higher basketball level. The market of high school basketball will most likely grow in the long run as high schoolers will be able to achieve financial compensation earlier. With that, the NCAA may eventually allow student-athletes that signed contracts with agents to participate in intercollegiate athletics which will give the chance of high schoolers to have agents. Furthermore, some of the best high school players in the country may not leave the country to play overseas as they will have the chance to start their earnings at young age. That will also make the men's basketball level of the Association stronger and more interesting for spectators.

The financial compensation of student-athletes may also serve as an incentive for lower-income individuals to continue their studies and finish college. Even though the Graduation Success Rate (GSR) in men's basketball had a 27% increase over the past 17 years, men's basketball still shows one of the lowest GSR among all sports. Allowing men's basketball student-athletes to make a profit out of their name, image and likeness can help increase this number even more as it would allow individuals coming from low-income families to cover their cost of living. According to an article published by the National College Players Association, most athletic

scholarships do not cover the full cost of attendance. The article states that only 59% of NCAA Division I athletes receive some level of athletic aid and even a full scholarship may not be enough to cover a student-athlete's expenses.²⁶ Based on that, it is possible to affirm that the changes in the NCAA legislation regarding the compensation of student-athletes can not only positively impact the athletic success rate but also the graduation rate of young adults. Due to the fact that NBA players are less likely to come from a poor background²⁷, the financial compensation of student-athletes may incentivize them to complete their education which will eventually give them the chance to perform better in the workforce.

Conclusion

This research shows that the financial compensation of student-athletes for the use of their name, image and likeness will have an overall positive impact on the life of the student-athletes as well as in the sports industry. The creation of a legislation that allows athletes to make a profit while competing in the sport of basketball in college will serve as a strong incentive for young adults to pursue a collegiate career as well as to earn their degree. The pass of legislation allowing student-athletes to make a profit out of their likeness will have a positive correlation with their athletic level and academic achievements. Moreover, the entire sports industry will grow with the change of rules inside the Association. The participation of student-athletes in commercials and their sponsorships deals will expand the visibility of themselves, their teams, and the league. Men's basketball student-athletes playing at the NCAA will have even more appearance in media time and their recognition will be even larger than it is right now. Also, NBA and other professional leagues will inevitably be impacted by these changes. One of the possible impacts is that players that are drafted in the NBA may not be the most talented athletes but rather those who are more

marketable. Student-athletes will have the chance to show their profitability prior to the draft and organizations may be interested in having them in their teams for that reason. The pass of these legislations will also influence the creation of new jobs as athletic department will have to hire people to monitor the profit of their athletes. The allowance of amateur athletes to have agents will also expand the market in that area. Finally, it is possible to conclude that the creation of these types of legislations were overdue. The NCAA is no longer in a position where young athletes depend on the Association to play professional basketball and it has to change sooner rather than later.

Tables and Figures

Table 1:

Estimated Probability of Competing in College Athletics

	High School Participants	NCAA Participants	Overall % HS to NCAA	% HS to NCAA Division I	% HS to NCAA Division II	% HS to NCAA Division III
Men						
Baseball	482,740	36,011	7.5%	2.2%	2.3%	2.9%
Basketball	540,769	18,816	3.5%	1.0%	1.0%	1.4%
Cross Country	269,295	14,303	5.3%	1.8%	1.4%	2.1%
Football	1,006,013	73,712	7.3%	2.9%	1.9%	2.5%
Golf	143,200	8,485	5.9%	2.0%	1.6%	2.2%
Ice Hockey	35,283	4,323	12.3%	4.8%	0.6%	6.8%
Lacrosse	113,702	14,603	12.8%	3.1%	2.5%	7.3%
Soccer	459,077	25,499	5.6%	1.3%	1.5%	2.7%
Swimming	136,638	9,799	7.2%	2.8%	1.2%	3.2%
Tennis	159,314	7,785	4.9%	1.6%	1.0%	2.3%
Track & Field	605,354	28,914	4.8%	1.9%	1.2%	1.7%
Volleyball	63,563	2,355	3.7%	0.7%	0.7%	2.3%
Water Polo	22,475	1,072	4.8%	2.7%	0.8%	1.3%
Wrestling	247,441	7,300	3.0%	1.0%	0.8%	1.2%

Table 2:

Estimated Probability of Competing in Professional Athletics

	NCAA Participants	Approximate # Draft Eligible	# Draft Picks	# NCAA Drafted	% NCAA to Major Pro	% NCAA to Total Pro
Baseball	36,011	8,002	1,217	791	9.9%	--
M Basketball	18,816	4,181	60	52	1.2%	21%
W Basketball	16,509	3,669	36	31	0.8%	6.9%
Football	73,712	16,380	254	254	1.6%	--
M Ice Hockey	4,323	961	217	71	7.4%	--

References

1. What is the NCAA? NCAA.org - The Official Site of the NCAA. <http://www.ncaa.org/about/resources/media-center/ncaa-101/what-ncaa>. Published February 10, 2020. Accessed April 21, 2020.
2. The Student Athlete Experience. NCAA.org - The Official Site of the NCAA. <http://www.ncaa.org/student-athletes/current>. Accessed April 21, 2020.
3. Wade J. How the NCAA Has Used the Term “Student-Athlete” to Avoid Paying Workers Comp Liabilities. Risk Management Monitor. <https://www.riskmanagementmonitor.com/how-the-ncaa-has-used-the-term-student-athlete-to-avoid-paying-workers-comp/>. Published September 13, 2011. Accessed April 21, 2020.
4. Where Does the Money Go? NCAA.org - The Official Site of the NCAA. <http://www.ncaa.org/about/resources/finances>. Accessed April 21, 2020.
5. Baker K. Colorado joins California in allowing college athletes to profit off name and likeness. Axios. <https://www.axios.com/colorado-college-athletes-name-image-likeness-profit-bd8e51ee-672e-4683-89de-610d2dd072c6.html>. Published March 23, 2020. Accessed April 21, 2020.
6. Name, Image, Likeness. NCAA.org - The Official Site of the NCAA. <http://www.ncaa.org/champion/name-image-likeness>. Published February 26, 2020. Accessed April 22, 2020.
7. Membership Resources on Name, Image and Likeness. NCAA.org - The Official Site of the NCAA. <http://www.ncaa.org/governance/membership-resources-name-image-and-likeness>. Published January 29, 2020. Accessed April 22, 2020.
8. Trends in Graduation Success Rates and Federal Graduation Rates at NCAA Division I Schools. https://ncaaorg.s3.amazonaws.com/research/gradrates/2019D1RES_FedGSRTrends.pdf. Published October 2019. Accessed April 21, 2020.
9. 18. Estimated probability of competing in professional athletics. NCAA.org - The Official Site of the NCAA. <http://www.ncaa.org/about/resources/research/estimated-probability-competing-professional-athletics>. Published April 16, 2020. Accessed April 22, 2020.
10. Gallup Study: Life Outcomes of Former Student-Athletes. NCAA.org - The Official Site of the NCAA. <http://www.ncaa.org/about/resources/research/gallup-study-life-outcomes-former-student-athletes>. Published July 12, 2016. Accessed April 22, 2020.
11. 24. Landry J, Baker T. Change or Be Changed: A Proposal for the NCAA to Combat Corruption and Unfairness by Proactively Reforming Its Regulation of Athlete Publicity

- Rights. Social Science Research Network.
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3527537. Published February 26, 2020. Accessed April 22, 2020.
12. 25. Jens C. A Critique of the NCAA – A Comparative Analysis of US Federal Law and California State Law in Criticism of NCAA Rules. Social Science Research Network.
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3463503. Published October 22, 2019. Accessed April 22, 2020.
 13. 23. Bayard D. After Further Review: How the N.C.A.A.'s Division I Should Implement Name, Image, and Likeness Rights to Save Themselves and Best Preserve the Integrity of College Athletics. Social Science Research Network.
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3528466. Published March 1, 2020. Accessed April 22, 2020.
 14. Hosick MB. NCAA working group to examine name, image and likeness. NCAA.org - The Official Site of the NCAA. <http://www.ncaa.org/about/resources/media-center/news/ncaa-working-group-examine-name-image-and-likeness>. Published December 6, 2019. Accessed April 21, 2020.
 15. 16. Recent NCAA Board of Governors actions on name, image and likeness.
17. https://ncaaorg.s3.amazonaws.com/governance/d3/DIIIGOV_NIL_Webinar.pdf. Accessed April 21, 2020.
 19. 2019-20 NBA Player Contracts. Basketball Reference. <https://www.basketball-reference.com/contracts/players.html>. Accessed April 22, 2020.
 20. Rules S. How Much Do European Basketball Players Make? Stepien Rules. <https://stepienrules.com/how-much-do-european-basketball-players-make/>. Published August 8, 2019. Accessed April 22, 2020.
 21. 22. Gallup Study: Life Outcomes of Former Student-Athletes. NCAA.org - The Official Site of the NCAA. <http://www.ncaa.org/about/resources/research/gallup-study-life-outcomes-former-student-athletes>. Published July 12, 2016. Accessed April 22, 2020.
 26. Huma R, Staurowsky EJ. The Price of Poverty in Big Time College Sports. <http://assets.usw.org/ncpa/The-Price-of-Poverty-in-Big-Time-College-Sport.pdf>. Accessed April 21, 2020.
 27. Sands D. NBA Players Less Likely to Come From Poor Backgrounds, Study Says. Black Enterprise. <https://www.blackenterprise.com/nba-players-less-likely-come-poor-backgrounds-study/>. Published September 29, 2017. Accessed April 22, 2020.