

A Note on Professional Amateurism: What does the NCAA earn from its black athletes?

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Abstract

Using standard financial discounting techniques, I calculate the value of the black athlete to the NCAA to be over \$250 billion. This value nearly exceeds the GNP of Russia and the market value of the largest company in the United States. Reasons for nonpayment of athletes are considered, and the nonprofit status of the NCAA is called into question. New models of revenue distribution are discussed, and the economic struggles of the black community are found to be in stark contrast to the revenues earned by the NCAA via black athletes. Finally, the college degree granted to roughly 1/3 of those black athletes who graduate is worth only 5% of the total economic value of their athletic participation.

I. Introduction

The NCAA recently inked a contract with CBS Sports for \$6 Billion for the rights to air the NCAA tournament. An additional quarter of a billion dollars are earned each year from bowl games and football championships. This revenue does not include funds earned during the regular season. Few professional sports enjoy the financial success generated by collegiate athletics. A disproportionate amount of this revenue is created by two major sports: football and basketball. Many would argue that these sports are fueled by the athletic prowess of black male athletes. As of 2003, black males represented 80 - 100% of the first the first team preseason basketball All-Americans (depending on the poll) and roughly 70% of the first-team football All-Americans. Additionally, it is not uncommon for the NCAA to market black

athletes in order to generate additional revenues via merchandising or television advertising for upcoming games. It is quite evident that the presence of the black male athlete is overwhelming in modern college sports.

What is also overwhelming is the level of poverty that many of these athletes endure, which lies in powerful contrast to the vast wealth these individuals generate for the NCAA. The African-American unemployment rate has consistently been twice as high as that of whites, the median family income is 43% lower than that of whites, and per-capita net worth for African-Americans is 80% less than that of white Americans. At the same time, 43 NCAA coaches earn over \$1 million per year, and 9 earn over \$2 million, with much of this revenue and standard of living supported by their best African-American male athletes.

There is a long-standing debate over whether or not the NCAA has utilized its non-profit and amateur status in a malevolent manner, possibly exploiting a less powerful group of people for their own benefit. Graduation rates for black athletes tend to be quite low nationwide, with no severe penalties administered to universities, even if the school has graduated none of its athletes. But even if the graduation rates were acceptable, there is the additional question of whether or not the NCAA's monopoly status is also used to unfairly harm and exploit the black community as a whole. In this paper, using simple financial discounting and valuation techniques, it is determined that the wealth transfer out of the black community for the use of black athletes is over a quarter of a trillion dollars over a 40 year period. This number exceeds the GNP of Russia, and is 125 times greater than the 60-year fund-raising total of the United Negro College Fund. In light of the socioeconomic struggles of the black community, these numbers suggest that the NCAA may serve as a conduit for the extraction of billions of dollars in wealth from the black community.

II. Methodology¹

I use standard financial valuation techniques in order to determine the economic value of the black athlete. These methods rely on assumptions of the contribution of these athletes, reasonable discount factors, and data provided by the NCAA annual revenue and expense reports for 2004. While no one knows the total value with complete certainty, the calculations here serve as strong and reasonable approximations of the magnitude of the economic impact.

The first measure used to calculate the economic value of the black athlete is the present value of a growing perpetuity. This number is aggregated across all athletes, and represents the total value that a person would be willing to pay for the rights to revenue generated by all black male football and basketball players in the United States. The value is derived from presuming a constant cash flow, growing at a given rate, and invested indefinitely at a reasonable rate of return. The second measure of the economic value comes from the future value of a growing annuity formula. This formula is going to ask the following question: If the families of athletes were given these funds (in aggregate) and allowed to invest them until retirement, what would be the value of these funds in 2004 dollars?

IIA. Measuring the Economic Value

¹ For the sake of saving space, this is a brief overview of the methodology. For more details, please contact the author.

According to the 2004-2005 NCAA annual budget, the league earned \$485M in operating revenue. This value, however, does not include \$242.9M earned from bowl games. Also not included in this number are revenues earned during the regular season. Most of the \$485M in operating revenue came from \$435.5M from television and marketing rights sold to CBS. The remainder comes from revenue generated by championships for Division I, II and III men's basketball.

The first measure simply assumes that the black male contribution is equal to his representation in Division I-A men's basketball and football. This assumes that black males are just as likely as other ethnic groups to substantially contribute to a team's success. The second measure captures the percentage of black athletes in marquee positions in college sports. This might be represented by the percentage of black athletes in the NFL/NBA drafts, or the percentage that make the All-American team. During 2004, 70% of the college football All-Americans (offense and defense) were black, so 70% might represent a reasonable, yet conservative upper bound to the contribution of black athletes.

Based upon black athlete participation percentages for the 2003 – 2004 academic year, \$382.35M in NCAA revenue can be attributed to black athletes. This is the lower bound. Using this assumption, the present value of the black athletic contribution is \$8.1 Billion. This number can be put into context as representing the value of an economic institution within the black community that has been extracted by the NCAA. For comparison, Robert Johnson, the founder of Black Entertainment Television, sold his company to Viacom for \$3.3B in 2000, making him the richest African-American in the United States. Therefore, the amount earned by the NCAA from its black athletes, if it were a firm, would be nearly 3

times the value of one of the largest black-owned companies in America. The upper bound for this value (using the percentage of blacks in marquee positions) is \$10.6 Billion.

The second measure, future value, gives us the long-term economic value of the contribution of the black athlete in 2004 dollars. This value assumes that athletes invest the funds for the next 43 years (the average age until retirement for today's college athlete), that the funds are invested in the stock market, adjusted for inflation, and that the revenues grow by 7.3% per year (the average growth rate of NCAA revenues for the past 5 years). The lower bound for this value is \$196.07 billion and the upper bound is \$256.59 billion. These numbers are of very strong magnitude due to the fact that they reflect the long-term economic value of consistent revenue that has allowed for a reasonable return on investment. The numbers are adjusted for inflation, so these values are in 2004 dollars. Therefore, they serve as reminders of the fact that there are long-term implications of short-term wealth transfers. To provide some perspective on these numbers, the future value of the black male athletic contribution to the NCAA exceeds the 2003 GNP of Russia. This number also exceeds the total market value of America's largest company (General Electric) in 2003. Therefore, the magnitude of these numbers is quite large.

III. Low graduation rates and other issues surrounding compensation

There are a myriad of perplexing issues surrounding the compensation policies of the NCAA. Essentially, the original design of college sports did not intend or expect to lead to a multibillion-dollar industry. However, the industry rivals in economic magnitude with all professional sports. This has led to what some believe to be contradictions in the NCAA's

stance on amateurism, and cases in which athletes are treated more like professionals than students.

Few areas have shown the impact of relative professionalism more than the abnormally low graduation rates of athletes, particularly minority athletes in revenue generating sports. The graduation rate for Division I-A black basketball players was 28% in 2004. In 2003, 58 division I men's basketball programs had not graduated a single black male athlete from the 1997-1998 freshman class. It is not uncommon for travel schedules to cause athletes to miss several classes, putting themselves behind the rest of the class. Some have argued that the desire to spend more time studying is made secondary to the demands of a rigorous athletic regimen.

Some have argued that if graduation rates for black athletes were in line with other members of the student body, this would achieve parity and lead to fairness within this system. Others argue that those who receive an academic degree have received something that compensates them for the revenues they have granted the institution. According to the NCAA Executive Committee Chair Carolyn Cartwright, "It's hard to agree that it's exploitation, given the college education benefits provided that will last them a lifetime." There are those who have also argued that college graduates earn \$1 million more over their lifetime than those who did not graduate from college.

This comparison can be made mathematically, in order to determine the level of equity implied. Given the one million dollar figure is given without an adjustment for the time value of money or inflation, we shall do the same with the income comparison. Assume that, instead of receiving a one million dollar lifetime benefit of a college education, the athlete were to receive his/her average proportion of NCAA revenues. If the individual earns such an income

for 4 years, this person would earn between \$172,000 and \$228,000 (dividing total NCAA revenue by the total number of athletes in revenue generating sports). Investing these funds until retirement would yield (adjusting for inflation) between \$4.7 million and \$6.2 million. Without adjusting for inflation (as the one million dollar figure does not) gives a total between \$22 million and \$29 million (allowing NCAA revenues to grow at the 12% historical rate of the stock market for 43 years until retirement). Therefore, the athlete's contribution to the NCAA can be argued to be nearly 30 times greater than his compensation. But this *only* assumes that the athlete graduates from college, which is not true for most black division I athletes in revenue-generating sports.

Those critical of the NCAA have also mentioned that although the league is quite interested in having black athletes on the field, they are not so interested in having them serve in coaching or administrative capacities. As of 2004, only 3.8% of all Division I athletic directors are black (excluding Historically Black Colleges and Universities), and only 5.1% of all Division I head coaches are black. Therefore, the vast representation of black athletes on the field is not equaled by their representation among those who are receiving this revenue.

IV. Possible solutions to the issue

There are those who argue that the NCAA should choose one or the other: 100% amateurism, or 100% professionalism. Those who choose to move to complete amateurism in today's environment would do so by ensuring that sufficient salary and revenue caps were in place for those who've stood to benefit financially from the expansion of college sports. This would include athletic directors, most of whom earn six figure salaries, and coaches, who have earned salaries competitive with those in professional sports. A secondary requirement of

such a change would be that the practice schedules, television appearances and the amount of travel time be limited, allowing athletes to be a more direct part of the student body.

A completely professional alternative would require the NCAA to acknowledge itself for what others have contended it to be: a professional sports organization. This would require a direct induction of standard principles of American Capitalism, and move toward more equitable, yet somewhat disproportionate compensation plans for all those involved, including athletes. Some would find this approach objectionable because revenue-generating sports would no longer be capable of subsidizing those sports that do not generate revenue, and other members of the university environment would no longer enjoy the windfall provided by revenue generating athletes. Finally, the egalitarianism of academia would be compromised in the sense that some athletes would be paid more than others. Therefore, the method one prefers would depend on whether they have more faith in a capitalist or socialist system.

The fact that scores of predominantly white universities are financially supported by their black athletes is ironic, given the financial struggles of Historically Black Colleges and Universities (HBCUs). During the past 26 years, 12 HBCUs have closed down due to financial problems. Additionally, the average HBCU faculty member earns 81 cents for every dollar earned at majority institutions. Some argue that part of this economic gap could be filled by black athletes. But once again, this begs the question of whether or not perceivable exploitation by black universities is better than that of non-black universities. At the same time, HBCUs, despite fewer resources, have produced more black professionals than non-black institutions. Additionally, athletic graduation rates tend to be higher at these

universities as well. So, one could argue that black athletes serve a greater chance of earning a degree at an HBCU than they do at a majority institution.

Political and legal action to change the existing system is unlikely to be successful, given the current public support for the NCAA system. According to a recent USA Today poll, 62% of all readers voted that no college athlete should be paid. Additionally, a great deal of legislation has been introduced making it illegal for boosters or agents to compensate athletes for their performance on the field. Therefore, it appears that the ideals of American Capitalism are not supported in collegiate athletics, where a socialist/communist system is the norm.

V. Conclusion

In this paper, I determine the economic value of the black athlete to the NCAA. It is determined that this value exceeds the Gross National Product of many major countries, and also exceeds the value of the largest corporation in America. The value represents a tremendous transfer of wealth from the black community, and also points to an inherent contradiction in the position of the NCAA.

Remedies to the existing problem are considered, as well as the financial feasibility of these remedies. The solutions are complicated, and may require substantial change in the business of collegiate athletics. Such change may be necessary to eliminate the strong contradictions in the philosophy of American universities.

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