

## What Should College Athletes Be Paid? Market Structure and the NCAA

[Amanda Geiger](#), Economic Education Specialist



### Reading Guide

“From the start, American colleges and universities have had a complicated relationship with sports and money.”  
—Justice Neil Gorsuch, *NCAA v. Alston* (2021)

#### Introduction

College athletic programs are an integral part of many college campuses. Colleges earn revenue from ticket sales, merchandise, and licensing agreements. But should the athletes themselves be given a portion of these earnings? There is a long tradition of unpaid amateur athletics in the United States, and many argue that the scholarships offered to student athletes are fair compensation for their time and talent. But recent court cases and subsequent rule changes by bodies governing college athletics have highlighted the underlying market structure of college athletics in the United States—and have begun to change it.

#### Monopoly vs. Monopsony: What Is the Difference?

Many of us are familiar with the concept of a **monopoly**, where a **market** is controlled by a single firm or producer. Monopolies mean that consumers have no choice when shopping for a product or service, because there is only one supplier. Without **competition** for buyers, a monopolist can essentially control the market price. Monopolies are generally created when there is some **barrier to entry** that prevents other producers from joining the market.

But what if, instead of there being only one producer in a market, there was only one consumer? What if you produced a good or service but had only one option when it came time to try and sell your product or service? This is a **monopsony** (Figure 1, next page).

#### Background Knowledge

In the space below describe what you know about the debate around compensation for student athletes.

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#### Check Your Understanding

How does competition among producers affect the price and quality of a good or service?

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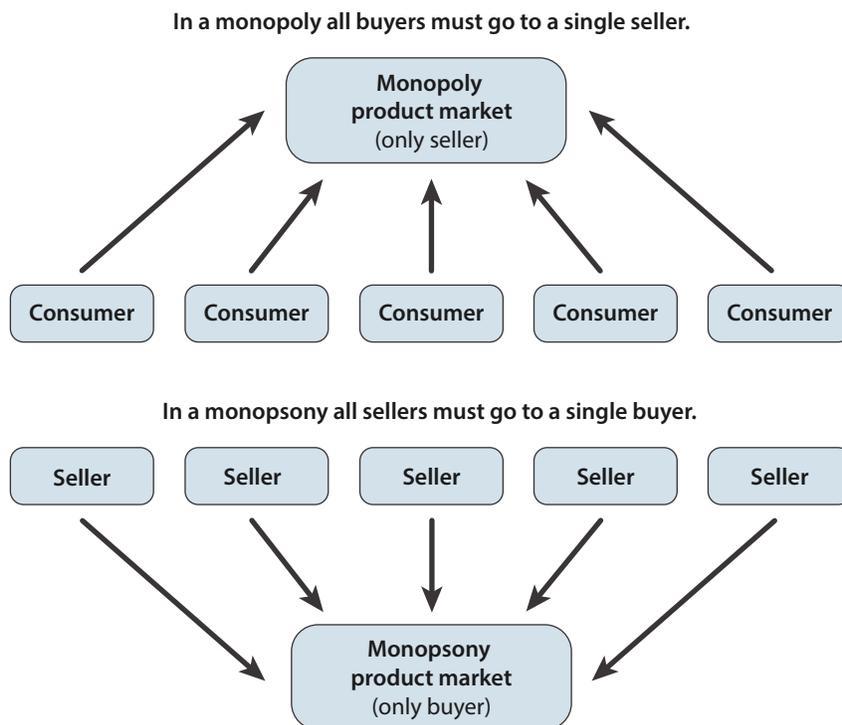
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Figure 1



In discussing the labor market, there is only one buyer of a specific type of labor. In other words, there is only one employer. This gives the buyer (employer) the ability to influence (and usually depress) the wage/income of the seller (worker/employee).

### NCAA As a Monopsony

The National Collegiate Athletic Association (NCAA) was originally founded to set standards and safety practices for college athletics. Today the NCAA has more than 1,000 member colleges and universities organized into three divisions. Many of the standards and regulations the NCAA established have to do with how member schools can recruit and compensate athletes for participating in college athletics. Colleges and universities are primarily educational institutions, not athletic franchises or companies, so how did the NCAA (and its member schools) end up being defendants in an antitrust claim before the US Supreme Court?

### Vocabulary Application

In your own words describe how the NCAA is a monopsony market.

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As college athletics increased in popularity, they created more and more revenue for both the NCAA and the colleges and universities. In 2022, the NCAA reportedly earned \$1 billion in revenue from March Madness alone. The increased revenue the NCAA and member schools received, driven by the increased popularity of college sports, left many questioning if the athletes were still being fairly compensated for their labor.

In 2021, a group of both current and former student athletes filed an anti-trust lawsuit against the NCAA (*NCAA v. Alston*). The Supreme Court ultimately ruled in favor of the students against the NCAA’s rules that restricted education-related benefits, such as scholarships for graduate or vocational school or payments for academic tutoring. These types of caps on education-related benefits had kept costs down for member schools who would have otherwise bid up these types of payments to attract potential star athletes.

The US government has several **antitrust laws** in place that are designed to prevent monopolies from forming and that require competition be maintained in the market. It has been long held in the US that monopolies hurt the consumer by reducing output, raising prices, and limiting innovation. (When producers do not compete, there is less **incentive** to innovate or lower costs.) The Sherman Anti-Trust Act (1890) prohibits “contract[s], combination[s], or conspiracy[ies] in restraint of trade or commerce.”

When a person or group files an antitrust claim, the court must determine if the parties involved are limiting competition in a way that is detrimental to consumers. But would the same reasoning be applied to a monopsony? According to the Supreme Court in the NCAA case, yes.

College athletes are in essence “selling” their labor to colleges/universities in exchange for scholarships, tuition, and other education-related expenses. If you are an amateur athlete, there is no other viable “buyer” in this labor market beyond colleges and universities. In short, the NCAA has established a monopsony labor market for amateur athletes (Figure 2, next page).

Because there is no other labor market for these amateur athletes to sell their talent and skills, the NCAA guidelines determine how student athletes are compensated. The Supreme Court found that because member schools compete against each other to recruit student athletes, the NCAA, through rules like limiting education-related benefits, used its monopsony power to “cap artificially the compensation offered to recruits.”

**Check Your Understanding**

What was the incentive for the NCAA to place caps on education-related benefits to student athletes?

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**Check Your Understanding**

How has the monopsony labor market created by the NCAA impacted competition for student athletes by universities/colleges?

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But what if, instead of there being only one producer in a market, there was only one consumer? What if you produced a good or service but had only one option when it came time to try and sell your product or service? This is a **monopsony** (Figure 1, next page).



## Reading Guide ANSWER KEY

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### Check Your Understanding

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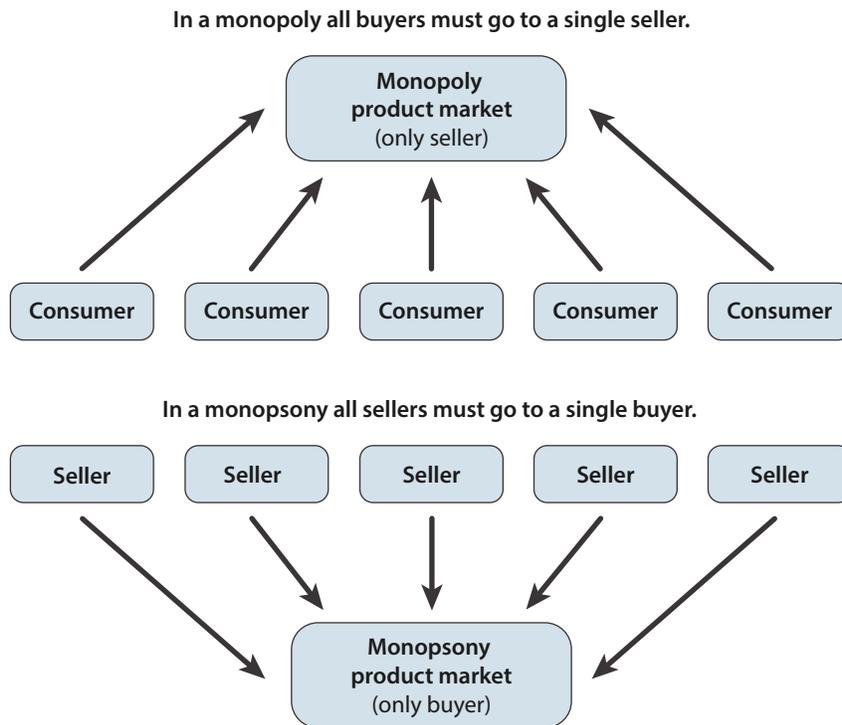
*Competition for customers forces producers to seek ways to lower price and/or improve quality.*

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Figure 1



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**Vocabulary Application**

In your own words describe how the NCAA is a monopsony market.

*NCAA-member schools are a monopsony market because they offer the only opportunities for amateur athletes to receive compensation (in the form of educational scholarships) for their talent and skills.*

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As college athletics increased in popularity, they created more and more revenue for both the NCAA and the colleges and universities. In 2022, the NCAA reportedly earned \$1 billion in revenue from March Madness alone. The increased revenue the NCAA and member schools received, driven by the increased popularity of college sports, left many questioning if the athletes were still being fairly compensated for their labor.

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Because there is no other labor market for these amateur athletes to sell their talent and skills, the NCAA guidelines determine how student athletes are compensated. The Supreme Court found that because member schools compete against each other to recruit student athletes, the NCAA, through rules like limiting education-related benefits, used its monopsony power to “cap artificially the compensation offered to recruits.”

**Check Your Understanding**

What was the incentive for the NCAA to place caps on education-related benefits to student athletes?

- \* To prevent larger more-affluent schools from pricing out smaller schools.
- \* To keep the focus on education and not earnings for athletes.
- \* To maintain the amateur status of college athletes.

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**Check Your Understanding**

How has the monopsony labor market created by the NCAA impacted competition for student athletes by universities/colleges?

- \* It has allowed universities/colleges to operate more equally in what is offered to recruited athletes.
- \* It has kept the compensation for college athletes lower than what it may have been by placing caps/restrictions on earnings.

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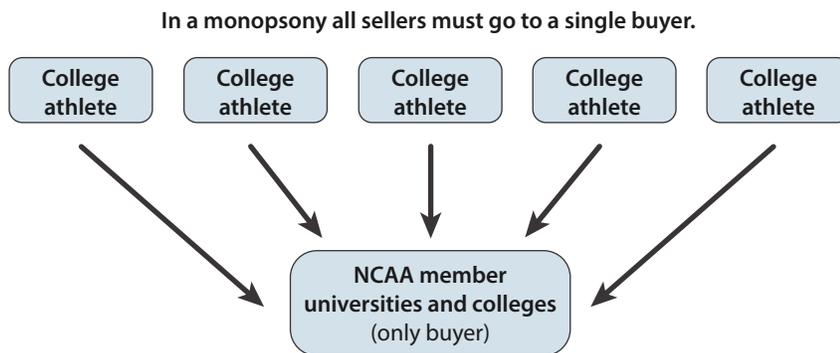


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Figure 2



**In the labor market for college athletes there is only one buyer of a specific type of labor. In other words, there is only one employer. This gives the NCAA member schools the ability to influence (and usually depress) the wage/income of the college athletes.**

The Court ruled that these caps violate antitrust law, which has opened the door to further debate and rule changes related to student athlete compensation. We are already seeing policy changes that have begun to reduce the monopsony power of the NCAA.

**Opening the Door for Name, Image, Likeness**

Following the ruling in *NCAA v. Alston*, the NCAA made a major policy change that has reshaped the way student athletes are compensated for their talent. Starting in July 2021, the NCAA allows all Division I-III student athletes to be compensated for use of their Name, Image, Likeness (NIL). Examples of using NIL include a university selling jerseys with an athlete’s name on them or licensing an avatar in an athlete’s likeness for a video game.

This change reversed previous policy that strictly forbade college athletes from earning “benefits linked to their participation in a sport.” That is, colleges and universities could earn income by selling merchandise and licensing featuring an athlete, but the individual would not receive any compensation based on sales of these items. Nor could college athletes participate in any individual endorsement or advertising contracts.

With the new NIL policy, college athletes are now able to accept endorsement deals with both large national brands and smaller local businesses. Big-ticket endorsements can earn players upward of \$1 million per year, while smaller sums of money or free products from smaller local businesses are often available for college players.

**Check Your Understanding**

How does the policy change impact the earning potential of college athletes? Do you think this will impact the ways universities/colleges try to recruit?

- \* *Student athletes now have the potential to earn considerably more by taking on endorsement or image deals in addition to their athletic scholarships.*
- \* *Schools that support student athletes in obtaining and managing these kinds of deals may have an advantage during recruiting.*

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### Long-Term Consequences

Monopsonies are less common and certainly less visible than monopolies; but monopsony labor markets still have a large impact on the income and wages of laborers within those markets. While colleges and universities are not your typical profit-making businesses, and so unique circumstances must be considered, we can see in the college athletics example how monopsony power can depress earnings and compensation for athletes within these markets.

With changes in policies around NIL and education-related compensation for student athletes, the landscape of college sports is changing. NIL has created opportunities for athletes to profit from endorsements and advertising contracts and is already impacting the way colleges recruit, as schools are offering programs and partnerships internally to help student athletes make the most of their NIL opportunities. Less than 2% of NCAA athletes move on to play professional sports; so, the opportunity for NIL compensation during their college years is important for the vast majority of these athletes who may not have similar opportunities in the future.<sup>6</sup>

While the debate over college athlete compensation goes on, reducing the monopsony power of the NCAA and expanding earnings competition among college athletes will definitely change the way these institutions recruit, manage, promote, and retain athletes. The complex relationship between higher education, sports, and money won't become any less complex anytime soon. ■

### Check Your Understanding

How do you think the new NIL policy will change student athlete choices/behaviors while in college?

- \* *Student athletes will likely look for support in managing their earning opportunities beyond scholarships.*
- \* *Student athletes may choose to spend their additional time/energy on developing other earning opportunities.*

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