



Hockey economics

How a freer market in hockey could lead to more Canadian teams

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The National Hockey League and local governments have adopted policies that create poor incentives that keep financially flailing teams from moving to more profitable areas. Changing some of these policies could lead to better outcomes for Canadian hockey fans.

Hockey's welfare statism: revenue sharing

Everyone loves “free” money, so what makes the wealthy owners of NHL teams an exception? In May 2011, Edmonton Oilers owner and billionaire Daryl Katz came to an arrangement that would have had the both the provincial and municipal government subsidize the

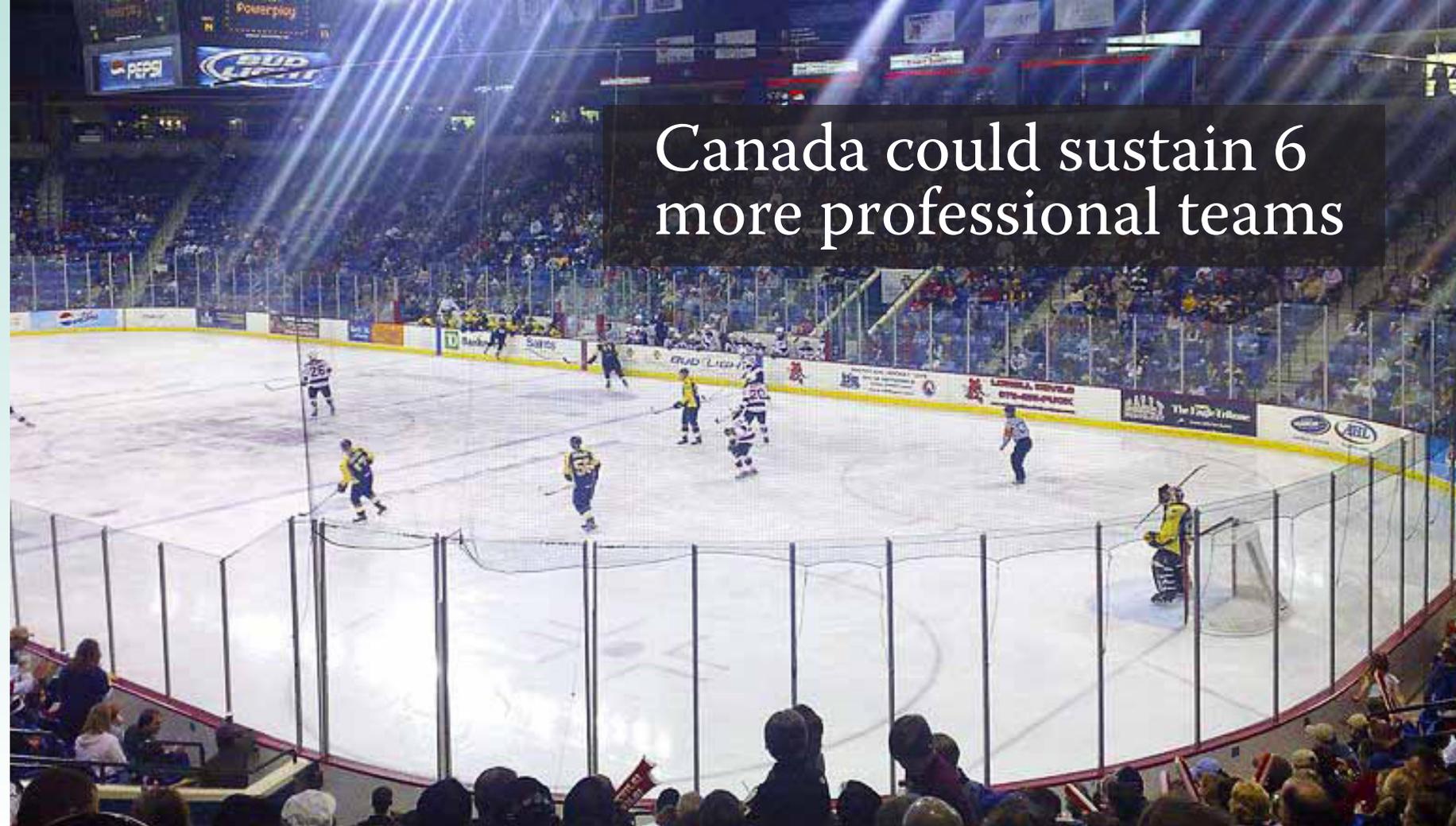
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building of a new downtown arena. As of the time of writing, the province has declined to take part (Salz, 2011); however, it illustrates how NHL teams often ask for subsidies for unprofitable activities.

Indeed, the National Hockey League has formalized internal subsidization programs that force more profitable teams to share revenue with less profitable teams. After a labour dispute which forced the cancellation of the 2004/05 NHL season, both team owners and the hockey players' association agreed upon a collective bargaining agreement in July 2005 (Jones, 2005).

This collective bargaining agreement established many of the policies that govern the financial rules of the National Hockey League. Among these rules was the commitment that the top ten best performing clubs would redistribute revenue to the bottom ten worst performing clubs. The amount to be redistributed was set to be 4.5% of total league revenues (Brinkman, 2006).

The exact technical details of where this revenue comes from is complicated and beyond the scope of this article, but to simplify, the money comes from a combination of centrally generated league revenue, "taxation" on the top ten revenue-earning teams, and a "tax" on NHL playoff revenues (Brinkman, 2006).



Canada could sustain 6 more professional teams

NHL revenue sharing attempts to make floundering, unprofitable franchises more economically viable (Brinkman, 2006). By taking in revenues from profitable, successful teams, hockey franchises are more likely to survive in cities which would otherwise not be able to support them.

Imagine a parallel in real life—say, a convenience store that was consistently losing money, month after month. If some level of government stepped in to save the convenience store, it would have to do so with

money taken from more successful enterprises. On the other hand, if the unprofitable convenience store was not propped up, its private investors would eventually shut it down and invest their money elsewhere. Similarly, if not bailed out by revenue generated from successful teams, failing NHL franchises would face a greater incentive to relocate to markets where they could perform better economically.

There is a strong chance that those markets would be in Canada. In fact, a recent study by the Mowat Center suggests that if market

Governments often subsidize poorly performing teams by building stadiums



Canadian hockey teams are “taxed” to support flailing American hockey teams. Indeed, despite having only six teams, or one-fifth of the league’s total number of franchises, Canada generated one-third of the NHL’s revenue in the 2007/08 season. That same year, Canadian teams sent over \$41 million to struggling American teams (Gordon et al., 2008) —money that might have otherwise been spent on improving local arenas, signing better players, or providing a higher-quality hockey experience for Canadian hockey fans.

In short, ending the NHL’s policy of revenue sharing would create a freer market in North American professional hockey. This would in turn ease the “taxation” that Canadian teams disproportionately suffer under, and would create incentives for struggling American teams to move north for more profitable pastures.

Government subsidies

Internal wealth redistribution within the league is not the only type of wealth distribution related to hockey in the NHL. Often, governments will subsidize poorly-performing teams in order to keep them playing in their locality.

“These subsidies generally take the form of building a stadium...with taxpayer dollars, and then allowing the team to play there at very

forces were allowed to determine the location of NHL franchises, the demand for hockey in the Canadian market is such that the country could theoretically sustain twelve hockey teams—double the current number (Keller and McGuire, 2011).

Currently, revenue sharing disproportionately affects Canada, which, due to its passion for hockey, performs extremely well in earnings. A strong Canadian dollar has also boosted the bottom lines of Canadian teams, as salaries are paid in US dollars. But because of their successes,

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Canadian teams sent over \$41 million to struggling American teams

low rent, or no rent at all,” note Mowat Center co-authors Tony Keller and Neville McGuire in a recent study of Canadian hockey market potential (2011). The pair identify that “the most egregious recent case is that of the Phoenix Coyotes...the city of Glendale [Arizona] is still trying to borrow US\$100 million on behalf of the Coyotes as part of a plan to give the team’s intended buyer a subsidy greater [even] than the team purchase price” (2011).

Government favours are similar to internal league revenue sharing: when a local government subsidizes a hockey team, it creates disincentives for the team to move to a more genuinely profitable location, medium-sized American cities, or even perhaps a few Canadian cities (Keller and McGuire, 2011). As the Mowat Centre notes:

If the NHL were a free market, these Canadian sites would be first choices for team movement or expansion, and *not* treated as last resorts to be avoided at all costs. The economic case is clear. Canada can almost certainly support 12 NHL teams.

So why does Canada not have more than six NHL teams? The answer lies in the fact that the NHL is a monopoly (or more precisely a cartel), and not a free market. It artificially limits the supply of NHL teams, and controls where they play. The answer also lies in the fact that American local governments, responding to the



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cartel’s control over supply, have been willing to use taxpayer dollars to entice one of those scarce teams into locating to their city—something Canadian governments have not traditionally done.

At least when the National Hockey League redistributes money from one NHL team to another it mostly does so with its own money. When governments subsidize hockey teams, they do so with the money of their citizens—some of whom may not even like hockey and others who may even despise it!

Government expenditures that subsidize millionaire sports stars and billionaire sports teams do not compare well against other

things that the government could be doing. Further, subsidizing hockey is a particularly troubling matter because it is regressive—that is, it takes from the poor and gives to the rich. Indeed, hockey subsidies are “a regressive subsidy of the hobbies of the affluent,” opines writer Colby Cosh in *Macleans* (2007). This is because a tax base which is largely funded by middle income individuals is being doled out to players who are wealthy, and who would otherwise have to accept lower salaries if they were not being subsidized.

While this sort of regressive subsidization happens frequently in many major sports, hockey is perhaps the most egregious example of it. “The NHL fan base is the most affluent and

well educated of the four [major sports, among baseball, football and basketball],” points out writer David Markus in *Stanford Business Magazine* (2004). One study of NHL fans show that they are more likely to have college and graduate degrees than non-NHL fans, and are 64% more likely than non-NHL fans to earn an annual income of \$150,000 or more (Fetto, 2009).

Therefore, taxpayers would be better off if government subsidies for hockey ceased and the inequity now in place—transfers from the less well-off to the wealthier—would end, creating less strain on the local taxpayer, and a greater potential for new Canadian hockey franchises.

Conclusion

Both governments and the NHL currently provide incentives for otherwise-unprofitable hockey teams to stay where they are. If these incentives were removed, franchises would move to more profitable markets—and in select cases, even possibly to markets in Canada, though it is likely that NHL salary levels would have to moderate first.

Undoubtedly, there are other barriers not thoroughly explored in this article—barriers that could present additional impediments to the moving of additional hockey teams to profitable locations. For example, the NHL gives a great deal of leeway to franchises which do not want a hockey team moving into their area and

impinging on their local monopolies (Toronto owners opposing a theoretical franchise in Hamilton is one example).

But, by and large, the removal of revenue sharing in the NHL and government subsidies to franchise owners would at least remove the barriers to highly subsidized US teams moving to Canada.

The implication is clear: freer markets in hockey means a possibility of more NHL teams, some in Canada, and at the very least, an end to NHL dependence on taxpayers in the US and Canada.

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