

Tuesday, November 30, 1999.

Rt. Hon. Jean Chretien
Prime Minister of Canada
Langevin Block
House of Commons
Ottawa, Ontario
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By fax and e-mail

Dear Prime Minister,

On behalf of the 80,000 member Canadian Taxpayers Federation, I write to you today to express our concern for the attention that officials in your office are "reportedly" giving to the issue of the viability of the NHL in Canada. As you are probably aware, Canadian NHL franchise owners are crying poor because they have to meet their payrolls in U.S. dollars but the majority of their revenues are earned in Canadian dollars. Once the exchange rate and other expenses are factored in, the owners claim that profitability is elusive.

There is no doubt that the business tax regime (property, corporate, etc.) that confronts NHL owners is stifling their profitability. Indeed, the tax regime facing all Canadian businesses is burdensome and long-overdue for an overhaul. This was the conclusion of the Mintz Technical Committee on Business Taxation. Unfortunately Mr. Mintz' report continues to gather dust on a shelf in the Office of the Minister of Finance. Should the federal government wish to address the business tax regime in this country, it should do so across-the-board. However, it should not implement policy solutions for an elite group of businesses – Canadian NHL franchises – in isolation.

Allow me to be very clear, professional hockey is **not** a public good. It is unworthy of specific industrial policy or special bailout treatment. The local media is full of hysteria and misinformation on this subject. Boosterism is masquerading as objective journalism and politicians at all levels of government are being asked to make taxation decisions based on arguments that wouldn't pass a first-year university economics course. As Prime Minister of Canada, it is your responsibility to ensure that the federal government does not fall into this realm where decisions are made in a vacuum.

Respected sports writer Damien Cox has shown that Canadian NHL teams do not face a unique situation.

"Over the past 21 years, seven NHL clubs have gone out of business. Six chose to move and/or sell their franchises, while one, the Cleveland Barons, merged with the Minnesota North Stars.

Out of those seven teams, five were U.S. based and only two operated out of Canada. In the early 1980s, Pittsburgh and St. Louis nearly joined this group by moving to Hamilton and Saskatoon respectively.

This decade, two U.S. teams and two Canadian teams have moved, while the New Jersey Devils nearly moved to Nashville and the Pittsburgh Penguins barely survived a brush with bankruptcy. Today, franchises in Tampa Bay, Phoenix, Buffalo Carolina and Washington face futures as uncertain as teams in Calgary, Ottawa and Edmonton."

Toronto Star, Saturday, October 16, 1999.

Mr. Cox goes on to note that the "over-all picture is one of an industry with structural defects affecting teams on both sides of the border." We agree.

In addition, the Canadian government should not partake in any solution which rewards poor business management. We must remind you that the average NHL player salary in 1991 was \$271,000 (US). Today, the average player salary is \$1.3 million (US). This is a 480% increase over nine years with no end to this escalation in sight. Indeed, NHL owners have twice voted to extend the current collective agreement between the players and the league until 2004.

On top of this skyrocketing wage bill, currency exchange rate dynamics come into play. The simple fact is that a business can not expect to survive indefinitely while collecting gate receipts in devalued Canadian dollars and paying out its major expense in American dollars. It is axiomatic that these are challenges for the NHL to address in a substantive manner, not the Government of Canada.

Moreover, the Industry department's web site (strategis.gc.ca) is full of background information which was used in preparation for last year's sub-committee looking at the future of sport in Canada. One of the most prescient documents presented to the committee was authored by three professors from the University of Ottawa entitled: ***Sport in Canada: its economic importance and impact on the role of government***. In this submission the authors argue against any sort of direct government involvement in professional sport. Consider the following extract from their report.

"The academic economists have also attempted to quantify the economic spin-offs and the synergistic effects created by professional sport. If the presence in a city of a new professional sports team or the construction of a new stadium acts as a motor for the city's economy, we should be able to see this effect in comparisons of the growth rates in this city's economic activity with those of cities that do not have a new team or a new stadium. The best-known studies are those by Robert Baade. His many studies show that a new franchise, a new stadium or a renovated stadium has no impact on employment in manufacturing, activity in the manufacturing sector, capital spending, income per inhabitant or retail sales in the metropolitan area concerned. Many other studies of specific cases have reached similar conclusions. This is not surprising since the expenditures of a major league sports team such as the Ottawa Senators or the late lamented Nordiques are almost ten times lower than those of the University of Ottawa or Laval University!

*Sports fans have recently experienced how **unimportant** professional sport is to the economy. During the NHL lock-out in the fall of 1994, we saw that, with the exception of a few businesses located in the immediate surroundings of the arenas in question, the fact that no games were played did not have any negative impact on economic activity. A researcher at the University of Wisconsin, John Zipp (1996), recently showed that the baseball strike in August and September 1994 did not make a negative impact on economic activities in cities with baseball franchises. In fact, retail sales increased during the strike in 17 of the 24 host cities in the U.S.A., while during the same two months retail sales declined in the four cities in the control group, that is to say cities of equivalent size that did not have a baseball franchise.*

In addition this study made several recommendations including the following:

"That the Canadian government not subsidize professional sport in any way because: (1) the direct beneficiaries of these subsidies are rich team owners and millionaire sportsmen and –women; (2) the direct and spill-over spin-offs of professional franchises have never been shown in independent studies, and consequently, even if such spin-offs exist, they are very minimal and do not justify public subsidies."

Mr. Prime Minister, the evidence is extremely clear that professional sports franchises have a negligible impact on local economies. The money that fans spend at games is disposable income.

The money that businesses put into advertising, corporate boxes, etc., is discretionary income. This means that the money which fans and businesses spend will make its way into the economy, if not through hockey, then through other activities. It is a simple economic principle known as the "substitution" effect.

Finally, it should be noted that Canadian taxpayers already do more than their fair share to support professional hockey in this country. Besides going to games and supporting their local team, consider these other avenues by which taxpayers directly and indirectly support the NHL. Corporate luxury boxes and company owned season's tickets are nice 50% business development write-offs, courtesy of the tax system. Then there are Government logos (inside and out) on several arenas and let's not forget advertising by Via Rail, Canada Post and the Royal Canadian Mint. We should also mention CBC television costs for broadcast rights, courtesy again of the taxpayer.

In my position, I have the privilege to listen to thousands of Canadians from coast to coast to coast through participation in talk radio programs, editorial boards and various speaking engagements and with respect to this issue I can assure you that there is no national public appetite for government assistance to the Canadian NHL owners. Indeed, media reports of polling done for your government echo this finding.

Mr. Prime Minister the time for leadership on this file has come. We are looking to you to send a clear signal that the NHL needs to solve its own problems and that the federal government will not play any sort of role in exchange rate alleviation or any industry specific bailout initiative.

We look forward to your statement that this is not a pressing national priority. We encourage you to go further and state that this issue – pardon the sports metaphor – does not even even make the cut. Once this occurs, then the relevant Cabinet ministers who have been preoccupied with this file can return to more effectively carrying out their responsibilities.

Regards,

Walter J. Robinson
Federal Director