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Taxpayers Take the Puck - A think tank defends them from the NHL

By John J. Miller

The Phoenix Coyotes are having the best season of their short history. In April, they finished atop the National Hockey League's Pacific Division. In the postseason, they beat the Chicago Blackhawks in six games and the Nashville Predators in five. Never before had the Coyotes advanced past the first round of the playoffs. At press time, they were skating in the Western Conference championship against the Los Angeles Kings, fighting for a berth in the Stanley Cup finals.

Yet the Coyotes soon could lose something much more important than a game or even a playoff series: They could lose their city, all because of a plucky free-market think tank named after Barry Goldwater. "We're cheering for the Coyotes," says Darcy Olsen, president of the Phoenix-based Goldwater Institute. "But we're also trying to protect taxpayers."

The problem is that the Coyotes can't turn a profit. They drew fewer than 13,000 fans per game during the regular season, the lowest attendance in the NHL. Three years ago, they actually declared bankruptcy, and the NHL assumed control of the team. The league is desperate to find a new owner, but prospective buyers understand the fatal economics of the franchise and expect the massive public subsidies that have become so common in professional sports. Right now, the only thing keeping the Coyotes afloat is Glendale, the Phoenix suburb where the team plays in Jobing.com Arena. The city already has pumped tens of millions of dollars into the Coyotes and appears ready to spend even more as part of a new ownership deal involving hockey executive Greg Jamison.

Yet the Goldwater Institute stands in the way, threatening a lawsuit that NHL commissioner Gary Bettman has condemned and Republican senator John McCain has branded "disgraceful." Olsen is astonished by the charges: "This is a time of fiscal austerity, with lots of people out of work, and taxpayers are supposed to buy a hockey team for a multimillionaire?" Whatever happens next -- fateful decisions are coming soon -- her group showcases the growing influence of right-leaning policy organizations that operate mainly in the states.

A generation ago, a handful of conservative and libertarian think tanks advanced their ideas on the federal level in Washington, D.C. Yet there was nothing similar in state capitals. By the late 1980s, activists had recognized the vacuum, and groups started to sprout in Michigan, South Carolina, and elsewhere. "We saw the need for a think tank in Arizona," says Michael Sanera, who was a professor of political science at Northern Arizona University at the time. "We were going to be a local version of the Heritage Foundation."

An initial effort to launch something called the Arizona Policy Institute floundered. Then inspiration struck Sanera and his allies: What if they rebranded, naming their group after Barry Goldwater, the conservative hero who had just retired from the Senate? They sent the old man a letter. He declined to lend his name.

"We decided to make a second appeal," says John Shadegg, one of Sanera's pals (who would go on to serve eight terms as a GOP congressman before stepping down last year). Shadegg's father, Stephen Shadegg, had been Goldwater's campaign manager and ghostwriter. The

object of a quick lobbying effort, Goldwater agreed to the request, and the Goldwater Institute was born. Today, the 1964 presidential candidate's son -- Barry Goldwater Jr., a retired congressman -- sits on the board. "You won't find a better group out there," he says.

During the 1990s, the Goldwater Institute stayed small, employing no more than a few people at once. It earned a reputation for criticizing Republicans who strayed from conservative principle. After Sanera left, its president was Jeff Flake. When he was elected to Congress as a Republican in 2000 -- he's now running for the Senate -- the Goldwater Institute needed a new chief.

To the surprise of many, it turned to Olsen, who was then a 29-year-old education wonk at the **Cato Institute**. Under her leadership, the Goldwater Institute continued to battle government growth and contributed to a number of conservative policy successes, such as the creation and expansion of education savings accounts for Arizona schoolchildren. The hockey fight is the latest in a long line of battles, as well as one of the most unusual. Earlier this year, the Hockey News, based in Toronto, published its list of the hundred most powerful people in hockey. Olsen ranked 64th, a resonant number for Goldwater fans. It put her just behind Detroit Red Wings defenseman Nicklas Lidström (62) and just ahead of New York Rangers goalie Henrik Lundqvist (67).

The Coyotes arrived in Phoenix a few years ahead of Olsen. In 1996, the franchise was called the Winnipeg Jets, and it abandoned the snows of Manitoba for the deserts of Arizona, in a league-wide migration that saw teams pop up in Florida, Georgia, and elsewhere. The hope was that they would sink roots in the Sunbelt and turn hockey into a sport for southerners as well as northerners. But teams such as the Carolina Hurricanes and the Florida Panthers have struggled to fill their arenas. Last year, after eleven seasons of disappointment, the Atlanta Thrashers quit their hometown and moved to Winnipeg, giving the city that had lost the Jets a second chance.

The Coyotes could move as well, unless Glendale comes up with a brand-new sweetheart deal, which it can ill afford. On April 13, the Arizona Republic ran a story with this headline: "Glendale budget looking bleak." It described a projected shortfall of \$35 million, representing about a quarter of city revenue. The proposed remedies combine spending reductions, including cuts to the police department, with a sales-tax hike. Approval of the tax increase would give Glendale the highest sales-tax rate among major American cities, according to the Tax Foundation, with a combined city and state sales-tax burden of 10.3 percent. Meanwhile, Glendale would continue to make annual debt payments of more than \$12 million on Jobing.com Arena and also pay the NHL a hefty management fee. The NHL's latest proposal to Glendale would have the city fork over \$271 million through 2033 to keep the team, according to the Wall Street Journal.

Glendale is by no means the first city to throw money at a sports boondoggle. The estimated cost of this summer's Olympics in London was originally about \$5 billion. Now it has tripled. On May 14, Minnesota governor Mark Dayton, a Democrat, signed a bill to have his state spend at least \$500 million on a new stadium for football's Minnesota Vikings. "Teams everywhere want to socialize their costs and privatize their profits," says Neil deMause, author of *Field of Schemes* and a prolific anti-subsidy blogger.

Economists disagree about many things, but sports subsidies aren't one of them. Several years ago, Robert Whaples, chairman of the economics department at Wake Forest University, surveyed a random sample of members of the American Economic Association. One question asked if "local and state governments in the U.S. should eliminate subsidies to professional sports franchises." A whopping 86 percent concurred. It's hard to find that level of agreement on anything else, Whaples says. Owners and teams like to talk up urban revitalization, but it's simply a feel-good, redistributive myth: "Everyone who is at a restaurant near a new arena is not at a restaurant somewhere else," says Dennis Coates of the University of Maryland, Baltimore County. "Arenas take economic activity that would occur in one place and move it to another place. That's all."

The Goldwater Institute hasn't merely issued a study that warns about costs, in the fashion of a traditional think tank. Instead, it's threatening a lawsuit. Five years ago, it opened a litigation center -- the first state-level free-market think tank to do so, in what has become a growing trend -- on the theory that lawsuits could help it achieve policy goals. Citing a provision of the Arizona constitution that blocks government subsidies for anything but clear public purposes, the Goldwater Institute says it will sue Glendale if the sale of the Coyotes involves taxpayer funds.

The face-off has irritated people who would rather not answer uncomfortable questions about government subsidies. When the threat of a lawsuit surfaced last year, Senator McCain called it "basically blackmailing by the Goldwater Institute." NHL commissioner Bettman also chimed in: "I quite frankly don't know who the people there report to or are accountable to," he said, "but it fascinates me that whoever is running the Goldwater Institute can actually substitute their judgment for that of the Glendale City Council."

Olsen laughs at these words. "We're not in the business of getting invited to cocktail parties or luxury suites," she says. "We're in the business of delivering justice to taxpayers."