Sheldon Jacobson: NHL salary caps are killing hockey dynasties

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FULL TEXT

The 2022-23 NHL season opens shortly with 32 teams hoping to raise the Stanley Cup in June. But there is an 800-pound gorilla in every team management office: the salary cap.

Salary caps were instituted following the 2004-05 NHL lockout. They prevent large market teams from signing all the best players. They also provide a limit on player salaries relative to revenue generated, a benefit to franchise owners. Yet one unintended consequence of salary caps is that they have made hockey dynasties near impossible to achieve.

Good teams are built with good players, and good players are expensive. To keep them, player agents demand long-term contracts that protect the player's best interests.

All players age, and their performance declines each year after their prime. Contracts that extend beyond a player's prime carry risks that degrade a team's ability to compete. However, to keep or attract the very best players, general managers must offer such contracts. This means that many long-term contracts age badly, paying players more than their abilities warrant, which eventually prevents teams from remaining competitive.

The data supports such observations.

The Chicago Blackhawks won three Stanley Cups from 2010 to 2015. Since then, they have made the playoffs only three times and been eliminated in the first round each time. They are now in a massive rebuild.

The Los Angeles Kings won the Stanley Cup in 2012 and 2014. Since then, they have made the playoffs only three times and also experienced three first-round losses.

The Pittsburgh Penguins won the Stanley Cup in 2016 and 2017. They have won only one playoff series since then as their aging roster is hamstrung with salaries that undermine roster flexibility. This means that if they do not win this year, a major rebuild is imminent.

The Tampa Bay Lightning won the Stanley Cup in 2020 and 2021. They took advantage of a loophole that allowed them to exceed the salary cap by nearly $18 million in 2021; teams have no salary caps during the playoffs. The Chicago Blackhawks took advantage of the same loophole during their successful pursuit of the Stanley Cup in 2015.

All seven Canadian teams have the added disadvantage of paying their players in U.S. dollars and being based in a country with generally higher taxes compared with the U.S. With the Canadian dollar now worth around $0.73 in U.S. dollars, the cost to fill a competitive roster in Canada is prohibitive. This provides headwinds for Canadian teams to even win a Stanley Cup, which has not occurred since 1993.

The conundrum is that players want to be paid salaries commensurate with their skills. They also want to repeatedly win the Stanley Cup.

If a player demands a salary that eats up a significant share of a team's salary cap, which also exceeds their value on the ice, the opportunity to play on a sustainable winning team becomes less likely. In other words, player self-interest can undermine long-term team success.

So how can general managers build sustainable winning programs with competition driving them to offer contracts that age badly?

They cannot.

Some will gamble with free agency, taking on bad contracts and hoping for the one season that will win them the Stanley Cup. If they whiff, as most do, they sacrifice the team's future by giving up high draft picks and prospects. This also explains in part why more than half of NHL general managers have been on the job for less than four years.

So what is the solution?

Success on the ice now demands success on a computer. Data-driven team building extracts untapped value on the ice that adds wins in the standings, increasing the likelihood of sustainable success. Recent Stanley Cup winners that have taken advantage of advanced analytics include the 2019 St. Louis Blues, the 2020 Tampa Bay Lightning and the 2016 Pittsburgh Penguins.

Draft picks also provide the best place to find value. Teams that accumulate high draft picks are building toward future success.

Building a sustainable winning hockey team demands solving a knapsack problem every time a new contract is offered. The knapsack problem involves the challenge of filling a knapsack so that its items have maximal collective value.

Will there ever be a hockey dynasty like the 1970s Montreal Canadiens or the 1980s New York Islanders and Edmonton Oilers? Probably not. Salary caps ensure that each Stanley Cup winner will need to choose which players to retain, even with a projected salary cap increase over the next three years. This means rolling the dice to their next championship.

NHL dynasties may be unattainable, but every year, some team will win the Stanley Cup. That we know for certain.

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