

The Illusory Economic Gains from Hosting the Olympics & World Cup

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Key Points

- Scholarly evidence suggests that hosting either the IOC's Olympic Games or FIFA's World Cup event is no economic bargain for the host city or country.
- According to official reports, in London 2012, the city brought in around US\$3.5 billion in revenues, and spent in excess US\$18 billion – a negative balance of \$14 billion plus.
- Political systems in both democratic and authoritarian countries have shown themselves increasingly unwilling or unable to engage in effective long-term event planning.
- Gains will be uneven as long as the monopoly structure of the auction of hosting rights to competing cities and countries from around the world remains in place.

No economic bargain

The IOC's Olympic Games and FIFA's World Cup are the two most popular global sporting events. Winning the rights to host these competitions comes with great fanfare. Yet, except under special circumstances, the scholarly evidence suggests that hosting either event is no economic bargain for the host city or country.

In the short run, the increasingly massive costs of hosting cannot come close to being matched by the modest revenues that are brought in by the Games. In London 2012, for instance, the city brought in US\$1.4 billion from domestic and international sponsorships, US\$0.7 billion from its share of world television rights, US\$0.99 billion from ticket sales, US\$0.1 billion from licensing and US

\$.3 billion from miscellaneous, totaling around US\$3.5 billion. Tourism in London during the summer of 2012 was 8 percent below its level in 2011.

On the cost side, according to its official reports, London spent in excess of US\$18 billion for its Olympics venues and for operating the Games. The financial balance was a negative US\$14 billion plus. (It is worth noting that London's initial bid was around US\$6 billion, yielding a cost overrun of roughly 3 times. Horrifying as it is, the average cost overrun for the summer Olympics since 1976 is 3.5 times in real terms.) Of course, when the developing countries get involved, as the BRICS countries have in recent years, the financial imbalance tips further into the red because of the massive investments that are required in transportation and communications infrastructure.

The payoff, if there is to be one, must be realized in the long run. But even the legacy return is at best dubious. Much of the alleged legacy comes in the form of qualitative gains and the rest comes over very long periods of time, difficult to trace back to the several week period of the Games or the prior construction. But more often than not, the main legacy consists of white elephants that cost billions to build and millions annually to maintain, along with mountains of debt that must be paid back over ten to thirty years. And once again, the independent scholarship has not corroborated any long-term gains in tourism, trade or foreign investment from hosting.¹

Even when one can point to specific areas of benefits, it is necessary to assess them against not only the size of the financial investment in hosting, but also the opportunity costs of land used, and the human talent committed to planning and implementing the Games. Cities must ask themselves what the best long-term use of scarce land and other resources is. Areas that today are blighted or under-utilized may face bleak prospects for the coming years, but filling these areas with stadiums for the next thirty years may preclude more productive use that may not become apparent for another five or ten years.

One of the more important rebuttals to the calculus that shows more expense than revenue in hosting, is that much of the expense is connected to infrastructure that will support the city's or country's long-term development needs. This may certainly be true in theory and may even be so in practice, but it requires very careful and clever planning that has rarely been present.

¹ For a fuller discussion of this empirical literature as well as country case studies, see Zimbalist (2015), Chs. 3-7.

It was certainly present in Barcelona for the 1992 Summer Games. But in Barcelona the city planners had begun re-conceptualizing their city soon after the Franco regime ended in 1975. The Catalan region had been largely neglected under Franco and Barcelona itself had been subject to decades of unregulated industrial development. The outcome was that the people in this seaport city were cut off from the Mediterranean by blocks of manufacturing, warehousing, and railways. Together with poor traffic circulation and an underdeveloped infrastructure, a city that could be a shining jewel of tourism with its architecture, cultural history, climate and location, was only a tourist afterthought. The new government began to hatch a plan to change all that in the late 1970s and elaborated it in the early 1980s. The resulting plan pre-existed the thought of hosting the Olympics, but hosting was seen as a vehicle to put the plan into action. Barcelona used the Olympics; the Olympics didn't use Barcelona.

If other cities were able to emulate Barcelona, and many have tried but failed, then the problems that have been discussed in this article may be attenuated, or, even in some cases, avoided. The difficulty is that the conditions for Barcelona's success are not present elsewhere and the political systems in other countries have shown themselves increasingly unwilling or unable to engage in effective long-term planning.

Los Angeles is another case that lends some hope. But Los Angeles worked for a different reason. Hosting the Games produced more negative than positive imagery from Mexico in 1968, Munich in 1972 and Montreal in 1976. When it came time to select a host for the Summer Games in 1984, there were no suitors. The IOC had no leverage and Los Angeles and Peter Ueberroth (the head of the local organizing committee) took full advantage. Los Angeles passed an ordinance stipulating that it would not spend public money on the Games and got the IOC to guarantee the city against any operating losses. That had never happened before, nor has it happened since. The IOC further agreed to a minimal construction budget for minor venues only and Ueberroth arranged for corporate financing of these. The IOC allowed Los Angeles to use its Olympic Stadium and other major venues from its hosting of the 1932 Games. Ueberroth also profitably redesigned the model for Olympic sponsorships. The end result was a surplus of US\$215 million and a new, positive image for hosting the Games.

Bidding to host the Olympics since 1984, until recently, became more competitive. Costs have skyrocketed and planning has been incomplete.

Because the direct fiscal and economic impact has been neutral or negative, it is important to consider the opportunity costs of hosting.

One of the most significant costs is land use. The modern Olympic Games are huge affairs. At the 1896 Games in Athens, there were 21 athletes, 43 medal events and 7 venues; at the 1936 Games in Berlin, there were 3,963 athletes, 129 medal events and 25 venues; at the Tokyo Games in 1964, there were 5,151 athletes, 172 medal events and 33 venues; and, most recently, at the 2012 London Games, there were 10,500 athletes, 302 medal events and 31 venues. The IOC's guidelines for the minimum surface area for the footprint of the venues alone is 1,660 acres. For a smaller city like Barcelona, this represents almost 7 percent of the city's surface area. When ceremonial green space, large-scale public space, parking, transportation and communication facilities are included, the amount of needed acreage can quadruple. Beijing used an estimated 8,400 acres of real estate to stage the 2008 Games.² The magnitude of these numbers suggests a substantial opportunity cost (opportunities foregone from alternative uses) from hosting Summer Olympic Games.

If, instead of spending some US\$5 billion tearing down old, then building new or renovating stadiums, Brazil had spent US\$5 billion on public transportation networks in its major cities or on an intercity train system, what would have been the impact on the Brazilian economy? If, instead of building an Olympic park in East London, London had provided rental subsidies to artisanal industry and retail businesses, or additional funding for, say, technical education, what enduring effect might have occurred in employment in the surrounding boroughs? The questions about trade-offs are practically endless.

It is frequently argued that it is not possible to secure funding for more effective development projects. Political gridlock and partisan politics stand in the way of such appropriations in democratic countries, but somehow hosting the Olympics or World Cup breaks political stalemate. The irony is that in countries where political decision-making is so encumbered, the same obstacles that prevent more productive development projects without hosting the Olympics or World Cup are likely to thwart efficient implementation of mega-event plans. In authoritarian countries, gridlock is unlikely to be an issue, but skewed decision-making is common nonetheless.

² Acreage estimates are from Long (forthcoming).

In either democratic or authoritarian countries, the tendency is for event planning to hue closely to the interests of the local business elite. Construction companies, their unions (if there are any), insurance companies, architectural firms, media companies, investment bankers (who float the bonds), lawyers, and perhaps some hotel or restaurant interests get behind the Olympic or World Cup project. They all expect to gain handsomely from the massive public funding. Typically, these interests hijack the local organizing committee, hire out an obliging consulting firm to perform an ersatz economic impact study, understate the costs, overstate the revenues and go on to procure political consent. According to one study, in the build up to hosting the 2010 World Cup, the average profits of big five construction companies in South Africa rose from R158 million in 2004 to R1.67 billion in 2009 – a 10.5 fold increase! ³

Inevitably, there are some short-term employment gains from the extensive construction required for the Olympics or World Cup. The real problem is twofold: first, the government has to pay back the money it borrowed over the ensuing decades which reduces funding for other government projects and reduces public employment; second, the typical pattern has been to import thousands of workers from other areas, often from out of the country, and pay them pauper's wages. Further, when used after the Games, the stadiums, ski slopes, golf courses and road networks are more likely to service the consumption habits of upper income groups. Hosting sport mega events, then, tends to reinforce the existing power structure and patterns of inequality.

The bidding process erodes possible gains

The fact that the existing power structure imposes itself on the bidding process has another unfavorable implication. Consider the following stylized model of the bidding process. In each of the three cases, there is a monopoly seller of hosting rights (either FIFA or the IOC).

Case 1

- Perfect Information and no principal/agent problem
- Outcome: Expected net gains are bid away

³ See Cottle, E., (2011)

In this case, it is assumed that the IOC or FIFA each has complete information about the bidders and each of the bidders has complete information about their own bid and those of their competitors. It is further assumed that there is no principal/agent problem. This means that the body representing the city or country (the local organizing committee) fairly represents the interests of the entire resident population. The local organizing committee is the agent of the entire resident population (the principal). In such a circumstance, each bidder will know what its potential gain is from hosting and will continue to bid until just before its gain is fully eroded. (In theory, if each bidder also knows the gains of other bidders, it will stop bidding at just above the gain to the second highest bidder, leaving a small potential gain.) This is the most favorable case to the bidding cities or countries and should assure that there are no financial losses from hosting, but it also assures that any gain will be minimal.⁴ It is the least realistic of the three cases.

Case 2

- There is imperfect information and no principal/agent problem
- Outcome: winner's curse and net loss

The sole difference between this case and the prior one is that the assumption of perfect information is dropped, making Case Two a better approximation of reality. In this case, each bidder does not know what its potential benefits and costs are when it participates in the bidding competition. The winning bid in such a case usually goes to the most exuberant bidder, who not only outbids all the other bidders, but also generally bids higher than the possible gain. The result is a net financial loss, even though the organizing committee (agent) in this case is still assumed to fairly represent the interests of the local population (the principal).

Case 3

- There is imperfect information and a principal/agent problem
- Outcome: outlandish overbid

⁴ Note that cities and countries do not bid with dollar figures. Rather they bid with fancy facilities, appealing infrastructure and amenities. Since these have a price, their bids can be translated into dollar figures.

This case takes a step closer to reality but acknowledging a principal/agent problem. That is, the organizing committee (agent) is controlled by the private interests that stand to gain the most from hosting and these interests are not coincident with those of the population. There is still imperfect information which facilitates extravagant bids from each of the prospective hosts. The expected outcome is substantial expected financial losses, which will only be exacerbated by cost overruns.

What Lies Ahead?

The creeping grandiosity, cost explosion and increasingly negative financial balances for hosts of the Games had begun to have a dramatic effect on the Olympic movement. For the Summer Games, since the 1997 bidding (for the 2004 Games in Athens), when there were 12 applicant cities, the number of applicants has fallen to 10 for the 2008 Games, 9 for the 2012 Games, 7 for the 2016 Games and 5 for the 2020 Games. For the Winter Games, the decline began in 1995 (for the 2002 Games in Salt Lake City) when there were 9 applicant cities. The number of applicants fell to 6 for the 2006 Games, to 3 for the 2018 Games and to 2 for the 2022 Games. In the latter case, popular referenda revealed that the majority of voters in Munich, Davos/St. Moritz, and Stockholm were not interested in hosting the Games. Krakow, Poland also pulled out as did Oslo when the Norwegian government refused to provide a financial backstop in case of cost overruns and losses. The two remaining candidate cities to host the 2022 Winter Games are Almaty, Kazakhstan and Beijing, China -- two cities with severe pollution problems and authoritarian governments. Some commentators began to question whether democratic governments could still be viable candidates given the financial, environmental and social costs of hosting.

The IOC's new president, Thomas Bach, saw the coming train wreck. He devoted the early months of his tenure, which commenced in September 2013, to globetrotting to convince cities around the world that the IOC would look very favorably upon a bid from their city. At the same time, Bach initiated a discussion around reform which resulted in his Agenda 2020. Agenda 2020 promises to seek more frugal and sustainable hosting plans, to be more flexible in its demands on the host city and to encourage cities to use existing facilities.

Together with a substantial public relations effort, Bach has succeeded in convincing cities from democratic countries to jump back into the hosting competition. As I write in late March 2015, the prospective applicant cities for the 2024 Summer Games include Boston, Paris, Rome, Hamburg, Istanbul, Baku and Doha.

It remains to be seen, after the intercity competition has played out and the selected host city completes its construction, how much a reduction in the costs of hosting actually occurs. It also remains to be seen whether Bach's sweet-sounding reforms are actually implemented or whether they were just short-term adjustments to turn the tide in the bidding process. What is clear is that the underlying monopoly structure of the bidding process in both the Olympics and the World Cup is still in place, wherein one body auctions off the hosting rights to competing cities and countries from around the world. Until that structure is altered, it will be important for cities and countries to remain vigilant and cautious before throwing their hat into the ring.

References

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