Going for the gold - The economics of the Olympics


Introduction

The Olympics is the most high-profile sporting event in the world. Competition among cities to host the Olympic Games can be fierce. One reason for wanting to host the games is the anticipated economic windfall. But a cost benefit analysis quickly reveals that such gains may be illusory. With some rare exceptions, the hosts have invariably piled up big losses.

There are three major costs involved while hosting the Olympics:

- General infrastructure such as transportation and housing.
- Specialized sports infrastructure.
- Operational costs including general administration as well an opening/closing ceremony, security.

There are three main types of benefits from hosting the Olympics:

- Increased tourist spending during the games.
- Improvements in infrastructure, trade, investment, tourism after the games
- Intangible benefits - Feel good effect/Civic pride.

Historically, host cities have come from the developed countries. Between 1896 and 1998, only Mexico City, Moscow and Seoul were the developing countries that hosted the Olympics. But in recent years, IOC has been encouraging the developing countries. Thus, Beijing hosted the Olympics in 2008 and Rio de Janeiro in 2016.

The costs

Bidding for the Olympics, itself, is no small undertaking and is indeed expensive. Chicago spent about $100 million on its unsuccessful bid to host the 2016 Games.

After winning the bid, the host city may need to have in place a minimum of 40,000 hotel rooms for spectators. Also needed are an Olympic village that can house 15,000 athletes and officials. Such investments to meet a two-week period of heavy demand may result in severe overcapacity once the event is over.

The Olympics also require heavy spending on specialized sports infrastructure. The facilities already available may not be enough. Modern football and soccer
stadiums are generally incompatible with the requirements of a full-size Olympics track.

The Games also involve various operational expenses relating to event management, opening and closing ceremonies and security. The Olympics have long been a target for terrorist attacks. So, security arrangements must be strong. During the Sydney Games in 2000, security expenses crossed $250 million and in Athens, the figure was $1.6bn.

From 1968 to 2012, every single Olympic Games ended up costing more than originally estimated. Actual costs exceeded initial estimates by 10 times in case of the Montreal Games. In the case of the London Games, the original estimate was £2.4 billion and the actual expenditure was £8.77 bn.

**The benefits**

Any large public works project such as the Olympics can lead to a short run increase in economic activity in the run up to the games depending on the level of slack in the labour and capital markets. However, unless policy makers can anticipate a recession, years ahead, using the Olympics to pull a country out of recession would rest more on dumb luck rather than prudent planning. Otherwise, the spending associated with the games is as likely to redistribute spending in an economy near full employment as it is to lift an economy out of a recession. Unless unemployment is high, employment gains in sectors such as construction will come at the cost of employment losses in other industries.

Various economic impact studies done in advance of the Olympics have often produced large estimates of economic gains. The predictions made before the Games are rarely matched by reality. The authors joke that an economist who wishes to know the true impact, should take whatever number, the promoters are touting and divide by 10.

Economic impact studies are often commissioned by groups who have a vested interest in their outcome. Claims of a large economic windfall can be used to curry public favour or to justify a large tax payer subsidy. Even when such studies are objective, they may ignore the substitution effect that occurs when local residents shift their spending form other goods in the local economy to the Olympics. The studies may also not adequately consider the crowding out effect. The crowds and congestion associated with a major event dissuade regular tourists or business travellers from visiting the host city. Another problem is choosing an unrealistically high multiplier for expenditures. The multiplier may not be as high as assumed, owing to leakages.

**A losing proposition**
The expenses associated with specialized venues and event operations, especially security, are not covered by the revenues generated. Even after allowing for the intangible feel good effect, the gap is not covered.

Sporting facilities such as stadiums and arenas have little or no long term economic benefits. Many of the venues of the Athens games have fallen into disrepair. Beijing’s iconic Bird’s Nest stadium has rarely been used since 2008 and has been partially converted into apartments.

General infrastructure improvements have the potential to generate better returns. It is argued that the Olympics can serve as a catalyst for urban development and to generate the political will needed to undertake the much-needed infrastructure investments. But there is no reason to believe that the investments made to host the Olympics will provide better returns than alternative infrastructure investments. While the deadlines associated with the Olympics may quite likely lead to timely completion, such deadlines may also raise costs due to time pressures and labour constraints.

The Olympics can put a city on the map as an international tourist destination. Indeed, Barcelona and Salt Lake City saw a jump in tourism after they hosted the Games. But their success has not been replicated in other host cities. The explanation for their success may be that they were hidden gems which had been passed over for better known neighbours like Colorado and Madrid. London was already the most popular tourist destination in the world. So, the 2012 Olympics could not really raise its profile as a tourist destination any further.

The Olympics may also send a positive signal to businesses and consumers about the future state of the economy. Research reveals that consumption, investment and output tend to go up after a city makes a bid for hosting the Olympics whether the bid is successful or not. It may not be the event itself which makes the impact but the fact that by the very act of bidding, the country may be committing itself to trade liberalization that will permanently increase trade flows. The announcement of a bid for the Olympics may also signal the government’s intention to increase future investment. Another possibility is that the countries which bid for the Olympics may be sound economies with bright prospects for the future, a clear case of selection bias.

If the net benefits of hosting the Olympics are negative, why do cities still bid? Even if the overall impact may be negative, there would be still winners and losers. Businesses like heavy construction, which will benefit, may support the bid. Moreover, economic calculations alone do not drive the desire to hold the Olympics. It is also about the demonstration of a country’s political and
economic power. A powerful government may even go ahead with wasteful spending to line the pockets of some vested interests. Another factor to consider is the winner’s curse. The winner tends to be the bidder, who is prone to overestimating the value of the asset being purchased.

Making the Games viable

The Olympics have reached a tipping point, where most host nations are aware that hosting the games will drain away rather than enhance the financial resources.

The problem posed by the high costs of setting up sports facilities can be solved in various ways.

• Have one or a few permanent locations for the Games.
• Allow a host city to conduct two successive Games.

The expectations of the general public will also have to be managed carefully. Economic interests who will be the main beneficiaries should not be allowed to become the self-styled spokespersons.

Corruption must be targeted and curbed through increased transparency and broader involvement.

Efforts should be made to make infrastructure less expensive. For example, Los Angeles insisted on using the 60-year old Coliseum for the premier track and field events as well as the opening and closing ceremonies. The 1984 Los Angeles Games involved an expenditure of only $546 million, less than 25% of what was spent in Montreal 8 years earlier. LA made a profit of $232.5 million.

Concluding notes

The goal of the Olympics should be that the costs of hosting the Games are matched by the benefits. And these benefits must reach ordinary citizens who fund the event through the taxes they pay. Winning the Olympic gold medal is the dream of the top most athletes in the world. But it looks as if it is easier for the athletes to win the gold medal than it is for the hosts!