

# 3 Reasons Why Hosting the Olympics Is a Loser's Game

Andrew Zimbalist Jul 23 2012, 8:00 AM ET

(1) The bidding process is hijacked by private interests; (2) It creates massive overbuilding; (3) There's little evidence that it meaningfully increases tourism

Of all the hype surrounding the Olympics, some of the biggest tends to be economic. The event is often billed as a boon to business for its host city -- a two-week burst of tourism and valuable TV time, as well as a spur for much needed infrastructure investment. But is it true? Do countries really gain from organizing the Olympic Games?

The answer is: It depends, but don't count on it. There may be a few former hosts that experienced a long-term economic benefit, such as Barcelona, but scholarly research has found that any gains are difficult to identify.

Even in an ideal world where aspiring host cities behaved rationally, the competition to land the games would leave the winner just about breaking even, or maybe with a small windfall. But we don't live in an ideal world. In practice, host cities tend to be captured by private interests who end up promising much more than the city can afford.

## THE GAMES BEFORE THE GAMES

The problem starts with the bidding process. Getting to host the games is an Olympic event in itself -- a marathon that starts ten years before the opening ceremonies. Cities form local organizing committees that first compete nationally to become their country's candidate, then internationally to be chosen as host. At each stage, they must convince the selection committee that the city will orchestrate the most effective, elaborate, safe, and convenient athletic blowout of the myriad competitors. As the bidding proceeds, the plans become more and more detailed, spectacular, and expensive.

If the process were rational, each local organizing committee would have a notion of how much their city stood to benefit financially from the games and would cap their bid below that dollar figure. Since the Olympics are likely to generate roughly similar amounts of business activity in any given city, the competition among would-be hosts would drive all of their proposals up to the limit, and whichever town was chosen would reap close to zero net benefit from the event.

Local committees, however, invariably are motivated and run by private business interests which individually stand to gain from the massive construction associated with the events. These interests include construction companies, construction unions, architectural firms, investment bankers, and lawyers, among others. They come together to form a coalition and bring politicians on board.

The result is what economists call a principal/agent problem. The city (principal) is not properly represented by the local organizing committee (agent). The committee that nominally represents the city really represents itself and bids according to its sense of the private benefit (of its members) versus the private cost, rather than the city's public benefit versus public cost. Since the private cost is diminutive and the private gain extraordinary, the local organizing committees, on behalf of the cities, are bound to overbid, wiping out any modest, potential economic gains.

Meanwhile, during the bidding process cities spend tens of millions of dollars to win the hosting competition. Chicago spent a reported \$100 million in its losing campaign to host the 2016 summer games.

### WINNING IS LOSING

But suppose you are the "lucky" city that wins the competition. In a perfect world, urban planners would sit down and deliberately map out the use of scarce urban real estate based on the infrastructural, operational, and sustainability needs of the city.

Planning for the Olympics, however, occurs in a frenzied environment where local organizing committee staffers and hired guns draw up detailed plans based upon the rushed proposal previously put forward to the International Olympic Committee.

The good news is that municipal and state decision-making, which may be gridlocked under normal circumstances, is forced to overcome political bickering to approve financing for construction projects. Some of these projects may be long-delayed, needed improvements to the city's infrastructure. Hosting the Olympics may catalyze their undertaking. Insofar as the Olympics impels cities to finally do what was long overdue, hosting the games has a potential benefit. Such a potential benefit is more alluring to a less developed city, such as Athens, than to a fully developed and congested city, such as London or New York. Athens, after all, lacked a modern communications infrastructure and had significant deficiencies in its transportation infrastructure.

The challenge here is that the environment in which the preparations for the Games takes place is not conducive to rational, effective planning. Sports venues and stadiums must be built and infrastructure serving those edifices takes priority. The other challenge is that the budget, initially bloated, only grows over time as construction costs escalate over the ten-year preparation period, bells and whistles are inevitably added, and initial drawings are revealed to be overly optimistic.

Once the 17-day extravaganza is over, the city must then attempt to find productive use of the dozens of venues it has built. These projects often cost hundreds-of-millions of dollars to construct, take up 10 to 20 acres of valuable urban real estate (frequently for decades), and cost tens-of-millions of dollars to maintain each year.

Despite this, many of these former Olympic venues are scarcely used, as is the case with Beijing's Bird's Nest and Water Cube, or many of the venues built for the Athens games. The list of white elephants is long.

## THE OLYMPIC STIMULUS

These days the summer Games might generate \$5-to-6 billion in total revenue (nearly half of which goes to the International Olympic Committee). In contrast, the costs of the games rose to an estimated \$16 billion in Athens, \$40 billion in Beijing, and reportedly nearly \$20 billion in London. Only some of this investment is tied up in infrastructure projects that may be useful going forward.

The high costs are bound to make hosting the Olympics a bad deal in the short-run. Promoters, however, claim that there is a strong benefit that accrues over time connected to the advertising effect of hosting the games. The idea is that the hundreds of hours of television exposure to hundreds of millions of viewers around the globe will generate increased tourism and business for the city. It's a lovely idea, but there is little evidence that it pans out. Whether or not the city receives a positive PR boost from the TV exposure itself is uncertain. Should the Games be plagued by disorganization (e.g., the current security snafu in London), the pervasive pollution of Beijing, the violence of Munich, Mexico City or Atlanta, or the corruption scandals of Salt Lake City and Nagano, then the PR effect might be negative. Further, many of the host cities are already well-known as tourist destinations around the world and the notion that hosting the Olympics will put them on the map is about as implausible as Mitt Romney calling for national health care.

It should be added that there is little evidence that tourism increases during the Games. Rather, Olympic tourists replace normal tourists who want to stay away to avoid the congestion and greater expense during the Games.

Finally, it would appear that most of the positive developmental functions that could be associated with the Olympics, could also occur absent the Olympics. The needed infrastructural investments could be made, the national airline could offer reduced rates for stays of over one week, trade missions could multiply their efforts, and so on. Of course, it is always possible that a proactive, efficient government in a potential-laden, burgeoning city could use the Olympics to boost its fortunes. Barcelona ran up a reported \$6 billion debt to host the 1992 Games, but the city's image gained enormously and tourism has since flourished. The stars all aligned and Barcelona is arguably a case in point for Olympics promoters. Whether or not Barcelona would have experienced its favorable development without the Games, we'll never know.