

# MEGA EVENTS AND THEIR IMPACT ON THE ECONOMY<sup>11</sup>

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*Abstract:*

*Since the 1980s the hosting of various Sporting Mega-events like FIEA and Olympics has become fiercely competitive with politicized bidding processes and strict hosting requirements. Host nations are willing to commit billions of dollars towards the process with the hope of extracting large returns and advertise their nation and cities on a global platform. However, the available evidence reflects otherwise and shows that returns from these projects on various sectors of the economy have been quite limited in nature. Looking at multiple economic sectors, this paper finds that a careful analysis is needed while undertaking to host these events. This paper also highlights various problems within both the selection process and various committees like IOC or FIEA that select the hosting country for such events. We provide suggestions on how the budget allocation could be done and concerns that need to be addressed while hosting these events. These solutions could help derive maximum utility and efficiency of the budget thus allocated.*

**JEL: H2, H4, H6**

**KEYWORDS:** *Mega-games, Efficiency, public expenditure, government expenditure*

## INTRODUCTION: MEGA-EVENTS, ECONOMY & BIDDING PROCESS

Mega games have been defined in various ways by many scholars (Müller, 2015; Matheson 2006) but the most apparent aspects of mega games that distinguish them from other events are the size of the event and the fact that they do not take place in consecutive years. Examples of mega games include the Olympics, FIFA, World Cups, and Commonwealth games. These games undoubtedly impact the host countries in many respects, bringing in growth as well as financial burdens.

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The events have the potential to boost economic progress & upgrade the existing infrastructure of the country. According to Uppal (2019), *“Increasingly such sporting events are being aimed at increasing the exposure and visibility of the host city, and many academicians believe that success cannot be simply determined by profit and loss, as there are many intangible and unaccounted benefits”*. Most of the positive economic aspects are related to tourism, employment, casting/viewership rights, etc.

However, over the years, the commitments towards holding these events have substantially gone up. According to Zimbalist (2015), the Olympic Games at Los Angeles were the only ones that had financial gains from hosting the event. The reason for its success was that Los Angeles never committed to the project with extravagant costs of developing stadiums etc. The competition for the games during that time was limited only to Los Angeles. So the Olympic committee had to accept whatever was being offered and the city focused on developing projects related mainly to transportation. These days, despite an influx of easy finance, providing world-class facilities to every participant involved in the games directly or indirectly comes at a high cost. According to Zimbalist (2015), the returns of the games are divided between mega-events committees and host nations. For example, the share rate between the IOC and the host nation is currently at 51%-49% respectively. Thus, the country share gets diluted to such an extent that the cost and returns fail to match up. Further, the bidding process has constraints such as different financial commitments and projects that need to be undertaken even before formally entering the process (Zimbalist, 2015). This adds to the uncertainty that a city might be incurring financial risk for the slim chance of entering the process formally. The bidding process has had an air of bias around it more than once, and it has been reported that participants in the bidding process have tried to influence the selectors through expensive gifts (Zimbalist, 2015). In recent times, the IOC committee has gone through a major process of restructuring after claims of bribery surfaced which pointed to the fact that the members directly or indirectly were influenced to vote for a particular city (Zimbalist, 2015).

This paper surveys literature on mega-events and aims at coming to a valid conclusion by optimizing the information that already exists. The rest of the paper is structured as follows. Section 2 presents an overview of the existing literature, while Section 3 presents our analysis of the impact of hosting mega-games on different sectors of the economy. Section 4 presents four important case-studies, while Section 5 concludes the paper.

## **LITERATURE REVIEW**

Every year many countries bid to be the next host of mega-events such as the Olympics, FIFA, or Commonwealth games. Hosting such mega-events create substantial impacts on the economy in areas ranging from employment rates, tax revenues, tourism, etc. They provide publicity and increase awareness about the host

nations (Jeong & Faulkner, 1996) and also attract investments which in turn help build new infrastructures and facilities which both the locals and the tourists can enjoy (Ritchie & Lyons, 1990). Since these events are sporting events, they help increase the levels of sports participation and also help reduce social exclusion. However, evidence for such impacts is lower than that of economic benefits and impacts (Ritchie, Shipway, & Cleeve, 2009). Other than being inspired by observing the mega event, the improvement in facilities and infrastructure which have been built to conduct such games also help increase the levels of sports participation in the city.

In a 2002 study by Deccio and Baloglu, it was observed that preservation of local heritage and the physical environment took place in nations that conducted such mega-events (Deccio and Baloglu 2002). In most cases, such renovations would not have taken place if these games had not been hosted by the countries. Often, the hosting of a mega game is a part of an urban regeneration program. This includes the development of local transport, tourist attractions, and other scenic developments. An example of this can be seen in the development seen in Delhi in 2010 when the Commonwealth Games were to be held there. Many researchers suggest that social impact is just as important as the economic impact. The increase in quality of life, strengthening of social values and traditions, and community pride is a part of the positive impact which in turn helps in building a national identity (Hall, 1989). A detailed literature review on the studies related to the impact of mega-games on the economy is provided in Table 1.

Roche (1994) suggests that urban planning and public policy making can be positive as well as negative in many ways. He talks about how planning can be rational as it uses the collection of data to make rational decisions, and it is also democratic when it comes to decision making. The limitations of the planning approach can be seen in two stages. The first stage deals with the concerns seen in the technical rationality of real-world events and the second are concerned with the democratic nature of these events, which in turn gives rise to the political approach (Roche, 1994). Mega-events are not the outcome of a rational decision-making process but the decisions that affect the hosting of such games stem from the political process that presupposes the value of the players as a struggle for power (Hall, 1989).

We examine if the positive impacts as projected above are sufficient enough to outweigh the costs of games. To form a conducive conclusion for the debate between positive impact versus negative impact of the games, we have analysed various data that is available presently and correlated it with short-term and long-term factors. Further, we have tried to evaluate the possible reasons for the observed behaviour of the data. An interesting finding is that the host nations that present these data and are pro-hosting the games exaggerate the data to show evidence of economic benefits. They usually present the data in the form of ex-ante and ex-post terms

and they emphasize that games result in ex-post benefits. It is important to note here that recent studies show that the ex-post results are usually overstated. The different sectors that these studies focused on showed either a negative impact or little to no impact on that particular sector. With the sole exception of Los Angeles in 1984, every host of different games has lost money (Preuss, 1998).

In our opinions, the negative impacts are on the rise since the cost of bidding and the prerequisites for hosting are reaching a record high. The prerequisites for hosting games are world-class facilities in terms of transport, living, etc, and high seating capacity stadiums that conform to world-class standards. These stadiums are rarely available in the host cities before the games and require immediate construction after the bidding process. Zimbalist (2015) in his studies shows the huge gap between the revenue generated by the games and the expenses incurred, be it FIFA or the Olympic games. This shows that profits and expenses rarely match. Most of the hosts rely on the fact that these games will boost the economy in the long-term but ex-post studies do not seem to reflect that.

### **ANALYSIS OF VARIOUS SECTORS OF ECONOMY & COST BURDENS OF MEGA-EVENTS**

We examine if the positive impacts as projected above are sufficient to outweigh the costs of the games.

### **INVESTMENT BY VARIOUS STAKEHOLDERS**

Investment during the games plays a very important role and is usually done in the form of construction activities like stadiums, transportation facilities, and the creation of positive externalities. It is undertaken by the respective host governments and by the private sector. After the bidding process, various construction activities are undertaken in large force and at a fast pace to meet the stipulated deadlines. So in the short period, there is a huge increase in these activities, but in the long run, many of these projects will be under-utilized if not undertaken with plans for future use by the local population, such as stadiums of 80,000 capacity. These construction activities are undertaken due to pre-requisites already stipulated by the organising committees. South Africa when hosting the FIFA World Cup in 2010, had to construct 8 stadiums for the games. The seating capacity requirements as prescribed by the FIFA committee were 60,000 seating-capacity (opening match), 80,000 seating-capacity (final match), 40,000 seating-capacity (minimum requirements for all the other matches) (Zimbalist, 2015).

Usually, there is a trade-off between these funds, wherein these funds can be utilized for a productive economic activity like education, etc or used for undertaking the construction of the stadium for the event. In some case studies, even subsidies for construction businesses are hard to justify since stadiums are most likely to not have increased economic activity later on. Local resources are reprioritized in one form or another. The construction causes a short-term impact in the economy,

and labour is outsourced from a different local economy, thus implying that there is an outflow of money to another region (Barrios, Russell, & Andrews, 2016). An example of this is the use of electricity during the 2010 Commonwealth Games. "The shortage of electricity was made up for by diverting it from unessential consumers such as schools, private homes, and hospitals." (Uppal, 2009).

A careful analysis of the beneficial impact on the economy that the preparations for these games will have is essential not only in the decision-making process but also to be able to reasonably justify to the public the usage of funds. Additional things that matter are an increase in the cost of construction material and maintenance costs that might lead to unnecessary losses if not factored in before the bidding process. Furthermore, land prices will increase after the bidding process due to the scarcity of land in the host cities. All of these add substantially to the rising expenses, and to convert them into gains becomes problematic especially when bidding costs and financial assurances are increasing enormously every year.

India also faced great challenges when it came to the planning and the execution of the Commonwealth Games in 2010. Other countries usually start their preparations for such games much before the event. The 2012 Summer Olympics held in London took 7 years of rigorous preparation. The organizing committee for the 2010 Commonwealth Games was to be in place by May 2004, however, it was formed only in February of the following year, leaving India with approximately 4 years to prepare. This failure to follow timelines destroyed the purpose of having them in the first place. "The bid document itself spoke about 4 phases" (Majumdar 2011), however the government auditors themselves could find no evidence of these guidelines being followed. The actual planning for the 2010 games only started in 2006. India spent 15 billion USD for the Commonwealth Games, 114 times more than the original estimate in 2002 (Majumdar 2011).

The lack of management of priorities was a major problem. 6 million USD was spent on the 10-minute-long Bollywood trailer alone. On the other hand, the government spent less than 1 million USD for the entire Indian contingent in the Melbourne games (Majumdar 2011). It is public knowledge that funds were purposefully misallocated among the members of the organizing committee. These games were spectacular. The opening ceremony stunned the world and there was no major disaster. The volunteers worked efficiently and flawlessly thus making the Commonwealth games of 2010 a success. However, this success came at a cost like displacement of people to accommodate new infrastructure, bureaucratic problems and ecological costs which, without being ignored should be heard as a warning for the future.

## **EMPLOYMENT OPPORTUNITIES**

Employment is always referred to by the host nations' studies as substantially increased not only for the duration of the games but after them too. But usually, this

is never the case. In the short term, there is an increase in employment due to the higher-than-usual demand in various sectors like hospitality, construction, advertising, etc. Since most of these businesses are private, they lay off employees<sup>14</sup> after the high demand for employment has passed and demand rolls back to normal. Increased rates of employment thus are not guaranteed to be sustained in the long term once the event has ended. The decline can be felt after the booming period is finished. According to Seigfried (2002), there is barely any ex-post evidence showing that there is such an increase in employment due to such events but the preference for having increased employment as an explanation is a benefit because those who are interested in such employment are the unemployed.

Table 1 shows a summarized list of seven studies that resulted in positive effects, but it was only in the short run due to large construction activities that were undertaken during the games to fulfil the requirements of modern stadiums as prescribed by the committees of mega-events. This can be interpreted in another way through the Los Angeles Games, with which the rise in employment for other mega-events can be contrasted. A significant rise in employment was missing in the Los Angeles Games due to the city's monopoly and utilization of existing structures, and 'diminutive' public funding in construction activities (Zimbalist, 2015).

The economic aspect of employment is especially important during mega-events times. It is increasingly seen that the cost of labour increases in several key sectors such as construction due to higher-than-normal demand. There is a time crunch to create the structures and it creates an additional demand for a larger labour force. This can add to the costs of any ongoing or planned construction activities. It also affects the essential construction activities that might be happening around the city, so the opportunity cost is important since certain key groups like real estate builders might face issues due to the announcement of mega-events.

## CONSUMPTION

Consumption is not a major component of the studies conducted role yet in the economy is sufficiently impactful that it has been included in this analysis. Its short-term effects are higher due to incoming participants and tourists, but usually, is highly likely to roll back after the event. Immediate consumption rolls back because its demand is finished. Further increase in consumption activity will depend on other factors like an increase in tourism etc. Studies conducted by Barrios et al (2016) confirm this development of the rolling back of consumption after the event is over.

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<sup>14</sup> It is widely accepted practice to hire the employees during rising demand on a contractual basis and end their contract after the demand is over.

## **GOVERNMENT SPENDING**

Government spending during mega-events is seen through the injection of money in various projects. Projects are taken usually in the form of Public-Private partnerships. The focus points of government spending are related to construction activity, security measures, advertising, etc. We believe that the role of the government is the injection of resources in various sectors for the smooth functioning of the event. Since the games demand world-class facilities, governments outsource the tasks that are required for the games through bidding processes, Tender application etc. Trade-offs are seen in the budget allocations over the years to develop certain areas like transportation, security arrangements, accommodation facilities etc to increase chances of winning the bid. Budget cuts from other sectors are justified ex-ante based on the projected earnings that the games would bring. These events require high earnings which are satisfied through increased taxes or debt. Thus, literature suggests that budget allocations in the forms of debt and raised taxes are seen concerning governmental expenditure in equation  $C+I+G$  (Barrios et al 2016).

## **REAL ESTATE DEVELOPMENT**

Real estate effects are presented as a separate section because of its commanding power in the economy. As explained in the next section, we are assuming that the policies undertaken create a positive effect. The prices will increase in the short term and remain thus after the event due to positive externalities and different developmental programmes. Still, it can cause problems for purchasers and low-income families who, due to increased prices, may not be able to sustain their cost of living. An increase in prices usually results in benefits for current owners and real estate agents and investors who would be able to profit from it. So, a trade-off has to be made between the two. Usually, it is done before the bidding process and an increase in real estate is taken as a positive sign for most host nations.

Real estate is also afflicted by scarcity, and since these events are taking place in world-class cities, the cost of applying the power of eminent domain can be very high. Hence, the implication of undertaking activities ranging from transportation to building a team should be analysed before bidding for any of these mega-events.

Real estate has always been a critical indicator to show the prosperity of a nation (Baffoe- Bonnie)<sup>15</sup>. Yet only a few studies show the implication of mega-events on real estate. For a household, the house is both the biggest asset and the biggest liability through renting and mortgage debts. Real estate prices can affect a household's net value and the quantum of money they can borrow and spend. Real estate is affected by the Ripple effect<sup>16</sup> a decrease in real estate prices reduces the

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<sup>15</sup> Refer to Exhibit 1,2 and 3 to see the effect on a different unit. The US figures are provided but it is almost the same all over the world.

number of home equity loans<sup>17</sup> (second mortgage) which affects consumptions) in the equation  $C+I+G$ , thereby affecting the economy. Hence the government always tries to improve conditions and maximise homeownership (Megbolugbe and Linneman, 1993). To understand the effect of house prices concerning mega mega-events must try to identify the possible factors such as demand and supply and development that can bring about an increase in the price of land. A mega-event triggers the creation of positive externalities, the influx of labour, and improvement in the quality of life. These effects coupled with job opportunities combined with marketing campaigns that cause shock (sudden increase) in prices of real estate due to higher-than-normal demand. For example, the Commonwealth Games in Delhi triggered expansive developments like the Delhi metro, residential complexes, stadiums, and cleanliness drives (positive externalities).

There are cases where real estate prices do not increase, which can in large part be attributed towards the misallocation of resources and deviation from the path of residents' welfare (Kontokosta, 2012). This leads to white elephant effect.<sup>18</sup> Kontokosta in his studies took the example of 6 cities and showed the effects of real estate before and after the Olympics (Graph 1). The reasons for the increase or the decrease boils down to policymaking and goals. Cities like Barcelona & Sydney used the Olympics as an opportunity to increase market standing and effectively improve their infrastructure and prospered, while cities like Calgary & Atlanta suffered due to competition among their regions and due to a lack of residential welfare policies. Mega-events require a substantial amount of resources to be hosted and utilizing funds received from the various selection committees and directing it towards residential welfare provides a chance to bring about tremendous changes that can lead to long-lasting economic effects. These positive effects can later generate substantial property tax to support the functioning of cities. Cities that have hosted mega-events have established themselves on the world map and have become competitors at a global level (Gordon,1999). The impact of policies on real estate thus is of the utmost importance as they can last for over a decade and bring either prosperity or despair for the residents.

The above-mentioned facts conclude that an increase in real estate prices during the mega event might bring prosperity if funds are utilized properly due to positive externalities. But this rise in prices has a pro-con situation as many citizens of the host country will have to pay higher prices for renting houses and the minimum

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<sup>15</sup> Only newly constructed homes are a part of GDP, but the pricing of real estate affects other economic areas.

<sup>16</sup> Homes are the biggest assets for loans, hence for many loans the amount depends on the real estate market.

<sup>17</sup> This is the term which states the cost of upkeep is nowhere close to benefits derived.

<sup>18</sup> This is the term which states the cost of upkeep is nowhere close to benefits derived.



wage of the workers is most affected due to this. Not only that but when a host nation wins the bid for hosting events the land prices rise due to speculation that many developmental activities will take place. The cost of construction material also rises to a large extent, and these assumptions must be kept in mind during the planning of the games. Further, host cities are usually world-class cities where land prices are already quite high due to scarcity of land. Hence it is equally important to optimize developmental programs and not undertake unnecessary construction activities especially using the power of the government's eminent domain.

The case study of the Brazil World Cup, 2014 illustrates the effect of mega-events on real estate and the problems that were faced by the country due to high expectations and insufficient time and ability to undergo this mega project.

The final game of the Brazil World Cup was described by the New York Times thus: "The authorities had assembled what ranked as one of the largest security operations ever in Brazil, with 25,000 soldiers and police officers giving Rio a martial feel throughout the day with sirens blaring and motorcades halting traffic." (Romero, 2014). However, despite this successful media presentation, it was not reported in the news that the preparations for the world cup were far from perfect. Several projects were abandoned halfway. Due to the rushed manner in which the project was completed, many risk factors arose. The collapse of an overpass to a stadium left two dead and nineteen injured (Seigfried & Zimbalist, 2002). It was announced nationwide that only 36 of the 93 projects planned were completed in time (Prada, 2014).

As for the future use of the stadium which was already built, the professional football team of Brazil is in the fourth division and they chose not to play in the stadium. Marcos Soares, the captain of the Brazilian team explained this decision by saying "You have to pay [to rent the stadium], you have the employees, cleaning, security staff, the clubs have to pay for this. It's a gigantic stadium, for 70,000 people; Brasiliense will not fill a stadium like that. To make a profit, you need, I imagine, 25,000 people and you're not going to get that in a fourth division match in the Brazilian championship." (Homewood, 2014).

After such developments, housing prices rose and gentrification started taking place. As land becomes scarcer, the prices increase hence making houses unaffordable. This also aggravated the evictions of slum dwellers to improve the appearance of the country so that developers benefit from the rising value of the real estate of the well-situated favelas (Seigfried & Zimbalist, 2002).

In the case of the 2010 Commonwealth Games in India, large numbers of people were displaced to make space for these structures. Since there was a lack of land, "illegal" structures were demolished, and these structures included low-income housing. Approximately 580,000 people were evicted across Delhi. Elitism was

seen as the Delhi metro depot, Akshardham Temple, I.T. Park, etc were not affected at all. The Yamuna river was polluted to a greater degree, and slums were forcefully removed. However, there was a widespread development seen in the infrastructure of Delhi. The city now has one of the best metro systems in the world. There were multiple flyovers constructed. Other transport improvements include the addition of about 300 new buses and 1000 new taxis. The urban infrastructure created for the games is now a part of the legacy. The authorities were unable to complete the overly-ambitious plans for the games. The preparations were anti-poor, badly-planned as well as ecologically unsound (Uppal, 2009). The question that these games raise is this: was the massive displacement of people and the untold environmental damage caused in the development of infrastructure worth it?<sup>19</sup>

## REVENUE SOURCES

### *Advertising activities*

Revenue is one of the most important sources of profit during mega-events. It is usually derived in the form of viewing rights, advertising, etc. It increases during the event and becomes a major source of income for the host country. According to various scholarly studies like Barrios et al (2016), this rolls back to what is called “New Normal”. It is important to note that this revenue will usually not exceed the costs as these profits are shared by various groups like the mega-event committee, local government, etc. Zimbalist (2015) in his book presents the increasing amount of revenue shared between the IOC and the host nation. It is on the rise, with almost 51% being allotted to the IOC (Zimbalist, 2015). These statistics are true for most mega-events and their respective international committees, a continuous increase in the share of profit reduces the earning capacity of the host country.

The Commonwealth Games are the third-largest sporting event in the world. The 2010 Games was the second mega event hosted by Delhi after the Asian Games in 1982. The country spent 40 crores on advertising the slogan ‘See you in Delhi’ with an 11-minute performance in Melbourne. Regarding the stadiums, it was first planned to build a new athletic stadium altogether which would outrank the Jawaharlal Nehru Stadium, however, the lack of funds and space forced the organizing team to change these plans and instead “Now the plan is to build one

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<sup>19</sup> According to Beig (2013) during CWG 2010 a new atmospheric system was introduced to keep a check on air quality. There were massive displacements done to remove pollution causing industries, yet the author uses different stats and metric data to indicate that air quality had worsened. Further the pollutant levels in air were more than the indicated national standards. Despite the developments, air quality in Delhi has steadily deteriorated. He uses scientific methods to show that Particulate matter in Delhi during CWG was more than 200 and it has deteriorated to 300 now a days. Uppal (2009) indicates increase of other types of pollution like water pollution especially in case of Yamuna river during CWG 2010.

large new stadium, an aquatics centre in the Delhi University with five swimming pools, as well as a new TT hall in the Yamuna Sports Complex and new stadiums for Badminton and Squash in the Siri Fort Sports Complex". The enormous studios also underwent extensive changes. These changes cost about Rs. 1250 crore (Uppal, 2009).

### *Tourism*

Tourism is an important consideration in terms of revenue and prestige for these games, and host nations strive to project their cities as tourist places. However, this paper believes that tourism will not increase during the games. There is a high chance of it seemingly happening when one type of tourism switches to another. People who usually travel for business or to visit family would avoid travelling during this time due to overcrowding and increased hotel prices. Anticipating a sharp increase in the prices of the hospitality sector due to high demand, many tourists will avoid a trip during these times. Hence tourism, which forms an important part of the Games and their economic analysis, is likely to be inflated to a large extent. Germany while hosting the 2006 FIFA World Cup witnessed hotel occupancies drop by 2.7% as compared to the previous year, and prices were raised to cope for this drop (Maennig & Plessis, 2007).

Many individual reports and studies on the London and Beijing Olympics showed that tourism fell and it did not contribute in a way that was projected by preliminary reports on the positive economic impact of tourism. The list goes on, but more examples show a negative impact on tourism like the 2004 Athens Games which expected a 10 per cent drop in tourism (Zimbalist, 2011). The crowding-out effect is not limited to incoming tourists alone, but also extends to residents of the city who travel to less-populated places for some quiet. Reports suggest that outbound tourism rises during games like the Beijing Olympics showed a 10 per cent rise in non-residents travelling to different places during the mega-event (Zimbalist, 2015). This issue is known as the "couch potato" effect. This is when local customers stop consuming in the same manner as they used to. They start avoiding the places they used to go to before. They might even leave the region to escape the raised prices and crowds. Hence to create a positive effect, there has to be a substantial increase in the number of visitors than before (Maennig & Plessis, 2007).

### *FDI & FII and Global Brand*

This forms an important part of studies conducted by most nations and becomes the driving force for the bidding and justification of mega-events. These are part of the ex-post study. There is a substantial boost due to an easy chance for brands and others to project themselves on a global platform. But the question to ask regarding this sector is that will these incoming FDI during the events stay and contribute to the economy later on? In our opinion, FDI and global brands are

subject to decay. FDI usually looks for-profits, it must see a market or some sort of economic viability. During the Games, it sees a potential profit, but later on, cities must show economic viability to create a positive effect. Hence, we conclude that the image may or may not sustain. FII usually gets sold after the event since profits are earned.

### *Multiplier Effect*

Many articles mention the multiplier effect in their studies as the basis of justification for a country to take part in the bidding process. The multiplier affects the result in the creation of more money due to injection in the economy. The money thus created is more than what is injected. Studies say that incoming tourists spend money and thus inject it into the economy which thereby creates more money. This paper would like to point out that the multiplier effect has certain limitations and it will not lead to the desired result, which is the creation of huge economic benefits.

One of the major limitations of the Multiplier effect is that it is based on an assumption. For example, a tourist who will attend the Games will spend some money, but this money will result in economic benefit if tourist activity increases during the game. There may be a decline in tourism due to crowding out. Another point is that most of the cities are interlinked with trade, hence a tourist spending some money on restaurants might not lead to the economic benefit of that city since that restaurant may spend that money on purchasing raw material from a different city. Hence it will add to the economy of another city. It shows that the multiplier effect is highly dependent on where the money was spent when it was received and outsourcing that income will add to another city's or country's economy rather than to the host city. Zimbalist (2015) in his books explains the limitation of the multiplier in detail and clearly shows that tourism declined due to crowding out effects and expectations of congestion and increased prices. Hence applying a multiplier here will not result in any benefit.

The case of the Los Angeles Olympic Games, 1984 shows that the assumptions which are made about the multiplier effect and the ability to make a profit with the help of such mega games are purely dependent on atypical circumstances. There is no steady increase in tourism or the expenditure of such tourists. The reason why these games were the only games to obtain any profit was due to their upper hand in negotiation ability to bargain the terms for conducting the Olympics.

Since the first games began in 1932, Los Angeles (LA) was the first to bid uncontested in 1978 to host the Olympic Games in 1984 (Barrios, Russell, & Andrews, 2016). The reasons for this advantage are embedded in the turbulent nature of the experience provided by the Olympic games which were previously held. And due to this advantage, Los Angeles was able to negotiate a few terms with the International Olympic Committee (IOC), something that has never been done before or

after the 1984 Games.

This bargaining power also helped the Los Angeles Olympic Organising Committee (LAOOC) insist on using the already existing 60-year-old Los Angeles Coliseum for the track and field events as well as for the opening and closing ceremonies and the use of corporate sponsors for the financing of games (Baade & Matheson 2016). The 1968 Olympics were held under undesirable circumstances due to the civil unrest in Mexico a few days before the events started. The dynamic nature of politics plays a role in reducing the likelihood of the country being able to obtain a profit by hosting a mega event. An example of this is in the 1980 Moscow Olympics which were boycotted by over 60 countries in protest of the Soviet invasion of Afghanistan. After the 1976 Olympics, Montreal took 30 years to pay off the multi-billion-dollar debt that the country had sunk into. In the Munich Olympics 1972, 11 Israeli Olympic athletes were kidnapped, taken hostage and then assassinated (Barrios, Russell, & Andrews, 2016). The budget for the Los Angeles games was approximately 400 million USD which was 25% of the Montreal Olympics budget, hence allowing for an actual profit. These games made 225 million USD in surplus, nearly 40% of which stayed within Los Angeles to help support youth sports through the Amateur Athletic Foundation of Los Angeles (Andranovich, Burbank, & Heying, 2001).

The impact of the Los Angeles Olympic Games equals about 9.6 Billion dollars. However, the effect of this increase in tourism was uneven. There was displacement as the region's big tourist draws such as Six Flags Magic Mountain, Disneyland, and Universal Studios saw fewer non-local and local visitors than usual (Andranovich, Burbank, & Heying, 2001). The mayor at the time gained great popularity and was elected again after his term due to the success of these games. The Athletes Village in Los Angeles was not built. Instead, the LAOOC negotiated with the IOC for providing lodging for the athletes in the form of dormitories and seventy-three "official" hotels providing 20,000 rooms at the rates which prevailed at the beginning of the year and not at the inflated rates during the Games. (Lawson, 1985)

Other Costs - Security cost, opening/closing ceremonies, and other cost overruns, etc.

Some other major factors add to the overall cost and require huge funds to make the Game a success. Security costs are one important factor and there is high pressure to avoid any terrorist activities during the commission of the game. Due to congestion in various crucial parts of the city, surveillance and security during the mega-events time are on high alert. The cost of security is constantly on the rise after each game. Giulianotti (2011) explains the different measures that are adopted to keep security at its highest point. Checkpoints, surveillance, and deployment of mass ground personnel are measures that need to be taken on a mass scale. These

activities result in massive expenditures and add to the rising cost of games. The opening and closing ceremonies are the most-watched events during the games and planners tend to attribute them as having a lasting effect on the audience. Hence massive creativity and costs are required to organise a ceremony that the audience won't forget for the coming years, right from the celebrity's entrances to songs to fireworks everything adds to the expenditure. Additionally, a lot of other people need to be hired and to make the Games a success, it is important to make sure that they are professionals architects, lawyers, advertisers, managers, analysts, etc. or providing world-class lodging, food, etc. to participants. These other factors could add to the additional cost overlay.

### *Conclusion/Solutions*

Through this literature review, we conclude that mega events can have a mixed impact on the economy. However, the positive effect appears to be driven by ex-ante estimates that “systematically underestimate the impact of (i) time switching, (ii) crowding out and (iii) pricing out” (Barrios & et al, 2016). It is believed these events are beneficial as they lead to the construction of great sports infrastructure thereby bringing popularity to the country. However, this infrastructure is seldom well-kept. A better idea would be to have these events in the same country repeatedly. This would substantially decrease unproductive expenditure. Thus, we suggest that the increased government expenditure should be limited to the funds that are already available in the country's reserves. Further profit sharing should lean towards host countries. This would keep countries from facing debts which could take years to pay off. Hosting these games in the same city more than once within 30 years would make up for the losses faced by the country because the infrastructure already exists, and with additional rules and regulations within the country, the time-switching would reduce as the regular visitors would not be affected.

An important point that needs to be highlighted is that stadiums thus created might not be utilized in the future, and their upkeep and maintenance costs can lead to unnecessary burdens. Host nations should either attempt to minimize the construction of stadiums and revamp the existing facilities or continuously use the overall stadium constructed to conduct various activities like festivities or concerts that can generate revenues and amp up the profit derived from these structures. Certain other private events in these stadiums can easily be held to minimize losses and generate revenue like expos or small sporting events like GIFA (Great Indian Football action). Usually, these stadiums are contracted out to various sporting teams that can utilize them for training and practice, but their upkeep is so high that these arrangements fail. A possible solution has been undertaken by Dubai for their upcoming game which involves constructing stadiums that can later be dismantled and shipped to be used by other countries.

Not only should host nations endeavour to find various uses for structures that might not be utilized later on, but the committees which preside over the bidding

process should change their outlook. They should reconsider the financial requirements they set for hosting such events and look at it with sporting spirit. They should endeavour to lower the budget requirements and keep it within the paying capacity of the host nations. They should maximise the utilization of already existing structures and not demand the creation of new structures that may not be utilized in the future. White elephants like bribery etc should be stopped and they should make serious efforts to make the process fair so that many more host nations and cities can actively participate in the bidding process. The pre-requisites should not be a large financial obligation but a chance for the integration and portrayal of different cultures, habits, and environments of host nations to the world.

We would like to address a possible argument which is floated using empirical research that the citizens of host country do not mind the high cost as the objective of these games is related to sentimental factors like pride or the projection of culture<sup>20</sup> (Gursoy, Kendal, 2006). We believe that further research is required in this area to check the amplitude of its effect. It is mentioned in those papers that the knowledge of citizens is based on data published by the government which shows the positive impact of these games, this being in line with their political agenda. This can skew the findings to a great extent since empirical research based on knowledge of negative impacts and changes in the attitude of citizens are not mentioned. The conclusions of these findings are limited to the fact that citizens do not mind high costs, however, the degree of their tolerance is an area that needs to be looked at. We believe that if a normal person is offered a choice to project their culture that does not impact the economy negatively, they would prefer that than these mega-events. Hence, we believe that significant changes both in the process of bidding and in the attitudes of committees should happen. Mega-events can achieve their maximum benefit when they focus on cultural projections and believe in the essence of sports rather than demanding cost and labour intensive world-class facilities that lead to adverse effects on the economies of host nations.

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<sup>20</sup> See also, Szymanski, Stefan. *About Winning: The Political Economy of Awarding the World Cup and the Olympic Games*.

**APPENDIX****TABLE 1- Literature Review**

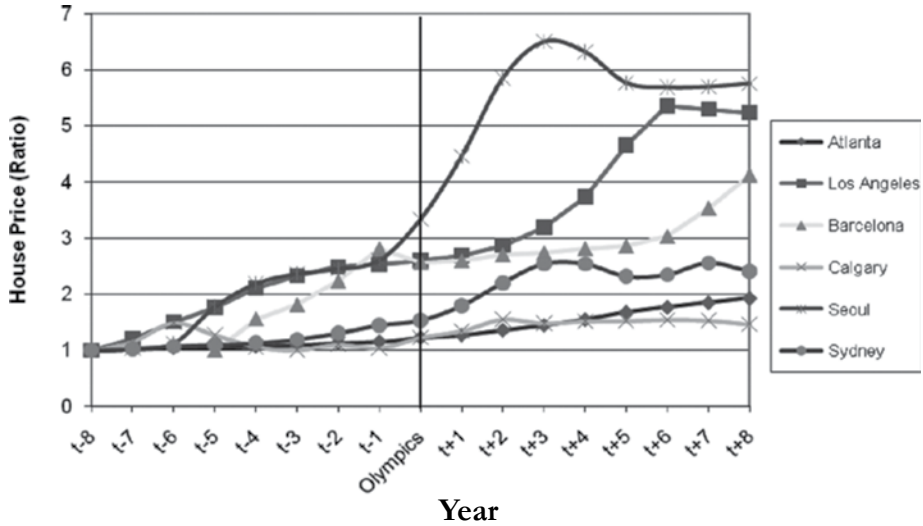
1. Feddersen, Gröczingfr, and Maennig\_(2009)!. FIFA World Cup 2006. The games had no significant impact on employment or income in urban areas where new stadium construction took place compared to other urban areas.
2. Baade and Matheson (2004):. FIFA World Cup 199-L Comparing income across the thirteen host cities, the authors found the average income was \$712 million below trend, versus boosters' claims of \$300 million gains.
3. Du Plessis and Maennig\_(2011),, FIFA World Cup 2011. International tourists numbered 40,000-90,000, versus ex ante forecasts of approximately 400,000.
4. Hagn and Maennig\_(2008):. FIFA World Cup 1974. The authors found no significant positive impact on long-run employment in the host cities through 1988.
5. Hagn and Maennig\_(2009)~ FIFA World Cup 2006. The authors found no significant employment impact on the cities that hosted games compared to other German cities that did not host the games.
6. Allmers and Maennig(2009):. FIFA World Cup 1998, 2006, 2010. The authors found no significant impacts on hotel stays, income, or retail sales in France (1998). Significant positive impacts on hotel stays and income were found in Germany (2006).
7. Szymanski (2002) World Cup, various. Hosts experienced slower growth during year of event, amounting to a loss of 2.4 percent of nominal GDP in the host country.
8. Du Plessis and Venrer (2010):. FIFA World Cup 2010. The authors estimate that the World Cup lifted GDP by 0.1 percent in South Africa.
9. Jasmand and Maennig(2008):. Summer Olympic Games 1972. The authors found a significantly positive impact on income in some host regions but an insignificant impact on employment in host regions.
10. Porter and Fletcher (2008). Summer Olympic Games 1996. Winter Olympic Games 2002. The authors found no significant impacts on taxable sales, hotel occupancy, or airport usage.



11. Feddersen and Maennig\_(2013)., Summer Olympic Games 1996. The authors were unable to reject the null hypothesis that the games provided no employment boost in the U.S. state of Georgia.
12. Feddersen and Maennig\_(2012)., FIFA World Cup 2006. The authors found no statistically significant general economic impact but did identify a small, short-run impact on employment in the hospitality sector.
13. Giesecke and Madden (2011)., Summer Olympic Games, 2000. The effect of Sydney hosting was to reduce Australian household consumption by \$2.1 billion.
14. Billings and Holladay\_(2012) Olympics, multiple years. The authors developed a difference-in-difference estimator for all Olympic host cities between 1950 and 2005 and found no long-term impact on real GDP or trade openness.
15. Von Rekowsky\_(2013)., Olympics and World Cup, various years. Based on a study of Olympic and World Cup Games between 1990 and 2010, the author concludes these mega-events offered no meaningful lasting economic benefits.
16. Baumann and others (2012)., Winter Olympics 2002. The authors found a short-term impact on the leisure industry amounting to an increase of between 4,000 and 7,000 jobs in Salt Lake City, but no effect on employment after twelve months.
17. Bnumao and Eneelhardt (2012) ... World Cup 1994. The authors found no statistically significant increase in employment in the nine cities that hosted this World Cup, no impact on the leisure and hospitality sectors, and a negative impact on the retail sector.
18. Baade and Matheson (2002)., Summer Olympics 1984 and 1996. The authors found a modest short-run employment effect in Los Angeles amounting to an increase of 5,043 jobs and in Atlanta of between 4,500 and 42,500 jobs, but no long-run effect in Los Angeles.
19. Hotchkiss, Moore, and Zobay\_(2003)., Summer Olympics 1996. Using difference-in-difference methodology, the authors found employment gains, but not wage gains, in counties hosting Olympic venues and counties nearby Olympic venues, when contrasting the economic performance of 1985-93 and 1994-2000.

Source: ZIMBALIST, A. (2015). *Circus Maximus: The Economic Gamble Behind Hosting the Olympics and the World Cup*. Brookings Institution Press. Retrieved August 7, 2020, from [www.jstor.org/stable/10.7864/j.ctt1287brp](http://www.jstor.org/stable/10.7864/j.ctt1287brp)

**Graph 1- House prices figures for Host Cities before and after the Olympics.**



**Exhibit 1**  
**Allocation of GDP to the Real Estate Industry**

Year	Total GDP	Real Estate Industry		Construction		Real Estate Services		Real Estate Finance and Insurance	
	Dollars	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage	Dollars	Percentage
1988	5,049.6	598.4	11.9	233.4	4.6	268.5	5.3	96.5	1.9
1989	5,438.7	638.8	11.7	242.2	4.4	292.7	5.3	103.9	1.9
1990	5,743.8	661.4	11.5	245.2	4.2	306.7	5.3	109.5	1.9
1991	5,916.7	663.2	11.2	228.8	3.8	312.8	5.3	121.5	2.0
1992	6,244.4	672.0	10.8	229.7	3.6	330.0	5.3	112.3	1.8
1993	6,558.1	699.8	10.7	242.4	3.7	338.5	5.2	118.9	1.8
1994	6,947.0	747.4	10.8	268.7	3.8	359.0	5.2	119.7	1.7
1995	7,269.6	796.1	11.0	286.4	3.9	376.1	5.2	133.6	1.8
1996	7,661.6	859.6	11.2	311.9	4.0	400.9	5.2	146.8	1.9
1997	8,110.9	912.5	11.3	328.8	4.0	416.6	5.1	167.1	2.0

**Exhibit 2**  
**Real Estate Assets in the Total Wealth of Households and Nonprofit Organizations: 1982-1999**

Year	Dollar Allocation (\$billions)		Percentage Allocation (%)				
	Total Assets	Real Estate Assets	Real Estate	Other Tangible Assets	Corporate Equities and Mutual Fund Shares	Pension Fund Reserves	Other Financial Assets
1982	12,673	3,999	31.5	8.3	7.1	10.1	42.9
1983	13,710	4,181	30.5	8.1	7.5	11.1	42.6
1984	14,803	4,630	31.2	8.1	6.6	11.4	42.5
1985	16,684	5,235	31.3	7.8	7.5	12.5	40.8
1986	18,392	5,719	31.1	7.7	9.0	12.6	39.4
1987	19,651	6,177	31.4	7.9	8.5	12.7	39.4
1988	21,461	6,712	31.2	7.8	9.2	12.7	38.9
1989	23,583	7,296	30.9	7.7	10.3	13.6	37.4
1990	24,307	7,405	30.4	7.9	9.3	14.2	38.0
1991	25,920	7,477	28.8	7.6	12.1	14.9	36.3
1992	27,000	7,664	28.3	7.6	13.3	15.6	35.0
1993	28,429	7,804	27.4	7.6	14.8	16.4	33.6
1994	29,477	8,017	27.2	7.7	13.9	16.8	34.2
1995	32,610	8,398	25.7	7.3	16.5	17.7	32.7
1996	35,483	8,833	24.8	6.9	17.5	18.7	31.9
1997	39,697	9,517	23.9	6.4	19.5	19.9	30.2
1998	43,508	10,238	23.5	6.1	20.3	20.9	29.1
1999	48,889	11,088	22.7	5.8	22.7	21.2	27.6

**Exhibit 3**  
**Real Estate Assets in the Total Wealth of Non-Financial Companies: 1982-1999**

Year	Dollar Allocation (\$billions)		Percentage Allocation (%)		
	Total Assets	Real Estate Assets	Real Estate	Other Tangible Assets	Financial Assets
1982	6,145	2,514	40.9	31.9	27.2
1983	6,463	2,588	40.0	31.5	28.5
1984	7,013	2,732	39.0	30.9	30.1
1985	7,502	2,854	38.0	30.2	31.7
1986	7,838	2,936	37.5	30.1	32.4
1987	8,343	3,083	37.0	29.9	33.2
1988	9,074	3,288	36.2	29.2	34.6
1989	9,620	3,471	36.1	29.1	34.8
1990	9,828	3,440	35.0	30.0	35.0
1991	9,736	3,254	33.4	30.2	36.4
1992	9,723	3,012	31.0	31.1	37.9
1993	10,070	2,901	28.8	31.3	39.9
1994	10,691	3,074	28.8	31.4	39.8
1995	11,494	3,203	27.9	31.1	41.1
1996	12,266	3,354	27.3	30.4	42.3
1997	13,339	3,756	28.2	29.3	42.5
1998	14,251	4,203	29.5	28.4	42.1
1999	15,380	4,411	28.7	28.2	43.1

Source for Exhibit 1,2 & 3 - Hu, D., & Pennington-Cross, A. (2001). The Evolution of Real Estate in the Economy. *The Journal of Real Estate Portfolio Management*, 7(2), 169-176. Retrieved April 19, 2020, from [www.jstor.org/stable/24882260](http://www.jstor.org/stable/24882260)

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