



Have the 2008 Olympics Significantly Helped China?

An Economic Analysis

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Is Hosting the Olympics Worthwhile?

- No - any questions?
- Outline of explanation
 - A history of the ancient and modern games
 - Overconfident predictions
 - Some economic reasoning
 - A look at China



The Ancient Games

- Begun in 776 BC
 - One of four religious festivals
 - Others: Pythian, Nemean, and Isthmian
- Professionalism quickly entered
 - Central myth not a good omen
 - Winners amply rewarded by city states
- Lasted until 393 AD
 - Banned as pagan rite by Christian emperors



The Modern Games

- Begun by Pierre de Coubertin
 - Angry over Franco-Prussian War
 - Enamored of British “public” schools
- First held in 1896
 - Suspended in 1916, 1940, 1944
- “Olympic” name just a bit of public relations



Two Economically Important Games

- 1976: Montreal
 - Ran a \$2.8 billion deficit
 - Not fully paid off until 2005
- 1984: Los Angeles
 - Got games by default
 - City stipulated that it would have no financial obligation
 - Almost no new construction
 - Heavy reliance on private sponsorships
 - LAOCOG showed modest surplus (~\$300 million)
- Now everyone wants to host them



Prospective Studies

- Funded by organizing committees (OCOOGs)
- *Always* show Games are worthwhile
- Profits for OCOOG do not mean city benefits
 - OCOOG has extra revenue streams
 - TV
 - City has extra costs
 - Infrastructure
 - Not really so for China
 - Private and public spheres merged



Studies Understate Costs

- Athens OCOG predicted \$1.6 billion cost
 - Actually cost ~\$13 billion
 - Security cost only ~\$1.4 billion
 - Due to cost overruns and higher input prices
- Cities continue paying
 - Annual upkeep on Sydney's Olympic stadium: \$30 million (Howard & Humphreys, '08)
 - Annual upkeep for Athens: ~\$128 million (Washington Post, '05)



Studies Overstate Benefits - 1

- They typically count local attendees
 - Value comes from new spending
 - Local attendees don't spend new dollars
- They typically count "incidental visitors"
 - Were they drawn by the event?
 - Or were they there anyway?



Studies Overstate Benefits - 2

- Intertemporal substitution
 - Do people come during Olympics instead of another time?
- Displacement
 - Calgary Tourist Bureau predicted 30 percent drop in ski vacations in 1988
 - Salt Lake City was great – for Colorado!



Another Problem: Winner's Curse

- Auctions differ from markets
 - Value of prize seldom certain
 - Sold only to highest bidder
 - Other bidders don't count
- What is true about the highest bidder?
 - Most optimistic about the value of the prize
 - Is the optimism justified?
- IOC plays up competitive spirit
 - Bidding process resembles a tournament
 - Will to win replaces rational decision making



The Lessons of the World Cup

- Baade & Matheson study impact of World Cup on host cities (Reg. Stud. '04)
 - Looked at U.S. in 1994
 - Find net loss of \$5 - \$9 billion
- Similar loss to Japan and Korea likely
 - Total foreign visitors to Korea unchanged from 2001 to 2002 (460,000)
 - Japan had fewer visitors in 2002 than in 2001



Cost of Games to China

- Spent roughly \$43 billion on the Games
 - Almost 4X what Greece spent
 - Only slightly more participants (201 -> 204 NOCs)
 - No more sports than before
 - “Bird’s Nest” alone cost about \$423 million
 - Would have cost much more elsewhere
 - Labor on stadium paid ~\$6/day
- But was it a lot?
 - Olympic infrastructure spending was only 1% of total infrastructure spending in China (*BW*)



Benefit to China

- Olympics generate more newsprint than revenue
 - Four-year cycle ending in 2008: ~\$5B (Financial Times)
 - About half what Pepsico generates in one quarter
- China's revenues a disappointment
 - Occupancy rate of 5 star hotels < 80%
 - 4-star occupancy even lower
 - Travel agencies cut rates before games (Guardian)
- How about the infrastructure?
 - Olympics can be a galvanizing force
 - Does Beijing need a world-class softball field?



Conclusion

- Beijing Olympics were not financially worthwhile
- They were a show for two audiences
 - Foreign – A coming-out party
 - Domestic – Legitimization of regime