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An Analysis of Drivers of Mega-Events in Emerging Economies

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September 2015

Abstract

Developing countries that host mega-events such as the Olympic Games and World Cup invest enormous sums in stadiums and collateral infrastructure projects. The paper examines the motivations of countries to host these events and the typical economic outcome for those host sites lucky(?) enough be awarded the games. For both efficiency and equity reasons, these events are risk propositions at best, and they generally represent an even worse investment for developing countries than for industrialized nations.

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1.1 Introduction

Economic impact estimates from mega-sports events by some accounts have been, well, mega. The University of São Paulo and Ernst & Young estimated that the economic impact from the World Cup in June/July 2014 and the Summer Olympic Games in 2016 in Brazil together could total \$100 billion dollars and create 120,000 new jobs (*Sustainable Brazil: Social and Economic Impacts of the 2014 World Cup* 2011). Rather than joyous throngs filling Brazilian streets bestowing sainthood on the government savants who orchestrated the country's sport induced, economic windfall, in June of 2013 a reported million people mobbed the streets of Brazilian cities protesting the country's priorities as symbolized by hosting these hallmark events (Lundy 2013). How does one reconcile these extreme opposite positions? Why would citizens of the world's seventh largest economy vehemently and sometimes violently protest an increase in their GDP of 4.5 percent (World Bank 2014), and a reduction in the number of people unemployed by 10.62 percent (Trading Economics 2014).¹

The wisdom of hosting sports mega-events has increasingly been questioned particularly for emerging economies. Independent scholars analyzing the economics of hallmark events almost unanimously share the angst of the Brazilian protestors primarily for two reasons. First, mega-sports events fail to deliver the economic bonanza promised by event organizers, boosters, and those who award the events. Second, the benefits and costs are disproportionately shared.

A mystery of sorts emerges in light of scholarly findings and recent practice. A reporter brought the puzzle into sharper profile recently when she asked the simple question: "If your analysis is right regarding the lack of any meaningful economic impact from mega events, then why do cities and nations continue to compete so vigorously to host them?" Such practical questions do put scholars on their heels. The possibility exists that the majority of independent scholarship has missed the mark, and that it is prudent for developing countries to pursue hosting. The purpose of this article is to examine what motivates emerging economies to host, and to analyze whether those motives and outcomes associated with them do justify hosting.

The arguments for hosting relate primarily to the economics of doing so. The fundamental question is: do the costs and benefits justify developing countries hosting mega sports events? If it can be demonstrated that the cost-benefit and risk-reward profiles for hosting as they currently exist do not justify doing so, then it is important to address the issue of what can be changed to improve the economic outcomes for the developing economies that have, with

increasing frequency, so aggressively pursued them. Those who benefit, furthermore, often do not bear costs in proportion to the benefits derived. Independent scholarship began to surface in response to the obvious public finance issues involved, and the use of authoritative, “scientific” studies by boosters proposing that the benefits to the public in the final analysis far exceeded the costs, thereby justifying financial and moral support for hosting.

Emerging nations historically have hosted the FIFA World Cup more frequently than the Summer and/or Winter Olympic Games. Table 1 shows that during the period 1930 through 1966, developed and emerging countries have hosted the World Cup on 5 and 3 occasions, respectively. Historically, FIFA alternated the World Cup between the powerhouse soccer-playing countries in Latin America and Europe. If Russia and other BRICs nations (BRIC is an acronym for Brazil, Russia, India, and China) are categorized as emerging economies, then from 1970 through 2022, World Cup hosting has been divided equally between developed and emerging nations. Once again if Russia is classified as an emerging economy, the last four World Cups have been awarded to developing countries. The trend appears to be toward emerging economies hosting the World Cup more frequently. This is explained, in part, by FIFA’s more recent desire to expand the game into regions that have not typically embraced the sport in the same way that the traditional hotbed of the sport in Europe and Latin America have.

Table 1.1
Host Cities for the World Cup since 1930

World Cup/Year	Host Country	Developed (D) or Emerging (E)
1930	Uruguay	E
1934	Italy	D
1938	France	D
1950	Brazil	E
1954	Switzerland	D
1958	Sweden	D
1962	Chile	E
1966	England	D
1970	Mexico	E
1974	West Germany	D
1978	Argentina	E
1982	Spain	D
1986	Mexico	E
1990	Italy	D
1994	USA	D
1998	France	D
2002	South Korea	D
2006	Germany	D
2010	South Africa	E
2014	Brazil	E
2018	Russia	E
2022	Qatar	E

Source: “FIFA World Cup & Olympic Games Host Nations.” 2015. *WorldFactsInc*. Accessed May 28. <https://sites.google.com/site/worldfactsinc/FIFA-World-Cup--Olympic-Games-Host-Nations>.

The Summer Olympic Games show a similar trend in that the frequency of hosting by emerging nations has increased over time. Specifically, the Summer Olympic Games were hosted exclusively by developed countries from 1928 through 1964. For the period 1968 through the present, developed and emerging nations have hosted 12 and 4 times, respectively.

The Winter Olympic Games has exhibited a similar increasing incidence of hosting by developing countries, but to a lesser degree. Developed countries were exclusive hosts for the Winter Olympic Games from 1928 through 1964. The period 1968 through the present has shown a 12 to 2 developed-to-emerging nation split if Russia (Sochi, Russia, 2014) and the former Yugoslavia (Sarajevo, Yugoslavia in 1984) are categorized as emerging economies.

Even simply bidding for the Olympics has become far more commonplace for developing nations. Between 1896 and 1996, 82 percent of all Summer Olympics bids came from industrialized countries while 10 percent came from developing countries and another 10 percent came from Eastern Bloc or former Soviet states. Between 2000 and 2016, less than half of all bids came from industrialize nations. On the Winter Olympics side, 93 percent of bids between 1924 and 1998 came from the industrialize world, while only 56 percent of bidding cities from 2002 through 2014 came from the same regions.

1.2 Drivers for Emerging Economy Hosting

Global developments beyond the world of commercial sport do explain to a significant extent the motivations for hosting hallmark events among both developed and emerging nations. The narrative in this portion of the article identifies the drivers in general and then discusses them more specifically. Painting with the broadest possible strokes, potential host nations/cities envision that hosting can be used to promote national unity and provide a clearer representation of the nation's personality and/or culture (Varrel and Kennedy 2011). Second, nations and cities seek to host in the expectation that it will significantly boost their economies. This particular motivation has assumed greater urgency given structural developments in the global economy. Some of the more important changes are identified and discussed in the remainder of this section of the article.

First, the global economy has become more open. Economic competition has intensified across the world in the post-World War II era accelerating in the 1970s. The adoption of a system of floating exchange rates following the United States unilateral abrogation of the gold convertibility feature of the Bretton Woods International Monetary System in 1971 arguably contributed to an expansion of trade in goods, services, and assets globally. The increased international competition, in turn, arguably has contributed to economic instability, the global financial crisis of 2008 being one example. The collapse of oil's price as well as other

commodity prices and currency instability particularly in emerging economies in the late summer of 2015 represents another. The need to provide jobs, particularly for urban residents, always important, has become even more so in a world of growing economic instability. Social order and political sustainability would appear to have taken on greater urgency in light of terrorist movements that depend on an inability of governments to provide economic opportunity and distributive social justice for their citizens.

Second, urban populations have been growing at a stunning rate. 62.1 percent of the world's population lived in rural areas in 1975; that percentage fell to 38 percent by 2000 ("Urban Areas: Global Overview" 2002). It is estimated that 66 percent of the world's population will live in urban areas by 2050 (United Nations 2014). Most of this growth in urban populations has occurred in the developing world with 5 million additional residents being absorbed by cities each month in emerging nations which accounts for 95 percent of global urban growth ("Urban Areas: Global Overview" 2002). The migration to mega cities has stressed those economies and social institutions, and governments have failed to keep pace in providing for many essentials. The provision of basic needs such as jobs, transportation, security, education, potable water, sewage treatment, and refuse disposal has languished. State, provincial, and federal governments have not been able to make up for the shortfall in funds to finance metropolitan infrastructure. Federal and state governments, in fact, in some countries have cut back on revenue sharing when cities have needed the funds most. This has occurred because governments at all levels have been experiencing financial stress.

The financial scissors crisis, cutting on both the revenue and cost side, for nations and cities has compelled a more entrepreneurial strategy by them in dealing with their financial woes.² Mega-events have the capacity to unify diverse, and often adversarial political coalitions, and to accelerate the pace at which projects are conceived and completed. That coupled with the hope of a financial windfall from a mega-event, buoyed by event booster studies, has proved too alluring to resist for many countries and cities in the developed and developing world. The emphasis on hosting sports teams, attracting political conventions, constructing museums, aquariums, and concert venues have reflected the broader metropolitan, entrepreneurial strategy for reinvigorating or sustaining urban economics especially in the developed world. Emerging economy municipal governments have not been able to provide consumer goods at the same level, but it appears that they have sought to imitate the success of the 1984 Los Angeles

Summer Olympic Games, which turned a profit of approximately \$225 million (in 1984 dollars). (Los Angeles Olympic Organizing Committee 1984)

Mega-event hosting has generally been viewed as one way of helping a city bolster its tourist trade. Tourism has the further advantage of being viewed as a clean industry that could give an urban economy a significant boost. The alleged transformation of Barcelona into a tourist destination following that City's hosting of the 1992 Summer Olympic Games lent currency to that proposition.

Third, with regard to tourism, that industry has grown at a rapid rate. Tourist arrivals numbered less than 20 million in 1950, reached 922 million by 2008, and are expected to reach 1.6 billion by 2020 ("The Global Growth of Tourism" 2014). Europe and the United States have been the most frequent travel destinations, but the extraordinary growth in tourism has occurred throughout the world to include Africa, the Middle East, and Asia. The trend is likely to continue as a result of advances in travel technology; holiday entitlement; increases in disposable income; availability and type of travel; and media coverage ("The Global Growth of Tourism" 2014). Tourism has been identified and emphasized by most countries as essential to increasing economic growth and creating jobs. The threat of terrorism, in the Middle East in particular, has provided powerful testimony to the importance of tourism as terrorists have targeted the tourist industry in their attempts to undermine the economies of countries such as Tunisia and Egypt. Trends in the tourist industry imply that there are more potential visitors for any country, but at the same time there are more options available to tourists and a disinclination to visit countries that pose the most significant safety risks. A sports mega-event can provide an entrée into the potentially lucrative tourist trade.

Fourth, mega-sports events have evolved into significant, if not the most important and recognizable, global brands and have been aggressively promoted to an international audience by those who "own" and "rent" them. A country is willing to pay handsomely for the opportunity to market themselves through occupying center stage on the planet for a fortnight or longer.

The marketing of mega events has accelerated as a consequence of two historically distinct but intimately related developments: the first sale of television rights for the Olympic Games in 1956 in Melbourne, Australia,³ and corporate sponsorships which fully emerged as a key part of the model for financing mega-events for and following the 1984 Summer Olympic Games in Los Angeles. Juan Antonio Samaranch, the late head of the IOC, identified the

importance of television in 2001. Samaranch stated: “We need spectators at the Games, but the IOC does not insist on 100,000 seat stadiums. The Olympics are primarily put on for television” (Barney 2004). The size of television audiences in particular has proved enormously seductive for developed and developing countries alike in vying for the right to host.

Corporate sponsors’ *raison d’être* for their involvement in the financing of mega-sports events is to sell products. Advertising is critical to that effort. The broadcasts of the Olympic Games and the World Cup reach the largest potential market for any program on a consistent basis. The 2012 London Olympic Games set a TV record for viewers in the U.S. with 219.4 million tuned in for the event, breaking the 2008 Beijing Games record of 215 million U.S. viewers alone (London Olympics 2012 Ratings: Most Watched Event in TV History” 2012). The global audience for the Summer Olympic Games is approximately 3.2 billion people. No other event has as great an overall audience, but the finals of the FIFA World Cup typically have the greatest number of viewers for a single event – the World Cup Final. The championship match in 2010 between Spain and the Netherlands had an audience of 909 million people.

The media over the past several decades has developed a symbiotic relationship with mega-sports events. The integration of sports and the media within countries has been a development common to the commercial sports industry in most nations. Sports sell newspapers, beer, trucks, remedies for sexual dysfunction, and television sets. That growing intimacy between commercial sports and the media, a century in the making, arguably has to some extent muted media coverage of protests and other means through which hosting is criticized. If the media can benefit economically from hosting a mega event, should it surprise anyone that the media is less willing and able to report objectively about the economic efficacy of doing so? There are those instances, however, where civil unrest as a consequence of hosting is newsworthy enough to warrant media coverage, witness Brazilian unrest regarding their hosting the World Cup in 2014 and the upcoming Summer Olympic Games in 2016, but by and large public criticism of hosting has either been underreported if not all together ignored by the media.

The corporate model and its emphasis on broadcast have been responsible for rewriting the *Olympic Charter* in several important ways as well. One of the more noteworthy was the 1986 revision of the *Charter* that allowed professional athletes to participate. This action, in part, was motivated by the desire to reinvigorate the U.S. broadcast market, which had been

flagging. Passing the torch from government to corporation sponsors as the primary means for funding mega events has irrevocably changed them. Emerging economies could potentially benefit in numerous ways through their leaders rubbing elbows with sports celebrities as well as forging a more intimate relationship with corporate sponsors, which could generate greater foreign investment among other economic benefits.

Television has made event location less meaningful than in the time when live spectators drove revenues. The goal for the modern Games and their corporate sponsors is to reach as many viewers as possible. Mega event sites are no longer confined to the developed, western world. BRICs nations constitute the vanguard of emerging economies, and with their huge markets (BRICs had a population of 2.78 billion and accounted for 15% of global GDP in 2009), they are increasingly demanding equal access to center stage globally, social power, and economic opportunity. BRICs understands the symbolic importance of hosting mega-sports events, and BRICs have or will host the last three World Cups that have been awarded, two of the three Summer Olympic Games between 2008 and 2016, and the 2014 Winter Olympic Games. The IOC and FIFA interests and those of BRICs nations have neatly dovetailed. BRICs nations use hallmark sports events to achieve non-sports goals such as nation branding and social development; the IOC and FIFA want to bring their brands to the most populous countries in the world.

A final reason for hosting may well have something to do with the probability of a host country performing well on the global stage during the event. If hosting has proved too tantalizing for counties to resist for broadly defined marketing reasons, a virtuoso performance during the World Cup or the Olympic Games compounds the commercial promise. Twenty World Cups have been held since 1930 and the host country has won five times and placed second twice. A success rate of 25 to 35 percent makes hosting far more enticing.

It is fair to say that hosting a mega-sports event is driven to a significant degree by the promise of an economic windfall. While some groups in a society clearly will benefit more than others, a disproportionate sharing of benefits can be made more tolerable if it can be demonstrated that a city or country can be made better off overall through hosting even if some constituencies are harmed by the event. And, of course, there is always the possibility, however remote, that an expansion of an economy can make everyone better off, i.e. “a rising tide raises

all boats.” The next section in the paper will review the literature with regard to the net benefits of hosting as promulgated by those who lead the charge to host.

1.3 Review of the Literature Regarding Hosting

Economists assume that economic actors are rational. Rationality implies that an action will be undertaken only if the economic benefits exceed the economic costs. Hosting a mega-sports event is rational if the benefits from so doing exceed the costs incurred where costs include both explicit and opportunity (implicit) costs. The litmus test for using public funds for hosting is not simply a positive accounting return from the event, but a positive economic return. Stated somewhat differently, the event must demonstrably provide the highest return from all the possible uses of public funds. Controversy about hosting has intensified arguably because of the seeming growing scarcity of public funds, and the need to ensure that those funds are put to the best possible use. A second fundamental public finance issue that looms large in the debate over using public funds to host hallmark events has to do with whether those who benefit from hosting assume costs in proportion to the benefits derived. Thomas Piketty’s book *Capital in the Twenty-First Century* has brought into sharper focus the growing skewness in the distribution of wealth and income throughout the world. This growing inequality has heightened skepticism regarding projects that require significant public funding without substantial demonstrable benefits for the taxpaying public.

The literature on the subject of the efficacy of hosting mega-sports events historically has focused more on the issue of the rationality of hosting. That emphasis may have shifted somewhat since emerging economies have exhibited a greater desire to host. It would appear to be the case that the prudent use of public funds is more imperative in emerging economies than in industrialized nations, since basic needs are less frequently met in the developing world. It is safe to say, however, that if there were no economic return from hosting, an inequitable distribution of benefits and costs would seem a virtual certainty. It is fair to say, furthermore, that much of the evolving debate about an economic return greater than zero has produced some creative and suspect representations of benefits while neglecting or underrepresenting important costs. All of these issues constitute the gist of scholarly criticism regarding the prudence of hosting.

Rather than reciting all the major scholarly research that has failed to find positive economic returns from hosting, it can simply be stated that scholars seem to be close to unanimous in their view that the benefits from hosting generally do not appear substantial enough (or that the costs are too great) to ensure an economic return. That view is based, to some extent at least, on the notion that whatever infrastructure that is constructed, other than sports facilities, is constructed to accommodate a hallmark event could otherwise have been created without the huge and wasteful spending that constitutes the sports infrastructure specifically needed for the event. It would take benefits unique to a mega-event to argue for hosting on economic grounds.

A review of the literature has identified an article authored by economists that makes such a claim, albeit with some noteworthy caveats. Two authors proposed an outcome from hosting that, if true, would make hosting, or seeking to host, a seemingly rational act (Rose and Spiegel 2011). Rose and Spiegel found that hosting correlated with a 30 percent permanent increase in exports. If the Olympics or World Cup *caused* an increase in exports of that magnitude, it could be argued that any country with even a modestly sized export sector would be foolish not to host. Two important caveats have to be noted and were identified by Rose and Spiegel. First, hosting does not *cause* the increase in exports to any appreciable degree; the Olympics and World Cup rather signal the growing economic openness of the host nation. Second, “competing to host” is a signal sufficiently strong to induce the same outcome as it relates to an expansion of the country’s export sector. Would-be hosts, or applicant cities, experience the same or similar economic results without all the expenses and risks involved in hosting. That would appear to indicate that it is not hosting that matters, but a willingness to pursue a more liberal trade agenda that accounts for an increase in exports and an expansion of an economy. Indeed, further research on the topic by Maennig and Richter (2012) finds that when one compares bidding nations to otherwise similar non-bidding countries through an appropriate matching methodology, the supposed “Olympic Effect” disappears.

Other possible motivations for hosting revealed include instilling a sense of national pride or encouraging a nation to “feel good” about itself. A feel-good effect correlates with reduced crime rates and increased levels of physical activity that, in turn, lead to improved national health according to some analysts. Health and happiness are difficult to measure, and there is the

danger that values for qualitative impacts could be “measured” to ensure that hosting qualifies as a rational act.

It is noteworthy, once again, that the BRICs nations represent those emerging economies most inclined to host. There does appear to be agreement within this group of nations regarding a strategy for assuming a stronger voice in global affairs. Hosting a mega-event appears to be an important component of that strategy as noted on the previous page of this article. The globe appears to be increasingly organized along regional lines, and it may well be that hosting a sports mega-event articulates a supra-national or regional identity. It would be inaccurate, however, to think of BRICs as a single entity. Each of the four countries faces problems unique to them, and confronting their individual problems very likely trumps the pursuit of shared interests. Shared regional interests, however, do serve as a unifying force and have provided greater leverage in confronting the rest of the world. South Africa’s 2010 World Cup was often referred to as the African World Cup when African leaders gathered prior to the event to promote and plan it.

1.4 Economic Expectations and Outcomes from Hosting for Emerging Economies

This section of the article focuses on a comparison of economic outcomes expected from hosting to actual outcomes. The specific emerging-economy experiences analyzed are for the World Cup hosted by South Africa in 2010; the Commonwealth Games hosted by India in 2010; and the World Cup hosted by Brazil in 2014. South Africa is included in a group of countries referred to as the “next 11”, the eleven nations that are thought to be the most important emerging economies following the four BRICs countries. This three-country sample provides a good representation, therefore, of how hosting expectations compares to actual outcomes for emerging economies.

The most important driver for hosting arguably is the expected economic windfall which can be defined for either the short-term or long-term. The idea of nation branding has clear long-term commercial implications. Branding, the perception of what a country is and can do, involves the creation of a foundation for expanded commercial, political, and social interaction. A country that proves to be adept at organizing and performing all the tasks necessary to successfully host a sports mega-event, with its multitude of challenges, is more likely to be viewed as a trustworthy, competent partner in interactions going forward. Embellishing a

nation's brand is clearly an important goal for a host city and/or nation; it is thought to be a means through which a significant economic legacy can be created.

Legacy benefits are difficult to assess. The short-term benefits from hosting, increased economic activity beginning with the construction phase in preparation for an event through the event itself, provides immediate feedback on the economic success of the event. If an economic windfall is to occur it should happen during the time building up to the event with a significant spike at economic ground zero, the time of the event. The focus in this portion of the article will be on employment, government finances, tourism, and the development of infrastructure vital to providing for an economic legacy. What do the experiences of South Africa, India, and Brazil provide in the way of feedback about the economic performance of sports mega-events? Table 1.4.1 provides statistics regarding key performance variables for the three sports mega-events hosted by South Africa, India, and Brazil for that which was expected and that which actually occurred.

Table 1.4.1: Expected and Actual Outcomes for Selected Variables for Mega-Event Hosting by South Africa, India, and Brazil

Statistic/Country	South Africa: World Cup 2010 Estimated Value (Actual Value)	India (Delhi): Commonwealth Games (CWG) 2010 Estimated Value (Actual Value)	Brazil: World Cup 2014 Estimated Value(Actual Value)
Hosting Costs	\$343 Million from Bid Book (\$7.088 Billion)	\$265 million from Bid Book (Approximately \$4.1 billion) ^b	(Approximately \$13 billion; some estimates as high as \$15 billion) ^c
Tourists Attending the Event	483,000 (between 220,000 to 310,000)	182,000 (75,606)	Approximately 600,000 (1 million)
Tourist Overnight Stays	14 to 18 days (10.3 days)		
Average Tourist Expenditure	\$3,986 (\$1,550)		
National Financial Accounting Profit (Loss)	(-\$6.579 billion)	\$145 million (-3.7 billion). It was projected that CWG would add 4.94 billion to India's GDP. ^c	
Awarding Entity Profit	FIFA \$567 million		FIFA \$2.6 billion
Stadium Expenditure Amount in \$	\$1.544 billion	\$1.02 billion	Bid Book cost = \$1.1 billion (\$3.6 billion approximately 90% of which was public \$) ^e
Stadium Expenditure: % of Total Expenditures	37%	25%	27.7% (\$3.6 billion/\$13 billion)
Transportation Expenditure	\$1.716 billion	\$1.983 billion	
Transportation Expenditure as a % of Overall Expenditures	39%	48%	
Job Creation	695,000 in 2009; 280,000 in 2010; and 174,000 in 2011 ^a	Projected that CWG would create 2.47 million "employment opportunities" ^d	3.63 million per one year equivalent (25,383 net hires in June 2014) ^e

Source: Konrad Adenauer Stiftung. 2015. *Sustainable Mega-Events in Developing Countries*. Accessed August 5. http://www.kas.de/wf/doc/kas_29583-1522-1-30.pdf?120124104515.

^a Identifying the number of jobs actually created is not possible because of the global recession that is popularly thought to have begun in the third quarter of 2008 with the implosion of global financial markets. South Africa appears to have lost approximately one million jobs due to the recession.

^b Derived by taking the City of Delhi infrastructure expenditures other than those for sports facilities (\$1.983 billion) and dividing that by the fraction of total expenditures to produce the Commonwealth Games (CG) represented by City of Delhi infrastructure expenditures (.48). $\$1.983 \text{ billion} / .48 = 4.13 \text{ billion}$.

^c The projected surplus was determined by subtracting the “Bid-Book” cost of \$265 million from the projected revenue of \$410 million. The actual loss of \$3.7 billion was determined by subtracting the actual cost of hosting of \$4.1 billion from the actual net revenue of \$40 million (revenue from CWG of \$101.5 million minus the cost of generating that revenue of \$61.5 million = \$40 million in net revenue). The official position appeared to be that CWG would be “revenue neutral” or that it would generate a small surplus.

^d Once again the onset of the recession of 2008 makes it virtually impossible to determine the number of jobs actually created. There was no post-CWG audit to determine the number of jobs created; all the evidence points to the fact that job opportunities were far below what had been projected.

^e FIFA. 2007. *Brazil Bid: Inspection Report for the 2014 World Cup*, October 30.

http://www.fifa.com/mm/document/affederation/mission/62/24/78/inspectionreport_e_24841.pdf ; Morpurgo, Guilia. 2015. “Brazil and the World Cup’s Economic Impact – A Look Back.”

Perspectives: Student-Led Economics Journal, February 19. <http://kcleconomics.com/a-look-back-to-2014brazil-and-the-world-cups-economic-impact/> ; Associated Press. 2015. “FIFA Returns \$100M to Brazil; World Cup cost \$15 billion.” *USA Today*, January 20.

<http://www.usatoday.com/story/sports/soccer/2015/01/20/fifa-returns-100m-to-brazil-world-cup-cost-15-billion/22050583/>.

^f Mitra, Arjyo. 2014. “An Ethical Analysis of the 2014 FIFA World Cup in Brazil.” *Seven Pillars Institute*, September 8. <http://sevenpillarsinstitute.org/case-studies/ethical-analysis-of-tje-2014-fifa-world-cup-brazil>.

The statistics in Table 1.4.1 indicate several noteworthy things. First, the actual costs of hosting are a significant multiple of the budget for hosting represented in the “Bid Book”. The World Cup hosted by South Africa and the Commonwealth Games hosted by Delhi in 2010 resulted in actual costs that eclipsed the Bid-Book budget by 2,067 and 1,547 percent, respectively. There was no Bid Book budget number identified for the World Cup in Brazil in 2014. Rather than specific numbers, the Bid Book provided the following information with regard to the cost of hosting the 2014 FIFA World Cup:

The bid LOC representatives were able to demonstrate that they had applied a sound methodology in preparing the preliminary budget that systematically addressed all of the requirements of the Hosting Agreement regarding the hosting and staging of the final competition of the 2014 FIFA World Cup™.

The assumptions made in the preparation of the preliminary budget were well explained and documented and the level of supporting detail is sufficient to permit a detailed examination of the preliminary budget for the 2014 FIFA World Cup™ for all cost categories (FIFA 2007).

The fact that the actual cost of hosting exceeded the Bid-Book cost by such a significant sum for the World Cup and South Africa and the Confederation Games in Delhi may be attributable to a perceived need to low-ball the cost estimates in bidding for an event and/or enormous cost over-runs once the event is secured. Cost over-runs may be the result of cost escalation clauses in construction contracts, legal challenges, unforeseen construction issues to include meeting environmental concerns, construction firms exercising monopoly power where it exists, and corruption.

Second, infrastructure costs relating to the construction of stadiums/arenas and training facilities for developing countries account for twenty-five percent or more of all costs of hosting. That percentage for emerging economies is likely to be considerably higher than it is for developed country hosts who already possess considerable stadium/arena infrastructure. Los Angeles incurred relatively little in the way of infrastructure costs in hosting the 1984 Summer Olympic Games for example. Approximately 73 percent of the costs incurred for the Los Angeles Games were in fact administrative costs. Similarly, the United States spent just \$5.3 million on stadium construction and refurbishment for the 1994 World Cup. This is a far different cost profile than what it is that we see for emerging-country hosts (Zarnowski 2015). Stadium expenditures for the 2010 and 2014 World Cups in South Africa and Brazil totaled \$2.1 and \$3.6 *billion*, respectively. A misallocation of capital resources for stadiums will have long-term implications for growth and development.

Third, the number of additional visitors to South Africa and Delhi as a consequence of their events fell short of expectations. The number of additional tourists to visit South Africa in the June-July period was estimated to be 200,000, which was significantly below that which was expected especially when compared to early claims following the announcement that South Africa had been selected to host the 2010 World Cup (South Africa's World Cup Warning to Brazil, June 9, 2014). Early indications are that incremental tourism in Brazil as a consequence of the World Cup exceeded expectations. That was the only case in which an outcome surprised

in a positive way for all the data represented in Table 1.4.1. The evidence, however, with regard to the unexpected surprise as it relates to tourism in Brazil was not consistently found. The Brazilian Airline Association reported a reduction in air traffic of 11-15 percent in June 2014 when compared to June 2013 (Alves 2014). The reason for the decline in air travel apparently had to do with a significant reduction in the number of business people traveling within Brazil during the World Cup.

Job creation statistics are difficult to discern in the emerging country sample reviewed. The 2010 events job creation outcomes were clearly obscured by the 2008 global economic collapse due to the implosion of world financial markets. Based on the evidence that does exist it appears that job creation that could be reasonably expected from an event based on the evidence from Brazil fell far below that which actually occurred. New hires in Brazil in June 2014 at the peak of World Cup activity amounted to only 25,383. Prorating the expected job creation outcome of 3.63 million implies that actual job creation was less than one-tenth of that which was expected from the World Cup ($3.63/12 = 302,500/25,583 = 11.82$).

The important overall conclusion is that mega-sports events have not produced the economic outcomes that have motivated the emerging country aggressive pursuit of them. The next portion of the paper will examine why actual outcomes have fallen short of that which is expected.

1.5 Reasons for Outcomes falling Short of Expectations

This portion of the paper will identify and discuss why economic outcomes for sports mega-events have fallen short of expectations. The primary reasons are: (1) unreasonable expectations; (2) white elephant stadiums; (3) monopoly rents appropriated by event owners; (4) poor event management; and (5) corruption. Each of these reasons will be discussed in the text that follows.

1.5.1 Unreasonable Expectations

The information recorded in Table 1.4.1 indicated that for the three-country sample of emerging economies hosting sports mega-events, the benefits are significantly exaggerated and the costs significantly underplayed. That reality for this sample of countries holds true for virtually all the countries, developing and emerging alike, that have hosted hallmark events

(Matheson, 2013). The reason for this economics chicanery very likely has to do with securing approval for using public funds to host in democracies. There is less a need to do so in countries that are not democratic in practice. It should come as little surprise that among the original seven bidders for the 2022 Winter Olympics, all of the democratic nations dropped out of the race citing cost concerns, leaving only Almaty, Kazakhstan and Beijing, China, countries with little democratic tradition, as the only remaining potential hosts. Even in countries when the citizenry has little political voice, however, it is politically prudent to offer at least the pretense that mega-events can be catalysts for economic growth. Boosters would like the populace to believe that expenditures on mega-events should be viewed as investments and not as wasteful and ostentatious public consumption that benefit a few at the expense of the vast majority. Those who are asked to pay through the use of their taxes or diminished social services are tacitly asked to take pride in the very act of hosting and the knowledge that our country was capable of putting on such a grand spectacle.

Mega-event success can be measured through a comparison of what was promised relative to what was delivered. Perceived problems with the event are exacerbated (problems will always arise because mega-events by their very nature are socially disruptive) when outcomes from the event fail to match expectations. There are two ways to handle this problem: (1) improve outcomes; and/or (2) provide a more modest representation of that which can be expected. Management of expectations has apparently been excluded from consideration in selling mega-events to a public that is apparently getting increasingly skeptical about their efficacy. A chief culprit in the realm of poorly managed expectations is the commissioned prospective economic impact study for the event. The reality is that a model that enables a good understanding of what an event will do for a large, diverse urban economy has not yet been created. Input-output models no matter how sophisticated cannot by their nature account for the leakages and substantial substitution effects that ensue when an exogenous shock occurs. The sense that technical competence ensures correct outcomes very likely overwhelms the common sense of official decision makers, or they want to believe the “authoritative” findings of commissioned researchers for other reasons. It is arguably a better strategy to use *ex post* findings or audits of previous similar mega-events to forecast the likely impact of an event than to allow expectations to be formed by prospective booster studies. Properly developed and managed expectations is key to the perception of success of a mega-event.

Failure to manage expectations has both short- and long-term consequences that may be serious. The protestations in the streets of Brazilian cities were prompted by the perception that the staging of the 2014 World Cup and the 2016 Summer Olympic exemplified misplaced priorities and catered to the interests of a financially privileged minority. Those perceptions not only threatened the immediate political construct, but further frayed the social fabric long term through expanding the divide among social classes. Such costs can be huge and difficult to undo. Any measure of the return-risk profile for mega-events should account for the increasing tension among classes that can be induced through hosting a mega-event as opposed to using those substantial funds to achieve other social objectives.

1.5.2 White Elephant Stadiums

The demands placed on applicant cities or nations for playing facilities to accommodate a sports mega-event most vividly illustrate the excesses of these social spectacles. The term “white-elephant” in conjunction with stadiums and arenas has become a cliché in many languages. It is not just the cost of building the facilities that imposes a financial burden, but their maintenance can compromise budgets for the long-term. Operation and maintenance (O&M) costs for stadiums run into the millions of dollars annually once the event ends, and if the stadiums lie fallow or are underutilized, these costs represent a clear-cut and enduring burden. Greece and the City of Athens, which hosted the 2004 Summer Olympic Games, have incurred costs “estimated at \$784 million simply to maintain this ghost town of Olympian extravagance” (Perryman 2012.). Careful and creative thought needs to be devoted to reusing all components of infrastructure, and the harsh reality in the world of mega-sports events is the lack of synergy between venues for the games and other sectors of the host economy.

The construction of venues follows event organizer mandates. International organizations that award mega-sports events, e.g., the IOC and FIFA, require venue construction to certain specifications that many would consider excessive. These excesses persist because they have become a feature, a budgetary line-item, in the bidding process and event implementation and accommodation. The *Economist* commented:

The Olympic movement, a juggernaut controlled by an unaccountable sporting elite, is less flexible. The danger signs are in place, with newspapers reporting on the five-star hotel rooms reserved for foreign Olympic bigwigs and the miles of

special traffic lanes that will be reserved for Olympic VIPs. Perhaps sporting success will neutralize public resentment, and the country will feel only pride at hosting a splendid games, fueling new confidence in Britain's future. But, for now, the Olympic debate revolves around material costs and benefits rather than glory. If you want certain cheer, bet on a celebration of Britain's past (Bagehot 2011).

The need to impress the IOC and FIFA to win the increasingly intense competition to host is an accepted part of the process. As bidding costs mount, bribes, material excess, and a willingness to pay excessively to host are more likely to occur. Salt Lake City provided a cautionary tale with regard to the lengths that cities are willing to go to secure an event. The bid rigging scandal associated with the 2002 Salt Lake City Winter games stained the previously squeaky clean reputation of area.

Facility construction extravagance is but one aspect of the excesses promoted by the current arrangements. The IOC Charter does not appear to be overly demanding as it relates to facilities as the following provision indicates.

...to create, where needed, simple, functional and economical sports facilities in cooperation with national or international bodies (International Olympic Committee 2013).

Simple and economical structures are not the norm in stadium construction for mega events in practice. "Where needed" does not comport with actual construction practice. Beijing's Bird Nest cost \$478 million, and London's Wembley Stadium carries a 2014 price tag of 889 sterling (\$1.475 billion in 2014 dollars). The elaborate structures for the opening ceremonies and some events could be attributable to an extreme example of branding or an edifice complex on the part of the host city or nation; but the other major culprit appears to be those entities that award the events. The IOC and FIFA demands clearly contribute to the ever-escalating stadium costs. The stadiums come at the expense of other social investments such as education, sanitation, and public transportations. Brazilians understood the nature of the trade-offs, and ordinary Brazilians were particularly irked by the special accommodations that were made for FIFA officials in moving them around their traffic-challenged cities. Brazilians

protesting the recent 9 percent price increase in public transportation could be heard shouting “give us FIFA transportation”.

FIFA has articulated 11 main points in their stadium manual for construction. FIFA requires host countries to have at least eight modern stadiums capable of seating at least 40,000 spectators, and one stadium with a capacity of 80,000 for the opening and final games. Some of the mandates are spectator and environment friendly; others clearly emphasize the branding and marketing of the event itself consonant with FIFA’s economic interests presently and in the future (“Know the FIFA Requirements for World Cup Stadiums” 2009).

The upshot is that modifications based on FIFA and IOC requirements increase costs substantially. The opening match for the 2014 World Cup in Brazil required modifications on the Itaquerao Stadium original project from R\$335 (\$137 million in 2014 dollars) to R\$1.07 billion (\$436 million in 2014 dollars) to accommodate FIFA's requirements. It has been reported that the stadium in Manaus in the Amazon which cost \$319 million to build may well not be used again for a highly attended event. Brazilian officials are looking for a public-private partnership that will support the stadium, but the local soccer clubs hold no such promise in that they draw no more than a thousand fans for a game. Manaus may well have a stadium shelf life of only four games, all for the World Cup. Despite maintenance costs estimated at \$250,000 per month, the stadium is currently used for birthday parties and as a bus depot. (Ormiston 2014).

Other examples of excessive and wasteful stadium infrastructure mandated expenditures abound. South Africa’s hosting of the 2010 World Cup followed an all too familiar pattern. The South African Premier Soccer League, ABSA Premiership, averages 7,500 fans per match, and has no need for stadiums of the size mandated by FIFA. The five new stadiums constructed for the World Cup cost approximately \$1 billion. Two of the new stadiums built, Peter Mokaba and Mbombela were built at a cost of \$150 and \$140 million, respectively. They are utilized on occasion for soccer and rugby matches. Mbombela Stadium, for example, hosted 12 soccer matches in 2013 with an average attendance of 7,606, representing on average 16.5 percent of stadium capacity. Mokaba stadium does not list any full-time or even part-time tenant (Fieno 2014).

The Helliniko Olympic Complex in Athens was supposed to be converted into the largest metropolitan park in Europe following the 2004 Summer Olympic Games. Today the complex is for all intents and purposes deserted (Sanburn 2012).

The Bird's Nest and Water Cube in Beijing, the iconic structures of the 2008 Beijing Summer Olympic Games, have failed to find regular continued use as sports competition venues (Lim 2012). The Bird's Nest has rarely hosted large events since the Olympics and portions of the stadium have been converted to apartments. The Water Cube was opened for public swimming in 2009, making it the world's most expensive lap pool. It subsequently underwent significant renovations and reopened as a large, indoor water park. While this is a fine long-term use for an otherwise underutilized facility, it is also an extraordinarily expensive way to build a water park (Matheson 2013).

The Sydney Olympic Park was declared a white elephant shortly after the 2000 Games ended. In fact the net cost of the 2000 Summer Games (costs in excess of benefits) has been estimated to \$1.5 billion ("After the Party: What Happens When the Olympics Leave Town" 2008).

Risk appears inescapable for an event host or potential host, but it has not seemingly discouraged some applicant cities from aggressively pursuing mega events. In fact, in the best gambling tradition, the question appears to be: do you bet a little or a lot? The British Culture Secretary, Jeremy Hunt, in reflecting on the Summer Olympic Games in London succinctly articulated the conundrum:

You can take two attitudes to the Olympics. You can say, these are times of austerity, and therefore we should pare them down as much as possible. Or you can say, because these are times of austerity, we need to do everything we possibly can to harness the opportunity (Clarke 2012).

Emerging economies simply cannot afford to devote a significant portion of their infrastructure budgets to the construction or renovation of underutilized capital that fails to have much of a synergistic relationship with other sectors of a growing economy. The social costs associated with stadium and arena construction and underutilization represent a long-term problem in that they must be maintained. It is too often the case, furthermore, that sports stadiums are built in places for which the opportunity cost of the land is high. Increasingly, those who defend public funding for mega-events stress that the benefits from hosting occur over the long term. The positive legacy of a hallmark

event, which arguably has evolved into the most important reason for hosting, could be muted, if not altogether negated, by the adverse effects on an economy induced by funding and building sports facilities, which crowd out investment in other forms of infrastructure that can provide an economic legacy. Those who advocate public funding of hallmark events often opine that infrastructure investments that do provide an economic legacy would not occur as rapidly or at all if there was not an event around which diverse political groups could coalesce. Sports facilities infrastructure, nonetheless, is a very high price to pay for an acceleration of socially necessary infrastructure that responsible, effective government in any event should be providing.

None of this is to deny the progress that some host cities have made. Brazil, for example, has made great strides in reducing poverty and expanding the middle class since 2005. There is no disputing the fact that spending on education, health, and transportation in Brazil has dwarfed spending on stadiums, but the success of progressive legislation in Brazil has not been the result of the World Cup (Flannery 2014). South Africa, India, and Brazil all provided something of an economic legacy through spending on infrastructure other than sports facilities in accommodating an event. The question is could these emerging host nations have improved the lives of their citizens appreciably more the without the egregiously wasteful spending on sports infrastructure that accompanies mega sports-events?

1.5.3 Monopoly Rents Appropriated by Awarding Organizations

Sports facilities do not represent the only significant misappropriation of funds associated with sports mega-events. Those who award events, the monopolistic suppliers, have been criticized extensively for appropriating a disproportionate share of the revenues that the event generates. The information in Table 1.4.1 indicated that FIFA's profit from the 2010 World Cup in South Africa was \$567 million; a more recent figure provided by FIFA showed \$631 million in profit on revenue of \$3.65 billion ("FIFA Reports \$631-M Profit on 2010 World Cup" 2011). FIFA reported revenue for the 2014 World Cup of \$4.8 billion with profit equal to \$2.6 billion (Manfred 2015). FIFA's records, as it relates to expenditures, indicated that they contributed "\$453 million to the local organizing committee between 2011 and 2014, and, gave Brazil a \$100 million "legacy" payment after the tournament" (Manfred 2015). The profit that FIFA

made is equal to approximately 72 percent of Brazil's stadium expenditures to provide some context.

The risk-reward profile for FIFA is far different for that of the host nation. FIFA and the IOC require what amounts to a blank check to ensure that all costs from an event are covered to include the cost over-runs that always accompany any sports mega-event. FIFA and its subsidiaries to include any third-party organizations hired by or associated with FIFA to assist in producing the World Cup in Brazil were granted tax-exempt status (Mitra 2014). FIFA assumes no risk in that its infrastructure is provided, and it appropriates all the revenue from tickets sold to the event. That is not the typical risk-reward profile for a business. It is certainly not that which applies to the nation hosting the World Cup, which assumes the risk of significant capital investment with a disproportionately small share of the immediate rewards.

1.5.4 Poor Management

One of the most important aspects of “nation branding” as it relates to hosting a mega-event is the display of managerial and organizational prowess necessary to produce spectacles of the size and scope of a World Cup, Commonwealth Games, or Olympic Games. The danger is that the message could be negative if the host displays incompetence. A host nation occupies center stage on the globe for a period of time leading up to the event, during the event, and following the event. The spotlight has become more intense over time with the growing sophistication and popularity of the Internet and social media. Any foul-up will be magnified, and the host country's brand tarnished. Display before play, and woe-be the country that does not organize and manage the event well.

Prior to the 2010 World Cup the fear that South Africa's reputation for certain kinds of crime would further harm South Africa's reputation and undermine their attempts to advance tourism through hosting the World Cup. The fact that South Africa hired more than 40,000 additional police to ensure that World Cup spectators would be secure likely was critical for negating that fear and ensuring an expansion of the tourist industry following the event. It has been reported, however, that South Africa spent an estimated \$13,000 for every additional visitor for the 2010 World Cup (Egan 2014). That sum will diminish, of course, if the favorable impression that South Africa made on first-time visitors to the World Cup translates into additional tourists. That remains to be seen.

Sochi, Russia, Brazil, and Qatar, most recently, arguably have not always fared well under the harsh glare of media lights. The extraordinary cost of the Sochi Winter Olympic Games (more than \$50 billion), deficient hotels, and the threats of terrorism appeared daily and cast Sochi and Russia in an unfavorable light. Brazil's vocal protestors, stadium disasters, the slow pace of construction, and the changing of government leadership in managing the many event-related crises in Brazil may have damaged the Brazilian brand. Brazil's image had to suffer when IOC Vice President John Coates stated that Rio's preparations for the 2016 Summer Olympics Games are "the worst I have experienced" (Barnes 2014). An expose regarding the toxic nature of the water in which certain Olympic sports will be held in Rio's environs has had an adverse impact on Brazil's image ("AP Study Finds Viruses Linked to Rio De Janeiro Olympic Waters" 2015). The well-publicized human rights abuses of guest workers in Qatar coupled with the unprecedented costs of stadium construction for the 2022 World Cup there may have done extraordinary harm to the "Qatar brand". The point is that branding through an event cuts both ways. The risk is great that hosting can tarnish a country's image if the event is poorly managed as well as good organization and management enhancing it.

1.5.5 Corruption

The structure of the mega-sports events market provides ample opportunity for corruption. First, the awarding entities are the sole providers of a product, the event. Second, the size of the event necessitates public subsidies, and those who oversee spending are less attentive to the use of third-party funds. Third, the financial benefits of hosting an event are concentrated in the hands of a few industries; construction companies, banks, and the hospitality sector generally benefit. If those sectors are dominated by a few large firms, then the bidding process may well involve kick-backs, political contributions, and bribery to secure contracts. These forces allegedly have been manifest in Brazil in conjunction with preparations for the 2014 World Cup and the 2016 Summer Olympic Games. The *Economist* recently reported:

However, in September a police investigation found that some of this growth was thanks to padded contracts that at least six of Brazil's biggest construction firms, with combined domestic revenues of 19 billion reais (\$8.8 billion) in 2013 had for years been signing with Petrobras, the state-controlled oil giant in exchange for kickbacks to politicians. Around 30 construction executives are now awaiting

trial or charges of corruption or money laundering including the boss of UTC Engenharia Brazil's seventh-biggest builder ("Brazilian Construction Firms: Knock 'Em Down, Build 'Em Up: Government Cuts and a Bribery Scandal Will Prompt a Shake-Out in the Industry" 2015).

Corruption has recently been alleged involving FIFA officials. Fourteen people including nine FIFA and five corporate executives were indicted on May 27, 2015, and face racketeering, conspiracy, and corruption charges in the United States. The 47-count indictment alleges that those indicted engaged in illegal activities to enrich themselves over 24 years. The length of time over which illegal activity has been alleged suggests that corruption is systemic in the sports mega-event industry and includes developed as well as emerging nations.

1.6 Conclusions

The purpose of this paper was to analyze the motivations for emerging nations to bid for sports mega-events. The paper first identified what the drivers were and why. The paper also analyzed those motivations in an attempt to assess whether the drivers made sense in light of the outcomes versus the expectations regarding the benefits from hosting. The outcomes versus expectations suggest that it does not make sense for emerging nations to host hallmark sports spectacles if quantifiable benefits are compared to costs. What the outcomes do suggest is that emerging-nation hosting is most likely a signal that a developing country communicates to the rest of the world that it perceives itself as ascending, and possesses economic might that merits a larger voice in global affairs. Soft diplomacy appears to be a particular strategy of the BRICs nations as most of the sports mega-events that have been hosted by emerging nations are members of that group or what is referred to as the "next 11". The intensity of the message would appear to vary across the emerging nations reflecting both their real and perceived economic and political strength.

It is clear that hosting has become an increasingly expensive gambit, and one with the potential to harm the economy of an emerging nation. There are clearly some things that need to be done to ensure that countries are not victimized through hosting. The most obvious thing is the mitigation of the power of the monopoly producers, FIFA and IOC in particular; they have to be regulated at the very least. Expensive stadiums, corruption, and the inequitable arrangement

with regard to revenue sharing is a direct consequence of the exercise of monopoly power. Applicant cities and nations need to recognize their shared interests and join together to ensure that the sports mega-events that the world appears to want are provided adhering to sound economic principles and practice. Most countries simply cannot afford the high risk and low returns that characterize hallmark events currently.

It is also important to use what is available in the way of information regarding economic outcomes and expectations to provide a realistic perception about how an event will affect a host nation's political economy. The "authoritative studies" commissioned and disseminated by those who stand to gain from an event have proved harmful in that they systematically raise expectations beyond that which is reasonable. Unmet expectations can undermine the political and social fabric and cause long-term harm to a host nation. As it currently stands, the entire structure of the sports mega-event market shouts "potential host beware." That needs to be changed to ensure that hosting provides benefits at least equal to costs, and that the benefits are shared in a way to include ordinary citizens who fund the event through their tax dollars or a reduction in social services. Gold in the current arrangement is more scarce for hosts than it is for the athletes who actually compete.

¹ There are according to the latest reports 1.13 million unemployed people in Brazil out of a workforce of 23.29 million. See <http://www.tradingeconomics.com/brazil/unemployment-rate>. Accessed January 17, 2014. Creating 120,000 new jobs would reduce the unemployed persons number by 10.62 percent.

² Federal revenue sharing in the United States, for example, was significantly reduced in 1987, and that created a financial crisis in many cities across the United States. See <http://www.nytimes.com/1987/01/31/us/end-of-federal-revenue-sharing-creating-financial-crises-in-many-cities.html?src=pm&pagewanted=2>. Accessed on February 22, 2014.

³ TV rights generated a mere 4% of the revenues generated by the Games, but the die had been cast. It is also noteworthy that the 1956 Games were boycotted by newsreel and television networks across the world over the issue of free coverage. See Barney et al., *Selling the Five Rings*, for detailed information on these important developments.

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