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# The Olympic Economy

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**ABSTRACT**
The Olympic Games have both positive and negative effects on economic development. The correct way to hold the Olympic Games is to reduce the adverse effects as far as possible and to exert a positive impact.

***Keywords:*** *The Olympics, economics, GDP, investment*

## 1. INTRODUCTION

In the wake of the novel coronavirus outbreak of 2020 in the world, several reports have been submitted by Japanese civil and national leaders and experts recommending the postponement of the Tokyo 2020 Olympic Games [1]. The Japanese government and the International Olympic Committee (IOC) were dithering despite this. The attitude of the Tokyo Olympic Organizing Committee is callous, insisting on 18th March that it was not considering suspending the Games and instead of holding a welcome ceremony for the Olympic flame. Nevertheless, on the evening of 20th March, the International Olympic Committee (IOC), the Tokyo Organizing Committee (OCOG), and the Japanese government finally announced that the 2020 Games would be postponed by a year, to July 2021. So, why is Japan not willing to postpone the Olympics until 2021? Furthermore, what will the Olympic Games bring to a country? There are many reasons, one of which is undoubtedly economics.

## 2. THE COST OF HOSTING THE OLYMPIC GAMES

Olympic effect refers to Olympic Games' economic and social impact preparation and hosting investment growth and tourism development. The influence of the Olympic effect on the economy refers to the economic influence or value of various economic activities related to the Olympic Games in a certain period before and after the Olympic Games. The promotion and influence of the Olympic Games on the economy of the host country and host city can be divided into three stages. The first stage is the economic benefits during the successful holding of the Olympic Games. The second stage is the financial benefits during the holding of the Olympic Games. The third stage is the industry economic benefits driven by economic benefits in the later period of the Olympic Games.

The Olympic Games contain substantial commercial and economic benefits. If we compare the Olympic Games to a commodity, we should first invest money, produce the goods and then sell them. We should spend money before we earn money. However, not every commodity is profitable, which is true of the Olympic Games. For some time, the Olympics have been an economic gamble for a host country, with high investment and huge costs involved in producing such a product [2]. Some goods have a huge profit, while others have a loss. Gambling is about winning and losing, and so is the Olympics. Some Olympic Games can achieve a balance of payment or even a slight surplus and achieve benign economic development through the Olympic effect.

The cost of hosting the Olympic Games mainly includes three aspects [3]: First, it needs to construct infrastructure, such as afforestation, transportation, etc. Second, it is also necessary to renew or build a stadium. Third, there are also administrative costs, such as the opening and closing ceremonies and security.

Take the Montreal Olympics as an example, it spent \$5.8 billion building a leading Olympic site in 1976, which the original plan was to spend \$2.8 billion. Moreover, the initial target was to spend \$0.6 billion on administrative costs; however, the actual cost was \$0.73 billion, with a sports-related cost overrun of \$1.37 billion for the 1976 Montreal Games [4]. As of 2016, the 1976 Montreal Olympics still had the highest budget of any Olympics, exceeding cost overruns in almost every Olympics since 1968 in Grenoble

So, where do these costs come from? In 1976, the

 

Montreal Olympics were fully funded by the city without a financial guarantee from the Canadian government. As a result, at the end of the Games, Montreal's city government needed to close a $2.779 billion deficit, with the city's revenue accounting for just 5 percent of its spending. In this case, many business titans chose to leave Montreal. To repay the debt, the municipal government issued all kinds of lottery tickets, and in the end, it is the citizens responsible for the massive debt. It wasn't until 2006, 30 years later, that Montreal paid off its debt. In short, the 15 days of the Games saddled Montreal residents with 30 years of Olympic debt, hence the term "Montreal Trap" [5].

## 3. THE BUSINESS MODEL OF THE OLYMPIC GAMES

So, no city wanted to host the Olympic Games from then on. Until 1984, only one city, Los Angeles, applied to host the Games. The people of Los Angeles were not satisfied, and the International Olympic Committee was forced to allow the Los Angeles Games to be held by a private company. The USOC needs to find a way to raise money for the Games. Traditionally, funding for the Olympic Games came from four primary sources: Firstly, government financial support, which was banned by a 1978 law; Secondly, lotteries, which are prohibited by law in Los Angeles, California; Thirdly, charity fundraising; Fourthly, commercial sponsorship. However, commercial sponsorship is only the smallest part of the Funding source of the Olympic Games in terms of the income of sponsors of previous Games. Money funds, by contrast, remain the most prominent financial backstop. However, for Los Angeles, commercial sponsorship is the only way to raise money for the Games. The Olympics had many sponsors in the early days, but very little money available. The 1980 Moscow Olympics, for example, had hundreds of sponsors, each paying tens of thousands of dollars to become a sponsor. Petrov. Ueberroth, president of the Los Angeles Olympic Organizing Committee, changed hunger marketing. He stipulated that only 30 sponsors would be allowed in Los Angeles.

An industry can only choose one sponsor, and the price to become a sponsor is $4 million. The company with the highest bid is the only sponsor in the relevant industry, which is a temptation many companies cannot refuse. It means becoming an Olympic sponsor and showing their brand is number one in the industry. Ueberroth first approached Coca-Cola because Pepsi was also talking with the Olympic Committee. To prevent a rival from appearing in the Olympics, Coca-Cola ended up paying $12.6 million to keep its competitors out of the Games, more than all sponsors of the Moscow Games combined. Kodak, on the other hand, has earmarked just $1 million for the Los Angeles Games, less than a quarter of the reserve price. Ueberroth chose Kodak's rival, Fuji Film, which had shot to fame as a $7 million sponsor of the Los Angeles Olympics. In a panic, sponsors began competing for the Olympic logo.

In addition, Ueberroth has also authorized 43 companies to sell their products under the Olympic banner during the Games. The Los Angeles Olympics required a $750,000 deposit from each television company that wanted to bid. For the first time, offered exclusive television rights, plunging the three MAJOR U.S. networks into a cost-free bidding war. ABC won with $2.25 [6].

The Los Angeles Games turned a profit through a series of commercial innovations that rekindled interest in hosting Olympic events worldwide. In other words, not only did the Games not impose any financial burden on Los Angeles taxpayers, but they also made a handsome profit. After the Los Angeles Olympics, the cities' Olympic bid competition began. For the 1988 Olympics, four towns were reinstated, and since then, many countries have competed to host the Games. So, the Olympic economy takes 1984 as the cut-off point.

## 4. THE ECONOMIC IMPACT OF OLYMPIC GAMES

Therefore, since 1984, have the Olympics boosted the economy of the host country and region? The answer is no [7]. The impact of the Olympic Games on the host country's economy is mainly reflected in three aspects.

The first is GDP, which explains what the Olympics have brought to Tokyo. Japan's GDP grew by 9.6% in 1957-1964 (the second stage of the Olympic Impact on the host economy) and 9.4% in the eight years 1965-1972 (the third stage of the Olympic impact on the host economy). Take Beijing, which hosted the 2008 Olympic Games, for example. China's GDP grew by 10.2% from 2001 to 2008 (the second stage of the Olympic impact on the host country's economy) and 9.0% from 2009 to 2016. The Olympics seem to boost the host country's economy in all these ways, for example expanding the consumer demand and investment demand. Despite this, the added value of the sports industry only increased by 0.58 percentage points in the regional GDP. This figure suggests that the larger the host city's economy (and country), the smaller the percentage of overall GDP required to host a significant event. Based on the above discussion, it seems that the Olympic Games have nothing to do with the GDP growth of the host country. When the Olympic Games are held, the GDP growth may be related to the economic period of the host country at that time.

The second is employment. As mentioned above, the Olympic Games require the construction of infrastructure, renovation, new venues and a variety of staff, which will create more job opportunities. In the case of the 1998 Nagano Winter Olympics, the long-term impact on employment was almost negligible, except in some industries. In other words, the Olympics can only create much demand for jobs in a short time [8]. Once the Games are over, the need for many jobs will stop as infrastructure and venues are built, and staff is no longer required to work on the Games.

The third is improving the investment environment. The spirit of the Olympic Games has undergone several changes, from transcendence to first, to participation, to unity, harmony and friendship. The Olympic spirit gives the Meaning of the Olympic Games, which is a sporting event and a valuable cultural activity. These values, derived from myths and stories, have made the Olympic Games an essential cultural tourism brand, attracting visitors from all over the world to experience the characteristics of the host city [9]. For example, the Sydney Olympic Games held in 2000 enhanced Australia's international image, thus increasing investment. At the same time, the rapid development of tourism and the achievements of clothing, food, housing, transportation and other related industries also attracted a large amount of investment [10].

Despite spending over budget in every Olympics since Los Angeles in 1984, GDP growth in each host country increased slightly during the Games, suggesting that each country experienced a brief "Olympic boom" and, in addition, no Montreal trap occurred.

## 5. "POST-OLYMPIC EFFECT"

The temporary "Olympic boom" stopped with the end of the Games, but the Olympics still pose a challenge for host cities, the "post-Olympic effect". The "white elephant effect" is a typical example of the 'post-Olympic effect', which occurs during the third phase of the Economic Impact of the Olympic Games on the host region and country, sometime after the Games have ended. A 'white elephant' is an asset that the owner of an item cannot dispose of but is required to pay a staggering amount of money for it that is not commensurate with its actual use. The Olympic stadium after the Olympic Games is a 'white elephant', expensive and impractical. Olympic venues' follow-up development and utilization is a massive challenge for every host city. For example, as for the Athens 2004 Olympic Games, the Athens government invested too much energy in the early stage of the Olympic Games, such as finishing the construction of venues on time. However, they neglected the use of the platform after the Olympic Games.

The Athens government has announced three principles for the reuse of Olympic venues. First, do not sell any media and keep them state-owned. Second, pay attention to the social value of the forum, serve the overall development plan of the society and the country, and do not pay too much attention to economic benefits. Third, do not let citizens bear maintenance costs. However, these three principles seem too idealistic for the Athens government to afford. A year later, Greece approved plans for post-games use of Olympic stadiums, hoping to bring in private money to support high maintenance costs, but it was too late [11].

Greece's GDP grew by 4.1% from 1997 to 2004 (second phase of Olympic Impact on host country economy), and from 2005 to 2012 (the third phase of the Olympic impact on the host country's economy), it was -1.1%, showing negative GDP growth. As of 2012, Greece is the only country with negative GDP growth after the 2004 Olympics. If the government does not properly plan the later use and maintenance of Olympic venues, the economy of host cities and even host countries will face tremendous pressure [12].

A positive example of the post-Olympic effect is the 2012 London Olympics [13]. Before the Olympics, the UK economy was on an even keel, with a GDP growth of 3.5 percent between 1997 and 2004. The London 2012 Olympics brought the world's eyes to Lower Lea Valley in east London, using the Games as a catalyst for the city to achieve a 25-30 year urban planning period in the decade before and after the Games [14].

Before the Games began, the London government decided to leave the city with the largest park in more than 100 years and the most essential "Olympic legacy" - the Queen Elizabeth Park, transformed from the Olympic Games site. In addition, the planning of the London Olympic Venues has fully considered the rational use of the Olympic venues after the Games. The designers abandoned the traditional multi-zone allocation of the Olympic Park before the design. They put all the Olympic venues in different areas, widely used after the Games. To some extent, it avoids the long-term occupation of high-value land in cities.

Moreover, the London Legacy Development Corporation, was before the Games and is directly managed by the mayor of London. This company is responsible for the long-term planning, development, management and maintenance of the Olympic Park and its venues. This approach avoids the problem of the OCOG being an AD hoc organization unable to effectively manage the use and redevelopment of the venues after the Games. A series of well-thought-out, practical, and feasible schemes have opened the door for London to properly harness the 'post-Olympic effect'.

## 6. CONCLUSION

Going back to the original question, Japan's reluctance to postpone the Games is primarily due to increased costs, such as the need for more money to maintain already built Olympic venues. What the Olympic Games bring to a region or a country depends on whether the host region deviates from the goal of "promoting urban development with the Olympic Games" and whether the host region can play an active role in the preparation, holding and closing ceremony of the Olympic Games. It also depends on the host city and region's financial capacity and stage of economic development. From what has been discussed above, we can reasonably conclude that The Olympic Games is an opportunity to develop a city. Taking the 2022 Winter Olympics as an example, China is using the opportunity of the Winter Olympics to develop its infrastructure, for example by supporting construction projects such as the Zhang Cheng Expressway and the Yan Chong Expressway, as well as promoting the renovation of the Jingli Expressway Smart Highway. In addition, after the Winter Olympics, the Olympic Villages in Beijing and Chongli, Zhangjiakou will be sold as commercial properties, while the Olympic Village in Yanqing will be turned into a resort hotel. This reflects the host region's goal of "using the Olympics to promote regional development". However, hosting the Olympic Games smoothly should not be the goal of a host city, and the cost of hosting the Olympic Games is an opportunity cost.

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