

WHY MEGA SPORTS EVENTS BECOME MORE EXPENSIVE THAN PLANNED

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INTRODUCTION – THEORETICAL CONTEXT

The regional impacts from hosting mega events have received substantial attention in recent years (Essex & Chalkley, 1999; Preuss, 2004; Solberg & Preuss, 2007). This paper investigates why such events often become more expensive than first planned. It will discuss the reasons for this by means of a descriptive analysis of the budgets and costs for the Olympics hosted from 1972 to 2000.

The cost side both includes operation costs and investment costs. In general, public- and private entities often share the burden of financing the investment, and Table 1 illustrates the proportion paid by the public sector for the Games in question.

Table 1: Public sector funding of Olympic Games 1972-2000.

Montreal76	München72	Barcelona 92	Seoul88	Sydney 2000	Atlanta 96	Los Angeles 84
95%	85%	60%	50%	30%	20%	10%

That many of the regional impacts from sports events have characteristics of public goods and externalities is a rationale for governmental funding (Samuelson, 1954). However, the prospect of governmental subsidies can also lead to events of a post optimal size and number of events according to recommendations from welfare economic theory. While the government is willing to support events as long as the welfare economic benefits exceeds the aggregate long run marginal costs, the host destination wishes more inputs to be used as long at their own benefits exceed what they pay themselves. This, in turn, is a classical principal-agent situation which

Table 2: Principal-agent relations in the bidding process for a mega sport event.

Cascade level	Principal	Agent
1	Population (nation): Demands event	Government: Subsidises event (infrastructure of city) and supports bid, gives financial guarantees
2	Government: Demand event which promotes economic growths, international prestige, and national presentation.	Local Government: Subsidises event and expedite city development, local representation, gives political support and backs the bid
	Local residents (city): Demand event	
3	Local Government: Demand profitable organization of event and long-term benefits from event in regards to the long-term city development, local representation	Bidding Committee: Optimize event organization and maximize short-term success (event) because the success is visible and the principal will rate that

is a “pervasive fact in economic life” (Arrow 1985, 37). The agent (representatives from the host region) can take advantage by exaggerating the positive event effects and undermining its costs when reporting to the principal (government). Due to the complexity of a mega sport event and its huge number of impacts, the principal cannot observe all action of the agent. This complicates the principal’s possibility to control the activities of the agent and to detect its opportunistic behaviour. For some of the impacts (costs and benefits), there will be information symmetry where the host destination has more information than the government. Furthermore, those actors involved in the event will often be involved in several relationships, where those who are the principal in one relationship can be the agent in another relationship. This further complicates the job of deciding the optimal size on the event. Table 2 displays the different roles and objectives of those involved in mega events – and their roles as principal and agent.

METHODS

The data are the costs (also including budgets) for the Olympic Games from 1972 to 2000 and were collected from IOC’s Olympic Study centre in Lausanne. The first budgets derive from the official bid books, while the host cities also deliver annual progress reports to the IOC, including a final report.

RESULTS

With some few exceptions, all Games became considerably more expensive than first planned, as seen from Table 3.

Table 3: Cost increases Olympic Games 1972 - 2000.

	Operational costs			Construction costs		
	First budget	Final account	% increase	First budget	Final account	% increase
Munich 72	1968	1974	+222%	1965	1974	+171%
Montreal 76	1972	1977	+538%	1972	1977	+385%
Los Angeles 84	1983	1984	-10.6%	1983	1984	+3.4%
Seoul 88	1982	1989	+82%	1982	1989	+352%
Barcelona 92	1988	1993	+28%	n.a.	n.a.	n.a.
Atlanta 96	1989	1997	+51%	1989	1997	+14%
Sydney 2000	1993	2001	+68%	1990	2001	+228%

DISCUSSION

In several cases the IOC demanded better facilities than the host cities had planned. This applied to arenas, but also to accommodation, transport as well as the location of facilities. Some organisers ran in to time pressure due to bad planning or other problems, a situation that owners of land and entrepreneurs took advantage of – which in turn lead to cost increases. The two US-Olympics had the lowest cost overrun. One reason for this can be that US governments have traditionally been unwilling to fund the hosting of mega events. This may have had a disciplinary effect on those representing the host destination – preventing them from planning expensive facilities and projects after being elected as host. This corresponds with the principles in the principal-agent theory. If the agent (host destination) does not expect any financial support from the principal (government), this will also moderate the agent’s spending. It is worth noting that Atlanta had a low overall investment in

infrastructure compared with other Olympic cities. The IOC allowed more commercialisation of the 1984 Games than for previous Games. LA was the only applicant city, and therefore had better cards on their hands toward the IOC with regards to use of facilities and other issues which indirectly influenced the costs. This also illustrates that the distribution of market power between the sport governing body and the host city can also influence the costs. Finally, if governments expect that mega events can promote the destination/nation effectively; this can make them willing to spend more resources than first planned. If so, the agent will find it easier to persuade the principal to spend resources on the event. To some degree, this may have been the case for the Seoul- and Sydney Olympics (Preuss, 2004).

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