

Long-Term Negative Economic Impact of Hosting the Olympics

Name

Institution

capstonewriting.com

## Long-Term Negative Economic Impact of Hosting the Olympics

### Introduction

Olympic Games are one of the major world's events that have social, political and economic implications to the host city or countries. It gives an opportunity for the county to receive visitors from all over the world coming to the state or town to participate in the Olympic Games, either as fans or the actual athletes. When this happens, people get the opportunity to interact and spread ideas and knowledge about different people across the world. Moreover, the coming of many visitors to Olympic Games also implies that hotel sector will boom due to the presence of many visitors in the host cities. It is a common belief that for the two weeks that the games are hosted in a town, the economy booms especially, the valuable television time, tourism as well as the general infrastructural improvement. But, is this belief true? Do these countries gain from hosting these Olympic Games? This discussion will, therefore, evaluate the opposing side of this belief, especially the negative economic implications for hosting Olympic Games to the host country. It will majorly focus on the long-term financial consequences of the games. This analysis will help the hosting country realize the involvement of many visitors in their economy within a short period as well as the resulting impact to their economy, therefore, helping them to come up with a long-lasting solution to the adverse effect such games on the economy of the country.

### Literature Review

This section aims to study the analyzed impacts of hosting Olympic Games. The procedure of hosting such games always has economic implications, therefore, will do this research to find a connection between the economic impact of the games and the desire of the hosting country. This review will cover, the process of bidding, the revenue and expenditure

component of the game, and, lastly, the economic results of the host of the games by the use of the primary economic indicators.

i) The Bidding Process

This process majorly focuses on the political aspects of the Olympics rather than the commercial components. This process involves political debates, massive campaigns as well as the violent protesting. However, many business factors are included in the bidding process that must be addressed. Even though the process of deciding on the city seems so straightforward, there is always a complexity that arises in the process of coming with the cost-benefit analysis report that must be presented to the International Olympic Council. In this case, the concept of the economic multiplier effect that the event will have on the host city is always a subject of serious analysis. It still takes the expenditure approach in coming up with the economic implications (Burgo & Cromartie, 2018). This expenditure approach guarantees accuracy only if the first step was accurate. Otherwise, the analysis always results in the inaccuracy of estimating the economic benefits. Economic forecasting in the bidding process determines whether the host city will benefit or loss. Accuracy plays a critical factor in the focusing operation.

ii) Funding the Games

Olympic Games require serious funding for it to be held in a specific city. This funding takes care of different expenditures, especially that which the Organizing Committee of Olympic Games (OCOG) encounters when setting the event. Other expenses for the game include the opening ceremonies, closing ceremonies, sports facilities, sports equipment; personnel cost, victory ceremonies as well as the final infrastructural upgrading of the city. All these expenditures, in most cases, are incurred by the host cities, and they vary from one town to another.

All these expenditures show the complexities that arise when organizing Olympic Games, especially to the host country. In this case, the host is always determined to build economically safe facilities that will serve multipurpose during the Olympic events. In most cases, such countries always transform university dormitories to guest houses during the game to cut the cost of using costly facilities to host Olympic Games. This cost due to excess expenditure in the preparation of the games may supper the actual benefit that the country is likely to yield from the event.

The increased cost of organizing the Olympic Games in a city may not be met if the towns lack proper fundings. The Olympic Charter, therefore, becomes essential to the IOC, since it plays a significant role in financing the preparation process of the game. In this case, it enters into a legally binding contract with the host city regarding financial demands. The Olympic funding, therefore, comes from both the private and public government sectors of the economies that are viewed to be paid upon yielding the gains from the game by the host city.

Hosting Olympic Games is not only a social event, but it is also a business opportunity for both the hosting country as well as the organizers. It is a source of revenue collection, especially that which come from the participation of both fun and the actual athletes in the world. There are several sources of revenue generated from the Olympic Games. OCOG collects taxes from various sources during the event. Among the significant sources of finance include sponsorship by major multinational companies; tickets for the funds; television rights, Licensing; stamps; donations; lotteries and coins. These revenue sources always help to fund the games. However, there has been a drastic change in the revenue structure with the majority of the funding coming from the public sources. The host city, therefore, is said to benefit if the net gain regarding expenditure and revenue is high. The surplus revenue is consequently the profit for the

organizers. In many instances, there has never been a case of a net loss reported for the organization of the Olympic Games

### iii) Economic Effects of Hosting the Olympic Games

Hosting Olympic Games comes with a significant economic effect on the host city. The tourism sector is one of the industries that benefit economically from hosting the games. Olympic tourism is tourism characters motivated by the Olympic activities. Therefore, the primary source of benefit from the event is the expenses from the foreign tourists that have attended the game (Scott, 2015). In addition to the Olympic tourist, there is always a tendency that the country will be fully exposed to the entire world during the game. This, therefore, provides an opportunity for the tourism sector to sell their product, thus attracting more of tourists after the end of Olympic activities due to the exposure.

Olympics are also sources of employment opportunities to the individuals in the country. However, the kinds employment created during the period are short lived and in most cases are unsustainable. In this case, it is of a little benefit to individuals. During the game, a lot of work is created, and individuals gain sharply, after the games, it drops drastically (Zimbalist, 2016). However, there are cases where Olympic Games create long-term employment opportunities, especially in the infrastructural sector where the infrastructures for the games have to be maintained. In most cases, their constructions take a more extended period; therefore create more extended employment opportunities. In a case where a country is affected by underemployment, Olympic Games can create a source of employment, which may have a multiplier effect in the economy, therefore, may increase the rate of jobs even after the end of the games.

An analysis of the GDP of the country in which has hosted Olympic Games reveals that there are minimal effects of the Olympic Games on the GDP of a nation. The theory behind this

concept is the point that it becomes challenging to analyze the GDP change because of the Olympic game hosting. The major components of GDP, which are consumptions, government expenditure, imports, and exports, are not too much affected by the games. In this case, there is only a change in the consumption level during the two weeks of game hosting. This factor does not reflect so much on the GDP of the country. However, there is an anonymous change in income of the country as a result of hosting Olympic Games.

### **Theory**

The World Bank always keeps very accurate records on the development track for 200 countries in the world. These data are maintained in a database referred to as the world development indicators. In most cases, they help to develop the state of the economy for different regions, primarily through digital data collection. For this analysis, the data are divided into three categories, which are: tourism, employment, and GDP. For this analysis, the model used includes the Hamburg; it serves as the base model where all the three categories used revolves. It is used to point the impact of hosting Olympic Games on employment, GDP and the tourism sector of the host country.

The main aim of Hamburg is to see the rate of employment rise during the Olympic Games mainly because of the job opportunities that are created to the country hosting the Olympics. This is a fundamental hypothesis for the analysis, despite the fact that the result that was gotten revealed that hosting the Olympic Games had a minimal impact on the rate of the employment in the hosting country.

In addition to Hamburg theory, there is Preuss theory that has been used in developing the model for this analysis. This theory places much emphasis on more than the just economic effect of hosting the Olympic Games. In this case, it introduces the key aspects of hosting these

games, primarily by presenting the independent variable for the analysis in the model. Even though these models measure different aspects of economic components of hosting Olympic Games, they all tend to be similar, especially regarding their explanatory variables (Burgo & Cromartie, 2018). In fact, the only distinct illustrative issue is the change in the net tourist since it is expected to result in a positive impact on the Gross Domestic Product generated from the sector.

For this analysis, the data collected will be analyzed using the ordinary least square (OLS) approach of regression this approach is appropriate since it will help to interpret the data set more explicitly, as well as help in the comparison of the host nation to the runner-up country in the hypothesis basis of host benefits of the Olympic Games. The ordinary list square will help to prove the null hypothesis that is; hosting the Olympic Games have a good implication on the general GDP, tourism sector GDP together with a positive effect on the employment status of the county.

### **Economic Analysis**

This section analyses the finding of the results as determined by the ordinary least square regression method. It covers the three major sectors, especially the long-term implication of the Olympic Games to the economy of the host country. In this case, it determines whether the result is negative or positive. Among the significant factors considered in the analysis include the long-term effect of Olympics on the GDP, impact on the state of employment and the impact on the GDP generated in the tourism sector of the host country.

#### **i) Olympic GDP Model**

According to the OLS analysis of the effect of the Olympic Games on the GDP of the host countries, there are significant findings on the test; the R-Square value shows accuracy in

the model. However, the F-Statistics reveals that there exists a link between the dependent variable, that is the GDP and the independent variable that is the hosting of the Olympic Games at a confidence level of 99.999%. The T statistics gives further insight into the link.

Based on the purpose of the study, it becomes true that the country hosting the Olympic Games does benefit that the runner-up country. However, the host variable is not significant when compared to the runner-up there is a big difference regarding their GDP. Based on this concept, there are several conclusions which could be driven by this concept. One of the obvious is that there is no significant change in the country's GDP in the long run as a result of hosting the Olympic Games. In fact, it always causes a wrong impression that the economy of a nation has grown, but then fall drastically in the following economic year. In this case, the games interfere with the country's financial planning since it causes a period of instability of forecasting the growth rate of the country (Baade, & Matheson, 2016). Further analysis reveals that the Olympic time has no significant impact on the GDP. In this case, the pre-Olympic period has a very adverse effect on the GDP. The drastic change of the GDP during the Olympics is unhealthy to the general economy since it creates a falsehood.

#### ii) Olympic Employment Model

According to the Employment results of the Olympic Games to the host country, it is true that there is an improvement in the level of the employment. According to the R square result, the value is 0.04, which is an extraordinarily low number. It indicates the little relationships that exist between the dependent variable and the independent variable in the analysis. Further study of F-Statistic reveals that the relationship between the variable on the study is not statistically significant. However, it is only the post-secondary independent variable that proves to be statistically significant. The result of the analysis reveals that the Olympic



Games have no substantial change in the general employment status of the host country and therefore may interfere with the planning mechanism of the state. This thus proves that the unemployment status of the nation will always persist immediately the Olympic Games end. The main reason for using this component is that they are the actual reflectors of the economy of a country and the games tend to cause a small shock due to the drastic change that is not healthy to the economy of the host country.

### iii) Olympic Tourism Model

An analysis of the Tourism model, the  $R^2$  is 0.30, an implication that the independent variable does not show strong relation or explanation on the occurrence of the dependent variable. However, the F-statistics prove that there exists a relationship between the variables on the study at 99.99% confidence level. According to this analysis, therefore, the GDP produced by the tourism sector increases drastically during the Olympic Games year to the host country. This GDP drops as the country the Olympic year period passes. However, there is always a rise of the production of the tourism sector due to a little exposure of the nation to the post-Olympic tourism. According to the model, there is no tremendous positive impact of Olympic Games on the tourism sector of the country, in this case, it causes a short-term benefit during the period and then drops the games end immediately. This, therefore, indicates that at the long run the Olympic Games do not benefit the host country so much regarding economic growth and development.

### Conclusion

According to the study of the economic implications of the Olympic Games to the host country, there is a clear indication that when using the commercial parameters to study the significance of the games to the host country. The result is negative since it leads to the creation of a shock in the economy that may deceive the economic planners of the country. The adverse long-term effect, therefore, regarding employment is that after the event, there is an extended period of unemployment that may not be explicitly solved. On the tourism sector, despite the fact that the industry places much preparation to receive the guest or tourism for the Olympic Games, there is a negative impact of such magnitude of investment since the period for the event is only two weeks. In the long run, the tourism sector will go at a loss due to the wasted investment in the industry. The general change in the domestic gross product is small and may not have a significant long-term economic significance.

Based on the finding of the research, it becomes clear that despite the short-term gains of the host country from the Olympic Games, the general implication to the economy is very insignificant and, therefore, may create a short time change in the employment status, tourism but no change in the public GDP at all. In this case, it becomes essential to further research on the effect of economic shock caused by hosting the Olympic Games. This research should focus on the drastic increase in consumption as well as a deistic boom in one sector which later drops significantly. Knowing its implication will help reduce the damage caused to the economy when it occurs.

## References

- Baade, R. A., & Matheson, V. A. (2016). Going for the Gold: The economics of the Olympics. *Journal of Economic Perspectives*, 30(2), 201-18.
- Burgo, E., & Cromartie, F. J. (2018). The Benefits of Bidding and Hosting the Olympic Games are Difficult to Justify Due to the Overall Costs. *Sport Journal*.
- Miyoshi, K., & Sasaki, M. (2016). The Long-Term Impacts of the 1998 Nagano Winter Olympic Games on Economic and Labor Market Outcomes. *Asian economic policy review*, 11(1), 43-65.
- Scott, K. G. (2015). *The Impact of Hosting the Summer Olympic Games on Economic Growth in Developing Countries: A Case Study of the 2008 Beijing Games* (Doctoral dissertation, The University of Mississippi).
- Zimbalist, A. (2016). *Circus Maximus: The economic gamble behind hosting the Olympics and the World Cup*. Brookings Institution Press.