

The economic power of Olympic effect

06.07.2011 12:07



On Wednesday the world will find out which city will host the Winter Olympics in 2018. The candidates are German Munich, French Annecy and South Korean Pyeongchang that lost last Olympic race to Sochi. The right choice of venue for the Games not only guarantees the successful organization of the competitions, but also a powerful stimulus for the economic development of the area.

"The transformations associated with the creation of a well-designed infrastructure for major sporting events such as the Olympic Games or Football World Cup, provide long-term economic, demographic and social effects throughout the region," concluded the study by PriceWaterhouseCoopers published in April of 2011.

The fact that within two weeks while the competitions last the world's attention will be focused on one country, can bring tremendous dividends, and not only moral ones. Economists talk about quite certain material effects of the dramatic increase in foreign trade, the acceleration of GDP growth, lower inflation and unemployment. Mark Spiegel of the Federal Reserve Bank of San Francisco and Andrew Rose of the University of California analyzed the economic impact of 196 countries over the past 50 years and came to the unequivocal conclusion: the "Olympic effect" exists.

The interest of the Western economists to major sporting events, more precisely, to the effect they have on the economy, arose relatively recently - in the 1990s. A unique reference point was the 1992 Olympics in Barcelona. It was after this event when the city that specializes mainly in manufacturing has become one of the world's tourist and business centers.

Also read: [Olympic Games in Sochi to be most expensive in history](#)

Of course, this did not happen with a wave of a magic wand. During the years preceding the Olympics, significant funds have been invested in the development of the urban infrastructure (up to 6 times more than the amount spent on holding the Olympic Games). Ring roads were constructed that reduced the congestion issue, and a large-scale reconstruction of the historic districts was undertaken. The coastal area was completely transformed, and all industrial facilities were removed from it (surprisingly, prior to that Barcelona did not have full access to beaches).

According to the Mayor of Barcelona, within five years the city has undergone such changes that in other circumstances would have taken three decades. As a result, subsequent tourism revenue grew more than two-fold.

It is believed that the influence of the summer Games on the regional economy is more significant than that of the winter Olympics because they are larger in scale. Nevertheless, the "Olympic effect" works in the winter as well.

In this regard, the example of the Canadian city of Calgary is illustrative. Before the Winter Games in 1988 the region was in a difficult economic situation. At one time it was the center of the oil industry in Canada. However, when the oil boom ended, the standard of living here has fallen sharply. The country's government had to solve this issue, and the Olympics became a good motivation for it. The investments started flowing into the region, which made it possible to modernize the infrastructure of not just Calgary, but the entire province of Alberta. Today it is quite a thriving ski resort.

This is the example of the Winter Olympics that allows you to see the importance of the right choice of venue. Between 1924 and 1960, the Winter Games were held solely at the famous ski resorts with good infrastructure for the competitions and recreation. Yet, later the concept has changed and the Olympics were held in towns having political, commercial or tourism value.

This approach was most successful. The Games became a certain additional incentive for the development of the territories that already had some potential. The exception to this rule was the Games of 1992 in French Albertville the Games of 1996 in Lillehammer, Norway.

These small towns did not have much significance in terms of development of the region, therefore the Olympic Games did not have any significant effect on their development. As for the Russian city of Sochi, the capital of the 2014 Olympics, it can reasonably be attributed to the significant cities of the region, which at the same time is in a rather neglected state.

Also read: [The Olympic bear of discord](#)

Incidentally, according to Andrew Zimbalist, economics professor with the Smith College, a major sporting event with proper planning can bring greater benefits to less developed areas than those areas where there is a well-developed infrastructure.

"The effectiveness of the Olympic Games can be understood both in the narrow and broad sense. In the narrow sense, the investors gain on return on the investment. Effectiveness in a broad sense means that the country wins by creating preconditions for long-term and sustainable economic development," says Eugene Markin with the Higher School of Economics, one of the few Russian specialists who study the economic effect of the Olympics.

In his work he came to the conclusion that there are special Olympic business cycles by analogy with the ordinary business cycles of the economy. They last an average of 10 years (9 years and over a year after the Olympics), and during this period the most noticeable changes occur in macroeconomics: the acceleration of GDP growth, lower inflation and unemployment.

"For example, in Spain for nine years before the Olympics, there was no GDP growth, and in mid-cycle the increase was already 5.5%. In China in the 1990s there was a negative annual GDP growth dynamics. Since the beginning of the 2000s, the situation has changed and in 2006 the GDP growth rate was 10.7%," says Markin.

Employees of the University of Tanzania (Australia) have estimated that the Games Sydney- 2000 have led to a stable annual growth for 11-12 years and that approximately 0.25 of the annual GDP growth was provided directly by the preparation for the Games and their implementation.

According to China's statistical agency, the contribution of the Games to the overall GDP growth of Beijing is 1.14%. The share of China's GDP growth due to direct preparation for the Olympics was 0.3 - 0.4%, which is a very high indicator considering the size of the Chinese economy is very high.

According to the experts of PWC, powerful "sport impetus" can accelerate the development of the area for 10 years and more, as well as improve the quality of life of the locals, improve competitiveness and ensure long-term economic benefits. According to PWC, it is the lack of infrastructure that is listed among the ten most serious economic risks for all countries.

The main battle for the 2018 Games will be between Munich and Pyeongchang. The experts bet on the capital of Bavaria. Of course, Munich is not a city with poor infrastructure, but nevertheless the German side declares its readiness to spend approximately 3 billion euros in the event of winning its bid. Half of that amount will be spent on the organization and conduct of the Games themselves. The rest will be spent on construction and renovation of the sports facilities and infrastructure. It seems that unlucky Pyeongchang could lose for the third time. Munich, in the case of winning, would be the first city in the world to host both summer and winter Olympics.

Anastasia Romasheva
Pravda.Ru

[Read the original in Russian](#)

Дмитрий Судаков

Copyright © 1999-2011, «PRAVDA.Ru». When reproducing our materials in whole or in part, hyperlink to PRAVDA.Ru should be made. The opinions and views of the authors do not always coincide with the point of view of PRAVDA.Ru's editors.