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THE ECONOMIC RISKS OF THE OLYMPIC GAMES FOR THE HOST CITY

The aim of this paper is to highlight the vulnerabilities of the Olympic Games for the host country. Based on macroeconomics data, such as debt of the host cities, paper is focused on dangerous variation of creating financial crisis in host city. We look into the advantages and disadvantages of the games, compare costs associated with other selected sport events and their impact on infrastructure and employment. It has been found out that the risk of organizational or operational failure is a linear function of the scale and scope of the Games, due to malicious actions or technological failure for example, as well a non-linear function of the complex interdependence of infrastructure and operations. As noted, the Olympics represent a vulnerable and high stress site for the practice of risk and crisis management, because of the reputational concerns of organizers and the IOC, the diagnosed decision-making biases of Olympic governance, and the constrained and prescribed timeline in the lead-up and running of the events. At the same time there is a paradoxical zero-tolerance of potential threats or risks, manifested in the rise of risk management in Olympic organization.

Keywords: vulnerabilities, Olympic Games, crisis.

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ЕКОНОМІЧНІ РИЗИКИ МІСТ ПРОВЕДЕННЯ ОЛІМПІЙСЬКИХ ІГОР

Метою статті є визначення впливу олімпійських ігор на економіку держави їх проведення. На основі різних макроекономічних показників окреслено можливі небезпечні варіації фінансової кризи міста-господаря олімпіади. Розглянуто переваги та недоліки проведення олімпійських ігор, виконано порівняння витрат на організацію олімпіади та інших спортивних змагань. Досліджено вплив проведення окремих спортивних заходів на інфраструктуру та зайнятість регіону.

Ключові слова: вплив, олімпійські ігри, криза.

Introduction. The Olympic Games represent a special case for exploring vulnerabilities that can lead to the sort of mega-crises defined at the outset of this volume. As the world's largest sporting event, with the five Olympic rings the most recognized symbol in the world – exceeding even mega-brands such as McDonalds' or Coca-Cola, this mega-event offers a range of lessons for risk and crisis management in circumstances when the stakes are high [11].

The modern Olympics and Paralympics involve a complex and diverse set of governing arrangements: consisting of state and non-state organizations with international, national or metropolitan jurisdictions. Aside from the danger that different sorts of crises might develop as a consequence of direct attacks, natural disasters or operational failures during staging of the events, the Olympics also impose a long-term strain on decision-making processes through the bidding, preparation, operation and legacy stages. While the Olympics fits the description of all mega-events, it exhibits specific characteristics that entail unique risks and vulnerabilities for decision-makers.

This is a global event that is subject to potential threats, vulnerabilities or disruptions in a number of forms, concentrated at the main Olympic site over a short period of competition. Since revival of the modern Games in 1896 by Pierre de Coubertin, the Olympics and Olympic movement have experienced crises of a financial, security, sporting, reputational and diplomatic nature, amongst other things. Some of these crises threatened its very survival [9].

Due to the increasing influence of the Olympic Games and the attention it receives worldwide, a number of countries derive pride and prestige from hosting this event and regard it as a showcase to the world or an opportunity to achieve certain objectives. Regardless of a country's specific objectives, the competition to win the bid for hosting the Olympic Games has become more intense, especially since the commercial success of the 1984 Los Angeles Olympic Games. Not only the competition, but also the scale, complexity, and cost to host the Olympic Games have grown, thus creating some concerns for taxpayers as well as for bidders, who should carefully consider the rewards and risks in pursuing this Olympic dream. Take the 1992 Barcelona Olympic Games, for example; it cost the host city and country over US \$10 million to bid and US \$10.7 billion to host [2], and such costs exceed the annual gross domestic product (GDP) of some nations (e.g., The Bahamas).

Macroeconomics impacts. The present study focuses on economic sustainable development. The rationale behind this approach is that macroeconomic objectives and impacts should still be the major concerns for most host countries. "It is the economic value accruing to the host that is commonly used as the basis for gathering public backing for such events" [7]. In fact, prior studies have addressed the impact of mega events on economic issues using ex ante forecasts or ex post examinations. The latter approach may be more useful in "providing a filter through which the promises made by event boosters can be strained" - and in examining "a local economy for evidence of the net impact of professional sports" [3], but the amount of such literature is much smaller [3]. To fill the gap, this study focuses on the economic impact of both the summer and winter Olympic Games on host countries by using a quantitative, ex post approach.

The financial impact may narrowly refer to the impact on the budgetary or financial balance of the organizing committees of the Olympic Games; however, the economic impact may refer more broadly to the impact on the general economy of a host country (Pricewaterhouse Coopers, 2004). Hence, the current study examines possible economic objectives, such as boosting GDP performance, reducing unemployment, and attracting investment.

Host countries regard the reduction in unemployment as an expected benefit of hosting the Olympic Games. For example, the increase in the number of tourists and the opening of new facilities (e.g., hotels, sport venues) create jobs and thus reduce unemployment. Prior studies on the 1996 summer Olympic Games show a positive correlation between hosting the Olympic Games and employment (Hotchkiss et al., 2003). However, few studies have longitudinally tested the impact on employment opportunities on an entire country, which may receive less benefit than the hosting city, and done so using a selection of both summer and winter Olympic Games. Further testing is needed to ascertain whether hosting the Olympic Games may impact employment opportunities.

A successful major event creates confidence in the city and favours subsequent investment (Metropolis, 2002, as cited in Furrer, 2002). Other than direct investment in the events and their related infrastructure (e.g., transportation and housing), hosting the Olympic Games can be regarded as an attempt to attract international investment or to establish new trade relationships in macroeconomic terms. However, few studies have tested investment in a longitudinal manner using a selection of both the summer and winter Olympic Games. Further testing is still needed to determine whether hosting the Olympic Games may impact investment.

Although there is longstanding debate over what constitutes a mega-event (also known as a hallmark event), [5] this paper adopts Roche's definition that these are "short-term events with long-term consequences for the cities that stage them ... associated with the creation of infrastructure and event facilities often carrying long-term debts and always requiring long term use programming" [8]. The exceptional scale and scope of such mega-events often requires construction of new infrastructure and facilities (i.e. mega-projects) and escalation of normal levels of public and private sector operations such as air and rail transport services, policing and emergency services. This commitment to both infrastructure and operations distinguishes them even from one-off sports events such as national horseracing events, formula one races or domestic football cup finals. As such, mega-events entail interruption to daily services, either as public transport becomes spectator-dominated (squeezing out commuters), roads are closed, or as police and emergency services are diverted to the event [11].

Bids' under-attention to inadequacies [4] is therefore a potential source of future crises. In the run-up to the 1976 Olympics, Montréal Mayor Jean Drapeau declared that "...The Olympics can no more have a deficit than a man can have a baby" [10]. The city government proceeded to incur a budget deficit of more than \$1 billion that was only paid off in November 2006. Financial crises of some sort are not uncommon at Olympics. There are numerous examples in recent times: the final public sector contribution to Sydney 2000 turned out to be six times more than the original bid [13] the total cost of Athens 2004 escalated from £3.2bn to £6.3bn, (Houses of Commons Library Research Paper, 2005) capital expenditure for Vancouver 2010 increased from \$470m to \$580m while its security costs spiralled from \$175m to \$900m, [19] and the predicted cost of London 2012 has, to date, increased from £2.4bn to £9.35bn [14]. These financial difficulties emerged despite organizer's attempts at technical forecasting and control of expenditure [12]. In the 1970s, the IOC itself reached a crisis point that threatened the future of the

Games, leading to modernisation of Olympic financing – in particular its sponsorship and 11 broadcasting contracts [9].

Summary. Is it worth hosting mega events such as the Olympic Games? The answers to this research question may involve both strategic and economic perspectives.

The risk of organizational or operational failure is a linear function of the scale and scope of the Games, due to malicious actions or technological failure for example, as well a non-linear function of the complex interdependence of infrastructure and operations. As noted, the Olympics represent a vulnerable and high stress site for the practice of risk and crisis management, because of the reputational concerns of organizers and the IOC, the diagnosed decision-making biases of Olympic governance, and the constrained and prescribed timeline in the lead-up and running of the events. At the same time there is a paradoxical zero-tolerance of potential threats or risks, manifested in the rise of risk management in Olympic organization [15].

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