1 What's Wrong with the Olympics and the World Cup?

No city wanted to host the 1984 Olympic Games. Mexico City's games in 1968 were marred by violence and political protest. Munich's games in 1972 ended in wrenching tragedy as eleven Israeli athletes were killed by terrorists. Montreal's games in 1976 cost 9.2 times more than initially budgeted and yielded a debt that took the city thirty years to pay down.

There was no glory associated with hosting the Olympics back then, and the International Olympic Committee (IOC) was desperate to find a venue. With no competition, Los Angeles stepped forward and made a deal. The IOC would guarantee any losses suffered, and Los Angeles could basically get by with its existing sports infrastructure, part of which came from having hosted the 1932 Olympics.[1] This favorable deal, together with some clever and aggressive marketing of corporate sponsorships by Peter Ueberroth, led the L.A. Organizing Committee to realize a modest profit of $215 million.

The Los Angeles experience turned the tide. Shown the alluring path to possible profits, cities and countries now lined up for the honor of hosting the games. The competition to host the games became almost as intense as the athletic competition itself. Would-be hosts lavished more and more money on their bids; today, spending upward of $100 million on the bidding process alone is not unusual.

With each bidder trying to outdo all the others, expenditures on hosting the games rose to over $40 billion for the Beijing Summer Games in 2008 and reportedly topped $50 billion for the 2014 Sochi Winter Games. Developing economies have jumped into the bidding in recent years. They require more substantial investments owing to inadequate transportation, communications, energy, hospitality, and sporting infrastructure. Other sports mega-events have experienced similar cost escalations. The cost of hosting the FIFA World Cup, soccer's quadrennial showcase event, has risen from several hundred million in 1994, when the United States hosted the event, to $5–$6 billion in 2010 in South Africa and $15–$20 billion in Brazil in 2014. Qatar could shatter all records when it hosts the event in 2022, with some estimating the final price tag will come in at an eye-popping $200 billion.

But history might be repeating itself. Just as forces conspired to eliminate bidders in the late 1970s, by 2014 escalating costs had imposed a major financial burden on countries with meager resources and deficient public services. While promoters of the games made lofty claims about the economic benefits to be gained from hosting these sporting extravaganzas, the local populations seemed unimpressed. Not only were there no evident economic gains, there were social dislocations and resource diversions away from meeting basic needs. The games may benefit their wealthy promoters, but those at the middle and bottom of the income ladder appear to be picking up the tab—and increasingly, they don't like it.

In June 2013, before and during the Confederations Cup (a quadrennial international soccer competition that precedes the World Cup in the host country), more than a million Brazilians across the country took to the streets to protest the government's spending $15–$20 billion on new stadiums and infrastructure (much of which was never finished) to host the 2014 World Cup. Meanwhile, the Brazilian population faced woeful public transportation services, rising bus fares, deficient medical care, poor schools, and insufficient housing. Popular protests continued throughout 2013 and then reached a crescendo as the World Cup approached in June 2014. Strikes by police, teachers, and transport and airport workers erupted in many cities, and street demonstrations, though heavily repressed, accompanied the soccer competition.

Brazil is not alone in protesting government policies and priorities. People worldwide, from the United States (Occupy Wall Street) to the Middle East (the Arab Spring), Russia, Pakistan, Ukraine, Istanbul, South Africa, Chile, Bolivia, and China, have risen up to protest what they perceive to be unequal and unfair outcomes that are being aided and abetted by government policy. Globalization and the march of technology, together with market forces and a skewed distribution of market power, have conspired to widen economic inequality both among and within countries.

Of course, the members of the executive boards of FIFA and the IOC themselves belong to the economic elite. They travel first class, stay in the finest hotels, and rub elbows with the political and business leaders in the cities they visit. Sepp Blatter, the FIFA president, earns a salary in excess of $1 million on top of what seems like an unlimited expense account. Other FIFA executives earn compensation packages well into six figures.[2] Blatter had been giving the twenty-five members of the FIFA Executive Committee annual bonuses ranging from $75,000 to $200,000 a year on top of their salary of $100,000 for very part-time work. For appearances' sake, the practice of annual bonuses was ended in 2014, but FIFA's Sub-Committee on Compensation (an appointed body of Executive Committee members[3]) made up for the loss of bonuses by secretly voting to double their annual pay to $200,000, according to documents uncovered by London's *Sunday Times*. The *Times* also reported that Executive Committee members received a $700 per diem while doing FIFA work, traveled business class, and stayed in five-star hotels.[4] According to the FIFA ethics code, the twenty-seven Executive Committee members are not supposed to receive gifts that have more than symbolic value. In September 2014, however, it was revealed that in the hotel gift bags in Brazil for the 2014 World Cup there was a luxury Swiss Parmigiani watch worth $25,000. Twenty-four members of the Executive Committee, including Sepp Blatter, did not report this gift; three members, U.S. member Sunil Gulati, Australian member Moya Dodd, and Jordanian member Prince Ali bin Al Hussein, reported the violation to FIFA's Ethics Committee. Apparently, the plan was to gift two more watches, each worth over $42,000, to each Executive Committee member, until the first transgression was reported.[5] After this news became public in early September, FIFA's Ethics Committee took a stand and ordered the Executive Committee members to return their watches.[6]

The members of the IOC are unpaid, but the organization is populated by the rich, the famous, and others who seem as if they would be as comfortable in a ballroom or boardroom as on an athletic field. Royalty on the IOC include Prince Feisal bin Al Hussein of Jordan; Frederik, Crown Prince of Denmark; Princess Haya bint Al Hussein of Jordan (and sheikha of Dubai); Sheikh Tamim Bin Hamad Al Thani, emir of Qatar; Prince Nawaf Faisal Fahd Abdulaziz of Saudi Arabia;[7] Prince Ahmad Al-Fahad Al-Sabah of Kuwait; Anne, Princess Royal of Britain; and Prince Albert II and Princess Nora of Liechtenstein.[8]

Distributional concerns inevitably are more pressing in countries at earlier stages of economic development. In light of the recent trend for developing countries, in particular the BRICS (Brazil, Russia, India, China, and South Africa), to host the Olympics and World Cup—countries where resources are scarcer, the fiscal balance is more fragile, hosting costs are far greater, and the income distribution is more lopsided—the potential for explosive protests seems imminent. While hosting a sport mega-event is hardly a seminal force behind a country's inequality, there is little question that it contributes to and reinforces existing patterns of inequality. That the Olympics and World Cup are so heavily publicized and so visible only increases the likelihood that wasteful spending will catch the attention and scorn of the population.

With Olympics bidding, the typical pattern is for a country's National Olympic Committee (NOC) to call for bids from prospective host cities eleven years before the games. There ensues a competition among the interested cities to win their country's nod, which occurs nine years prior to the games. The selected cities at this stage are known as "applicants," and each pays the IOC $150,000 to be considered. The applicant cities are then whittled down to a group of usually three to five finalist or "candidate" cities. Each candidate city pays the IOC an additional $500,000 for the privilege of being considered as an Olympic host.

The bids by cities are driven by major private economic interests within the city's political economy, such as construction companies, construction unions, insurance companies, architectural firms, hotels, local media companies, investment bankers (who will float the bonds), and the lawyers who work for these groups.[9] These groups in turn hire a public relations firm and a consulting firm to generate interest and excitement around the hosting prospect and to make elaborate claims of the potential economic benefits to the city.

Except in special cases, however, the promised benefits are not forthcoming. Equally troublesome, to prepare for the games the host city often must clear land, which frequently means relocating communities and jobs; hire migrant labor; divert resources away from important social services; and borrow billions, encumbering future tax dollars. Along the way, local communities experience congestion and pollution in the name of constructing venues and infrastructure that may have little or no effective use after the games and that may charge admission prices well beyond the reach of the common person's budget.

Seven years before the games, after two years of competition among the candidate cities aimed to convince the IOC that they are the most worthy of the hosting honor, the IOC anoints a winner. A similar selection process occurs for the World Cup. With multiple bidders from around the globe and only one seller (the IOC or FIFA), it is almost unavoidable that the winning city or country will have overbid. This outcome is made even more likely because the groups pushing each city's bid are representing their own private interests, not the city's. And these groups will not have to pay the construction bills; rather, they will be the ones on the receiving end, getting the lucrative contracts. Economists believe the outcome of such a bidding process is likely to result in a "winner's curse"—an outcome in which the winner has bid above the object's true worth.

The problem for the IOC and FIFA is that rising popular protests are alerting politicians to the fact that hosting the Olympics and World Cup may not be such a good deal economically or politically. Fewer cities and countries are entering the bidding. Voters in Munich, Germany, in November 2013 and in Stockholm, Sweden, in January 2014 went to the polls and rejected their city's entering the bidding competition to host the 2022 Winter Games.[10] The new IOC president, Thomas Bach, spent much of December 2013 and January 2014 attempting to convince cities to bid for the 2024 Summer Games. At the pre–Olympic Games meeting in Sochi, Russia, in February 2014, trying to avert another downward bidding cycle similar to the late 1970s, Bach called for new approaches to the bidding process.

The chapters that follow take a closer look at all these issues. The next chapter considers the evolution of both the Olympics and the World Cup, how each came to be the Circus Maximus it is today, and the challenges each confronts. Chapter 3 discusses the short-term costs and benefits of hosting the Olympics and World Cup. Chapter 4 analyzes the long-run or legacy impacts of hosting. Chapter 5 presents the experiences of Barcelona with the 1992 Summer Games and Sochi with the 2014 Winter Games, while chapter 6 explores the experiences of Rio de Janeiro and Brazil with the 2014 World Cup and the upcoming 2016 Summer Olympics, and of London with the 2012 Summer Games. Chapter 7 offers an assessment of what works and what doesn't for host cities and countries, what problems FIFA and the IOC are facing, and what reforms they are considering or should consider.