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The bidding paradox: why rational politicians still want to bid for mega sports events

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Abstract

This paper discusses reasons why politicians still favor hosting mega events despite the discouraging evidence regarding their financial benefits: (1) early political enthusiasm, (2) tying side-projects to the bid to raise political support, (3) biased reading of history, (4) the winners curse, (5) redistribution and lobbying, (6) a media bias in favor of hosting and (7) boosting happiness and pride of residents. Bringing happiness to the people might be a valid reason for hosting a mega event, however, economists are yet insufficiently capable of capturing this effect. Moreover, alternative explanations for political support cannot be deemed invalid ex ante.

Keywords: Bidding; mega sport events; Olympic games; lobbying; happiness

JEL classification: D61, D72, H54, L83

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1. Introduction

This paper starts from the observation that when it comes to bidding for mega sports events such as the World Cup and the Olympic Games, countries and cities line up to be granted the right to host, even though by now economists (unless hired by advocates of hosting) generally find the costs exceed the benefits (see for example Porter and Chin, 2012).² For example, initially nine cities competed for the right to host the 2012 Olympic Games, which were ultimately held in London. Admittedly, not all politicians favor organizing mega sports events, but the idea in general seems to be popular. Proponents generally stress the supposedly large economic gains that can be reaped from hosting a mega event (see e.g. Crompton, 1995; Rose and Spiegel, 2011; Coates and Humphreys, 2008) and present subjective economic impact studies showing considerably inflated economic benefits.³ The academic literature shows almost consistently that mega sports events are in general economically unprofitable. Even when it is clear that an event will be economically unprofitable beforehand, politicians tend to keep backing the bid, apparently assuming that withdrawing their support leads them onto thin ice.

² Throughout the analysis, we assume that the government decides whether to back a bid or not. An alternative would be that citizens vote by referendum and decide whether they support the government investing public funds in a mega sport event. See Coates (2007) for a discussion of this literature. A few recent examples of a referendum in Europe in this context are voters in the Graubünden canton (Switzerland) rejecting a proposed bid for the 2022 Winter Olympics and voters in Vienna (Austria) voting against a bid for the 2028 Summer Olympics.

³ A typical example of this is the letter the Dutch Ministry of Sports (Minister of Sport, 2010) sent to parliament justifying its support for the Dutch Belgium tandem bid for the 2018 World Cup. In this letter it selectively cited the most favorable estimates published regarding the 2006 World Cup in Germany, but not the Dutch cost-benefit analysis which was commissioned by the Dutch government and which presented less favorable estimates.

To understand this paradox, both political and economic arguments are relevant. In an accompanying paper (De Nooij and Van den Berg, 2013) we elaborate on the economic arguments. In this paper we focus at explanations stemming from the political process. Section 2 discusses seven reasons why politicians may stick to their ambition despite the bleak economic prospects. The first reason discussed is early political enthusiasm and commitment which locks politicians into a positive attitude. Second, back-up support for the bid is often provided by advocates of side-projects which are frequently tied to the event. Third, biased reading of history frequently leads to the most successful examples being cited, both by politicians and to convince politicians. Fourth, the winners curse. That is, politicians believe that bidding is a good idea, but ignore or underestimate the fact that overly optimistic estimations of costs and benefits may lead to the event being awarded to the city providing the most optimistic bid, ultimately resulting in a financial loss. Fifth, mega events will lead to redistribution of welfare and parties at the receiving end have a stronger incentive to lobby. Sixth, the (sports) media are generally biased in their reporting in favor of bidding for mega events and have an interest in writing positively about sport and sport events because that pays off, i.e. enthusiasm sells better than critical sports journalism. The seventh and final reason why politicians tend to support hosting mega events even though economists show that the economic gains generally exceed the costs, is that hosting brings joy and happiness to the people. This is a positive effect which is still very difficult for scholars to quantify and monetize correctly. Politicians with the ambition to host a mega event because it brings fun and pride to the people might make a sound decision, while economists are yet insufficiently capable of capturing this effect in their cost-benefit calculations. However, whether fun and pride is important to an extent where the alternative explanations for political support despite the discouraging empirical evidence regarding the economic returns can be deemed invalid, is questionable.

2. Political motives to favor a mega event

The majority of our references to bidding processes are derived from our experience with the Dutch bid for the 2018 World Cup (jointly with Belgium) and the momentarily stalled ambition to bid for the 2028 Summer Olympics. In addition, a discussion of the political process regarding bid submission is provided by Baade and Sanderson (2012). We focus our analysis on developed countries bidding for an event, see Tomlinson and Bass (2012) for an analysis of legacy agendas as bidding motives in the BRICS-countries (Brazil, Russia, India, China, South-Africa).

2.1 Early political enthusiasm

In their evaluation of infrastructural project appraisal, Mackie and Preston (1998, p. 1) found that policy proposals are frequently difficult to reject because of the degree of political commitment they had accumulated. They found that the outline appraisal needs to come sufficiently early in the project cycle for graceful withdrawal to be possible, and that commitment should not be given in a form which makes it impossible to withdraw at a later stage. For mega sports events the decision to prepare a bid and to hand it in is of course not taken in a vacuum by the bidding committee and the National Olympic Committee. Prior to preparing a bid they engage politicians to investigate whether the ambition to prepare a bid is received enthusiastically and what the chances are to get the necessary government support. Prospective bidders generally do not ask for a budget, nor do they show precise plans right away (which are at that stage usually non-existing). Politicians generally respond enthusiastically to such questions. The commitment made by the politicians in that stage is carved in stone, but that makes it more difficult to withdraw support in a later stage when hard commitments regarding budgets and costs are being asked. Furthermore, politicians who

have publicly announced in an early stage that they support the idea of preparing a bid, find it difficult to withdraw their support in a later stage.⁴

For example the Dutch Prime Minister Balkenende expressed interest in the possibility of organizing the World Cup in the Netherlands in an early stage, three years before the final decision was made. At the same time some Members of Parliament also expressed enthusiasm and the majority of Parliament sympathized with the idea (NU, 1997). On July 3rd 2009 the Dutch government confirmed its support for the joint bid with Belgium for the 2018 World Cup (Ministry of Sports 2010). However, the accompanying parliamentary debate was upheld until just before the deadline for submission of the final bid. In addition, the Dutch policymakers did not fully appreciate the extensiveness of the requirements for hosting the event imposed by FIFA until the summer of 2009. When the implications of the FIFArequirements were finally fully appreciated by the Ministries involved in fall 2009 the support amongst the civil servants quickly eroded (see the Dutch evaluation of the bidding process, Berenschot, 2011). Only in early 2010, weeks before the final decision was made (on April 20th 2010), a social cost-benefit analysis commissioned by the Ministry of Economic Affairs was conducted, followed by a parliamentary debate in the final days of April. The bid ⁴ Similarly, in telemarketing sales people are trained to have respondents say yes first before they ask the important closing statement. The purpose is to 'Create a buying mood with the word yes. By getting your prospect to say yes six times during the presentation you greatly increase the odds of getting a favorable response to your closing statement. Six yeses get the person into an agreeable state of mind. They become comfortable saying yes to you. The prospect's yes responses break through negative defenses. Most importantly the prospect is now psychologically in the right mind set to allow themselves to say yes to a purchase decision' (source:

http://www.aaatrainingforsuccess.com/telemarketing2.html).

was officially submitted on May 14th, 2010. Deciding not to submit a bid in that stage would have been difficult to justify, especially given the fact that it concerned a joint bid with Belgium. Withdrawing would also have required politicians to make a U-turn at a point where much attention is drawn to their actions and graceful withdrawal is virtually impossible.⁵ At this point it is unclear whether the inefficient timing and order of events characterizing the decision process preceding bid submission was a strategic choice or coincidence.

Political commitment should be considered in a broad perspective (Mackie and Preston, 1998). That is, not only politicians with parliamentary voting power are relevant stakeholders in the decision making process, but also e.g. leading public opinion makers. For example, a former Minister was appointed as chairman of the committee building towards bid submission for the 2028 Olympic Games, in which the Dutch Crown Prince, who is also an IOC-member, was also involved. For such non-political stakeholders in the decision making process publicly withdrawing support for the bid could be equally difficult to attain.

2.2 Tying side-projects to the bid to raise political support

A frequently claimed benefit of hosting a mega sports event is that it will spur the approval of side-projects tied to the actual event. Without the mega event taking place the decision making process is supposedly too cumbersome and time consuming. Examples are the regeneration of urban areas in London tied to the Olympic Games, or investments in sports

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⁵ A rare example of very late withdrawal of political support is Italian prime minister Mario Monti withdrawing his support for the 2020 Olympic Bid on the final day before submission. A severe economic crisis leading to substantial budget cuts and tax increases lead to the decision to withdraw support.

participation in the Netherlands. Additionally, advocates of infrastructural projects frequently consider mega events as an opportunity to raise support for their own project. They thus strategically decide to back a bid for a mega event and tie their project to it.

This strategy raises several problems. First, infrastructural projects getting approved just because a mega event is granted to the area might not be beneficial in social terms. As Kuper (October 30th 2010) puts it: "Brazil is building airports, roads and ports for 2014 World Cup. These are fine things, but they shouldn't be pegged to a World Cup. If you need a new airport, build it. If you only need a new airport for four football matches, don't build it. The demands of a football tournament are seldom those of daily life." The same observation can be made for investments in urban regeneration which requires investment in facilities for dayto-day living rather than in 'signature projects' (Kavetsos and Szymanski, 2010, p. 160). Ruijgrok (2011) finds that infrastructural projects in the Netherlands have more costs than benefits, often to the surprise of advocates. She explains this with the Netherlands being well developed and thus more in need of proper maintenance than of new projects. A mega sports event with side-projects such as infrastructural investments being pegged to it would in that case incur an additional welfare cost instead of benefits by spurring side- projects. 6 Matheson (2006, p. 19-20) also finds that infrastructural projects fully pegged to a mega event but indirectly pegged to sports (e.g. a railroad connection with a newly built venue) may go unused after the event, or may be a second best use of scarce investment capital. Second, the bid might theoretically be approved of because it is backed by advocates of sideprojects pegged to the event, who do not necessarily support the mega event itself.

⁶ In developing countries the additionality of infrastructure investments may thus be larger than in developed countries. This does not necessarily mean that organizing mega sports events in developing countries is economically or socially attractive.

Third, codecision procedures regarding e.g. infrastructural projects are generally in place to weigh the different effects for stakeholders properly, since these projects tend to affect many. Speeding up the decision making trajectory and maybe even skipping particular steps in the process because of a mega event may thus imply not taking all stakes into account properly and e.g. incurring the hidden cost of environmental effects not being considered properly. Finally, these types of projects, which are generally financed with public funds crowd out alternative (private or public) investments projects, which might be more profitable in terms of welfare. A good example of this is the Montreal Olympic Games. After the event took place in 1976 it took decades to pay of the debts (Kavetsos and Szymanski, 2010, 160). Admittedly, a mega event can act as a catalyst for other projects pegged to the event. Zimbalist (2010) argues that with proper planning, hosting a large event can serve as a catalyst for the construction of modern transportation, communication networks, and sports infrastructure, which generally benefits less developed areas more than developed regions. Getting worthwhile projects from the ground might require to undertake projects that are in themselves irrational, like hosting a mega sports event. The political reality might be such that creating momentum in favor of event-adjacent projects by bidding for a mega event is worth the cost of the event itself.

2.3 Biased reading of history

The impression put forward in public debates is generally that previous mega sports events have been successful. The main reason for this is that advocates of bidding have an incentive to focus on successful examples to stress and illustrate why hosting would be beneficial (see section 2.7 for a discussion of the role of the media in this process). The 1992 Olympic Games in Barcelona is generally referred to in the public debate as the textbook example of

successful Olympics that could also give the hosting city a boost as tourist destination.⁷ However, there are two main objections against this line of reasoning. First, iconic examples being pulled out on every occasion might have specific reasons why they turned out iconic and which are therefore not suitable for careless benefit transferring. For example, Barcelona was a worn-down industrialized city featuring many cultural highlights in the second league of European tourism destinations (Duran, 2002). However, tourism in general was experiencing a period of growth in the 90's anyway and Barcelona invested heavily in advertising before and during the Olympics. These two developments combined could thus just as well explain the upswing in tourist arrivals in Barcelona instead of or in addition to the Olympic Games. Furthermore, the Olympic Games catalyzed the founding of a Board for Tourism and specific policies aimed at developing tourism as a sector (Duran, 2002). This would have spurred tourism even without the Olympic Games taking place in Barcelona. Second, less favorable examples are generally ignored as if they never happened. After Barcelona, Atlanta, Sydney, Athens and Being hosted the Summer Olympics. However, these cities are rarely referenced, because the impact on tourism is supposedly much less prominent than in Barcelona. Advocates of bidding generally exploit the textbook examples, carelessly transferring the supposedly large beneficial effects to the case at hand, without considering historical similarities or disparities.

2.4 The winners curse

Bidding to host a mega sports event is like an auction, and can therefore be prone to what is known as the winners curse (Thaler, 1998). Each bidding party makes an estimate of how valuable the event will be to the host and the organizing sports federation (e.g. IOC, FIFA).

⁷ An example of this is found in the second opinion of the social cost-benefit analysis of hosting the 2018 World Cup in the Netherlands (MeerWaarde Sport en Economie, 2010).

Provided these estimates are unbiased the mean value placed on hosting the event will be equal to the actual value. However, the country with the highest estimated gain will probably submit the highest bid and thus win the 'auction'. The winner can however be cursed in two ways: (1) the submitted and winning bid exceeds the actual value of hosting the event, causing the ultimate host to incur a welfare loss; or (2) the value of hosting turns out to be lower than the estimated value, rendering the winner disappointed. With perfectly rational and perfectly informed bidders the winners curse would not occur, because in that case a proper estimation of the actual value will be made and bidders take the number of competing bids into account in their bidding strategy (*ibid*, p. 192). Although a mega event is not equally valuable or costly to all bidding parties, the same welfare effects are relevant, albeit with differing magnitudes. This is particularly relevant since bids are assembled by local organizing committees which generally have little past experience since bidding procedures take place very infrequently and thus do not provide much opportunity to learn by doing. Furthermore, the organizing sports federations tend to concede the right to host in a rent seeking way, maximizing its own utility (Baade and Sanderson, 2012, p. 93). The winners curse is frequently referenced in the literature in relation to mega sports events. Andreff (2012) analyzes ex ante and ex post estimates of costs and benefits of hosting both Summer and Winter Olympics and concludes that the relevance of the winners curse is more rule than the exception. Heisey (2009, p. 97) argues that the winners curse is an important explanation for the phenomenon that scholars find little or no tangible economic benefits of hosting the Olympics. Coates (2010a) is pleased with the news that the USA was not awarded the organization of the 2022 World Cup because the winners curse renders it unlikely that the event turns out economically beneficial. However, strategic thinking in terms of the winners curse about the actual value of winning the right to host hardly ever seems to be an integral part of the decision process leading up to bid submission.

2.5 Redistribution and lobbying

Organizing mega sports events has substantial redistributional effects on welfare, which drives lobbying and thus impacts upon policymaking. Examples of these redistributional effects are plenty; from taxpayers to clubs playing their matches in brand new (partially) publicly financed venues after the event (Coates, 2010b; Kuper, 2010; Kuper and Szymanski, 2009, p. 274), to the construction sector (Kuper, 2010; Coates and Humphreys, 2008, p. 311), to professional athletes (Coates and Humphreys, 2008, p. 311) and to sports federations (Coates 2010b), from the central government and regions within the country not hosting the event to the region or city where the event is being hosted (Van Driel, 2010), from general merchandisers and department stores to hotels and restaurants (Baade et al., 2008) or from women (on average less keen on football) to men (Kuper, 2010).

Anticipated redistributional effects can provide a reason for lobbying, but the specific characteristics of the beneficiaries and those that pay the bill leads to asymmetric lobbying power. Lobbying could of course influence the course of events in the decision making process leading up to bid submission (if lobbying would be without effect none would invest in it). Those who benefit from mega events are generally a relatively small group with a clearly identifiable and substantial gain for each actor. This makes the beneficiaries relatively easily organized (e.g. because of the relatively moderate risk of free riding). On the

⁸ For theories supporting lobbying as one of the driving forces behind the development of regulation (or more generally put government policy) see for example the private-interest theory or interest-group theory. This theory states that government regulation emerges as a result of interest-group interference. In all of this, there is a risk that the regulator protects the interests of the regulated parties, instead of the public interest ('regulatory capture'; Stigler, 1971, 1974).

cost side the stakeholders are more diffuse and less easily identifiable, much larger in sheer numbers with an individually smaller stake on the line (consider e.g. individual taxpayers as a group).

Note that the financial incentive for the bidding committees to lobby might even be stronger, since they benefit from acquiring sponsors paying a substantial part of the bidding costs (with sponsors receiving media attention in return). An even more exotic and potentially lucrative lobbying opportunity for bidding committees is illustrated by the Dutch committee being subsidized by the government to prepare the bid for the 2018 World Cup well before the Dutch government had taken an official position in the debate prior to the decision whether or not to submit a bid.

An important complication of lobbying is that information in the public debate tends to get diluted with information from selectively chosen, biased or subjective studies plugged by lobbying parties. In the Dutch debate regarding the question whether or not to submit a bid for the 2018 World Cup the bidding committee referred to Belgian and German studies on the matter, but not the, straightforwardly more relevant, Dutch cost-benefit analysis (CBA). Even the Dutch Minister of Sports selectively cited a series of overly optimistic studies regarding

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⁹ In social cost-benefit analysis such redistributional effects generally do not receive as much attention as they deserve and are therefore generally not that well worked out. After the cost-benefit analysis of the Netherlands bidding for the 2018 World Cup was published (see De Nooij et al., forthcoming), the main critique was that redistributional effects from the tax payer to football enthusiasts, clubs and the national football federation and FIFA were insufficiently worked out (Boonstra, 2010). The main reason not to include the redistributional effects in that study was that it was not possible to identify who will actually pick up the public bill of hosting the event in the form of higher taxes.

the potential gains of hosting the World Cup, but not the more objective less optimistic CBA commissioned by the Dutch government (see De Nooij et al., forthcoming; Minister of Sports, 2010). Numerous academic papers note that the quality of commissioned studies conducted for lobbying purposes do not stand up to academic scrutiny and are biased in favor of the interest of the commissioner (see e.g. Crompton, 1995 p. 15; Heisey, 2009, p. 23; Szymanski, 2002, p. 5; Matheson, 2006; Coates and Humphreys 2008, p. 301). In addition, it is frequently not possible to weigh or replicate the results presented in commissioned reports, because the underlying studies tend not to be publicly available (Kevin Heisey, 2009, p. 23; Coates 2010b), to which Matheson (2006) refers as the "missing study" syndrome.

2.6 Media bias in favor of hosting

Generally, the public, policymakers and politicians are enthusiastic beforehand about hosting a mega sports event, while most economists are skeptical about the profitability of such an ambition (Rose and Spiegel, 2011). An explanation for the optimism of the general public and the political elite is found in the bias of media towards hosting, which is reflected in their reporting. There are two reasons for this phenomenon.

First, positive effects regarding great business opportunities for hotels, bars and restaurants in the vicinity of event venues are easier to find and report, because these beneficial effects tend to be highly concentrated. The negative effects on the other hand are much more diffused and frequently intangible and thus more difficult to report about in a gripping way (Coates, 2008).

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¹⁰ In the field of large infrastructural projects Flyvbjerg et al (2002) found that underestimations of the costs of public projects could only be explained by lying by the makers of the budget predictions.

Second, media benefit from a mega sports event taking place locally, since such an event generates a lot of media attention, resulting in overly enthusiastic reporting (Jørgensen 2005, Van Hoof, 2010). Jørgensen (2005) finds that financial interests determine the agenda of sports journalism, and that journalists tend to overlook the economic and political aspects of the sports industry. Jørgensen sees a global business partnership between the sports industry and the sports press as the potent formula behind the booming sports economy. The sports industry needs the media to excite and get people involved. The media in turn needs the sports industry to attract audiences that either pay or attract paying advertisers. This strong link makes independent journalism difficult to maintain. As a result the economic implications of sports events receive little attention although the economic impact of the industry is substantial. Yet, only 6 per cent of the articles regarding sports in daily newspapers deals with the economic and financial aspects of sports (Jørgensen, 2005).

Van Hoof (2010) illustrates this with by means of Euro 2008, the European football championships, in Austria (jointly hosted with Switzerland). Academic research showed ex post that the number of tourist arrivals, the additional value added and employment generated by the event turned out to be much lower than ex ante calculations by the Austrian government anticipated. Despite the modest economic benefits of Euro 2008 the impression put forward by the media afterwards is that the event was a major economic success.

Remarkable coincidence in this respect is that a major Austrian newspaper was a sponsor of the event and television broadcasts were produced by a subsidiary of UEFA. This illustrates the fact that the media and the sports industry are tightly knit, and that media often do not have an interest in reporting objectively about possible downsides or disappointing economic gains of hosting a mega sports event.

As a result of the media having an interest in overly optimistic reporting, this information asymmetry causes the public opinion to shift in favor of hosting mega events. This could in turn motivate politicians to favor hosting the event as well, even if economic advisors argue that such an event might turn out costly. Another possibility is that even politicians ground their position on the matter (at least partly) on media reports on the topic, thereby relying on inherently biased information.

2.7 Happiness and pride

Kuper and Szymanski (2009) explain the desire to host mega sports events with the boost of happiness it generates. Major sports events such as the Olympics are usually weighed in terms of their quantifiable economic impact. Only recently, policymakers have begun to place greater emphasis on possible intangible effects. Feelings of happiness and pride derived from having a mega sports event in the region, or the psychological value to the hosting community, are among the most promising in this respect (Matheson, 2006). Crompton (2004) uses the term psychic income in this respect, which could emanate from the pleasure derived from attending events, being involved in the event as a volunteer yielding a sense of accomplishment, the option value of having the event hosted nearby and feelings of national pride derived from being the host (Kavetsos and Szymanski, 2010). Kuper and Symanski (2009) argue that politicians know by now that organizing a mega sports event will not give the economy a boost. However, they opt for hosting since it makes people happy. Politicians tend not to use the happiness vocabulary in their argumentation, because it is uncommon to debate in these terms. Instead, they debate in terms of small monetary gains for specific voter groups. Politicians are gradually discovering the importance of happiness and the fact that small monetary gains may not be that important (for per capita income levels over \$11.000 per annum happiness does not increase in income; Kuper and Szymanski, 2009 p. 283).

Kuper and Szymanski (2009, p. 286) wonder why politicians generally do not admit that they favor hosting an event because they expect it to increase nationwide happiness, but bother clothing their arguments in bogus economics. Their explanation is that politicians are coming a long way discovering the vocabulary of happiness in their argumentation, while most discussions concentrated on the financial gains until recently. Anything that served only to make people happy was derided with the contemptuous phrase 'feel-good' factor', as if politics should stand above such trivialities. As Kuper and Szymanski (2009) phrase it: "Even politicians are made happier by hosting. Most of their work is frustrating. You try to get money to build, let's say, roads, but other politicians stop you. Even when you get the money, it's hard to build the roads because people pop up to object. It's the same with housing or foreign policy or recycling: being a politician is an endless tedious struggle with your enemies. But it isn't when you want to host a sports tournament. Suddenly everyone gets on board" (Kuper and Szymanski (2009, p. 288)

Finally, note that the fun and pride derived from bidding and hosting for a mega sports event may also lie in beating a particular competing contender in the bidding process. Tomlinson and Bass (2012, p. 308) argue that Londoners derived pleasure and pride particularly from their city beating Paris in the bidding process for the 2012 Olympic Games, even more so than actually gaining the right to host the event itself.

3. Concluding remarks

In this paper we discussed possible reasons why politicians still support bidding for a mega sports event even though economists agree on the fact that the financial gains of hosting should in general be expected to be discouraging. We identify the reasons explaining why politicians may choose to back a bid despite the bleak economic prospects. The reasons we identify are: (1) early political enthusiasm, (2) tying side-projects to the bid to raise political support, (3) biased reading of history, (4) the winners curse, (5) redistribution and lobbying, (6) a media bias in favor of hosting and (7) boosting happiness and pride of residents.

Politicians with the ambition to host a mega event because it brings happiness to the people might make the proper decision, while economists are yet insufficiently capable of capturing this effect in their cost-benefit calculations. Nonetheless, increasing happiness of the people seems to be the only source for welfare gains politicians could credibly employ in order to justify their backing of a bid to host. However, whether happiness and pride are important to an extent where the alternative explanations for political support despite the discouraging empirical evidence regarding the economic returns can be deemed invalid, is questionable. It may just as well be due to the collective foolishness taking over when it comes to matters of the heart like sports (Coates and Humphreys, 2008, p. 311), or hubris and vanity may play a role as well because some politicians strive to be remembered for landmarks projects and events.

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