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An Economist' Thoughts on the Economic Impact of Athens 2004

Yannis M. Ioannides, Tufts University

The Athens 2004 Olympic Games is a large and complex undertaking. I will provide a few details which would help those unfamiliar with the specifics acquire an appreciation of the economic magnitude of the project. Let me also stress that I am not a specialist on the subject. Perhaps naively, I accepted the Symposium's invitation because I thought this was a great initiative by the Harvard and MIT Hellenic Students Associations. Greek students are arguably much better informed about their own country nowadays than the members of my own generation were. Still, there is something very valuable about the exercise of trying to sort through the facts in order to assess the impact of Athens 2004 on Greece while being at a distance.

My presentation will start with some basic figures which will help us assess the economic project. I don't have time, nor sufficient knowledge to pursue all aspects of the project that may naturally emanate from such a basic description. Then I will look at some basic economic problems associated with Athens 2004 as I see them. I will conclude, on what is, hopefully, an optimistic note, which also links with yesterday's activities of the Symposium. This is related, as we shall see to the economic value of development of Greek Civil Society.

1 The Facts

The Olympic Games are organized by a host city. The host city sets up a separate entity, a corporation. The corporation enters into contracts with the International Olympic Committee. To get a sense of the magnitude, the anticipated budget of the corporation that will run Athens 2004 is in the order of 2 bn E, or about 1.8 bn \$. This is to be financed by means of broadcasting rights, 37.5%, marketing revenue from sponsorships and licensing and the

like, 27.7%, the Greek Government, 12%, ticket revenue, 9.3 %, and other resources, 13.5%. Clearly, the direct revenue is only a small part of the entire revenue. As a result, the management of the Games involves a myriad complex deals with different firms worldwide. They range from firms that are to provide catering in the Olympic Village – the announcement for tenders just went out on the Athens 2004 web site, if you are interested! – to firms that build thousand of good and bad taste objects, print tickets, provide outside toilets, and so on.

On the side of expenditure for the Games by Athens 2004, amounts vary. A relatively small amount is 38m \$ to the IOC/GOC for the rights to conduct the Games; a relatively large amount is spending 332m \$ on technological infrastructure and so on.

1.1 The Importance of Cost Sharing

As in the case of many previous venues of the Games, an important component for the smooth working of the event requires athletic, transportation and other major infrastructure projects. In the past, this was particularly the case with the cities that undertook to build facilities specifically for the Olympic Games without much thinking about what is going to happen to them after the Games were over. They often lost money. So, Montreal lost big money on its Games, but US cities like Los Angeles, the 1984 venue, were able to run the Games almost with little extra investment and spending for special purpose public projects.

The fear about Athens 2004 is that it may turn out more like Montreal than Los Angeles. Atlanta, a major US city that possesses the basic infrastructure to handle the influx of hundred of thousands of visitors, had to build from scratch facilities specifically needed for the Olympic Games. To justify their cost, they were meant to be cost shared with other institutions and then were to be turned over to Georgia Tech and other such institutions after the completion of the Games.

Barcelona, on the other hand, is a terrific example of how it took advantage of the 1992 Games to improve itself and take advantage of the opportunity. Civic pride combined with

a cultural tradition and entrepreneurship. My story ... I was fortunate to visit Barcelona in 1990, and then again right after the Olympics and in 1993. The city improved, which is hard to imagine given how wonderful the place is!

2 Two Components of Spending

This then brings us to the economic impact of the Games on Greece. The economic impact emanates from two types of spending:

- First, direct spending by Athens 2004 for carrying out the Games, which is about 1.8 bn \$; and
- second, substantial complementary spending on infrastructure investment and public services by the Greek Government, which may range from about 1 bn \$ and up to 2 bn \$.
- third, spending by visitors; however, I will ignore this component because Athens is a tourist destination and the Games might turn off some visitors.

The economic impact of the Games depends critically on the possibility of transferring the facilities to other uses after the Games are over. Some of the spending by Athens 2004 is in the form of investment spending and thus likely to have some lasting effect, although arguably not very much. However, critics have argued that there has been little specific concern about what to do with the facilities that are specifically being built for the Games after the Games are over, like the Olympic Village, etc.

This being Greece and all that, it is hard to get precise figures on all the relevant items, but it appears that it could well be at least in the order of 1 bn \$ of public money and well in excess of it, up to 2 bn \$. Only a small portion of this is supposed to be officially financed by the 2nd and 3rd Community Support Frameworks from the EU, commonly known in Greece as Kou Pou Sou, ΚΠΣ, but not openly for the purpose of the Games. Many infrastructure

projects are currently in process in the Athens Basin and are Olympics-related. But the Government does not have an incentive to be absolutely clear as to what is made necessary by the Olympics and what may be Olympics-related simply because it will improve the infrastructure and thus contribute to the Olympic Games.

To provide a perspective on these numbers, Greek GDP, at PPP, is about 200 bn \$, implying GDP per capita in PPP of about 18,000 \$. The above numbers for spending on Athens 2004 total to about 10% of Greek total government spending in 2000. Spreading it over say 5 years, would be about 2% per year for 5 years. In per capita terms, it would be about $4,000,000,000/10,600,000 = 380$ \$ per person. This is about one-half of what Greece spends on education per year.

2.1 Congestion and Environmental Impact

Let's turn to some negative impacts.

The pressing nature of the time horizon — it is not really possible to postpone the Games —, and again this being Greece, little serious thinking was done about how to plan facilities upgrading and the like and nor with any careful considerations of environmental impact.

Spending by the Greek Government on complementary projects is concentrated almost entirely in the Athens Basin. And, they are intended to deal with problems of peak demand.

With respect to environmental impact, in particular, a good case in point, that has generated enormous controversy, is the building of the Canoeing/Kayak/Rowing Center in Schinia, a beach front site in the northern coast of Attica, that will likely contribute to the destruction of one of the few remaining natural conservation areas in this part of Greece. Here, like in many such instances, “the devil is in the details”: proponents and opponents have battled over numerous details. Yet, it is fair to say that till now, we have seen little concern over the preservation of open space in Attica. Open space is in extraordinarily short supply in the urban landscape of Athens. Some people think too much concrete is being poured on too many places, even before the Olympics.

In a nutshell, the real question here is whether Attica will be a more livable place after all the new projects which are deemed to be indispensable for the Olympic Games have been completed than it was before. My hunch is that it would become less livable. Of course, it would be hard to know what Attika would have been like, if these projects had not taken place. Would open space have stayed unused, or some typically anarchic development would have continued?

Still, precisely because many facilities are built to handle peak demand problems, they are not likely to be utilized as productively over time as it would have been the case otherwise. So, what should have been done instead?

Take the specific case of the Rowing Center in Schinia: several commentators suggested alternative venues, like for example Castoria, or Ioannina, both cities that are next to lakes, were available. Would investments there have paid more? Spending would have been necessary, and perhaps “smart” spending so as to be able to return the facilities to more general use. Of course, such alternative venues could have been found for many more events than what have been chosen so far. Such an approach would have directed attention and resources to fewer peak problems and could have been planned to utilize many different sites throughout the country. This, then, brings us to the issue of national and regional development. Spending on complementary projects would have had a greater impact, roughly speaking, if it had been decentralized, other things being equal. Currently, Attica is receiving the lion’s share of these resources.

3 Decentralization and Citizen Participation

Decentralizing the Games would also have helped address another, and in my opinion, critical inadequacy of modern Greek society, that is the glaring lack of any public debate on major public projects. There is never any serious public review of public projects, whether they are administered at the local or the national government level. Decentralizing more of the

activities would have given a great opportunity for local advocacy groups and other actors in Greek civil Society to contribute to planning of their own local environments. This would have been a golden opportunity to launch serious citizen participation in regional and local planning. Such an experience would have provided a massive exercise in investment in social capital, which could complement the fair amount of regional and local decentralization that has been associated with the implementation of the Kapodistrias Project.

Perhaps, these are exotic thoughts, yet there have been several instances of local awakening and awareness of the arbitrariness with the local public sector operates, and of the unbearable ugliness it continues to spread over the lovely Greek countryside. I owe my own appreciation of such a different,, decentralized, approach to press reports on local advocacy groups. It also important to note that effective provision of local public goods is an important contributor to national productivity.

Still, one might argue that other things are not equal: more spending in the same area may give rise to agglomeration economies, unless of course Attica has reached diminishing returns due to congestion. And there have a number of precise ideas about what to do with various facilities, especially those that may be converted to other uses, like the Olympic Village. For example, one of the ideas proposed for the Olympic Village was to be designed so as to be turned into a university campus. Given how miserable the facilities of some of the universities in Athens are, that is an attractive idea, in principle. What happened to it?

4 The Opportunity Cost of Public Spending

Regardless of where the spending occurs, geographically speaking, the appropriate way to evaluate public spending is in terms of what else would the government have done with the money it is spending on Athens 2004 related projects. That is, what would have been an alternative use of the roughly 1 bn \$ of public money, if it were to invested in other areas? While undoubtedly a lot of infrastructure investment is productive, investment in human

capital is even more productive. Greece is currently underinvesting in human capital.

To give a sense of what it means to invest in human capital let me give you a concrete example using figures from the institution that is currently hosting this event: Harvard University.

Harvard conferred about 6000 degrees in 2001 (excluding Harvard Extension), and spent about 2 bn \$, in the year ending June 30, 2001. This amounts to 333000\$ per degree. This is too rough, but let us say that this is the cost of an average Harvard degree. MIT and Tufts degrees cost less; sorry! So, roughly speaking, the spending by the Greek Government on Athens 2004 could have produced 3000 Harvard-trained individuals.

Take your pick: it is interesting to speculate what the country would have chosen, if it had been confronted with such a hypothetical choice through a democratic process. But, I know what I would have chosen: the 3000 Harvard trained individuals. Just imagine letting loose 3000 Harvard trained young people into the Greek economy.

Yet, in spite of this specific dilemma, I think the majority of the Greek people would approve of the Athens 2004, although I dont think they know they exact costs. In that case, there is clearly another benefit: the sense of accomplishment for the nation from successfully hosting the Games. So, at the end of the day, it behooves Greece to do a good job.

A critic might say, this sense of accomplishment is in the sphere of consumption rather than investment: it makes people feel good about themselves and the country but does not improve the country's ability technological base.

5 Volunteerism

Let me end by looking at an aspect of Greek civil society that is highlighted by the Games. The organizers are looking for volunteers. I still remember being teased – as an adult – when I joined a “progressive” new Mayor of Symi in cleaning trash from the streets. Volunteerism is a great project that is likely to have a lasting impact on Greece, if it succeeds. A lost

sense of social responsibility will acquire roots to grow in Greek society. If anything, Greek institutions have become very materialist. The pursuit of the immediate gain dominates everything. The charges of corruption that are dominating Greek political life at present are a very telling symptom. A major effort in the direction of volunteerism would help build social capital and make a change in the opposite direction.

6 Conclusion

To summarize, spending by Athens 2004 would not likely have a lasting impact. It would have had more if facilities had been more carefully planned for future use and if there had been greater decentralization within the country. Spending by the Greek Government would have more of a lasting impact, and that too would have been more effective if it had been decentralized and had involved local planning and citizen advocacy groups. Volunteerism, if it succeeds, will have a lasting impact.

Let's hope it does succeed and so do the Games! See how Barcelona has changed. I cannot even begin to contemplate the psychological impact on the country, if they fail, although there are many degrees of failing. I consider this a more important failure than if the country fails to generate what it expects in the form of direct and indirect economic benefits. Perhaps the consequences of failure would be so enormous on Greek morale that Athens 2004 cannot afford to fail. If the Salt Lake City Winter Olympics had failed, the impact on the US overall would be nearly imperceptible. But not in the case of Greece: For Athens 2004, the stakes are enormous, as they were in Barcelona!

Thank you!