

Impact of olympic games on the uk economy



London was elected as favourite to host the 2012 Olympics ahead of major cities like New York, Moscow, Paris and Madrid. Needless to say, there was jubilation and celebration in the UK to celebrate this victory. Or was it really a victory? The bid was won in July 2005 and development and preparation plans started almost immediately with the creation of the London Organising Committee for Olympic Games, Olympic Delivery Authority and the Government Olympic Executive. The venue has been set for East London.

There has been a lot of controversy spurred by the media, academics, businesses, residents and politicians about the real impact of these games on the UK economy. Economic impact assesses spending, revenue as well as employment, business growth and development arising from a particular project (Blake, 2005). The impact could be direct or indirect (spillovers), short term or long term (Blake 2005).

Assessing the true economic impact of such colossal events ex post can be daunting and difficult given that the events though staged in London have spill over effects on the rest of the UK economy. Some of the benefits such as 'exposure' can be difficult to quantify given that its effects will be felt for years to come. A cost benefit analysis however seems suited for such an assessment. Notwithstanding, there have been many other Olympic games for example Atlanta 1996, Sydney 2000, Athens 2004, and Beijing 2008 which could be used to draw useful insights on the potential impacts of such games. The importance of reviewing past Olympic Games lies with the fact that some benefits or costs will not be realised until sometime in the future. My approach to assessing the economic impact of the Olympic Games on the UK economy will therefore be to briefly review research on the economic

impacts of Olympic Games in other countries as well as perform a cost benefit analysis based on past published literature and public information on the London 2012 Olympics in the UK.

Sands (2009) assessed the impact of the Olympics in Beijing noting that China spent about \$40 billion to develop Beijing in preparation for the games. He contends that the games impacted positively on several business sectors in Beijing including advertising, communication, sports, energy and leisure sectors. Birkendorf (2009) contends that economic growth in Beijing has been spurred by heavy infrastructural investments in the city allowing businesses to attract foreign investments and gain foreign exposure.

Despite this purported growth some studies argue that the long term benefits of hosting the games are not very clear (Kasimati, 2003; Lee and Taylor, 2004; Mathewman et al., 2009). In the case of Beijing this assertion has been supported by several articles in the tabloids (business week 2008, the economist 2008).

Mathewson et al., (2009) noted that Athens spent considerably less (\$11 Billion) to host their game and much of this was spent on infrastructure (airports, rails, roads and buildings) which was direly needed in the city. Alexandris (2007) argues that the infrastructure built now provides more homes for more than 3000 families. Kasimati and Dawson (2009) noted that the venues built is costing that government more than half a billion dollars in yearly maintenance costs and most of these venues are falling into dilapidation.

Same stories have been reported for the Atlanta and Barcelona Olympic games. The recurrent results reported are on it's social, environmental impacts and short term economic impacts with little to say about the economic impact in the long run. Quantification of economic impacts have particularly been avoided.

As of 2007 according to the BBC (2007), the budget for the London games was £9.345 Billion to be raised from three sources; the government (63%), the national lottery (23%) and London municipality (13%). The committee hopes to raise funds from the sale of tickets, from sponsors and from advertisers. The UK government's department for Culture, Media and Sports commissioned PWC to produce an impact assessment for the Olympic Games and this report provides the source of many of its arguments.

Income

The committee estimates a sale of over 9.5 million tickets through the event. Several sponsors have already lined up to contribute funds towards this event. The event will also be used to raise advertising revenues through different media. Olympic souvenir items including t-shirts, banners, scarves etc will go on sale to raise additional revenues. More revenues will be raised from the sale of broadcasting rights to media companies.

Tourism and tourism income is bound to increase in the longer term.

Mathewman et al., (2009) contends that over 8 million spectators will arrive in London spending over £2.1 Billion. The income effect will be felt before, during and after the games.

Although London is currently an investment powerhouse, it is facing stiff competition from other major financial centres. Mathewman et al., (2009) argues that the Olympics will expose London and rebuild its reputation as an investment hub. Mathewman et al., 2009 cite the cases of the Atlanta which attracted over 1600 companies in the ten year period post games and Catalonia which experience 200 new foreign direct investments after the 1992 Olympics. Inward investment benefits companies, residents and the government economically.

Employment

Mathewman et al., 2009 argues that the game has the potential of creating 8000 construction jobs each year since 2008 reaching a maximum of 20. 000 jobs in construction. Gordon Brown the Ex Prime Minister hailed the project for its potential to create over 30. 000 jobs which were badly needed in the current economic climate. Blake (2005) analysed the employment impact of the game and showed that although jobs will be created in some sectors of the economy other sectors will experience job losses. In his analysis, most jobs would be created in the hospitality and construction sectors while finance and manufacturing will experience losses. The net effect shown by his model is an increase in employment commensurate to the levels proposed by the Ex Prime Minister. The British Library (2009) argues that the games have a positive employment impact as many regional agencies are using the games to train volunteers, improve their skills and experiences to enable them get paid employment.

Criticisms of the potential of the games to improve employment have been drawn in the media (British Library, 2009). These have been due to the fact that cheaper foreign workers are being used by contractors to save costs. This severely dampens the effect of the games on residents in the London area.

Infrastructure and Social Development

The effects of the games will be largely visible in terms of infrastructural development and regeneration of the East London area. Compared to other areas such as the West and Central part of London, this area has received little investment and development over the years (london2012. com).

Several regeneration projects are underway. These include the extension of the East London Over-ground line and the introduction of high speed rails etc. Aside from transport regeneration, new sports facilities will be built which will improve the social life of the residents. The London development agency which is footing over 13% of this bill has further plans to build 10000 new homes over 30 years to support the current 3000 homes built in the Olympic village (london2012. com). Blake's (2005) analysis shows that the increase in welfare to London residents can be valued at £4Billion.

The economy

The event will draw people from every corner of the world to the London area. Businesses are bound to experience substantial growth in sales over this period. Blake (2005) contends that the rest of the UK will experience a GDP increase of about £1. 936Billion while London's GDP will increase by 5. 900Billion from 2005 to 2016.

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Blake (2005) showed that the games will impact different sectors of the economy differently. The biggest gains will be made by construction, sports and business services while the biggest losers (comparatively) will be manufacturing, mining and finance sectors. Small businesses around the UK are well placed to benefit from spill-overs from the supply chain. A House of Common's report (2009) suggests that over 80000 businesses will gain new contracts related to the Olympic games.

In summary, the economic benefits to be derived from the games are potentially enormous. Clark (2008) contends that hosts of Olympic games stand to benefit through, increased private and public investment, improved image and identity which draws in trade, tourism development, supply chain development and expansion, positive environmental gains, social benefits through improved buildings, infrastructural developments, employment, social and economic inclusion etc

Nonetheless not all revenues will be generated from outside the UK. This games will adversely affect (and divert) spending in other cities as more people move from other areas to participate in the London games. ETOA (2010) contend that Olympic Games have an adverse effect on tourism. Their argument is that Olympic visitors are more interested in sports than leisure and therefore turn to spend very little on leisure. These type of visitors also scare away real tourists (ETOA 2010). Anecdotal evidence which is derived from Atlanta 1996 Olympics show that hotel occupancy fell by over 5% during the year (ETOA 2010).

In a nutshell, although Olympic Games arguably have an overall positive short term economic impact, it adversely affects some sectors of the economy. In the long term, social welfare and development is ameliorated but there is little evidence to indicate that Olympics provide long term economic gains.