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## **Bidding for Sport Mega-Events**

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## BIDDING FOR SPORT MEGA-EVENTS

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**ABSTRACT:** Sport mega-events such as the Olympic Games and FIFA World Cup, or on a smaller scale the Commonwealth Games or regional events, attract competing bids from nations or cities. These bids are mostly made at tax-payers' expense and spending is often large and non-transparent. Our paper addresses the question of why large sums of public money are spent in an attempt to secure uncertain rights to host events which, according to *ex post* studies, often yield few gains. The paper analyses the economics of the bidding process, emphasising public choice aspects of mega-event bidding to identify the interaction of potential beneficiaries and policymakers' interests. We do not directly enter debates about legacies of hosting mega-events, but ask why public money is spent on a bidding process which is even less likely to realize net social benefits. The empirical part of the paper uses past bids from the state of South Australia, a demonstrated bidder for various sports mega (or not so mega-) events with a mixed record of success, as a case study of the economics of bidding.

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## BIDDING FOR SPORT MEGA-EVENTS

Sport mega-events such as the Olympic Games and FIFA World Cup, or on a smaller scale the Commonwealth Games or regional events, attract competing bids from nations or cities. These bids are mostly made at tax-payers' expense and spending is often large and non-transparent. The benefits from bidding are equal to the net benefits from hosting the event multiplied by the probability of a successful bid, minus the cost of the bidding process. Losing bids incur costs for little if any *ex post* benefit.<sup>1</sup> Moreover, even a successful bid may yield little social benefit: *ex post* cost-benefit analyses of sporting mega-events suggest that the net gains to the host community are often negligible or negative. This paper analyses the economics of the bidding process, addressing the question of why large sums of public money are spent in an attempt to secure uncertain rights to host events which yield few, if any, economic benefits.<sup>2</sup> Several examples are presented and we pay particular attention to the public choice aspects of the phenomenon of mega-event bidding.

The popular and academic literature is centred on bidding for the Olympic Games and for the FIFA World Cup. This literature provides contextual background, because attitudes to sports mega-events are largely driven by these two high profile quadrennial events. However, the difficulty of predicting the winners of contested bids limits the value of these two events for shedding light on the wider phenomenon of why cities or countries spend resources on bids for sports mega-events. Instead of focusing on bids for a mega-event, an alternative approach is to examine a bidder's behaviour over a range of mega-events. The final part of the paper uses past bids from the state of South Australia, a serial bidder for various sports mega (or not so mega-) events with a mixed record of success, as a case study of the economics of the bidding phenomenon. Despite a series of *ex post* studies showing that past events have yielded minimal social benefits and in at least one case overblown net costs, the state government continues to fund, directly and indirectly, bids for future sport mega-events.

We begin by presenting a basic model which captures the interaction between governments and special interest groups in the determination of equilibrium bids. Our aim is to formalise some of the issues, without addressing more problematic aspects such as the interaction with and decision making process of the body with power to award the event to a

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<sup>1</sup> They may play a signalling function and reduce the cost of a subsequent bid, but that still does not explain why bidders incur a cost in order to enter the process.

<sup>2</sup> Dwyer et al. (2006) review the literature on the economic impact of mega-events, emphasising that studies finding net benefits are methodologically flawed because they ignore general equilibrium implications.

particular location, or competitive behaviour between rival nations/cities.<sup>3</sup> The second section reviews the, largely descriptive, literature on bidding for sports events. The third section reports the history of mega-event bidding and some case studies from the State of South Australia, emphasising dynamic elements such as learning and the creation of vested interests which influence future bidding behaviour. The theoretical model and the empirical analysis suggest that understanding of the bidding process requires a political economy (public choice) approach, and that large gaps remain in our understanding of the political process under which bids are made. In the conclusions we discuss the role of transparency and issues such as the role of public beliefs as to benefits and costs of proposed events.

## 1. The Model

To illustrate the potential role of lobbying in the sports bidding process, we present a model based on the common-agency framework of Grossman and Helpman (1994) in order to explain the size of a bid ( $B$ ). We assume that there are three groups in society: a single lobby group which benefits from the bidding process, the public, and the government.<sup>4</sup> The ex ante estimates of the returns from hosting the event ( $R$ ) are accepted as true by all parties in the model.

The lobby group makes political contributions ( $S(B)$ ) to the government, which are contingent on the level of the bid made ( $S' > 0$ ,  $S'' < 0$ ). The group is a direct beneficiary from the bidding process. Benefits could include profits derived from marketing activities, pre-hosting construction (as part of a bid), benefits to a particular sporting association, etc. In other words, we wish to keep the notion of a third party which yields some private benefit from bidding for mega-events as broad as possible. In addition, should the event be won, it is logical to assume that the lobby would also gain some additional benefit. Denote the returns extracted by the lobby from the bidding process as  $\Pi(B)$ , with  $\Pi' > 0$ ,  $\Pi'' < 0$ , where  $\Pi = \Omega(B) + (1 - \gamma)\rho(B, \alpha)R$ . The first term captures the direct benefits from the bid and the second the share of the estimated gains which accrue from hosting an event. The

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<sup>3</sup> For some mega-events a preliminary competition determines which city will be the national bidder, while for other events cities bid directly in a single stage. When governments make the case for a bid, there tends to be little discussion of rival behaviour. Moreover, nations with seemingly little chance of success often bid against more likely candidates, e.g. the bids to host the 2018 Football World Cup by Indonesia and by Qatar in 2022, where playing temperatures are likely to exceed 40 degrees.

<sup>4</sup> We ignore competition between rival lobby groups. The specification here implicitly assumes that there is one lobbying citizen and one public person. This assumption is made for simplicity without changing the intuition behind the results which follow.

parameter  $\gamma$  captures the proportion of this benefit which, in the event of a successful bid, falls to the general public ( $\gamma \in (0,1)$ ).

The public are assumed to bear the full cost of any bidding ( $B$ ) which takes place. The probability of winning the event is denoted  $\rho(B, \alpha)$ , where  $\rho'(B) > 0$ ,  $\rho''(B) < 0$ ,  $\rho(B=0) = 0$ ,  $\rho'(\alpha) > 0$ ,  $\rho''(\alpha) < 0$ ,  $\rho \in (0,1)$ . A larger bid increases the probability of success, but with diminishing marginal returns.<sup>5</sup> The probability of success also turns on the exogenous parameter  $\alpha$  which captures characteristics of the potential host at the time of bidding.<sup>6</sup> The utility of the lobby and the public can thus be expressed as:

$$U^L = \Pi(B) - S(B) \quad (1)$$

$$U^P = \gamma\rho(B, \alpha)R - B \quad (2)$$

Where  $\gamma \in (0,1)$  is the proportion of exogenous returns to hosting the event captured by the public. The costs associated with the bid ( $B$ ) are fully borne by the public, which assumes that the contribution of the lobby group to the cost of the bid is zero.

The government's utility is a weighted sum of contributions received from the lobby group and aggregate welfare ( $W$ ) associated with the bid.

$$U^G = S(B) + \theta W(B) \quad (3)$$

Consistent with Grossman and Helpman (1994), we assume that the relative weight ( $\theta$ ) ascribed to aggregate welfare vis à vis contributions is determined exogenously. Aggregate welfare is the sum of all agents' utility. Contributions made by the lobby group are received by government and cancel out in aggregate. Hence, aggregate welfare is specified as:

$$W = \Omega(B) + \rho(B, \alpha)R - B \quad (3a)$$

### 1.1 Equilibrium Conditions

The lobby group makes contributions which are contingent on the level of  $B$  chosen. With both this and aggregate welfare in mind, the government chooses  $B$ . The conditions for an

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<sup>5</sup> Note, however, that if the potential host does not make a bid, it has no chance of success. Put differently, it is evident that hosting rights are not awarded on the basis of  $\alpha$  alone. Obviously, there is a likely interaction between attributes and the bid which is discussed below.

<sup>6</sup> Such characteristics might include, political stability, enforcement of law and order, location and attractiveness to fans. Examples are Brazil's status in soccer (a high  $\alpha$  for its 2014 World Cup bid) and hooliganism (reducing  $\alpha$  for England's 2018 World Cup bid). While some of these factors change over time, we consider them fixed at the point in time in which a bid is made.

equilibrium of this type of menu-auction game are set down in Bernheim and Whinston (1986):

$$B^* \in \text{Arg max } U^G(B) = S(B) + \theta W(B) \quad (\text{BW1})$$

$$B^* \in \text{Arg max } U^L(B) + U^G(B) \quad (\text{BW2})$$

(BW1) indicates that the equilibrium bid ( $B$ ) is chosen to maximise a weighted sum of contributions from the lobby group and aggregate welfare, while condition (BW2) requires that joint welfare of the lobby and the government is maximised. From equations (1) and (3):

$$\text{BW1: } \frac{\partial U^G}{\partial B} = \frac{\partial S}{\partial B} + \theta \frac{\partial W}{\partial B} = 0 \quad (4a)$$

and

$$\text{BW2: } \frac{\partial U^L}{\partial B} + \frac{\partial U^G}{\partial B} = \frac{\partial \Pi}{\partial B} - \frac{\partial S}{\partial B} + \frac{\partial S}{\partial B} + \theta \frac{\partial W}{\partial B} = 0 \quad (4b)$$

Hence,

$$\frac{\partial \Pi}{\partial B} - \frac{\partial S}{\partial B} + \frac{\partial S}{\partial B} + \theta \frac{\partial W}{\partial B} = \frac{\partial S}{\partial B} + \theta \frac{\partial W}{\partial B} \quad \text{and} \quad \frac{\partial \Pi}{\partial B} = \frac{\partial S}{\partial B} \quad (4c)$$

Equations (4a-4c) imply that around the equilibrium point, contributions will be offered such that the marginal cost of changing policy is equated to the marginal benefit of such a change. Such contributions are coined by Grossman and Helpman as „locally truthful“.

## 1.2 The Government's Decision on the Size of the Bid

By substituting (4c) into the right hand side of the government's first order condition in (4a), it is evident that the equilibrium bid will be chosen to satisfy:

$$\frac{\partial U^G}{\partial B} = \frac{\partial \Pi}{\partial B} + \theta \frac{\partial W}{\partial B} = 0 \quad (4d)$$

Using (1) and (3), the associated first order condition is:

$$\frac{\partial U^G}{\partial B} = \frac{\partial \Omega}{\partial B} + (1-\gamma) \frac{\partial \rho(B, \alpha)}{\partial B} R + \theta \left[ \frac{\partial \Omega}{\partial B} + \frac{\partial \rho(B, \alpha)}{\partial B} R - 1 \right] = 0 \quad (5)$$

Totally differentiating (5) and performing the relevant calculations yields the following results:<sup>7</sup>

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<sup>7</sup> Proofs of all results appear in the Appendix.

$$\text{R1. } \frac{dB}{dR} = \frac{-\left[(1+\theta-\gamma)\frac{\partial\rho}{\partial B}\right]}{\Delta} > 0$$

$$\text{R2. } \frac{dB}{d\gamma} = \frac{\frac{\partial\rho}{\partial B}R}{\Delta} < 0$$

$$\text{R3. } \frac{dB}{d\alpha} = \frac{-\left[(1-\gamma+\theta)\frac{\partial^2\rho}{\partial B\partial\alpha}R\right]}{\Delta} \begin{matrix} > 0 \\ < 0 \end{matrix}$$

$$\text{R4. } \frac{dB}{d\theta} = \frac{-\left[\frac{\partial\Omega}{\partial B} + \frac{\partial\rho}{\partial B}R - 1\right]}{\Delta} \begin{matrix} > 0 \\ < 0 \end{matrix}$$

$$\text{where } \Delta = (1+\theta-\gamma)\frac{\partial^2\rho}{\partial B^2}R + (1+\theta)\frac{\partial^2\Omega}{\partial B^2} < 0$$

The size of the bid will increase with the estimated returns ( $R$ ) from holding an event. While the uncertainty of the estimate of  $R$  is not modelled here, the result highlights the importance of *ex ante* versus *ex post* estimates of benefit. A well known result from the sports economics literature is that the gains realised after an event is held are often found to be well short of initial estimates. This provides a potential feedback insofar as potential beneficiaries from a bid have an incentive to promote a high *ex ante* estimate of  $R$ .

While government is willing to spend more on the bid when these gains are high, the effect is tempered by a high value for  $\gamma$ . In R1 the term  $(1+\theta-\gamma)$  is unambiguously positive and decreasing in the parameter  $\gamma$ . Hence, if the gains from winning the event fall less to the lobby, the government response to an increase in estimated benefits will be more muted. Direct support for this result is provided in R2, in which the level of the bid falls with the parameter  $\gamma$ . Again, a lower share of the spoils for the lobby, which as shown receives a higher weight than the general public in government decision making, implies the government is less willing to spend on a bid. The signs of (R3) and (R4) are dependent on the values of certain parameters and assumptions in the model. If the marginal effect of bids rises with attributes, then the sign of R3 is positive. Intuitively, as exogenous attributes become more favourable, this increases the effectiveness of bidding, and the effect is greater when  $R$  is large. Conversely, if bid spending and attributes are substitutes, then the sign of R3 is negative. The sign of (R4) depends on the gains relative to the costs of bidding. Where

the gains are large, an increase in regard for aggregate welfare will lead to a higher bid.<sup>8</sup> If costs are high, an increase with regard to public welfare leads to a lower bid.

### 1.3 Contributions from the Lobby Group

The lobby group chooses contributions to maximise its utility in (1). The first order condition is:

$$\frac{\partial U^L}{\partial S} = \frac{\partial \Omega}{\partial B} \frac{\partial B}{\partial S} + (1-\gamma) \frac{\partial \rho}{\partial B} \frac{\partial B}{\partial S} R - 1 = 0 \quad (6)$$

In equilibrium, the lobby will chose contributions to equate the marginal cost of a political donation with the marginal expected gains it receives from both the bidding process and its share of the hosting benefits.<sup>9</sup> Totally differentiating (6) and evaluating yields:<sup>10</sup>

$$\text{R5: } \frac{dS}{d\gamma} = \frac{\frac{\partial \rho}{\partial B} \frac{\partial B}{\partial S} R}{\theta} < 0$$

$$\text{R6: } \frac{dS}{d\alpha} = \frac{(\gamma-1) \frac{\partial^2 \rho}{\partial B \partial \alpha} \frac{\partial B}{\partial S} R}{\theta} \begin{matrix} \geq 0 \\ \leq 0 \end{matrix}$$

$$\text{R7: } \frac{dS}{dR} = \frac{(\gamma-1) \frac{\partial \rho}{\partial B} \frac{\partial B}{\partial S}}{\theta} \geq 0$$

where

$$\theta = \frac{\partial \Omega}{\partial B} \frac{\partial^2 B}{\partial S^2} + (1-\gamma) \frac{\partial^2 \rho}{\partial B \partial \alpha} \frac{\partial B}{\partial S} R < 0$$

Result R5 indicates that equilibrium contributions to the government will tend to be lower when the share of hosting benefits which accrue to the public (instead of the lobby) are high. Intuitively, when the benefits which accrue to the lobby from winning the right to host are small, the marginal benefits of lobbying for a bid are eroded. The sign of R6 depends on the effect attributes have on the marginal product of bidding. Where attributes strengthen the

<sup>8</sup> However, note that the gains could be toward either the lobby or the public, with the effect holding even if the latter group receives little. One possibility is that  $\partial \Omega / \partial B < 1$ . Evidence suggests that bids are often partially spent on travel for overseas delegates, etc. However, note that even with such an assumption, the stronger the effect of a bid on the lobby group's profits, *ceteris paribus* the exogenous gains (R) can be lower.

<sup>9</sup> With monetary contributions the marginal cost of a political contribution is equal to unity.

<sup>10</sup> All proofs appear in the Appendix.



effect of bids on winning hosting rights, the lobby is more prepared to make contributions. Intuitively, as the chances of success are greater due to the exogenous characteristics, it is more worthwhile to lobby for a bid to be made. Result R7 reveals that higher estimated gains ( $R$ ) will induce greater lobbying effort to induce the government to bid more. This arises due to two factors. First, the government will suffer a lower political loss when  $R$  is high (aggregate welfare will be expected to increase in the event that a bid is successful), and hence less contributions are required to influence the government. Second, as the lobby is a direct beneficiary to these estimated returns, it has a stronger incentive to lobby for a bid to be made.

Note that the magnitudes of expressions (R6) and (R7) fall when the proportion of the estimated benefits which will accrue to the public is higher. In the limit, where  $\gamma=1$ ,  $dS/dR = 0$ . Such a case does not imply that no lobbying for a bid takes place, however in the limiting case contributions will turn only on the direct effect on the lobby's profits through  $\Omega$ . If all of the gains from actually hosting the event fall to the general public, the lobby group will not have a regard for the chances of success arising from the bid itself; the sole gain to the lobby is from its participation in the bidding process.

#### 1.4 Discussion

Taken together, the results indicate that lobbying efforts and bidding will be unambiguously higher where the estimated gains ( $R$ ), the proportion of the gains accruing to special interests ( $1-\gamma$ ), or the direct benefits accruing to the lobby from the bid ( $\partial\Omega/\partial B$ ) are greater. This is unsurprising given that each raises the potential benefits for the lobby group and hence induces it to make contributions. Such contributions are only made contingent on the government making a higher bid. However, the results bring several issues relating to mega-event bidding into new light.

First, and perhaps most pronounced, is the effect of estimated gains from holding the event. We assume that the estimate of gains is taken as given, but it has been well documented that *ex post* estimations of benefits from events such as the Olympics tend to be much lower than *a priori* ones. This is a problem which is now gaining increased recognition in the media, however, what has been largely ignored is that overstated benefits may have the effect of increasing both the quantity and efficacy of special interest group lobbying. We also note that, although not modelled here, special interest groups tend to strongly advocate the

„large“ gains which are likely to accrue from hosting mega-events. This type of lobbying of the public acts as a complement to its direct lobbying of the government. Similarly, governments may also have an incentive to overstate estimated public benefits in order to lower the political costs of catering to lobbying demands (and perpetuating the payment of political contributions).

Our results suggest that interactions between lobby groups and government can lead to a bid which is not in the public interest. Bidding will be greater where the direct gains to lobby groups from the process itself are higher and when the lobby group receives a larger share of the benefits from actually hosting the event. The diversion of tax revenue to lobby groups (i.e. the direct gains) and the accrual to those groups of a larger share of the benefits from a successful bid may be in politicians' interests rather than the interests of the public, and both government and the lobby group may prefer to obfuscate how B and R are distributed.

As will be shown below, information relating to how bids are spent is often not readily available to the public. The results bring into question the role of the decision making process of the governing bodies making decisions over hosting rights. At very least, a strengthening of public disclosure rules about *how* bid money is spent appears to be warranted. Moreover, both groups may have a strong incentive to overstate the gains associated with hosting an event. Hence, public information which reveals the manner in which bids are spent has the capacity to increase public awareness as to potential beneficiaries from the process (which might limit the credibility of these groups' claims as to public benefits) and make governments more accountable for the sums they spend on bidding.

## **2. Literature**

Many sporting events have a natural monopoly element due to the quest to know the true champion. In many sports this was driven initially by an amateur spirit, embodied in the Olympic Games or in Wimbledon in tennis, where professionals were not allowed to compete. Gradually such mega-events became professionalized and commercialized. This section reviews the background in the context of bidding to host mega-events. For the Olympic Games, 1986 marked a dividing line when competitive bidding and emphasis on commercial success became more pronounced. The 1990s saw increasing belief in the economic, as opposed to more narrowly sporting, benefits of hosting mega-events, which

encouraged countries, provinces and cities to compete to host a wide range of sporting and other events. For the soccer World Cup, the 2000 vote on bids to host the 2006 event was a watershed. For both the IOC and FIFA, the turn of the century saw bad publicity about lack of transparency and potential for corruption in the bidding process.

The Olympic Games is a benchmark for sporting mega-events, and likely to have lessons for the bidding process for other mega-events. Federsen, Maennig and Zimmermann (2007 – henceforth FMZ) divide the history of Olympics bidding into five phases, and argue that competitive bidding only characterized the last two phases (i.e. since the selection in 1986 of Barcelona to host the 1992 Games). The taxonomic section of their paper is valuable in setting out the global context of attitudes towards hosting sporting mega-events. In Phase 1, from 1896 to World War II, the Olympic Games were held in Western Europe or the USA, with little competitive bidding. In Phase 2 the number of bids began to increase, and locations became more global with Melbourne 1956, Tokyo 1964 and Mexico 1968. At the same time, however, the Games became more politicized. In Phase 3 fewer cities were interested in bidding: Munich, Madrid, Montreal and Detroit for 1972, Montreal, Los Angeles and Moscow for 1976, Moscow and Los Angeles for 1980, and Los Angeles for 1984. In contrast to the financial disaster of Montreal 1976, the LA 1984 Games, and to a lesser extent Seoul 1988 were considered financially successful, and ushered in the post-1986 era of more competitive bidding. FMZ divide this period into two phases separated by the 2001 scandal surrounding bidding for the 2008 Winter Olympics. The bidding process was reformed to make it more transparent for the 2008 Olympics. Nevertheless, transparency does not guarantee predictability; up until the moment that the decision on 2012 was announced Paris was planning a celebration party, but London's bid was successful.

FMZ analyse the bids for the six Olympics from 1992 to 2012 to determine characteristics of success. Most variables, including all national economic variables, are not significant, and even in the statistically most satisfactory specification (panel logit with fixed effects) only three variables (distance from venues to the Olympic village, number of beds within fifty minutes' travel time, and average temperature) have coefficients significantly different from zero at the ten percent level, and R-squareds are low. Only two out of six successful bids are predicted by any model, although FMZ find comfort in their models' ability to predict unsuccessful bids accurately. However, many of the failures are no-brainers

– no serious model should predict that Havana’s two bids would succeed.<sup>11</sup> The conclusion appears to be that the necessary conditions for a successful bid are relatively easy to identify, but sufficient conditions are not.

A separate Winter Olympics dates from 1924,<sup>12</sup> and until 1992 they were held in the same year as the Summer Olympics, but with fewer feasible host countries.<sup>13</sup> After 1992 they split from the Summer Olympics and have been held on alternating even years. The rise of television greatly enhanced the profile of the Winter Games and created a lucrative income stream, which has been associated with more competitive bidding and a major corruption scandal.

Salt Lake City bid for the 1998 Winter Olympics, but lost the IOC vote to Nagano (Japan). This may have been because the USA had won the 1996 Summer Olympics, but the Salt Lake Organizing Committee (SLOC) thought that Nagano had spent more on wooing the IOC voters.<sup>14</sup> When Salt Lake City bid for the 2002 Winter Olympics, they spent millions of dollars on perks including ski trips, scholarships, Super Bowl trips, plastic surgery, real estate deals for IOC members and jobs for their family members. In 1995 the IOC announced Salt Lake City the winning bidder. Scandal broke in December 1998, when Swiss IOC member Marc Hodler announced that several members of the IOC had taken bribes. Before any of the four independent investigations (by the IOC, the USOC, the SLOC, and the United States Department of Justice) could get under way, the two heads of the SLOC resigned. The Department of Justice filed fifteen charges of bribery and fraud against the two, although both were eventually acquitted of all criminal charges in December 2003. Although no laws had been broken, as a result of the IOC investigation, ten members of the IOC were expelled and another ten were sanctioned - the first expulsion or sanction for corruption in IOC history. Stricter rules about acceptance of gifts and ceilings on how much IOC members could accept from bid cities were put in place for future bids.

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<sup>11</sup> There is a large literature, much of it non-rigorous consultancy reports, on the anatomy of a successful bid in terms of marketing, bid-team composition and so forth, captured in Westerbeek et al. (2002) and reviewed in the South African context by Swart and Bob (2004)

<sup>12</sup> Figure skating and ice hockey were Olympic events before 1924, but the larger program hosted by France in 1924 was so successful that the IOC in 1925 retroactively labelled it the Winter Olympics and subsequently solicited separate bids to host the Winter Olympics.

<sup>13</sup> The 1928 Olympics were hosted by Amsterdam, which was not a good location for downhill skiing, and the Winter Olympics were held in St. Moritz, Switzerland. The United States has hosted the Winter Olympics four times, France three times, Italy, Japan, Norway and Austria twice, and Canada once. Vancouver, Canada, will be the 2010 host and Sochi, Russia, in 2014.

<sup>14</sup> Many years later, a 2006 report to the Nagano region's governor said that the city provided millions of dollars in an “illegitimate and excessive level of hospitality” to IOC members, including \$4.4 million spent on entertainment alone.

The other top mega-event, the FIFA World Cup, has historically involved less active bidding due to the intermediary role for the continental associations and agreements on inter-continental rotation.<sup>15</sup> The 1974-86 WCs were uncontested, although the withdrawal of Colombia from 1986 led to an election, now conducted by the FIFA Executive Committee, which Mexico won. In other years a simple majority decided the bidding in a single round, with fairly uncontroversial outcomes. In 2002 faced with competing bids from Japan and Korea to be the first Asian hosts, FIFA brokered a deal for the two to be co-hosts. Bidding was more competitive for the 2006 WC, with three rounds of voting before Germany just edging out South Africa in controversial circumstances. Allegations of corruption in the bidding, which took place in 2000 (i.e. just over a year after the Salt Lake scandal broke), highlighted the lack of transparency in bidding for mega-events.<sup>16</sup> The German bid also illustrated the difficulty of measuring the cost of a bid, as among other initiatives Bayern Munich played a series of exhibition games in Asia which showcased German soccer and may also have been financially advantageous to host national associations with votes on the WC bids. South Africa could not compete with this bidding strategy, although the losing bid did pave the way for award of the 2010 WC. With the 2014 WC rotating to South America, Brazil was a shoo-in given its stature in the sport and the 64-year lag since Brazil last hosted the WC (i.e. in the previous section's model Brazil had a high  $\alpha$ ). Beyond 2014 explicit continental rotation has been abandoned and there is active competitive bidding for the 2018 and 2022 events, whose location has not yet been decided.

Maennig and du Plessis (2007) argue that to maximize revenues from sale of the right to host the WC, FIFA acts as a monopolist extracting much of the benefits from the host country. FIFA retains TV and marketing rights and enforces conditions (e.g. only FIFA-endorsed sponsors can advertise within 1km of stadiums or along major access routes) that increase the value of these rights. In 2006 FIFA earned \$2.4 billion from TV and marketing and \$0.2 billion from sale of VIP tickets, and reported expenses of \$704 million (for prize money, travel expenses and other costs), for a net gain of \$1.9 billion. Additional conditions,

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<sup>15</sup> Due to the length of travel time between Europe and South America, only four European countries entered the first WC in 1930 in Uruguay, and when both the 1934 and 1938 WCs were held in Europe Argentina and Uruguay boycotted the 1938 WC. Brazil and Germany were the only bidders for the 1942 WC, but before a vote could be taken war broke out and the event was postponed until 1950, when it was played in Brazil by default. In the 1950s FIFA adopted an informal policy of rotation between Europe and Latin America, which was extended to other continents when WCs were held in North America (1994) and East Asia (2002), and formalized in 2000 after the allocation of the 2006 WC.

<sup>16</sup> Germany won the third round by 12 votes to 11. The Oceania delegate abstained, despite instructions from his region to support South Africa. A 12-12 tie would have been broken by the vote of the FIFA President, Sepp Blatter, who had supported South Africa's bid.

such as provision of offices with unlimited telephone and internet use for FIFA, catering, dedicated highway lanes for FIFA vehicles travelling to and from stadiums, etc. added to the economic profit or rent accruing to FIFA and its officials. The German national organizing committee made an after-tax profit of \$80 million, mainly deriving from ticket sales to capacity crowds, which was shared by the Bundesliga, the national soccer federation and the national Olympics committee. This profit was subsidized by substantial public sector expenditures, including \$120 million for security, which alone outweighed the organizing committee's profit. The \$1.9 billion spent on stadium upgrading was 40% public-funded and Maennig and du Plessis (2007) report that a further \$2.7 billion was spent by governments on WC-related infrastructure.<sup>17</sup>

Other professional team sports have organized world cup tournaments, but none is as lucrative as the soccer World Cup and there has been little competitive bidding to host the events. The International Cricket Council's executive committee determined that England hosted the first three cricket World Cups (1975, 1979 and 1983) and the 1987 World Cup was jointly held in India and Pakistan, after which an unofficial rotation system was introduced.<sup>18</sup> The rugby union World Cup, held every four years since 1987, has had a strict hemispherical rotation, although this is being challenged by Japan's bid to host the 2015 event. The rugby league World Cup, held thirteen times at irregular intervals since 1954 has seen no serious competition for hosting rights.<sup>19</sup> The 37 baseball World Cups since 1938 did not feature the leading players; until 1996 the competition was limited to amateur players and since 1996 professional minor league players have competed, but Major League Baseball has not allowed its players to participate. The World Baseball Classic, held in 2006 and 2009, was the first international baseball tournament to include players from the major leagues, but there is no competition for hosting rights because matches are played in several countries worldwide, although both finals were held in the USA.

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<sup>17</sup> The level of private spending on stadium upgrading seems to be exceptional. For the 1974 WC in Germany all spending on stadiums was public and this seems to be the model for South Africa in 2010. An extensive literature suggests that, on balance, spending on stadiums yields a low social return (Wilson and Pomfret, 2009).

<sup>18</sup> Australia and New Zealand hosted in 1992, India/Pakistan/Sri Lanka in 1996, England, Ireland, Netherlands and Scotland in 1999, South Africa in 2003 and the West Indies in 2007. Despite Australia and New Zealand expecting to host the 2011 event it was allocated to South Asia – a decision which the Australian media ascribed to the increasing economic power and role of the Asian cricketing nations, particularly India - but allocation of the 2015 event to Australia and New Zealand and the 2019 event to England suggests that economic considerations have not become dominant, and bidding remains non-competitive.

<sup>19</sup> Only four countries (Australia, France, Great Britain and New Zealand) competed for the first six World Cups, to 1972, and from 1975-92 it was determined on a home and away basis, i.e. not really a mega-event. The 2000 event expanded entry to 16 countries, but was considered unsuccessful due to lack of competitive balance and the event was not held again until 2008.

In major individual sports, tennis and golf are dominated by traditional events, although there is competition to be in the circuit, while F1 fosters more open competition for rights to hold a grand prix. Some tournaments have retained their status and traditional location (e.g. the four Grand Slam tennis events or the Italian Grand Prix at Monza), but others have rotation within a country (e.g. British Open golf) or new locations. Emphasis on economic factors has led to traditions being challenged, although the result was often a stand-off.<sup>20</sup> The competition for a place on the circuit has been most extreme in F1, where, unlike tennis or golf, the Formula One World Championship is far more significant than individual GPs. Countries are added or cut from the list of GPs and bids from competing cities for national GPs are accepted and appear to be driven by economic motives.<sup>21</sup> Is this because car-racing is competitive (Indy, F1, Le Mans, and other formats) or because F1 has a structure with a centralized leadership even more personalized, under the control of Bernie Ecclestone and Max Mosley, than the IOC or FIFA? The UCI pro-tour cycle circuit has some similar features, but on a much smaller commercial scale and correspondingly less aggressive profit-seeking.

With the growing economic importance of sports and broader TV coverage, many minor spectator sports (e.g. equestrian events) or minor events of major sports (e.g. rugby sevens) have become sought after by host cities or countries. The case study in the next section, Adelaide, a city of about a million people, illustrates this development. Adelaide hosted the Australian F1 Grand Prix for ten years from its inaugural year 1985, but then lost the event to Melbourne, reflecting the difficulty of competing with larger cities for true mega-events. Adelaide has successfully bid to be a sub-host of a true mega-event (the 2000 Olympics) and has unsuccessfully bid for a second-tier event (the Commonwealth Games), but it has been most active in bidding for a wide range of sporting events below this level. The state and city governments have dedicated offices for event attraction and management and substantial, but non-transparent, public funding has gone into bidding for events.<sup>22</sup>

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<sup>20</sup> The strength of tradition is illustrated by the survival of Green Bay Packers despite other NFL owners' dissatisfaction with the existence of a small-town quasi publicly owned club in their league. When 20 leading clubs seceded from the Football League to form the FA Premier League, they were unable to drop the principle of promotion and relegation (which permitted small town teams to reach the PL while some big cities were unrepresented) and the structure of soccer in England and Wales remained unchanged (although the distribution of TV revenues did not).

<sup>21</sup> The 1950 F1 world championship consisted of eight GPs in Europe and one in the USA. Since then the number has doubled, and events in Europe and the Americas have been dropped in favour of races in Asia and the Middle East - of the eighteen races in 2008, nine were held outside Europe.

<sup>22</sup> State budgets have a single line item for winning and managing major events, which include musical festivals, food events, a rose festival, the Christmas pageant and other non-sporting events. Funding for many events is through the budget of the South Australian Tourism Commission (SATC). Adelaide city council covers a small

### 3. Adelaide

South Australia and its capital city Adelaide have hosted a large number of events in recent decades, including a wide range of sporting events. However, several of the more notable bidding episodes were unsuccessful, notably failure to win the 1998 and 2006 Commonwealth Games and loss of the Australian F1 Grand Prix in 1995/6. The state and city governments did not renounce sporting events, but adopted a range of strategies in order to be a host city.

Efforts of the State to host the Commonwealth (previously Empire) Games date back to the mid 1950's, when Adelaide was the favourite to host the 1962 games, only to lose out to Perth. Subsequent bids for the 1998 and 2006 games were also unsuccessful. In all of these cases, the bidding process was a two stage one, with cities bidding at the national level before proceeding as the „Australian representative“ against overseas competitors.

The 1992 bid to host the 1998 Games was in the competitive post-LA-Olympics era, and both Adelaide and Kuala Lumpur lobbied hard for hosting rights. Adelaide reportedly spent A\$600,000 to be the representative bidder from Australia and a further A\$4 million on the campaign, and had lined up an A\$25 million government subsidy for the event itself.<sup>23</sup> Official records from the South Australian Department of Recreation and Sport reveal that a total of \$A4.1 million was allocated to the 1998 bid, exclusive of the sum spent on winning the stage one bid.<sup>24</sup> However, these figures only include salaries, administrative expenses, equipment, sundries, accommodation and service costs for the bidding office. It seems likely that this excludes other consultancy fees (e.g. to marketing and transport companies). In addition, at the beginning of the process, Cabinet approved the construction of a velodrome contingent on winning the right to be the Australian representative bidder for the 1998 games; while this facility has been used for other events, the Commonwealth Games bid is

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part of the metropolitan area, and other councils fund events in their jurisdiction (e.g. Adelaide Hills council funding for the Lobethal vintage motor sports carnival).

<sup>23</sup> Details of the stage one bid taken from statements made from the Hon J K G Oswald MP, *SA Parliamentary Debates*, 1994-95, page 197. The A\$25 million figure is not easily ascertainable from SA Government records, and was reported in the media of Adelaide's main rival: "The Battle Hots Up; Millions of dollars are at stake in the bid to host the next Commonwealth Games. Will it be Kuala Lumpur or Adelaide?" *Malaysian Business*, 1-15 July 1992, p.32-3 [www.i2media.com.my/gallery/articles/malaysian-business/1992-07-15-commonwealth-games.pdf](http://www.i2media.com.my/gallery/articles/malaysian-business/1992-07-15-commonwealth-games.pdf).

<sup>24</sup> Data from the *Department of Recreation and Sport Annual Report* 1989/90 through 1992/93. The figures include a contribution of \$A75k from the Adelaide City Council.



implicated as the motivation for its completion at a cost of \$A14.3 million.<sup>25</sup> Ultimately, Kuala Lumpur emerged as the winner of the bidding race for the event.<sup>26</sup>

Adelaide also tried to bid for the 2006 Commonwealth Games, but lost the right to be the Australian bid city to Melbourne.<sup>27</sup> Documents relating to Adelaide's stage-one bid indicated a prospective estimate of A\$3.45 million for its stage-two bid. This comprised A\$1.75 million for salaries, A\$250,000 for the establishment of the bidding office, A\$195,000 for document preparation and legal expenses, A\$375,000 for final preparation of the bid document, and a total of A\$880,000 in travel expenses (Government of SA, 1996, page 14). The last category included travel to and from Adelaide by bid representatives and Commonwealth Games Federation (CGF) delegates and affiliates, even though some of this travel expense would have been explicitly against the constitution of the CGF:

Despite the prohibitions set down in Article 29 and the byelaw thereto of the Constitution of the Commonwealth Games Federation, it became necessary in the course of the bid by Adelaide for the 1998 Commonwealth Games to host a visit of delegates representing all Commonwealth Games affiliates. Should the bid for the 2006 Commonwealth Games be the subject of keen competition, it will almost certainly again become necessary to host a visit from Commonwealth Games delegates (Government of SA, 1996, page 14).

The bid documents made estimates of the costs and benefits of hosting the games, noting expected costs of A\$140 million and direct benefits from TV rights, ticket sales and marketing to be in the vicinity of \$A81 million. These numbers appear to be understatements. The capital and operating costs of the 2006 Commonwealth Games in Melbourne were around \$A1.1 billion<sup>28</sup> As for bidding costs, the government of Nova Scotia,

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<sup>25</sup> For details on the costs of the Velodrome's construction, see Department of Sport and Recreation, 1992, page 11. Details on the contingent nature of the approval by Cabinet can be found in Department of Sport and Recreation, 1990, page 19.

<sup>26</sup> Adelaide's 1992 bid for the 1998 Games was drawn into the Salt Lake corruption scandal controversy when Adelaide mayor Steve Condous claimed in 1999 that three countries' representatives (from Pakistan, Sri Lanka and an unnamed African country) had asked for incentives such as sponsoring children to study at the University of Adelaide in return for votes. He reportedly refused to comply with their demands.. Reported in *The Independent* (London) 20 January 2009; <http://www.independent.co.uk/sport/sports-politics-adelaide-refused-bribery-demands-1075143.html>

<sup>27</sup> Somewhat controversially, the Australian Commonwealth Games Association (ACGA) required significant guarantees from the State Government, and Premier Dean Brown noted that "The bottom line is that the ACGA has rejected bids from Adelaide and Perth because we were not prepared to write an open cheque in return for the right to stage the games" (*The Advertiser*, 9 August, 1996, page 11). Currently, the opposition party in South Australia is planning a bid for the 2018 Commonwealth Games, should it win power, while the governing party has changed tack, with the Treasurer labelling the bid as sub-optimal use of public money and the Commonwealth Games as a b-grade event. See <http://www.abc.net.au/news/stories/2008/08/29/2350510.htm> (11/6/09). The Treasurer's remarks attracted media attention, particularly in India, where the games are to be hosted in 2012, and his comments regarding the status of the games were publicly withdrawn (<http://www.abc.net.au/news/stories/2008/09/03/2354038.htm>, 11/6/09).

<sup>28</sup> Victoria government estimate at [http://download.audit.vic.gov.au/files/afr2005-06\\_Com\\_Games\\_2006.pdf](http://download.audit.vic.gov.au/files/afr2005-06_Com_Games_2006.pdf) - accessed 25 June, 2009. Of the A\$1.1 billion, the federal government contributed \$121.9 in grants, \$24.2

which won the first-stage contest in Canada to bid for the 2014 Commonwealth Games, had a C\$14.3 million budget for their second-round bid.<sup>29</sup>

Adelaide has never bid to host the Olympics, but it hosted seven soccer matches in the Sydney Olympics. For these games, the Hindmarsh Stadium was upgraded to increase capacity and improve facilities at a cost to state taxpayers of \$24.5 million, an expenditure that was well over-budget and criticised in a subsequent official report (Wilson and Pomfret, 2009). Adelaide is expecting to be a host city in the case of a successful Australian bid to host the 2018 or 2022 soccer World Cup, and the debate about public stadium funding is once again hotting up.

Adelaide's major mega-event coup was in obtaining the right to host the Australian F1 Grand Prix when it was added to the Formula One World Championship in 1985. The Australian event was the final race of the season and the Adelaide GP often provided high drama with the title being decided in 1986 and controversially in 1994.<sup>30</sup> More dramatically for Adelaide the race was moved to Melbourne in 1996, reflecting the difficulty of holding on to an annual mega-event once larger neighbours become interested.

One reaction to loss of the F1 race was to seek alternative motor races. The Australian leg of the then new Asia-Pacific Le Mans series was held in Adelaide over New Year's Eve 2000/1, but was an economic flop; despite a nine-year contract, the race was not held again<sup>31</sup>. More successful has been the V8 Supercar race, held annually since 1999, which involves indigenous Ford and Holden cars; the Adelaide leg of this national competition is known as the Clipsal 500. The five-day Classic Adelaide Car Rally, held annually since 1997 is a race, but more of a showcase for vintage cars (and starting in 2009 modern „exotics“), as is the Lobethal Grand Carnival for cars and motorcycles which has been run on the 1939 Australian GP and TT circuit since October 2008. While exact contributions are not readily disaggregated from Government records, these receive funding from the SA Motor Board, the South Australian Tourism Commission, and local councils.

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million in in-kind support and security costs of \$79.1 million. The SA government seemed to pay little attention to the Games' profitability; an assurance was made that should additional revenue be realised from TV rights or marketing, then these funds would be channelled back into the development of Commonwealth Games sports in Australia-

<sup>29</sup> <http://www.gov.nsw.gov.au/news/details.asp?id=20061130006> The transparency of the provincial government website contrasts starkly with the secrecy surrounding SA expenditures.

<sup>30</sup> Michael Schumacher collided with rival Damon Hill to win the F1 championship.

<sup>31</sup> A controversy arose between Don Panoz, the owner of the Le Mans series and the SA government over when during the year to best hold the race after the initial staging. At that time it was also contemplated to combine the Le Mans series with the Clipsal 500 race to host a Motor Sport Festival over up to 9 days. The Auditor General's report for the SA Tourism Commission (2007, p 15 / 1201) states: "On 7 September 2006, a contested legal claim relating to the staging of the Le Mans event in Adelaide was settled and \$1.87 million was written off in 2006-07. This was previously recognised as a provision for doubtful debts in 2005-06."

The „path dependence“ in terms of Adelaide’s reaction to the loss of the F1 Grand Prix was mirrored after the loss of the 1998 Commonwealth Games bid. In particular, the Government set up the *International Events Unit* which was responsible for winning the rights to host events such as the World Cup Cycling, 2<sup>nd</sup> World Canoe Polo Championship, World Masters Rowing Championship, and International Water Polo events. Funding for this unit was provided by the State Government. The experiences of South Australia indicate that there is a tendency to fall back to lesser events after a major event is lost or the bid for hosting is unsuccessful. In part, this could be a function of the arguments relating to the economic importance of sports events that are often touted at the time of bidding. Once lost, politicians have a propensity to find substitutes. In some cases, such as those outlined below, this may be a relatively successful strategy.

In 1997, the South Australian Tourism Commission began research into a major road cycling race for Australia, with the aim of creating an international competition in the tradition of European classics such as the Tour de France, and in 1999 staged the six-day Sensational Adelaide Tour Down Under (TDU). The TDU became an annual event, and in 2008 it was included in the UCI circuit, the first UCI ProTour race to be held outside Europe. The South Australian Government has been active in securing and maintaining the Pro Tour status of the TDU. The 2006-07 State Budget provided an extra A\$2 million over four years to expand the number of teams and increase the race’s profile internationally. The budget papers for 2008 to 2011 dedicate amounts of A\$3.5 to 3.8 million per year for the Tour Down Under “to ensure that it continues to be a part of the Union Cycliste Internationale’s ProTour circuit.” (SA Budget Statement 2008, page 46, section 2.26). In 2009 the state funded Lance Armstrong personally to participate in the TDU.<sup>32</sup> The perceived benefits to the state are both economic and promotional. According to state Premier Mike Rann “The 2009 Tour Down Under has broken almost every record for a sporting event held in South Australia. .... The 2009 Tour Down Under injected a massive \$39 million into the South Australian economy, from the tens of thousands of visitors who travelled here from interstate and overseas. It was the biggest event we have ever staged.”<sup>33</sup> The Pro Tour was introduced in 2005 and includes high-profile events such as the Tour de France and the Giro d’Italia, some events iconic to bicycle insiders such as Paris–Roubaix, not so high-profile national tours such as the Tour de Pologne, the Tour de Suisse or the Deutschland Tour, and also regional

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<sup>32</sup> A payment of up to 2 million USD for Lance Armstrong to appear in the TDU is reported in <http://www.crikey.com.au/Politics/20090212-Lance-Armstrong-3-million-and-the-silence-of-the-Rann.html> .

<sup>33</sup> Reported at <http://www.tourdownunder.com.au/2009/>

or even sponsor-specific events such as the Tour de Romandie in the French-speaking part of Switzerland, Vattenfall Cyc classics (sponsored by the electricity company Vattenfall Europe Hamburg) or the Amstel Gold Race. All the grand tours (Tour de France, Giro d'Italia and Vuelta a Espana) and single day events organised by Tour de France organiser were delisted from the UCI Pro Tour list for 2008. The Tour Down Under has been a Pro Tour event since 2008. The value of the Pro Tour status becomes increasingly questionable as the high-profile events drop off the lists due to arguments between the UCI and the organisers of the events' while doping is another major reason why the status of the Pro Tour is under pressure' with many teams deciding not to licence with the UCI Pro Tour at all.

Since 1997 Adelaide has hosted an annual three-day equestrian event. Originally known as the Adelaide International Horse Trials it was a CCI three star event. In 1999 it was upgraded to four stars and in 2007 renamed The Australian International 3 Day Event. The AI3DE is Australia's premier equestrian competition, the only CCI four star event held in the southern hemisphere and one of only six held across the world.<sup>34</sup> As with the Tour Down Under, the strategy with the AI3DE was to build up an event reputation and then become a recognized leg of the international circuit. This may have been possible in these sports because the UCI and CCI were not managed with such an eye to profit as F1 or the Le Mans franchise.

Among other events recently hosted in Adelaide are the Australian leg of the International Rugby Board Sevens series (played in eight global locations),<sup>35</sup> the 2007 World Police and Fire Games (a biennial event), Adelaide to Port Lincoln Yacht Race (an annual event held for the 59th. time in 2009), the World Solar Challenge, Australian Men's Hard Court Tennis Championship and the Great Australian Outback Cattle Drive.

In sum, Adelaide has pursued a variety of strategies in bidding to host sports events. Part of the above narrative indicates path-dependence; for example, loss of the F1 GP led to a search for alternative car races. There are a variety of bidding formats. The multiple

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<sup>34</sup> The other international four star events are, the Rolex Kentucky 3 Day Event in the United States, the Burghley Horse Trials and Badminton Horse Trials in England, Luhmuhlen in Germany and Pau in France. The Olympic Games and the World Equestrian Games, each held every four years are also classified Four Star level.

<sup>35</sup> Rugby Sevens is the small brother of Rugby, with only seven players for each side. "The International Rugby Sevens Adelaide involves 16 international teams competing for points that go towards the International Rugby Board (IRB) Sevens series. Eight tournaments make up the IRB series, starting on Nov 28-29 in Dubai, and ending on 30-31 May in Edinburgh." (<http://www.adelaidesevens.com.au/sevens.rugby/page/66957>).

After hosting one of the eight stops of the International Rugby Sevens World Tour in 2009 it is apparently contemplated by SA politicians to host the 2013 Rugby Sevens World Cup.

- <http://www.news.com.au/adelaidenow/story/0,22606,25292829-5016659,00.html> (Adelaide Now, April 5, 2009). Rugby is not a popular sport in South Australia where Australian rules football is clearly dominant, and this explains the poor crowd numbers of fewer than 30,000 spectators over the three-day International Rugby Sevens World Tour event in 2009 in Adelaide.

Commonwealth Games bids follow a standard Olympic-style bid with the twist of a two-stage process: Adelaide has lost out both at the national first stage and in the international second stage. At first sight these losing bids seem examples of a waste of public money, and yet the state repeatedly returns to the bidding table. Less risky is to piggy-back on a bigger bid for a mega-event, such as hosting soccer games in the Sydney Olympics or participating in an Australian bid for the 2018/2022 FIFA World Cup, even though there is no prospect of the big games from the later stages being held in Adelaide. The coup of hosting the Australian GP illustrates a cost of hosting a perennial event; if the annual “bid” is insufficient, the event may be lost, especially if a more attractive venue appears (i.e. Melbourne’s  $\alpha$  was larger than Adelaide’s, at least in the eyes of the owners of the F1 brand). An alternative approach is to identify a sport in which the event-allocating body is less powerful (or has characteristics less adverse to Adelaide’s  $\alpha$ ) and build up an event that will be accredited in time, as with the TDU and the AI3DE. Finally Adelaide has focused on hosting niche international events such as the Police and Fire Games or trying to create its own attractions.

A problem in evaluating the alternative strategies and assessing the power of the model developed above is that the public accounts do not provide information on how much was spent on specific events. For example, the state budget for 1999/2000 included A\$9.315 million to fund major events such as the Tour Down Under, Tasting Australia, the Vermeer opera, and the World Solar Challenge; of this \$650,000 was earmarked for the Clipsal 500, as part of a \$1.45 million commitment over three years, but there is no further breakdown. In 2000/1 subsidies were also provided to the Le Mans race. In 2001/2 the Tour Down Under and the International Horse Trials are mentioned, but as in the previous years there is no breakdown, and much of the spending on events is hidden in the SA Tourism Commission (SATC) budget. In the 2004/5 state budget the Australian Men’s Hard Court Tennis Championship and the Great Australian Outback Cattle Drive are mentioned, as is the ongoing dispute over claims related to the Le Mans race. In 2006-7 money was earmarked for the IRB rugby sevens. At best this provides a minimum list of which events received public financial support, but there may be events that are not specified and the annual budgets explicitly have a line for contingency funding for new events.

The lack of data is consistent with our model's implication that lobby groups and politicians may value non-transparency. No sporting event with significant SA government funding has readily available accounts. Many expenditures are hidden in unexpected budget lines or are essentially off-budget in the consolidated accounts of public bodies such as the

South Australian Tourism Commission (SATC). Requests for access under Freedom of Information acts are deflected by arguments about commercial sensitivity. This obfuscation appears to be bipartisan in South Australia as both major parties follow the same pattern when in government and, when governments change, do not disclose details of their predecessors' financial arrangements.

Regardless of the availability of data, there is a case for a more thorough examination of the justification behind attempting to host or hosting on a perpetual basis these events. Ex post studies show few gains, and in some cases (such as the Le Mans race) large losses. Given that success in bidding is uncertain, the desirability of directing public money to such a purpose is questionable. Our model and the observations from South Australia's bidding history raise questions about both the bid-making process when public money is involved, and in particular the decision-making processes of the government.

#### **4. Conclusions**

The issue of bidding for sports mega-events has been neglected in the literature, where the focus has been on comparisons between the *ex ante* purported economic benefits against measured *ex post* net benefits for cities and countries who have hosted events. The economics of the bidding process itself justifies further research, especially as the number of rival hosts and the amounts spent on bidding are on the rise. Case studies from South Australia reveal that the sums involved in bidding are non-trivial, and at times non-transparent. There is much to be understood about the political economy of mega-event bidding and about aspects such as the role of *ex ante* estimates of the benefits from a successful bid.

This paper examines one important aspect of the bidding process, namely the role of special interest groups. Our lobbying model reveals that lobby groups may be able to extract rents from the bidding process at the expense of general welfare of the public, and actively induce the government to make bids. This application to sport builds upon an impressive literature which demonstrates that special interests may sway policy outcomes in their favour, even when the general welfare effects are negative (see for example, Stigler, 1971; Grossman and Helpman, 1994).

There is little doubt that some interest groups benefit from bidding for a major event whether the bid is successful or not, e.g. bidding expenditures often are heavily weighted towards marketing and benefit consulting firms or publicity agencies. Moreover, it is likely

that during the bidding process, the relevant sporting bodies at a regional or national level will receive government funding, which may cross-subsidize their normal activities. Subsidised development of sporting stadia may be part of a bid irrespective of the bid's success, e.g. the velodrome built as part of Adelaide's bid for the 1998 Commonwealth Games or the soccer stadium upgrade to host soccer matches in the 2000 Olympic Games and stadium expenditures as conditions for Adelaide being part of Australia's bid for the 2018/2022 World Cups. Construction companies may support bids in the hope of current or future building contracts. Hence, *win or lose*, these groups may lobby governments to bid for the event because they perceive positive benefits but typically do not bear any of the cost of bidding.

This paper does not directly address the issue of *ex ante* estimates overstating the benefits from hosting events, although the model and case study are consistent with this extensive literature. A further complication rests in one of the general purported benefits of hosting mega-events, that the event „will put the city on the map“. Gratton et al (2006) argue that the economic perspective is too narrow a view of impact and recommend a “balanced scorecard” approach with four elements: economic impact, sports development, media and sponsor evaluation, and place marketing effects. Politicians (both incumbent and opposition) and in particular sporting associations and other groups standing to gain a significant benefit tend to adopt a high public profile in touting these less easily quantifiable arguments. This „lobbying of the public“ has been an under-researched area of public choice economics, and, given its prevalence in the context of sports policy, warrants further investigation.<sup>36</sup> South Australia is a prime example; e.g. in announcing Adelaide's bid for the 2006 Commonwealth Games, the Government cited market research making the following claim:

“I have been pleasantly surprised at the community support. Some 84% of the community supported the bid, but the best part of it is that 86% of people between the ages of 18 and 25 not only supported the bid, but believed that the Government should make a significant investment in obtaining the opportunity” (The Hon G. A. Ingerson, *Parliamentary Debates SA 1994/95*, page 1771).

Such a claim, despite obvious questions as to whether the true opportunity costs were revealed to respondents, is typical of the rhetoric of various public organisations proposing bids. One possibility is that by fostering such favourable perceptions early in the process, there may be less scrutiny of government spending by the public. Moreover, by directing

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<sup>36</sup> Yu (2005) is one notable exception

attention to non-quantifiable benefits this process pre-empts criticism about over-stating the net public benefits of a successful bid.. More generally, this may be part of a pattern of obfuscation by which government and lobby groups hide the true costs and benefits of a bid which benefits these groups disproportionately and may potentially leave the tax-paying public with net costs.

Compounding the issue is that special interest groups which stand to gain from the bidding process itself or from winning the right to host are often not immediately observable by the public (at least before the event). The case study of Adelaide is suggestive of path dependence in terms of hosting major events. The loss of an event may indeed see a scramble to find substitutes. At the same time the establishment of major event committees or rewarding bodies such as SATC for winning major events creates vested interests which will lobby for future events in order to maintain their status.

While we have noted that South Australia has been a „serial bidder“ for mega (and not so mega) events, we do not present this case study as something out of the ordinary. Indeed, we suspect that many readers of this paper will recognize some elements familiar in the context of their own countries. The discussion has raised several questions relating to both the process itself and the public choice aspects of sports bidding, which we believe are applicable not just to sports mega-events, but also to other community events such as arts or food festivals and also to public policy decisions about subsidies for location of industries or about awarding of defence contracts.



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## Appendix - Proof of Results

### 1. Bidding

The FOC in (5) is:

$$\frac{\partial U^G}{\partial B} = \frac{\partial \Omega}{\partial B} + (1-\gamma) \frac{\partial \rho(B, \alpha)}{\partial B} R + \theta \left[ \frac{\partial \Omega}{\partial B} + \frac{\partial \rho(B, \alpha)}{\partial B} R - 1 \right] = 0 \equiv \Gamma$$

totally differentiating yields:

$$\begin{aligned} d\Gamma = & \left[ (1+\theta-\gamma) \frac{\partial^2 \rho}{\partial B^2} R + (1+\theta) \frac{\partial^2 \Omega}{\partial B^2} \right] dB + \left[ (1+\theta-\gamma) \frac{\partial \rho}{\partial B} \right] dR - \left[ \frac{\partial \rho}{\partial B} R \right] d\gamma \\ & + \left[ (1-\gamma+\theta) \frac{\partial^2 \rho}{\partial B \partial \alpha} R \right] d\alpha + \left[ \frac{\partial \Omega}{\partial B} + \frac{\partial \rho}{\partial B} R - 1 \right] d\theta = 0 \end{aligned}$$

Evaluating at equilibrium yields results:

$$\text{R1. } \frac{dB}{dR} = \frac{- \left[ (1+\theta-\gamma) \frac{\partial \rho}{\partial B} \right]}{\Delta} > 0$$

$$\text{R2. } \frac{dB}{d\gamma} = \frac{\frac{\partial \rho}{\partial B} R}{\Delta} < 0$$

$$\text{R3. } \frac{dB}{d\alpha} = \frac{- \left[ (1-\gamma+\theta) \frac{\partial^2 \rho}{\partial B \partial \alpha} R \right]}{\Delta} > 0$$

$$\text{R4. } \frac{dB}{d\theta} = \frac{- \left[ \frac{\partial \Omega}{\partial B} + \frac{\partial \rho}{\partial B} R - 1 \right]}{\Delta} > 0$$

$$\text{where } \Delta = (1+\theta-\gamma) \frac{\partial^2 \rho}{\partial B^2} R + (1+\theta) \frac{\partial^2 \Omega}{\partial B^2} < 0$$

The sign of  $\Delta$  follows the assumption that  $\frac{\partial^2 \rho}{\partial B^2} < 0$ ,  $\frac{\partial^2 \Omega}{\partial B^2} < 0$  and that  $(1-\gamma) > 0$  and  $\theta > 0$ . In

equation (R1) the term in parenthesis is positive as  $(1-\gamma) > 0$ ,  $\theta > 0$  and  $\frac{\partial \rho}{\partial B} > 0$ , hence the

numerator is negative. The numerator in (R2) is positive ( $R > 0$ ).

The sign of (R3) turns on the cross partial  $\frac{\partial^2 \rho}{\partial B \partial \alpha}$  as discussed in the text. The sign of (R4)

depends on the relative costs and benefits from the bid. Specifically, if the costs are relatively large, then:

$$1 > \frac{\partial \Omega}{\partial B} + \frac{\partial \rho}{\partial B} R, \quad \text{and} \quad \frac{dB}{d\theta} < 0$$

if costs are relatively low, the inequality is reversed.

## 2. Contributions

The FOC in (6) is

$$\frac{\partial U^L}{\partial S} = \frac{\partial \Omega}{\partial B} \frac{\partial B}{\partial S} + (1-\gamma) \frac{\partial \rho}{\partial B} \frac{\partial B}{\partial S} R - 1 = 0 \equiv \Sigma$$

Totally differentiating yields:

$$\begin{aligned} d\Sigma = & \left[ \frac{\partial \Omega}{\partial B} \frac{\partial^2 B}{\partial S^2} + (1-\gamma) \frac{\partial \rho}{\partial B} \frac{\partial^2 B}{\partial S^2} R \right] dS - \left[ \frac{\partial \rho}{\partial B} \frac{\partial B}{\partial S} R \right] d\gamma \\ & + \left[ (1-\gamma) \frac{\partial^2 \rho}{\partial B \partial \alpha} \frac{\partial B}{\partial S} \right] d\alpha + \left[ (1-\gamma) \frac{\partial \rho}{\partial B} \frac{\partial B}{\partial S} \right] dR = 0 \end{aligned}$$

Note that as:

$$\frac{\partial \Omega}{\partial B} > 0; \quad \frac{\partial \rho}{\partial B} > 0; \quad \frac{\partial^2 B}{\partial S^2} < 0; \quad \text{then}$$

then

$$\frac{\partial \Omega}{\partial B} \frac{\partial^2 B}{\partial S^2} + (1-\gamma) \frac{\partial \rho}{\partial B} \frac{\partial^2 B}{\partial S^2} R \equiv \Psi < 0$$

Rearranging yields results (R5)-(R7):

$$\text{R5: } \frac{dS}{d\gamma} = \frac{\frac{\partial \rho}{\partial B} \frac{\partial B}{\partial S} R}{\Psi} < 0$$

$$\text{R6: } \frac{dS}{d\alpha} = \frac{(\gamma-1) \frac{\partial^2 \rho}{\partial B \partial \alpha} \frac{\partial B}{\partial S} R}{\Psi} \begin{matrix} \geq 0 \\ \leq 0 \end{matrix}$$

$$\text{R7: } \frac{dS}{dR} = \frac{(\gamma-1) \frac{\partial \rho}{\partial B} \frac{\partial B}{\partial S}}{\Psi} \geq 0$$

(R5) follows from the assumption that  $\frac{\partial \rho}{\partial B} > 0$ ;  $\frac{\partial B}{\partial S} > 0$ ;  $R > 0$ .

As  $\frac{\partial B}{\partial S} > 0$  and  $\gamma \leq 1$ , the numerator in (R6) depends on the sign of  $\frac{\partial \rho}{\partial B} \frac{\partial B}{\partial S}$ . This is discussed

in the main text. If  $\frac{\partial \rho}{\partial B} \frac{\partial B}{\partial S} > 0$ , then  $\frac{dS}{d\alpha} \geq 0$ . If  $\frac{\partial \rho}{\partial B} \frac{\partial B}{\partial S} < 0$ ,  $\frac{dS}{d\alpha} \leq 0$ .

The sign in (R7) follows from the assumptions that  $\gamma \leq 1$ ,  $\frac{\partial B}{\partial S} > 0$  and  $\frac{\partial \rho}{\partial B} > 0$ . Note the

strict inequality for (R6) and (R7) where  $\gamma < 1$ .