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BOSTON TAKES A PASS ON THE OLYMPIC TORCH

Scholarly research does sometimes have a positive effect on public policy.

BY ANDREW ZIMBALIST

Public policy researchers generally resign themselves to gathering knowledge for its own sake, with little hope of affecting government decisions. For the most part, policymakers seem to use research only to support their intended course of action, not to determine that course. It is rare when the fruits of scholarship have actually changed policy. Arguably, the defeat of the Boston 2024 Olympic bid was such an uncommon occasion.

In February 2014, the U.S. Olympic Committee (USOC) kicked off a quadrennial ritual by sending letters to mayors around the country inviting their cities to bid to host the 2024 Summer Olympic Games. With a big push from John Fish, the CEO of Suffolk Construction, New England's largest construction company, a private group from Boston entered the fray. This group soon found itself to be one of four finalists, along with groups from Washington, DC, San Francisco, and Los Angeles, seeking to get the nod from the USOC to be the U.S. representative in an international competition to host the 2024 Games. The International Olympic Committee (IOC) would then make the final selection from competing cities from around the world in 2017, seven years before the actual Games would begin.

BUSINESSMEN'S BID

Although Boston Mayor Marty Walsh signed on to the city's bid, there was no city council discussion of the matter, much less a vote to pursue the Games. Similarly, there was no discussion or debate in the Massachusetts legislature. Boston had become a candidate whether residents liked it or not.

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Massachusetts' governor at the time, Deval Patrick, liked it. He formed a commission to look into the feasibility of Boston hosting the Games. State senator, and soon-to-be state senate president, Stan Rosenberg contacted me and asked if I would be willing to serve on the commission. At the time, I had published extensively on the economics of stadiums and mega-events and had consulted with a variety of government bodies on the subject. I told him that I would be pleased to serve, provided that the scheduling worked out. The senator then sent to Governor Patrick my curriculum vitae, along with a cover letter recommending me strongly. I also suggested to Rosenberg that he recommend Holy Cross economist Victor Matheson and Harvard planning and development professor Judith Grant Long, each of whom had done important studies on sports mega-events.

As it turned out, Patrick selected none of us for the commission. Rather, he chose Fish and a coterie of business leaders to examine this important issue. Not surprisingly, by the end of February 2014 the commission was ready to announce that it was eminently feasible for Boston to host the Games.

Big news came on January 8, 2015: the USOC, in a tightly split vote, picked Boston to be the U.S. representative in the international competition for the 2024 Games. At the time, there was a certain euphoria in the Boston construction industry and even the electorate, which a survey showed to be 51% in support of the city hosting.

The timing of the announcement, however, was a bit infelicitous because it coincided with Gov. Charlie Baker's inauguration day, and Baker was not a gung-ho supporter of the Olympic bid. More infelicitous still, Boston 2024—the Olympic organizing group led by Fish—had submitted to the USOC its plans for hosting the Games, but the group refused to share the bid documents with the public. Further, Mayor Walsh had signed a “joinder agreement” with the USOC that committed Boston to accept all the terms of the USOC and IOC if the city would be selected as the host. One such term was that the city would provide a financial guarantee to cover any deficits in the event of a cost overrun or revenue shortfall.

Since 1980, the Summer Olympics have experienced an average cost overrun of 252%. The 2012 Games in London alone had

a nearly threefold overrun, with a final cost in excess of \$18 billion. Given that background and the fact that the entire Boston city budget was only \$2.7 billion, it was not a trivial matter that Walsh had signed this agreement.

When, under intensifying public pressure, Boston 2024 finally shared parts of its bid documents and its joinder agreement, many other troubling items were revealed. For instance, the joinder agreement contained a “gag order” that stipulated the following:

The City, including its employees, officers, and representatives, shall not make, publish, or communicate to any Person, or communicate in any public forum, any comments or statements (written or oral) that reflect unfavorably upon, denigrate or disparage, or are detrimental to the reputation or stature of, the ICO, the IPC, the USOC, the IOC Bid, the Bid Committee, or the Olympic or Paralympic movement.

So not only had Mayor Walsh potentially committed Boston to spending billions of dollars it did not have, but he also seemingly pledged to curtail the First Amendment rights of all city employees.

The problems did not end there. Another IOC requirement was that the

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city clear all its public billboards so they would be available for IOC marks as well as those of IOC sponsors. Still another requirement was that all activities connected to constructing the Olympic venues and infrastructure, the sale of tickets, and income to the athletes would be tax-exempt.

THE OPPOSITION

As those and other facts leaked out, public opinion in Boston and Massachusetts began to shift. The information was provided primarily by a citizens group known as No Boston Olympic (NBO). NBO was led by three young individuals with deep roots in Boston politics and the corporate community: Chris Dempsey, Liam Kerr, and Kelly Gossett.

I was fortunate to be contacted by them and asked to speak at their first public meeting, held at a church in Back Bay on January 14, 2015. For the event, NBO rented the church's main hall for \$700. Five days earlier, Boston 2024 had held its first public meeting championing the bid at the Boston Convention and Exhibition Center. The contrast in resources between the two groups was evident throughout the coming months. By the time the USOC pulled the Boston bid in late July, Boston 2024 had spent approximately \$15 million on its campaign to win the Olympics. NBO had spent under \$10,000. Put differently, NBO was outspent 1,500 to 1, and yet it ultimately won the day.

Complicating the task for NBO was that Boston's heaviest hitters from industry, finance, and government were lining up behind the bid. But facts matter and NBO had them on its side. NBO also had energetic volunteers, social media, and a vibrant Boston press that was willing to cover both sides of the story. NBO members pushed ahead, updating the group's website, tweeting, and group-emailing on a daily basis, appearing regularly on radio and television shows, speaking to state lawmakers and other political bodies, meeting with the governor, and making strategic phone calls.

The research and writing that I and other academic economists had done on mega-events over the years moved off the dusty office shelves alongside scholarly journals and into the mainstream media. I was invited to give numerous public talks in greater Boston and throughout the state, to appear on radio and television shows, to speak before the State Senate, the Boston planning council, the NAACP, and meet with members of the city council and the governor. I coordinated my activities with Dempsey at NBO.

As the opposition to Boston 2024 began to gain momentum, the record snowfall of February 2015 landed. The snow forced the closing of the Massachusetts Bay Transit Authority system for two days and dramatized the need for Boston to take care of its basic transportation infrastructure before it hosted a 17-day extravaganza.

The Boston 2024 bid had more unpleasant surprises. The initial plan called for constructing the beach volleyball venue in the middle of Boston Common. While this might have produced nice images for international television, it was viewed as heresy in Boston. The Common is enjoyed by thousands of Bostonians

every day for strolls and recreation. To make room for the beach volleyball facility, dozens of trees would have to be felled and months of pre- and post-Games disruption would render the Common unusable.

The bid also called for \$5.2 billion in public transportation infrastructure investment. Bid supporters claimed that those investments were already planned and funded. It turned out, however, that they were little more than unapproved and unfunded conceptual designs. Further, Bill Straus, the co-chair of the state legislature's transportation committee, said on local television that the actual costs of the projects would exceed \$13 billion.

The partial release of the initial version of Boston 2024's bid revealed more bad news for the Olympic boosters. The bid identified the Columbia Point area of southeast Boston as the future home of the Olympic Village. The Widett Circle area, south of South Station, would be the location of the Olympic Stadium. Among other problems with these sites, the bid claimed that the existing property owners had been contacted and were on board with the repurposing of their land. Upon learning of the bid's intentions, the affected landowners stated that they knew nothing about the plans.

The boosters also contended that there would be no new public money required to host the Games. To arrive at this result, a variety of unrealistic assumptions on the cost and revenue sides of the Games had to be made. One of those involved ticket sales. Despite proposing smaller and less elaborate venues than in London 2012, Boston 2024 projected ticket revenues 15% above those of London. Further, the bid identified no developers who were interested in building the proposed venues, nor found any community ready to host either the Velodrome or the Aquatic Center, and counted on Harvard and MIT to host various competitions while the schools disavowed any interest in doing so. These contradictions and inconsistencies were enough to shift public opinion. By the end of March, only 36% of polled residents supported Boston 2024.

Boston 2024 needed a reboot. It came in the form of a new leader: Steve Pagliuca, co-owner of the Boston Celtics and CEO of Bain Capital. Along with Pagliuca came the promise of a new plan, dubbed "2.0." While Pagliuca cut a friendlier figure than Fish, the economic fundamentals of the Boston bid were already too far gone for effective rescue.

THE OLYMPIC FLAME AND RED INK

Cost overruns have been a ubiquitous feature of the Summer and Winter Games, even those held in economically developed countries. Of course, it is possible to have a cost overrun and still have a positive cash flow. But Olympic reports of positive cash flows should be taken with grains of salt.

Consider the Winter Games in Sochi in 2014, which reported a positive cash flow despite a final cost in the range of \$51–67 billion. The positive balance came from a massive financial transfer from the Russian treasury to the books of the Sochi organizing committee. Other Games have also reported a positive cash flow. This usually results from the official report only considering the

operating budget of the Games, not the larger budgets for venues or infrastructure.

One striking exception to this pattern was the Los Angeles Games in 1984. The previous three Summer Games were financial or political debacles. Mexico City 1968 was plagued by political repression, militant protest, and air pollution. Munich 1972 was haunted by the terrorist operation at the Israeli compound of the Olympic Village. Montreal 1976 suffered from incompetence and corruption, resulting in a final cost that rose to more than nine times the original estimate.

When the bidding took place in 1978 for the 1984 Olympics, the IOC received only one bid, and Los Angeles recognized and took advantage of its position. The IOC had to choose between accepting the city's terms or having no host. Those terms included that the city would not financially backstop the Games and that it would use old venues left over from when it hosted the 1932

excluding the additional security costs necessitated by the September 11, 2001 terrorist attacks, the federal government planned to spend \$342 million on the 2002 Salt Lake City Winter Games. The Salt Lake City municipal government planned to spend \$75 million and the Utah state government committed an additional \$150 million. The final public bill was considerably higher.

WINNER'S CURSE

The United States is hardly alone in this Olympic experience. So why are the Games such a bad deal for host cities and countries?

The answer to this begins by observing the economic structure of the Olympics. The IOC is an international monopoly that, every two years, auctions off to the world's cities the "privilege" of hosting either the Winter or Summer Games. The IOC wants potential Olympic host cities to think they are entering a competi-

tion, much as marathon runners might line up at the starting line or swimmers might stand on the starting block. IOC president Thomas Bach is fond of calling the bidding process a "great race" and a "fascinating competition" in which the "best" city wins the right to host the best games in history—a prize even more glittery than the shiniest gold medal and rarer than a world-record performance.

Cities that approach Olympic bids as a competition might win the IOC's race, but they are likely to lose in the long run. Reframed not as a race but as an auction,

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Olympics, as well as using dormitories at UCLA and USC to house the athletes. The IOC accepted.

With those conditions, together with innovative and effective marketing of corporate sponsorships, Los Angeles 1984 was able to turn a modest surplus of over \$200 million. And even in that case, the federal government chipped in some \$78 million.

Other recent American experiences in Lake Placid (1980), Atlanta (1996), and Salt Lake City (2002) were decidedly different. Lake Placid 1980 experienced cost overruns of 321% and ultimately required a bail out. The State of New York contributed \$63 million (17% of total costs) and the federal government spent \$179 million (50%). Thus, public funding was over two-thirds of the total and this allowed the Lake Placid operating committee to claim that it had balanced its books.

Atlanta 1996 had a cost overrun of 147%. Nonetheless, the Atlanta Operating Committee reported a balanced budget. Approximately one-third of all spending—\$823 million—came from taxpayers. Of that, \$609 million came from the federal government. Moreover, the construction of the Athlete Village and the Olympic Stadium in Atlanta required the demolition of two low-income, minority communities. That, in turn, led to increased homelessness during the Games and a repressive response from local government to improve the optics for the Olympics.

According to a 2001 Government Accountability Office report,

the dynamics inherent in the IOC's process become clear.

Picture an auction room with the IOC at the podium, gavel in hand. Before even beginning the auction, Bach and his team have spent a good deal of time convincing as many well-known bidders as possible to enter the auction room. Status-conscious bidders want to see other bidders of their social circle. If you see bidders that you consider beneath you, you might think you have a better chance of winning, but you might start to doubt that you actually want to win!

With the cities in the room, bidding paddles in hand, the IOC can begin an auction process that maximizes its benefit. The highest bid (in terms of ease, comfort, opulence, and general impressiveness) wins.

Economists often refer to the likely outcome in this type of auction as a winner's curse. Imagine five cities from around the world bidding against each other. Four of them believe that the economic value of hosting the Games is, say, \$8 billion or less. The fifth city believes it is \$12 billion and the city's bid, accordingly, boasts more trappings of IOC worship, fancier facilities, and so on. This bid is the outlier and, likely, overly exuberant. The city has overbid and, though a winner, is cursed because it has committed to spending more than the Games are worth.

In reality, the outcome for the winner is bound to be worse still because of ubiquitous cost overruns and because the bidders

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usually represent particular interests in the private sector that will benefit from the largesse: construction companies and unions, insurance companies, architectural firms, investment bankers who float the bonds, etc. These groups will benefit handsomely from hosting, while the city and its taxpayers will pay the bills.

THE AFTERMATH

Because of these dynamics, the typical host of the Summer Games experiences costs on the order of \$15–20 billion, yet receives only \$3–5 billion in revenue—not a very salubrious financial balance. The IOC propaganda machine will claim that any short-term financial losses will be offset by long-term gains. Most notably, the host city will be put on the world map, occasioning growth in tourism, trade, and foreign investment. Those are nice thoughts, but there is little evidence from academic research that they ever materialize.

First, most Olympic host cities are already on the world map. People and businesses that have the resources and interest to travel internationally already know about the city and its allurements. Second, Olympic hosts often experience a decrease in tourism during the Games as travelers stay away from the congestion, inconvenience, high prices, and security issues. Hotel occupancy may drop even more because most cities expand lodging capacity appreciably in anticipation of an elusive tourism bonanza. Third, the tourists who do attend the Games return home and tell their friends, neighbors, and relatives about the exciting 100-yard dash or swimming relay they watched; they rarely tell stories about the cultural or culinary attractions of the host city. Thus, tourism loses its most effective propagator: word of mouth. Fourth, exposure on the world stage does not necessarily burnish a city's image; instead, it may tarnish it—just ask Mexico 1968, Munich 1972, Montreal 1976, Athens 2004, Sochi 2014, and Rio 2016.

The long-term effects, in fact, may well be negative. After spending billions of dollars on Olympic-related construction, the host city then faces the challenge of what to do with the venues after the Olympics leave town. While most cities develop some plans for future use, these are not always easy to implement. Beijing 2008's "Bird's Nest" stadium has been converted into a museum for tourists to visit at \$12 a pop, but there is little interest. Meanwhile, the facility costs millions of dollars annually to operate and maintain. Rio's Olympic Park has many venues that were slated for post-game use, but there was either no money to convert them or there were no private developers willing to take on the responsibility of remodeling and management. As in Athens (2004), most of Rio's venues are now falling into disuse. London's \$700 million Olympic Stadium has been converted (at a \$400 million additional public expense) into a new stadium for the West Ham soccer club, but West Ham

had a perfectly good stadium beforehand.

What is true about these white elephants and dozens of others is that they cost millions of dollars to maintain and they take up valuable urban real estate. In fact, hosting the Summer Games generally encumbers 5,000–8,000 acres of land for 35+ sporting venues, the Olympic Village, the media village, the international broadcasting center, the ceremonial green space, the access roadways, and the parking lots. Commandeering so much land invariably means pushing businesses and people out of the way. Beijing 2008 reportedly evicted over one million residents to make room for Olympic construction. Rio 2016 evicted 77,200 *favelados* (shanty town residents).

In Boston, space issues had a particular resonance. Boston is a tightly packed, densely settled city. Original plans to put almost all the venues within Greater Boston and have a "walkable" Games were quickly abandoned. But, even in Plan 2.0, Boston 2024 set its sights on building both the Olympic Village and the Olympic Stadium in Boston proper.

The budgets for the Olympic Village and Olympic Stadium were even more fanciful and financially destructive for Boston. The tax subsidies to be offered to the prospective developers at Widett Circle were estimated at \$269 per square foot and at the

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Columbia Point Olympic Village at \$199 per square foot. Contrast those bloated subsidies with ones offered by the city to the developers at Fenway Center at \$4 per square foot or at the Vertex Pharmaceutical complex at \$11 per square foot. That is, the city was being asked to offer subsidies 20 or more times what they had previously handed out for similar development deals.

Even assuming that Boston 2024 could find willing developers at these subvention levels, it is uncertain whether the city council would have gone along with the incentives. If economically viable projects can be induced with subsidies of 5% or even 1.5% of the level offered for the Olympic Stadium and Village, why forgo the tax revenue and give up some of the few remaining developable plots of real estate in the city? That question becomes even more pressing because the Boston 2024 plan involved adding 4,000 housing units at Widett Circle and 2,700 units at Columbia Point post-Olympics, but the plan had no space or financial allocation for schools, health clinics, or police stations.

The Boston 2024 plan also relied upon quixotic cost assump-

tions. For instance, Boston 2024 intended to build a 20-acre-plus deck over the railyards at Widett Circle on which it would build the stadium. It budgeted only \$10 million for the air rights to those 20 acres. Yet, based on air rights at Hudson Yards in New York City and the Fenway Center development over the Massachusetts Turnpike, the air rights were worth more than \$300 million. Boston 2024 projected that the deck itself would cost only \$785 million to build, but based on the construction costs of the decks at Hudson Yards and Fenway Center, a more realistic projection would have been \$1.4 billion.

The Widett Circle and Columbia Point projects did include a 10% contingency fund, but projects at similar early conceptual stages typically contain 20–30% contingency budgets. Given the typical cost overrun of a Summer Olympics, a 10% contingency hardly seems adequate. Boston 2024 projected transportation costs at \$50 million during the Games, even though Atlanta 1996 spent \$150 million (in 2016 prices) on this operating expense.

The proposed Boston Olympic Stadium, designed to hold 69,000 in Bid 2.0 (up from 60,000 in Bid 1.0), was to have been a temporary structure, but it was still projected to cost \$175.5 million. Even that number was likely to be wildly optimistic; a similar temporary Olympic Stadium that was envisioned as part of Chicago's unsuccessful bid for the 2016 Games was budgeted at \$392 million (in 2016 dollars). Overall, a report on the Boston plan that was prepared by the Brattle Group estimated that Plan 2.0 understated likely costs of hosting the 2024 Games by \$2.9 billion, before considering indirect and opportunity costs.

TIME RUNS OUT

As NBO was able to uncover the risk, expense, and disruption of Boston 2024's plans, the bid's boosters were put firmly on the defensive. Try as they might, each new change in their promotional strategy found no success in luring back popular support. The USOC, knowing that a Boston bid without support of the residents had no chance of winning over the IOC, began to express frustration and to set deadlines for a final proposal from Boston 2024.

With their back against the wall, Boston 2024 agreed to a public referendum in November 2015—something they had opposed from the outset. They also agreed to a public debate on hosting the Games, with Pagliuca and Dan Doctoroff (a member of the USOC executive committee and the leader of New York City's failed bid to host the 2016 Olympics) on the pro- side, and Dempsey and myself on the opposed. Boston 2024 had previously refused a head-on debate.

The Boston Fox TV affiliate carried the debate live in the early evening of July 23, 2015. After an hour of lively exchanges, Shirley Leung, a *Boston Globe* reporter and supporter of Boston 2024, commented during the post-debate show that Dempsey and I had come out on top.

Time was running out on Boston 2024. The USOC issued an ultimatum: Governor Baker, who had not embraced hosting the

Games, must throw the state's support behind the bid by July 27 or else it would be rejected. Baker stood his ground and the USOC pulled Boston's bid on that day.

The next day, *PBS NewsHour* carried a report on the demise of Boston 2024's bid. The segment included an extended give-and-take between George Hirthler, a longtime Olympic campaign strategist, and myself. It began with program host Judy Woodruff asking Hirthler what went wrong with the Boston bid. He replied:

What went wrong, Judy, was the public narrative that was pretty much controlled by Professor Zimbalist and the cohort of—his cohort of colleagues at No Boston Olympics.

They kept the public conversation completely focused on the financial risks of the Games. So the public never had a chance to consider what it would be like to have athletes from 200 countries around the world living in an Olympic Village in their midst. The Games would have been extremely walkable for 90% of the fans who came into the Boston [area].... Professor Zimbalist and Chris Dempsey and the others came in and attacked every single number and kept the public conversation completely focused on risk and fear.

Woodruff interjected: "Well, I do want to move on to the larger question we raised here [on Olympic costs and benefits] but, Professor Zimbalist, let me give you an opportunity to respond." And I obliged: "I just want to thank George for making me out to be so powerful. I don't think we had nearly that impact."

While Hirthler undoubtedly overstated the case, it is clear that academic research played a role in defeating Boston 2024. The same research helped to reduce the field of competing cities from six down to two for hosting the 2022 Winter Olympics. Subsequent to the USOC pulling Boston's bid, Dempsey and I were contacted by opposition groups to the Budapest, Hamburg, and Rome bids for the 2024 Games. Each of those cities ended up pulling its bid as well. Ultimately, Paris was awarded the 2024 Games. Los Angeles, with another shrewd bid reminiscent of the 1984 Games, won 2028.

The business model of the IOC is under challenge. Fewer and fewer cities believe that throwing an extravagant 17-day party for international athletes and media will promote their economies. Scholarly research and facts matter. R

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