

Opportunity cost: what policies should be implemented around mega-sporting projects?

Definition

In economic analysis, opportunity cost refers to the study of the rational behaviour of an agent in a situation of scarcity of available resources. It should be remembered that economic rationality can be defined as the art of allocating scarce resources subject to alternative uses (Lionel Robbins). In a situation of resource scarcity, every actor is condemned to make choices. This choice of an option means the abandonment of another alternative option. The opportunity cost is the value of the option abandoned. For example, a child consumer with a limited budget (10 euros) will have to choose between buying sweets (at 1 euro each) or chocolates (at 2 euros). He can buy 3 chocolates and 4 sweets. If he wants a bar of extra chocolate, he will have to give up 2 sweets. The opportunity cost of the chocolate is two sweets, i.e., the cost of giving up sweets to have extra chocolate. The same reasoning can be applied to the production side. Given the resources available, producing an extra unit of goods means giving up producing a given quantity of other goods. For example, a farmer who has a given area of land will have to give up producing x tons of corn to produce y additional tons of wheat. This is his opportunity cost.

This analysis in terms of opportunity cost can thus be applied to the determination of the rationality of choices. For example, an agent's choice of a given project will be deemed rational if its net benefit is positive but greater than the net benefit of all the alternative projects that the agent has had to forego. It is this latter conception of opportunity cost that we will examine in the case of a certain number of sports projects that are the subject of debate as to their economic legitimacy. This raises the whole question of social choices, which often involve very difficult trade-offs.

Mega-sporting projects: what is the cost opportunity?

It is interesting to recall a few emblematic examples of controversies that have arisen around major sports projects, always with the same question in mind: would the resources have been more beneficial to society if they had been invested in sectors other than sports?

- **Football World Cup 2010 in South Africa**

The academic literature on the economic impact and legacy of the 2010 World Cup is very heterogeneous. First of all, one has to put aside the ex-ante studies commissioned by the government, which all promised considerable economic benefits for the country. On the other hand, the ex-post academic literature is much more critical of the real impact of this event, which was a failure for South Africa's economic development. If the World Cup brought in a profit for FIFA estimated at between 2 and 3 billion dollars, it represented a huge financial loss for South Africa estimated at more than one billion dollars. This is a classic case of privatising profits and socialising costs. These two opposing views of the economic impact of the Cup raise the question of whether it was appropriate to hold the event in South Africa. Reasoning in terms of opportunity cost helps to clarify the debate.

As soon as the World Cup was awarded to South Africa, the Minister of Housing recognised that programmes to build hundreds of thousands of low-cost social housing units could be jeopardised to provide funding for the 2010 World Cup. For example, it was agreed that there would be a shift in the focus of the Johannesburg integrated five-year plan. The priorities originally announced were: housing, health, education, local development, security, and various services including water, housing and electricity. After the World Cup was awarded, the priorities of the five-year plan were changed. To finance the construction of the large stadium in Johannesburg, the initial cost of which had been underestimated, it was decided to reduce allocations for public services. The cost of the Soccer City stadium is equivalent to the cost of housing over 200,000 people under the reconstruction and development programme. This is the opportunity cost of building this large stadium.

- **Generalisation**

First of all, the same type of opportunity cost calculation can be mentioned in the case of the construction of large stadiums for the 2014 football World Cup in Brazil. For example, the stadium in Manaus cost 260 million dollars for a capacity of 46,000 seats, while the average number of spectators during the championship is around 500. On the other hand, 20% of the homes in Manaus have no running water or toilets with connection to a sewage system, with all the sanitary consequences that this implies. The number of homes connected that have been foregone represents the opportunity cost of the construction of a large, oversized stadium that is doomed to become a white elephant. In general, the large street demonstrations at the time of the World Cup reflected the resentment of Brazilians who demanded investment in public services: housing, education, transport, health and security instead of stadia.

In short, the opportunity cost of organising major sporting events in the countries of the South raises the fundamental question: should they be organised? With the benefit of hindsight, many economists would say no, given the opportunity cost. It would therefore be important to better evaluate the opportunity cost of hosting major sports events or building major sports facilities in developing countries. Africa is a good field of experimentation at a time when sports projects are multiplying on this continent. For example, what is the opportunity cost of building and then maintaining large stadiums?

- Is it better to invest in a few large stadiums to host major sporting events?
- Is it better to invest in multiple basic facilities to develop the practice of sport in the community and to allow the population to benefit from the multiple positive externalities linked to sport (education, health, social ties)

To make a decision, it is necessary to put instruments in place, which improve decision-making.

Decision-making

The preceding examples of contested projects belong to what some schools of thought call imposed major unnecessary projects. This makes it possible to understand that the hosting of mega-sports events could be compromised, even in industrialised countries, because of the increasingly heavy opportunity cost. This is the reason why several candidate cities for the Olympic Games (OG) withdrew their bids following a referendum amongst the population. Take the Winter Olympics for example.

The refusal to host the 2026 Winter Olympics in Calgary (Canada) relaunches the debate on the opportunity cost of such an event. It is a real disappointment for the International Olympic Committee (IOC), which is now in the same situation for the 2022 Games, and why many candidates withdrew from the race (including Oslo, Lviv, Krakow, and Stockholm). In the end, two cities remained in the competition and Beijing triumphed over Almaty (Kazakhstan). For the 2026 bid, three other cities withdrew in 2018, before Calgary: Sapporo (Japan), Sion (Switzerland), and Graz (Austria). There are only two cities left in the race with Stockholm and an Italian duo (Milan and Cortina d'Ampezzo).

In a sluggish economy, it was recognised that renovating the former Olympic venues in Calgary means less investment in schools, roads and other public infrastructure, which is an opportunity cost considered too great by the public.

It will therefore be urgent to return to reliable modalities for the evaluation of the costs and benefits of the Games, but also to other modalities in the hosting decision-making process. A referendum

does not seem to be an appropriate instrument. A citizens' conference could be a better solution to meet the democratic requirement, as citizens are increasingly reluctant to have choices imposed on them by politicians or experts.

Further information:

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Ingrid NAPPI-CHOLET et Emmanuel de la MASSELIÈRE (Dir.) : *L'héritage urbain et immobilier des mega-événements*, Les Cahiers de la Chaire Immobilier et développement durable, n°6. ESSEC Business School, 2018.

Paul SAMUELSON et William NORDHAUS, *Economie*, Seizième édition, Economica. Paris, 2000.

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