

Insight

The host with the most?

Rethinking the costs and benefits of hosting major events

Hosting large events like the Rugby World Cup are expensive undertakings. That makes value-for-money evaluation critical. But most impact event analysis doesn't stack up, missing displacement effects. It means benefits are often far smaller than people think.

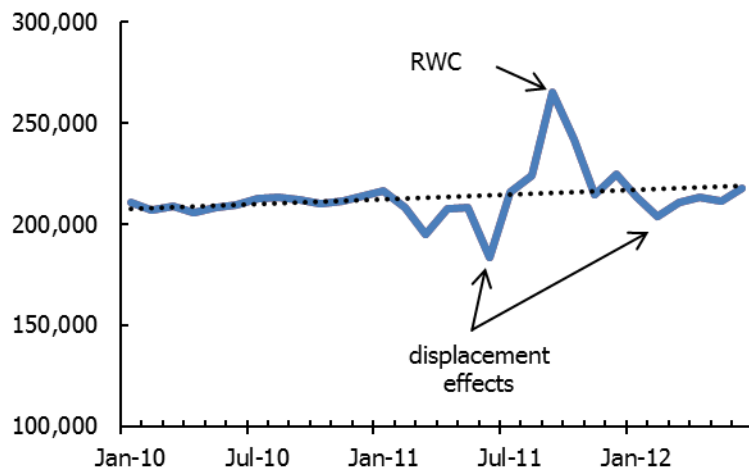
Most event analysis misses visitor displacement

Major international events attract extra visitors during the event. But events tend to 'suck in' visitors from before and after the event, when people coincide the timing of visits with the event.

This 'displacement' effect means the net number of visitors an event generates is much lower than the visitors to the event. The Rugby World Cup 2011 is a good example. We estimate there was little overall boost to visitor arrivals because there were fewer visitors before and after the 133,000 international visitors that came to New Zealand for the tournament (see figure 1).¹

Figure 1 People shift the timing of visits to coincide with events, displacing visitor arrivals

Seasonally adjusted and trend visitors arrivals



Source: Statistics New Zealand

¹ Professor Dickson (Auckland University of Technology) suggests net new arrivals could be as few as 25,000.

Most regional event analysis also misses expenditure displacement

Crucially, domestic tourism is displaced expenditure that would occur elsewhere in the economy. This significantly reduces the overall benefit from the events.

Simply put, major domestic events do not make New Zealanders any wealthier. Increased spending at the major event is mostly offset by reduced spending elsewhere. This might be reductions in other holidays, spending on take-aways and eating out, or spending on household items such as TVs.

Most event analyses use multipliers to capture second rounds of spending from the profits and wages captured by local events. But the multipliers used to capture second round spending also need to be applied to the reduction in spending that cannot now occur elsewhere in the economy.

The displaced expenditure argument makes for a clear policy recommendation: if international events bring extra money into New Zealand they have net benefits to New Zealand. Regional events are more likely to only reallocate spending across regions. They are likely to benefit the region, but at a national level let's be clear – little additional income is generated by these events.

Infrastructure expenditure also must be funded

Large international events, like the Rugby World Cup and the Olympics, leave the host region with better facilities, and sometimes upgraded transport links. But infrastructure is expensive, and the costs are largely borne by local residents once tourism displacement is considered. In addition, the costs of major events typically blow out. Research by the Saïd Business School at Oxford University shows that every Olympics since 1960 averaged a cost overrun of 179%.² Event analysis needs to consider who pays for the infrastructure, and any likely cost overruns.

For the large costs to stack up economically, the infrastructure needs to deliver lasting dividends long after the major event is finished. This means sound planning so that the business case for the infrastructure stands up over the long term. The East London development for the London 2012 Olympics appears sound, investing in an area that was otherwise run-down; similarly developments of the Barcelona waterfront for the 1992 Olympics have left lasting benefits to the city. The event analysis needs to consider the usage of infrastructure long after the event has finished.

A better approach to evaluating tourism events

There are a range of implications for evaluating the economic benefits of major events:

1. The national benefits of any major event will largely be dependent on increases in international tourism. The numbers used in evaluations must consider displacement effects.
2. The perspective of the evaluation matters. A major event might have net benefits for a region, but be welfare-reducing for the country as a whole.
3. The analysis must be consider who pays for the infrastructure. When there are few new tourists, the costs are likely to fall on the local region.
4. The analysis is complex, with different impacts across industries and regions. The economy-wide impact of a major event depends on how tourism crowds out other sectors. This depends on capital and labour constraints, and the state of the economy (Dwyer et al 2005).

These points are the reason why NZIER has made Computable General Equilibrium (CGE) modelling the tool of choice to evaluate events. The Australian Sustainable Tourism Cooperative Research

² <http://www.sbs.ox.ac.uk/newsandevents/releases/Pages/LondonOlympicsoverbudget.aspx>

Centre (STCRC) support that view. CGE modelling captures displaced expenditure across industries and regions, and who ends up paying for any infrastructure costs.

An alternative approach is to use the input-output (I-O) or multiplier models. But these models do not include key economic constraints, price changes or displacement impacts and therefore overestimate the benefits of major events. Dwyer et al (2005) find I-O model estimates are 180% to 500% higher than CGE estimates.

Be clear about the impacts of major events

Major events that can bring new tourists can generate positive benefits for a region. However, these events are costly undertakings that need to be evaluated using analysis that holds up to scrutiny. Simple multiplier analysis that overstates short-run benefits by ignoring displaced visitors and displaced expenditure simply doesn't cut it.

References

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