

# FOLLOW THE MONEY, UNDERSTAND THE OLYMPIC SCAM

Joseph Jones – May 2009

For which of you, intending to build a tower, sitteth not down first, and counteth the cost, whether he have sufficient to finish it? Lest haply, after he hath laid the foundation, and is not able to finish it, all that behold it begin to mock him, saying, This man began to build, and was not able to finish. – Luke 15:28-30

What are we to think of an event like Vancouver's 2010 Winter Olympics, whose financial projections so quickly turn sour and whose softer promises routinely are not kept?

## *Start with One Example*

The costs of “security” offer an especially graphic example of failed financial projection. VANOC's *Business Plan and Games Budget* (p. 53) mentions a security budget of \$10,306,000 for VANOC plus \$175 million funded by Canada and B.C. (also: Levitz, “Initial”) – a round \$185 million. After prolonged evasion and stonewalling, provincial and federal Canadian governments admitted in February 2009 to estimated security costs on the order of \$900 million (Mickleburgh).

A budgeting failure of this proportion would ruin an individual or a small business. Thanks to its authority to tax, government is always too big to fail. Then somehow the power of fait accompli allows big “mistakes” to fade into an unaccountable past.

The task here is to understand and remember. The startling difference between \$185 million and \$900 million plus – a factor of five times – exemplifies the first of the three sleazy financial maneuvers typical of Olympic budgeting (Shaw, p. 189-191):

- ▶ Put out a deliberate lowball estimate that amounts to fraud
- ▶ Focus on operating costs and ignore or downplay infrastructure and security costs
- ▶ Conceal as many costs as possible by making them indirect and offloading them to other undisclosed budgets

Lest the foregoing example be thought an unkind anomaly, consider only the notorious megamesses of Olympic Village financing (Lee, “City”) and Convention Centre expansion (Palmer, Sanders). Irresponsible planning and financing are an Olympic pattern, not an isolated mistake.

## *Why Bother?*

Accounting is boring. Keeping track of personal finances is tedious. Trying to understand the reports of corporations and societies and governments is mind-numbing, and feels like a realm closed to all but experts. Making sense out of pages of numbers seems a chore, even if a full and audited statement is at hand. When figures are harder to get, the incentive to exercise scrutiny tends to evaporate. Especially since acquaintance with the financial data seems to make no difference – except to produce depression – and taxpayer citizens always seem to have no say.

In the case of Vancouver's 2010 Winter Olympics, there was a time when residents might have affected the decision to become a host city. The citizens of Bern, Switzerland held a referendum that took them out of the running for those very same 2010 Games. (Perhaps their geographic proximity to the headquarters of the International Olympic Committee gave them sufficient insight into what the proposal really entailed.) Even more dramatically, Denver withdrew its bid to host the 1976 Winter Games two years after being selected, thanks to a referendum result.

Vancouver held a vote in February 2003 ("Official"). The nature of that "vote" was a plebiscite – a nonbinding opinion poll – and not a referendum. Since the plebiscite result was almost two-thirds 'yes', the nonbinding nature of the exercise never became apparent. On the other hand, over one-third of Vancouver residents said 'no' in the face of a public relations campaign supported by the Vancouver-Whistler 2010 Olympic Bid Corporation (with \$34 million in their kitty) and three levels of government that wanted and pushed for a 'yes'. Binding or not, an 80% 'no' could have been impossible to ignore.

So if the "vote" is history and the Winter Olympics is coming to Vancouver anyway, why care about the costs, since the deal is done? These are some answers:

- ▶ Public money needs to be accounted for
- ▶ Citizens can learn valuable but expensive lessons from what has taken place
- ▶ Career politicians can pay for their arrogance at the ballot box
- ▶ Corporate interests can acquire shame, not fame, for their Olympic associations
- ▶ The marauding Olympic monster can be understood for what it really is
- ▶ Potential future host cities can better beware

## *About the International Olympic Committee (IOC)*

The Olympic Games are run by a peculiar organization, "an international non-governmental non-profit organisation" that seems answerable to no one. Constituting the IOC is a fifteen-member executive board, plus 107 members whose allegiance is stated to be to the IOC and not to their 107 countries of origin, plus a staff said to number "well over 200" (International Olympic Committee; Barney/Wynn/Martyn, p. 277).

Based in Switzerland – a country famous for its "discretionary" banking – the IOC enjoys an agreement with the Swiss government that gives it exemption from all income and wealth taxes (Shaw, p. 72). At the other end of IOC operations, the *Host City Contract* specifies exemption from or compensation for all taxes (Sections 23 and 50). Other avoidance of financial obligations can be found in Sections 4, 9, 18, and 27. (When read in detail, the *Host City Contract* reveals itself as a collection of clauses that specializes in acquiring unrestricted privileges for the IOC and offloading

responsibilities and liabilities onto various levels of Canadian government. No prudent individual would ever sign such a contract.)

The revenues of the IOC come mainly from broadcasting rights and corporate sponsorships (“Marketing”). For 2001-2004, the IOC says these revenues added up to about \$1 billion per year. Of that amount, the IOC says it keeps “approximately 8% ... for the operational and administrative costs of governing the Olympic Movement.” In other words, the IOC (a group of around 325 individuals) sees itself as a government, generally acts like one, and has at least \$80 million a year to play around with.

Despite its highly privileged status, its massive income, and its public impacts, the finances of the IOC are not public and audited financial statements are not made available.

(Vancouver and seven other initial contenders for the 2010 Games each paid \$150,000 to make application. Then four official candidates paid a further \$500,000 fee (Shaw, p. 69). Levies like these are additional to the “marketing revenue” reported by the IOC above.)

### *Profitability Propaganda*

The Olympic Games are not a profit generator and never have been. What is always consistent is, there are always cost overruns.

– Kevin Wamsley, codirector of the University of Western Ontario’s International Centre for Olympic Studies (Sinoski)

In Canada, the 1976 Montreal Olympic Games are famous for their legacy of cost overrun, and a taxpayer burden that ensued for thirty years. With this example so close to home, how could Vancouver residents have been enticed to hand themselves over to the voracious Olympic debt monster?

Olympic promoters are good at weaving visions of financial multipliers and spin-offs and legacies, and investing them with the trademark feel-good halo of sports excellence. This selling relies heavily on manipulation of emotion – just like closing the deal on a new car does. Since accounting is complex and history is long, a major Olympic promotion strategy is to point very selectively to past financial success.

Vancouver lies next door to Calgary, so the 1988 Calgary Winter Games became a touchstone for profitability hype. The truth of even that case, though, depends on how the numbers are added up. An after-the-fact report by journalist Thomas Walkom revealed that extra costs to taxpayers came to almost \$1 billion, meaning no profit on the real bottom line (Shaw, p. 20-21, 174, 187).

A prime magnet for the financial claims of boosters is the 1984 Los Angeles Olympics. This instance provides one actual case to demonstrate that hosting the Olympics could be a profitable undertaking (Shaw, p. 185). Five factors contributed mightily to this fluke (Barney/Wenn/Martyn, p. 160, 193-198):

- Most of the physical infrastructure was already in place
- Los Angeles pioneered in capitalizing on television broadcasting rights and reaped extraordinary benefits

- ▶ Facing off against no other serious contenders for host city, Los Angeles held a strong negotiating position
- ▶ Following the 1978 awarding of the Games, Los Angeles amended its city charter to prohibit the use of public funds
- ▶ The “entrepreneurial genius” of Organizing Committee president Peter Ueberroth served Los Angeles well

A great irony is that the financial disaster of Montreal in 1976 seems to have spurred the prudence of Los Angeles in that city’s immediately following bid.

So, history does not promise any Olympic host city a healthy bottom line. In the particular case of Vancouver 2010, sober economic analysis back in February 2003 likely failed to reach voters in a timely fashion (Shaffer/Greer/Mauboules). Two of three “key implications” spoke directly to unfavorable economics:

The Games are not attractive from a financial point of view. There would be a substantial net cost to the public treasury that would have to be offset by less government spending in other areas or increased taxes or increased debt.

The Games cannot be justified on the basis of the estimated economic impacts. The jobs would not be generated in regions of the province where unemployment is highest and additional employment opportunities most beneficial. The impacts would be of limited duration and the effective subsidy per job would be very high.

### *Demolishing a Flimsy Counterclaim*

Olympic hype often parades associated infrastructure megaprojects as “legacies” of the Games. Yet when financial accounting for the Olympics becomes the focus, those same items magically disappear from the balance sheet and are no longer deemed an Olympic “cost.” Trying to have this both ways is a prime example of focusing on operating costs to make the situation look better (accounting trick number two in the list above).

Four megaprojects latched onto the Vancouver 2010 bid to host the Olympics:

- ▶ Rapid transit along Cambie Street into Richmond
- ▶ Olympic Village development on Southeast False Creek
- ▶ Vancouver Convention Centre expansion
- ▶ Highway 99 reconstruction from Vancouver to Whistler

The cost of these four items alone exceeds \$4 billion (Constantineau; Lee, “City”).

Tying all of these large projects to a single Olympic timeline ensures severe competition for infrastructure construction resources, contributes to significant cost escalation, and results in the waste that goes along with haste and short-horizon planning. (The impacts of poorly mixed concrete and pressured inspection may take a few decades to show up. So what – that just sets up a future opportunity for the development industry to make money from remediation à la leaky condo syndrome.)

The artificial Olympics-driven selection of these projects should be measured against criteria such as the following five:

- Need:** Real current and immediate future requirements for the particular project
- Timing:** Was it wise to concentrate so many public resources into an economic bubble period?
- Scale distortion:** Was it good to rush the development of that large parcel of public land at Southeast False Creek for the Olympic Village?
- Priority warping and opportunity cost:** Were these the best and considered choices for massive public expenditure?
- Sustainability and affordability:** How do these project choices suit a world facing the impacts of climate change and peak oil?

### *Why Do Host Cities Buy into the Olympics, and Who Really Benefits?*

Olympic promoters market an irrational combination of youth, sport, excellence, internationalism, and peace wrapped up in an overwhelming package of fortune and spectacle. The notion that this “tradition” reaches back for millennia (although really only back to 1896) bestows an aura worthy of a religion. The power of this concoction has so far overcome repeated scandals of bribery, doping, and fraudulent judging (Shaw, p. 79-87).

The one entity that always benefits from the Olympic Games is the International Olympic Committee. The Games are so clearly rigged: the IOC gets the gold, the host city goes in the hole.

The other beneficiaries (and accomplices) are the local interests that use Olympic razzle-dazzle to convert public money into private profits. So what if generations of stupid taxpayers put themselves into hock in the process? They can watch the circus on TV (obtaining actual tickets is not likely), and they can delude themselves that their very own world-class city has somehow become glorious through association with a pack of savvy ravagers.

The scam starts with the IOC’s temporary local arm, which amasses corporate and public funding, operates without transparency, and issues no audited financial statements. In the case of Vancouver 2010, these entities are, in succession:

- Vancouver-Whistler 2010 Olympic Bid Society [1998] – \$50,000+ (Shaw, p. 7)
- Vancouver-Whistler 2010 Olympic Bid Corporation [1999] – \$34 million (Shaw, p. 39)
- Vancouver Organizing Committee for the Olympic Games (VANOC) [2003/2004] – \$1.7 billion (Lee, “Economic”)

The ad hoc temporary nature of these organizations facilitates their inscrutability and frustrates attempts to hold them accountable.

Although the letting and financing of various Olympic contracts offers much scope for gain, the biggest local profit agenda ties in with real estate development and megaproject construction. The prime mover in formulating Vancouver’s Olympic bid was real estate mogul Jack Poole. After the bid succeeded, his own Concert Properties attempted to grab the Olympic Village pie, but was forced to step back because conflict of interest was so blatant (Shaw, p. 5-9, 119-120). Overall, the artificial deadline set by the coming of the Olympics drives construction into a frenzy and impedes scrutiny.

Creating impetus to gentrify urban neighborhoods like Vancouver’s Downtown Eastside also figures into the real estate equation. The staging of the Summer Games in particular tends to

involve the remaking of inner city areas with attendant and often desired population displacement: Barcelona 1992, Atlanta 1996, Sydney 2000, Athens 2004, Beijing 2008, London 2012. Failed bidders have similar aims: Toronto 1996 and 2008, New York 2012. (Olds; Shaw, p. 33)

Two details suffice to sketch the real estate dimensions of Vancouver 2010. First, the Olympic Village fiasco saw Vancouver city councillors go into secret session in June 2007 to approve completion guarantees that ultimately put the City on the hook for hundreds of millions. When the City took over financing from dubious New York-based hedge fund Fortress in February 2009, it paid out a “penalty” of \$4 million to be allowed to step into the breach. Meanwhile, cash-strapped Fortress had unilaterally stopped providing any funding at all in the fall of 2008 (Lee, “City”). Second, the unnecessary and environment-devastating “upgrade” of Highway 99 leading from Vancouver to Whistler was designed to open up real estate development potential – from British Properties at Eagleridge Bluffs in West Vancouver, along the entire Howe Sound coastline, to the city of Squamish, into the Callaghan Valley near Whistler, and onwards to and past Pemberton.

Here can be seen the reason that the Olympic Games themselves, unlike so many other international institutions, cannot and will not have a well-developed home (or even two, one for summer and one for winter), but must instead maraud the entire globe. Forcing megaprojects forward with public funds is the real purpose of the Olympic Games. Behind the façade of sports competition grows the bulldozer of real estate development.

A telling sidelight. The IOC evidently selected Sochi, Russia for the 2014 Winter Olympics (instead of Pyeongchang, South Korea or Salzburg, Austria) because that location offered the most scope for “development” of the nearby mountains. Involved once again is Ecosign Mountain Resort Planners headquartered in Whistler, B.C. The Sochi site is their fourth Winter Olympics project – after Calgary 1988, Salt Lake City 2002, and Vancouver 2010 (Ecosign).

## *Epilogue*

In Vancouver, support for the 2010 Olympic Winter Games transcends party politics, in the same way that real estate developer campaign contributions do (Shaw, p. 7, 31). Consider this report from the eve of the 2009 British Columbia provincial election (Levitz, “Parties”):

The economic stimulus of the Olympics has won over most skeptics so trumpeting them would have been stating the obvious, Finance Minister Colin Hansen said.

The Games sell themselves, Mr. Hansen said, and there’s little room for naysayers.

“It’s such a good news story,” he said.

“What I’ve found interesting at some of the all-candidates discussions is that all of the parties seem to be falling all over each other to make it clear that they are supportive of the Olympics.”

Political and corporate powers collude in selling out the interests of the ignorant and the innocent. In British Columbia, the unanimity of ruling Liberals and opposition New Democrats on this spending of billions represents a very strange cooperation.

Note the ambiguity in the Colin Hansen phrase reported above – “good news story.” Then think back to the question put by Jesus in the quotation that introduces this essay.

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