

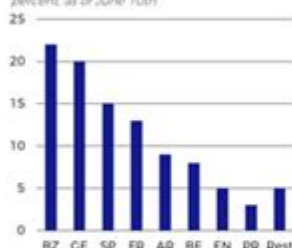
Economics Of The World Cup

THE ECONOMICS OF THE WORLD CUP

Suttle Economics Notes #41

- FIFA's 21st World Cup starts on Thursday in Russia; Brazil to win at soccer, but lose in GDP
- The ascent of FIFA revenues reflects the rise of the Asian consumer—especially China
- Hosting the Cup can be bad for a country's GDP and FX health, especially if they win
- Looking ahead to 2022 and beyond: The World Cup and geopolitics

Chart 1
Implied odds of winning
percent as of June 10th



The 21st FIFA World Cup—soccer's quadrennial national team world championship—starts tomorrow. The tournament will be held in 12 stadiums across 11 cities in Russia, with the Final in Moscow on July 15th. In this note, I look at three sets of issues that link the World Cup to global economics and financial markets. The links are tenuous, but writing this note is my best effort to ease my conscience about watching so much of the tournament over the next month.

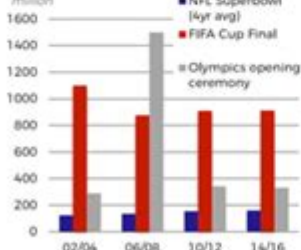
First, I review the global economic significance of this major sporting event. Second, I assess the impact of the tournament on the host economy and financial markets. Third, I look ahead and consider how the World Cup might interact with global geopolitics in coming years: in the Middle East in the build-up to 2022; North American reunification in 2026; and when (not if) the World Cup goes to China.

Odds makers imply that Brazil (22%), Germany (20%), Spain (15%) or France (13%) are most likely winners (Chart 1). As in the world of politics, Brexit may be delayed, but not avoided: a quarter-final spot seems fair-value for England's prospects. The red-line could be a penalty shoot-out: England have lost all three to date, while Germany are 4-for-4. Home country bias gives Russia hope of getting out of the group stage. Home country bias does not hold for Brazil, which had nightmare tournaments at home in 1950 and 2014.

The greatest show on earth

The World Cup can justifiably claim to be the major regular global media event in a world where the production and consumption of global media services is becoming an increasingly important aspect of the service economy. It is a month-long event, comparable to the Summer Olympic games, although the latter has far more competing countries and individual events. Despite this, however, the World Cup can claim to garner more consistent attention simply because its key moments—especially the Final—appeal to a wider global audience (Chart 2).

Chart 2
Global TV viewership
million



The economics of the World Cup is a multifaceted topic that encompasses various aspects, including the financial implications for host nations, the economic impact on local businesses, and the revenue generated by FIFA, the sport's governing body. The FIFA World Cup is not merely a sporting event; it is a global phenomenon that attracts billions of viewers and generates substantial economic activity. From the cost of infrastructure development to the influx of tourism revenue, the World Cup significantly influences the economies of both host countries and participating nations. This article explores the various dimensions of the economics of the World Cup, examining its financial implications, economic benefits, and challenges faced by host countries.

Historical Context of the World Cup Economics

The FIFA World Cup has evolved since its inception in 1930, both in terms of its global reach and its economic impact. Initially, the tournament was modest in scale and financial implications. However, as football's popularity grew, so did the economic stakes. The World Cup has transformed into a lucrative event, generating billions in revenue and creating a substantial economic footprint in host countries.

Financial Growth Over the Years

- 1930s-1950s: The first few tournaments were relatively small-scale, with limited financial backing and sponsorship.
- 1960s-1980s: The introduction of television broadcasting expanded the event's reach, leading to increased advertising revenue.
- 1990s-Present: The World Cup became a commercial powerhouse, with extensive sponsorship deals and global media rights generating significant income.

The Economic Impact on Host Nations

Hosting the World Cup comes with a hefty price tag, often involving substantial investments in infrastructure, stadiums, and services. However, the potential economic benefits can be significant.

Costs of Hosting

1. Infrastructure Development: Building or renovating stadiums, improving transportation networks, and enhancing public services can cost billions.
2. Security Measures: Ensuring safety for players and fans requires extensive investment in security personnel and technology.
3. Environmental Concerns: Large-scale construction projects often lead to environmental degradation, which can result in long-term economic costs.

Revenue Generation and Economic Benefits

1. Tourism Revenue: The influx of tourists during the tournament can significantly boost local economies. This includes spending on hotels, restaurants, and entertainment.
2. Job Creation: The World Cup can create numerous jobs, both temporary and permanent, in various sectors, including construction, hospitality, and retail.
3. Increased Global Exposure: Hosting the World Cup can enhance a country's

global profile, potentially leading to increased foreign investment and tourism long after the event concludes.

The Role of FIFA in World Cup Economics

FIFA plays a crucial role in shaping the economic landscape of the World Cup. The organization generates revenue through various channels, including broadcasting rights, sponsorship deals, and ticket sales.

Revenue Streams for FIFA

1. **Broadcasting Rights:** A significant portion of FIFA's revenue comes from selling broadcasting rights to networks around the world. For the 2018 World Cup, FIFA generated approximately \$3 billion from this source alone.
2. **Sponsorship Deals:** Major corporations pay substantial amounts for sponsorship rights. This includes both official sponsors and partners, whose logos are prominently featured during the tournament.
3. **Merchandising:** The sale of official merchandise, including jerseys, memorabilia, and other fan gear, contributes to FIFA's overall revenue.

Distribution of Revenue

FIFA allocates a portion of its revenue to the host country to cover costs associated with organizing the event, including:

- **Operational Support:** Financial assistance for logistical planning, staffing, and infrastructure.
- **Legacy Programs:** Investments in community programs and sporting initiatives aimed at promoting football development in the host nation.

Economic Challenges and Controversies

While the World Cup can bring significant economic benefits, it is not without its challenges and controversies. Host nations often face criticism over the financial burden and the prioritization of sporting events over pressing social issues.

Debt and Financial Strain

Many countries that host the World Cup incur substantial debt due to the costs associated with the event. This can lead to:

- **Budget Cuts:** Governments may divert funds from essential services, such as healthcare and education, to finance World Cup-related projects.
- **Long-Term Debt:** The financial obligations incurred can linger long after the event, impacting economic stability.

Social Issues and Public Sentiment

Public sentiment can turn against the World Cup due to various social issues, including:

- **Displacement:** Infrastructure development may lead to the displacement of local communities, sparking protests and public outcry.
- **Labor Rights:** Concerns over labor conditions for workers involved in construction projects have gained attention, leading to calls for reform.

The Future of World Cup Economics

As the World Cup continues to grow in popularity, its economic implications will likely evolve. The introduction of new technologies, changing consumer behaviors, and shifting global dynamics will influence how the tournament is organized and financed.

Technological Innovations

1. **Digital Engagement:** With the rise of social media and online platforms, fan engagement will become increasingly important, leading to new revenue opportunities through digital content and virtual experiences.
2. **Sustainability Initiatives:** Future tournaments may prioritize sustainable practices, with a focus on minimizing environmental impact and maximizing social benefits.

Changing Dynamics of Global Football

1. **Emerging Markets:** As football grows in popularity in regions like Asia and Africa, future World Cups may be hosted in these emerging markets, bringing new economic challenges and opportunities.
2. **Increased Competition:** The competition for hosting rights may intensify, leading to greater scrutiny of the economic implications for candidate countries.

Conclusion

The economics of the World Cup is a complex interplay of costs, revenues, and social impacts. While hosting the tournament can yield significant economic benefits, it also presents challenges that require careful management. As the tournament continues to evolve, understanding its economic implications will be crucial for host countries and stakeholders in the football industry. Balancing the financial gains against social responsibilities and environmental considerations will be key to ensuring that the World Cup remains a positive force in the global sports landscape.

Frequently Asked Questions

How does hosting the FIFA World Cup impact a country's economy?

Hosting the FIFA World Cup can significantly boost a country's economy through increased tourism, infrastructure development, and international exposure. However, these benefits can vary based on the country's ability to manage costs and attract visitors.

What are the main sources of revenue for FIFA during the World Cup?

FIFA generates revenue primarily through broadcasting rights, sponsorship deals, ticket sales, and licensing agreements. Broadcasting rights and sponsorships tend to be the largest revenue sources.

How does the World Cup affect local businesses in host cities?

Local businesses often benefit from the influx of tourists, with increased sales in hotels, restaurants, and retail. However, the extent of this benefit can depend on how well the event is organized and marketed.

What is the economic impact of the World Cup on employment in host countries?

The World Cup can create temporary jobs in construction, hospitality, and event management. However, many of these jobs are short-term, and the long-term employment impact may be limited.

Are the economic benefits of the World Cup sustainable in the long term?

While short-term economic spikes are common, the long-term sustainability of

benefits is often debated. Many host countries struggle to maintain the infrastructure and tourism levels post-World Cup.

How do ticket prices for the World Cup affect its accessibility for fans?

Ticket prices for the World Cup can be prohibitively high for many fans, limiting accessibility. FIFA often implements tiered pricing to allow a wider audience, but affordability remains a concern.

What role does foreign investment play in the World Cup economy?

Foreign investment can play a significant role in funding infrastructure improvements and tourism initiatives in host countries, leading to long-term economic benefits if managed effectively.

How does the World Cup influence global economic trends?

The World Cup can influence global economic trends by driving consumer spending in host nations, impacting supply chains, and affecting currency exchange rates due to increased international travel.

What are the environmental economic impacts of the World Cup?

The World Cup can lead to increased environmental strain due to infrastructure development and tourism. However, it also presents opportunities for sustainable practices and green investments in host cities.

How do World Cup sponsorships affect brand value for companies?

Sponsorships during the World Cup can significantly enhance brand visibility and value, as companies leverage the global audience to increase consumer engagement and brand loyalty.

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