

# Tokyo 2020: Public Cost and Private Benefit

Eva Marikova Leeds

**Abstract:** The IOC's myopic push for increasingly elaborate Olympics increased the size of the Olympics and raised the staging costs, which outpaced revenue and discouraged bidders. As the Olympics have become very costly mega events, only rich megacities like Tokyo can afford to host them. Advocates of the Olympics remain convinced that the Olympic expenditure is an investment that the city will ultimately recoup, but this is unlikely. For construction companies, however, the games are a bonanza.

## Introduction

In July 2017, the [International Olympic Committee](#) (IOC) made the unprecedented decision to award the next two Summer Olympic Games simultaneously. Having received only two bids for the second consecutive Olympics, it gave the 2024 Games to Paris and the 2028 Games to Los Angeles. Ironically, Los Angeles hosted the 1984 Olympics because, in the wake of terrorism, boycotts, and the Montreal Olympic financial disaster, no other bidders had emerged for those Games. The financial success of the 1984 Games caused a resurgence of interest in hosting the Olympics. Just as the attractiveness of hosting the Olympics started to fade after a quarter century of largely unsuccessful efforts, Tokyo pressed ahead with its bid and was awarded the 2020 Games on September 7, 2013. This paper explains how and why this occurred.

Evidence against the economic value of the

Games has been accumulating for a long time (Zimbalist, 2015). The benefits of hosting the Games are rarely as great as their advocates claim, while the costs are uniformly understated (Baade and Matheson, 2016; Flyvbjerg et al., 2016). Advocates of the Olympics also posit positive, long-term legacy effects but struggle to explain what they are (Brückner and Pappa, 2015). Baade and Matheson (2016) suggest that democratic countries continue to bid for the Olympics because the sectors that benefit from them, the hospitality and construction industry, lobby for them.

I apply this reasoning to the Tokyo Olympics, using Olson's (1965) theory of collective action to explain why policy makers take actions that run counter to the public interest. Olson observes that interest groups generate benefits that all members can enjoy jointly, that is, public goods, but collective action is costly. Because all members benefit from collective action, individuals tend to let others bear the cost, that is to free-ride. This limits the group's ability to undertake collective action. Free-riding is easy to prevent in small groups, but harder to avoid in large groups because members cannot be compelled to contribute. Large groups thus find it hard to advocate for their members, while smaller, more focused groups can corral their members and forcefully advocate on their behalf. Politicians respond to this pressure and act accordingly.

This framework reveals why Japan is more willing than most democracies to host the Games. The construction industry had already formed a small, cohesive group that could lobby hard for the Olympics. The relative weakness of

opposition groups stems from the widely dispersed costs of the Games and the opposition's lack of access to political tools present elsewhere. As a result, Japanese politicians have adopted projects, such as the Olympics, favoring the construction industry over the general public.

### **International and National Olympic Committees**

The International Olympic Committee (IOC) and the National Olympic Committees (NOCs) are defined by the Olympic Charter, which sets the rules for activities associated with the Games. The IOC, a non-governmental and non-profit entity and the most powerful Olympic institution, organizes the Olympic Games. The NOCs oversee Olympic sport activity in each country, and the Organizing Committees for the Olympic Games (OCOGs) stage the Games in the host country.

Because the Charter declares that the IOC is not financially responsible for any costs associated with staging the Games, candidate cities must accept that responsibility. They must also provide commitments from the local and national authorities to finance security and immigration services for the Games as well as construction of sporting facilities, which the Games use for free. Most importantly, local and national governments must cover any budgetary shortfall by the local OCOG. The decision to bid for the Games is ultimately made at the national level.

While carrying no risk, the IOC maximizes its benefits from the Games, such as by granting monopoly rights within the Olympic event zones. With some exceptions, the IOC prohibits selling non-sponsored brands in the Olympic area (Natland and Phillips, 2012). To monitor the area, the IOC wants compact Games that are easily cordoned off from the rest of the

economy. Monopoly grants run counter to the interests of the local business community and were one reason in Chicago's failed bid for the 2016 Games.

IOC revenue almost doubled from \$2.9 billion in 2001-2004 to \$5.7 billion in 20013-2016. About 73% of IOC revenue comes from broadcast rights (International Olympic Committee, 2018). Because broadcast rights are effectively only from the Olympic Games, the IOC wants the host city to generate spectacular games that maximize viewership. Another 18% comes from The Olympic Partners (TOP), fourteen worldwide sponsors. They in turn seek a good return on investment, which the IOC provides by granting exclusive marketing rights, as indicated above. The TOP program and local sponsorships have led the public to perceive the Olympics as "corporate Olympics," rather than the idealistic image that the IOC wants to project.

The IOC's myopic push for increasingly elaborate Olympics increased the size of the Olympics and raised the staging costs, which outpaced revenue and discouraged bidders. The IOC realized the impact of its greed too late. The Agenda 2020 plan to reduce the cost of both the bidding process and of the staging of the Games failed to increase the number of applicants, which resulted in the embarrassment of having to simultaneously award the 2024 and 2028 Games.

The NOCs are effectively agents of the IOC. They oversee the selection and development of elite athletes and the selection of potential domestic host cities, only one of which may bid for a specific Olympics. Because the NOCs depend financially on the IOC, they try to maximize the IOC's revenue. Their dependence also provides an incentive to find potential Olympic hosts to keep high revenues.

Cross-membership sometimes blurs the distinction between the IOC and the NOCs, as some IOC members head their NOCs. This was

the case in Japan when Takeda Tsuneyoshi headed the Japanese Olympic Committee (JOC) during the 1964 Tokyo and 1972 Sapporo Olympics and was a member of the IOC. A grandson of Emperor Meiji, who presided over the opening and industrialization of Japan in the 19th century, he represented Japan at the Berlin Olympics in equestrian events.

## The Public

The public has a variety of conflicting goals and attitudes. For example, patriotism provides a strong motive for hosting the Olympics, a magnificent spectacle with a huge worldwide audience. Many are proud to see their country play host to other countries and see the Games as a way to show their nation's wealth, strength, and unique culture.

Frugality, in contrast, militates against holding the Olympics, so popular referenda in many countries oppose hosting the Olympics. The same year the 2020 Summer Games were awarded to Tokyo, Graubunden Canton, Switzerland, and Munich, Germany, turned down hosting the 2022 Winter Olympics. Krakow, Poland, did so the following year. The German opposition group NOlympia listed opportunity costs, unforeseen cost overruns, and environmental concerns as arguments against the Games. The Norwegian Parliament's refusal to offer financial guarantees ended Oslo's candidacy for the 2022 Olympics in October 2014, leaving only two candidate cities, Almaty and Beijing.

The 2024 Summer Olympics also had only two bidders, Paris and Los Angeles. In November 2015, voters in Hamburg, Germany, turned down hosting the Olympics. After Rome suspended its bid in October 2016, an overwhelming petition drive of over a quarter million voters in Budapest ended the city's candidacy in February 2017. Why was Tokyo so different?

Tokyo is a prefecture with 23 special wards, 26 cities, and additional towns and villages. According to the Local Autonomy Law, when 2% of the voting population in a ward or city sign a petition calling for a referendum, the local government must consider - but need not hold - one. Moreover, referenda are not binding (Numata, 2006). Excluding town mergers, prior to 2016, Japan held 23 referenda about local concerns, mostly about the construction of nuclear plants and placement of industrial waste facilities (Burgess, 2015). Seemingly, Tokyo residents have the means to reject the hosting of Olympics Games. In practice, however, they do not because the wards and cities have had to coordinate in staging a Tokyo-wide referendum. Tokyo has staged only one citizen-initiated referendum, in the city of Kodaira, in 2013 (Japan for Sustainability, 2013), and no Tokyo-wide referendum has yet taken place.

Before Tokyo became the host city in 2013, there seemed to be no obvious reason for opposing the Olympics. The 1964 Tokyo Games have become a symbol of prosperity, and they generate nostalgia for a brighter and simpler past. Following the lost decades of the 1990s and 2000s, many pin their hopes on another Olympics to spark economic growth. Tokyo residents may have been swept up in the euphoria of hosting the Games, which has been documented in other cities. With 13 million residents, Tokyo is one of the largest and richest cities in the world, so the per-capita burden is relatively low. Moreover, the opportunity costs of the funds spent on the Olympics are not directly visible and are easily ignored. As the Games presented no specific, localized harm, no organized opposition emerged before the Tokyo submitted its bid to the IOC.

Japan's anti-Olympic movement emerged after Tokyo was awarded the 2020 Games. The largest controversy concerned the National Olympic Stadium. The initial cost estimate of

¥130 billion jumped almost immediately after Tokyo's selection, reaching up to ¥300 billion and stirring public protests regarding the stadium's size and negative environmental impact. Thus, in July 2015, the Abe administration, which was responsible for its funding, cancelled the Zaha Hadid plans. It reopened the bidding and approved a Kuma Kengo stadium plan in December 2015, at a cost of ¥149 billion, only slightly more than what was budgeted for the stadium in the Candidature File.

### **Politicians and the Tokyo 2020 Bid and Organizing Committees**

Local politicians can benefit directly and indirectly from the Games. They can propose useful public infrastructure projects related to the Games, such as handicapped accessibility, for which they seek funding from the national government. The Games strengthen the argument for subsidizing these projects. This happened in Tokyo with the expansion of roads and a new station for the Yamanote train line.

National politicians are motivated by many factors: Fitness promotion, patriotism, economic growth, and personal benefit; they are also likely to act out of nationalism. In a democratic society, however, politicians must do more than stir up nationalism to convince the public that the Games are worthwhile. They must argue that the Games will bring tangible public benefit that would otherwise not take place, such as the Nagano Shinkansen extension for the 1992 Winter Olympic Games.

The desire to boost local interests, including the development of Tokyo Bay, and to shine on the international scene, motivated Ishihara Shintaro, a charismatic right-wing nationalistic politician who was governor of Tokyo from 1999 to 2012. In the US, he was known as the author of *The Japan that Can Say No* (1989). In Japan, nationalists like Ishihara pine for the

glory days of Japanese expansionism of the 1930s. Viewed from this perspective, the 2008 Beijing Olympics were an affront to Japanese pride, especially as Osaka's competing bid for the 2008 Olympics was eliminated in the first round.

As early as August 2005, Ishihara advocated for Tokyo to bid for the 2016 Games and later spearheaded Tokyo 2016, the Tokyo bid committee for the 2016 Olympics. The JOC chose Tokyo over Fukuoka, and the IOC selected Tokyo as a candidate city. The marketing director for the 2016 bid confirmed that bringing the Olympics to Tokyo was Ishihara's idea (Cushman, 2009). "[Ishihara] has cannily constructed a narrative for hosting the Games that binds various metropolitan interest groups and co-opts national authorities into supporting this risky and costly objective (Kelly, 2009)." In September 2009, after conceding Tokyo's loss to Rio de Janeiro in the second round, Ishihara noted that the city and its bidding team would consider bidding again. With a construction reserve fund of ¥400 billion, the city regrouped and tried again.

To co-opt the public, Ishihara claimed the bid could rally support for the victims of the March 2011 Tohoku Earthquake. Later that year, he became the chair of the Tokyo 2020 bid committee and Takeda Tsunekazu, then the JOC head, became its president. Takeda is the son of Takeda Tsuneyoshi, from whom he inherited the lofty Meiji pedigree. Also an equestrian, he represented Japan at the 1972 and 1976 Olympics and became head of JOC in 2001.

Ishihara ushered in not just the Olympics but a series of resignations. He resigned as governor in October 2012 to form a national party and was succeeded by Inose Naoki. As the Chairman of Tokyo 2020, Inose oversaw Tokyo's Olympic successful bid in September 2013, as Tokyo received more votes than Madrid and Istanbul, possibly as a result of

vote buying. However, Inose was forced to resign in December 2013, having received ¥50 million in cash in what looked like attempted influence peddling unrelated to the Olympics (BBC, 2013).

The Tokyo 2020 bid committee seamlessly transformed into the Tokyo 2020 Organizing Committee for the Olympic Games (TOCOG) in January 2014. Former Prime Minister Mori Yoshiro, who had resigned as Prime Minister in part because of his Yakuza connections, was selected as President of TOCOG, with Takeda Tsunekazu as Vice President. The Yakuza, a Japanese Mafia analog, has been suspected of having ties to the construction industry (see below), a strong backer of the Olympics (Adelstein, 2015).

Masuzoe Yoichi, then an ally of Prime Minister Shinzo Abe, was elected governor in February 2014, in part on a platform of staging a successful Olympics. On June 15, 2016, he, too, resigned following a report on his excessive personal spending from political funds (McCurry, 2016). Such expenditures, while not strictly illegal in Japan, seemed extremely inappropriate. In response, Masuzoe accused the central government of knowingly misleading the public about the cost of the Games (Sobel, 2015).

Koike Yuriko, an “outsider candidate” and a surprise winner of the special July 2016 election, represented Tokyo at the Rio Olympics. Soon after bringing home the Olympic flag, she faced the inevitable cost overruns. The expert panel she established estimated that the cost for Olympics facilities to Tokyo would quadruple. While a December 2017 report commissioned by the Olympic organizers headed by TOCOG President Mori suggested a mere 50% overrun, the national government's Board of Audit in October 2018 confirmed the panel's estimate. Some of the disagreement centers on what items are considered as part of the Olympics, with

TOCOG taking a narrower view than the Governor.

The famed Tsukiji fish market became a bone of contention in the Olympic construction. Long considered hemmed in at its Tsukiji location, it was already a candidate for relocation when the Olympic plan turned the venue into parking lot. The new, larger Toyosu location opened in October 2018 as part of the Tokyo Bay expansion, which includes the Olympic village. Koike delayed the opening of the Toyosu market by two years because contaminants were found in the soil it was built on. The long delay jeopardizes Tsukiji road construction, which might significantly hinder athlete transportation during the Olympics.

The Tsukiji fish market was surrounded by small retail stores. After promising to keep and redevelop the retail sites outside Tsukiji market, Koike reneged and proposed instead to build a large international conference center, which has made her few friends outside the construction industry.

In May 2016, just before Masuzoe's resignation, TOCOG 2020 was sullied by serious bribery allegations regarding the Tokyo 2020 bid committee's payments to Black Tidings, a marketing firm in Singapore. These payments have been linked to Papa Diack (Gibson, 2016), who is the son of Lamine Diack, former president of IFFA and then an important member of the IOC, with the power to steer votes to Tokyo. (Lamine Diack resigned from IOC following allegations that he had accepted bribes to cover up Russian athletes' use of PEDs. Diack's trial on these charges, in Paris, has been postponed until June 2020)

Mori Yoshiro tried to make light of these charges when he stated in Lausanne in June 2016: “In this organising committee there are no people associated with the bid committee,” (Grohmann, 2016). This is not correct, as Takeda Tsunekazu was the President of the bid committee and then served on TOCOG. Takeda,

too, is being investigated by French authorities. As a result of these bribery allegations, Takeda resigned from JOC, the IOC, and TOCOG, effective June 2019, the end of his JOC term. Yamashita Yasuhiro, a Judo Olympian, succeeded Takeda and was elected to the IOC in January 2020.

The bribery allegations involve another beneficiary from the Olympics, the advertising giant Dentsu, which has deep connections to business and political leaders in Japan. Dentsu has purchased the rights to broadcast the Tokyo 2020 Games in 22 Asian countries. Investigators have linked Black Tidings to Dentsu, but Dentsu denies any connection. (Gibson, 2016 and Yamada, 2016).

## Construction Industry

While many special interests like Dentsu benefit from staging the Olympics, I focus on the construction industry because of its strength in Japan. It is no accident that Japan is called the “construction state.”

Blatant corruption in Japan’s construction industry came to light in the 1980s, during the zenekon scandal, as the US government sought to “pry open” Japanese markets to reduce the huge US trade deficit with Japan (Woodall, 1996). The attempt to open the market revealed that Japanese construction companies formed a cartel (dango) and played a disproportionate role in the Japanese political system, as they provided funds to candidates of the ruling Liberal Democratic Party (LDP).

In addition to supporting politicians, construction companies hired retired bureaucrats from the Ministry of Construction, a practice called amakudari - “descent from heaven”. Instead of using open bidding, the Ministry followed a system of “select competition,” in which it chose 10 qualified

firms to bid for each project. Through multiple industry associations, companies knew their place in the industry. Conspicuous gift giving and the wining and dining of ministry officials insured that the same 10 firms were always selected. Industry associations permanently barred any company offering a lower bid than the cartel allowed (Woodall, 1996).

To ensure that projects went to those who “prepaid” them, LDP officials passed laws favoring special interests. The cooperation between elected officials and the Ministry ensured that “select competition” remained legal and that the procurement system stayed out of public sight. Kickbacks from the industry amounted to 1 to 5% of the contract value (Woodall, p. 40).

Unfortunately, as long as old institutions and incentives remain, so does entrenched behavior, and “the procurement system for small and medium-scale public works projects” has not changed (Woodall, pp. 147-148). Recent evidence corroborates this conclusion. “[I]n 2006 Obayashi required managers to sign a pledge to abide by antitrust laws. The next year, however, the firm’s top management resigned following a public works scandal.” (GCR Staff, 2017b)

The four largest Japanese construction companies, Kajima, Obayashi, Shimizu, and Taisei, have handsomely profited from Olympic construction (GCR Staff, 2017a). They now stand accused of rigging bids so each would receive part of the maglev linear Shinkansen project connecting Tokyo with Nagoya and Osaka. Taisei is the leading partner in a consortium that was the only bidder for Sea Forest Waterway, the Olympic rowing and kayak venue. Obayashi is part of a joint venture building the Olympic Aquatics Center (EU-Japan Center, n.d.)

Taisei also constructed the National Olympic Stadium, which is located in the Meiji Jingu Outer Park (Gaien). The new stadium is the

first step of a major post-Olympic redevelopment plan, which was approved in April 2015 by Tokyo Metropolitan Government and all other stakeholders, including construction companies. The new facilities will make the Gaien area more attractive for visitors after the Olympics (Kameda, 2015). This plan will benefit the larger Gaien residential and commercial area, as well as builders and developers.

## Conclusion

As the Olympics have become very costly mega events, the only democracies that can afford them are megacities like Tokyo. Citizens in smaller cities like Hamburg and Budapest have stopped their governments from bidding for the Games, but such action would have been prohibitively complex in Tokyo prefecture. Even Tokyo finds it hard to finance the new infrastructure to stage the extravaganza. The inevitable cost overruns have forced it to scrap two Olympic venues and relocate several others, rendering the Olympics less compact than proposed in the bid that the IOC approved.

Construction companies like Taisei and Obayashi will have reaped their benefits before the IOC officially opens the Olympics in July 2020. Advocates of the Olympics remain convinced that the Olympic expenditure is an investment that the city will ultimately recoup. But it is unlikely that the legacy of the 2020 Olympics will approach the legacy of Tokyo 1964.

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**Eva Marikova Leeds** is Professor of Economics and Business at Moravian College. She



received her undergraduate degree in political theory from James Madison College at Michigan State University and her M.A. and Ph.D. in economics from Princeton University. She was a Fulbright Lecturer in 1991 and an advisor to the minister of the economy in the Czech Republic in 1994-95. She was a visiting scholar at the University of Michigan in 2006-7 and a visiting associate professor at Temple University Japan in Tokyo in 2007-9.

For a complete list of presentations and publications, [view her CV](#).

[leedse@moravian.edu](mailto:leedse@moravian.edu)