The Impact of the Global Economic Crisis on Sport

Gyöngyi Szabó Földesi
Semmelweis University, Hungary

ABSTRACT

The current economic crisis is the worst one in decades; it is surely the worst one the world has experienced since the Great Depression in the 1930s. Although it has affected countries with different positions in the global village in different ways and to different degrees, it has had worldwide consequences in most sub-systems of societies, including sport. These are hot issues in management and in everyday practice; still, relatively little attention has been paid to them within the social sciences. The objective of this paper is to close this gap by studying how the recent global economic crisis has affected sport. Two spheres of sport have been selected for analysis: mega sport events and grassroots sports. These two fields were chosen because of their social importance and because there is little scientific evidence about how they face and answer the challenges coming from the economic crisis. The topic is discussed from the theoretical perspective of the nexus of economy, politics, society, and culture. The methodological considerations refer to the lack of reliable sources for economic data related to sport. The results indicate that mega sport events have suffered less from the recession: there might be new actors, but the show goes on. The true loser is grassroots sport. Household impoverishment might lead to a decreased willingness of the individual practitioners to pay for sports goods and services and to a decreased contribution of volunteers working in sport. The funding models vary across countries, but generally both public and private funding has been reduced. In conclusion, it is underlined that no fields of sport have been left untouched by the current global economic crisis, but grassroots sports have suffered the most from it.

KEYWORDS
mega sport events, grassroots sports, private funding, local authorities

Introduction

The current economic crisis is the worst one in decades; it is surely the worst one the world has experienced since the Great Depression in the 1930s. Although it has affected countries with different positions in the global village in different ways and to different degrees, it has had worldwide consequences in most sub-systems of societies, including sport. Since in our globalized world sport is today aligned much closer with the economy than in the past, economic recession and economic crises might have more obvious and more spectacular consequences on sport than previously seen.
Because incomes of superstar athletes remain supersized regardless of the situation on the global market, professional sports have seemed to remain immune to the recession. However, when in the late 2000s the multinational health care company Johnson & Johnson did not renew its sponsorship contract with the International Olympic Committee and several sponsors quit professional sport, it became clear that the sport industry was also vulnerable, though in a different way than the conventional industries. Sponsors and consumers on whom the business of sport depends have been cutting back their spending. Also, revenues from ticket sales and merchandising have decreased. Several professional sports leagues expressed their concern over economic problems; nevertheless, most of them survived without severe deterioration. Sporting mega events flourished, seemingly as ever before.

Far less money has been brought into grassroots sports. The financial calamity, which has been crushing the global economy, caused far more radical consequences in this sphere. The sponsorship commitment proved to be weaker here than in professional sport; many sponsors have left the area. There are different funding models for grassroots sport, but none of them seems to be sustainable in the future without serious modification.

These are hot issues in management and in everyday practice; still, relatively little attention has been paid to them in social sciences. The objective of this paper is to close this gap by studying how the recent global economic crisis has affected sport. Two spheres of sport have been selected for analysis: mega sport events and grassroots sports. These two fields were chosen because of their social importance and because there is still little scientific evidence about how they face and answer the challenges coming from the economic crisis.

Theoretical framework

The problem of the effects of the changing financial and economic environment on sport is discussed in this paper from the perspective of the nexus of economy, politics, society, and culture. The starting point is a revised version of the modernization theory according to which economic changes in all countries produce systematic changes in society and politics and that these changes would reshape political, economic, social, and cultural lives in these societies (Inglehart, 1997). These processes, as well as the influence of the historical, cultural, and institutional sporting heritage in a given country, are reflected in sport as a social sub-system.

The importance of national sport policies cannot be denied. However, it also has to be taken into consideration that the sport economy has been globalized due to three major developments in society: the appearance of the leisure activities market, the television broadcasting of big sporting events, and the recent development of news communication and information technologies (Andreff, 2008). The perception and treatment of the three trends listed above depends on the economic system functioning in a given society. The classical division of economic systems into three basic types (traditional economic system, market economic system, and command economic system) has recently been complemented by the mixed economic system where the economy is based on the market; at the same time, however, a certain governmental involvement can be observed. Most modern economies can be characterized by the mixture of the private sector and the public sector; that is, some goods are produced by privately owned companies and others by state-owned enterprises (Deardorff, 2010).

Methodological considerations

The study of the effect of the financial and economic crisis on sport is still in its infancy. The main reason of this delay is not the lack of interest by researchers but rather the lack of reliable empirical data. The sport economy has been struggling with this problem for a long time. This is in part because, in spite of identifying the major aspects upon which the commercial operation of sport industry is based (the size of national investment, the enforcement of a customer-oriented attitude in business services, and the maturity of
sport industry institution and infrastructure (András, 2003)), there are serious difficulties in evaluating the level of commercialization of national sport industries. The domestic accounting of sport economy only exists in a few countries with developed and, perhaps more importantly, fairly transparent market economies. Besides, sport economy has been in trouble concerning the accuracy of the data, as these days there is another crucial factor which has to be taken into consideration, namely, the relevant market for sport economy is no longer the domestic market but the global market. In fact, the accounting of sport economy simply does not exist at a global level.

The main source for economic data related to many areas of the global sport market (e.g., the global market for sporting goods and services or for doping) is the mass media, and experts interested in sport economy often face a contradictory situation. Namely, these experts either use data circulated in the mass media about which they assume that they are based on rough estimates and they might exaggerate, or they remain empty-handed. Therefore, sometimes they adopt computations in which they use data based on available various sources. As a last resort, observation is used on the basis of which, of course, reliable data cannot be estimated, though some tendencies can be identified.

In certain cases, at a domestic level there might be a higher chance to find reliable data, but it depends to a great extent on the economic significance of sport in a given country. In addition, there might be indirect ways in order to follow the effect of the financial and economic crises on sport. For instance, since several areas of sport and tourism overlap, some data collected in national tourism can be useful in sport as well.

“The show must go on”1

The main characteristics of a global sport economy are represented by the sport shows and sport mega events, such as the summer and winter Olympic Games, the football World Cup, the rugby World Cup, the UEFA Football Championship, summer and winter Universiades, etc. (Andreff, 2008). For the dissemination of modern sport, more and more world, continental, and other significant international championships and cups have emerged. Between the mid-1970s and the mid-2000s the number of large, international sport events tripled from 315 to 1,000 (Bourg & Gauguet, 2005).

For many years, such events were held mostly in developed countries, as the strict requirements set up by the international sport organizations could only be met there (Humphreys & Propokowicz, 2007). The composition of the towns/countries lobbying the international sporting bodies for hosting mega sport events has recently been modified: there have been more and more bidders from countries with developing and transitional economies. The latter have argued they need more economic stimulus than the developed countries and that hosting a mega sport event would serve this aim. On the other hand, there have been critical reflections on the expected economic impact of the mega sport events, claiming that the expenditures on the part of the public sector and the civil sphere are not in balance with the revenues of the private sector (Whitson & Macintosh, 1996). In evaluating the impact of the 2004 Athens Olympic Games on the Greek economy, Kasimati & Dawson (2009) stated that the economy benefited from hosting the event in the year when the Games took place and in the preparatory period, but that long-term positive consequences proved to be modest. Cost benefit analysis supports the statements that neither the direct nor the indirect economic benefit generated by holding a mega sport event would match the huge sums spent by the host countries and that hosting a mega sport event generally is not an effective vehicle to promote developing and transitional economies.

In spite of some convincing analyses of the surprising differences between the ex ante overestimate of the cost and its ex post evaluation, this trend continues. Not even the economic crisis seems to arrest the

---

1 The sub-title of this chapter, The show must go on, is borrowed from the popular song by Queen, an English rock band, and indirectly refers to then-IOC president Avery Brundage’s saying after the massacre in the Munich Olympics: The Games must go on.
increasing interest of countries with developing or transitional economies in organizing and hosting mega sport events. Nor does it seem to have a reducing impact on the expenses, either.

Regarding the composition of the countries/cities bidding for the right to host mega sport events, a significant change can be observed: regardless the state of their economy, there are fewer candidates from countries with a democratic political system and relatively more from countries with hybrid regimes (e.g., Turkey, Ukraine) or under authoritarian regimes (e.g., China, Qatar, Russia, Azerbaijan, and Kazakhstan). One of the main reasons for this phenomenon is probably that the strict economic requirements set up for the host countries/cities cannot be met without the financial commitment of the given governments. In countries with full democracies and with even flawed democracies, where control over the government budget and expenditure is strict, approval is frequently not given, if not in due time, later. A good example of that was in June 2013, when the otherwise football-loving Brazilians protested against the high sums spent on the preparation for the 2014 FIFA World Cup. According to the news, the Brazilian protestors were holding signs with the text “Health and Education Not the Cup”. They targeted football stadiums into which the government had poured millions ahead of the World Cup and the 2016 Olympics in Rio de Janeiro (France 24 International News, 24/7, 2013).

Originally, 12 new football stadiums were supposed to be built with private capital, but in reality public funding was used for their construction. As a result of the resulting national discontent, the Brazilian president, Dilma Rousseff, promised that the public money would be repaid to the state and the Brazilian Congress would investigate the ballooning cost of the World Cup (Voice of America. Reuters, July 17, 2013). The protest was also connected to the impact of the financial and economic crisis present in Brazil. This includes the increased fares for public transit (buses), and the deeper social problems that have been present for a long period of time in Brazil. The most frequently mentioned of these were increasing social and economic inequality, low salaries, poor health care, and the low level of education.

Another example illustrating governmental responsibility in a country at least with a flawed democracy is the Italian case related to the bid for the 2020 Olympics. Six cities – Baku, Doha, Istanbul, Madrid, Rome, and Tokyo – applied for the right to be the host of the Summer Olympic Games in 2020. Out of the six cities, Rome withdrew shortly before the delivery of the applications. Two of them were not selected as candidate cities (Baku and Doha); the other three became candidate cities (Istanbul, Madrid, and Tokyo). Rome, the former host of the 1960 Summer Olympics and which had bid for the 2004 Games, became a candidate city, but failed in the last round of the voting. In 2010, the city developed the bid for the 2020 Games after the Italian National Olympic Committee selected it as Italy’s candidate against Venice. At the beginning, the Italian government fully backed the bid, but it was not a good message that leading entrepreneurs declined to be the chairperson of the bid committee. The bid was supported by three-quarters of the Italian population and the residents of Rome in the hope that it would create jobs and economic benefits. In the meantime, the eurozone debt crisis deepened, and the initial bid budget increased. In early 2012, the Italian prime minister, Mario Monti, withdrew Rome’s bid to host the 2020 Summer Olympic Games, saying that the costs were uncertain, the financial benefits unknown, and the country’s economic situation did not make it possible to provide the necessary financial guarantees (DW Top Stories/Sports, 15.02, 2013).

In hybrid and authoritarian regimes, similar legal barriers simply do not exist, as decisions are made and financial guarantees are signed without national consensus. Paradoxically, however, decisions on lobbying and bidding for the right to host a mega sport event are often welcomed by the population in spite

---

2 In this paper, the level of democracy in the individual countries is categorized with the help of the Democracy Index, published by the Economist Intelligence Unit. According to this concept, a country’s democracy is assessed on the basis of the level of civil liberty, electoral process and pluralism, political participation, functioning of government, and political culture. Countries are then rated on the strength of the democracy. Four types of regimes are distinguished by the Economist Intelligence Unit: full democracy, flawed democracy, hybrid regime, and authoritarian regimes. Only authoritarian regimes are considered to be dictatorial but in hybrid regimes the level of democracy is not high, either (The Huffington Post, August 4, 2013).
of the anti-democratic ways they were made. The major reason behind this seemingly contradictory phenomenon is that the organizers of the mega sport events dictate political, legal, economic, social and cultural requirements, several of which might have been absent in the candidate country/city that should answer these expectations if they really want to host an event. It means that a certain degree of improvement can be expected in terms of political and legal circumstances in the given hybrid and authoritarian regimes. Meeting the economic conditions can mostly benefit the host city/region, as they are given extra financial support from the central/federal budget, often to the detriment of other regions. Therefore, regardless of the political system in place, if it occurs once in a country where a host city/region is in a financially privileged position, there is a high chance that other cities/regions will start lobbying for the right to bid (e.g., in Russia, South Korea, and Turkey). Mutatis mutandis, if a country/city had already hosted a mega sport event, there is a high chance that it will intend to try to do so again, since after the event is over, the large number of new sporting facilities (and hotels) are not supposed to be inefficiently utilized at a domestic level and the cost of their maintenance is high.

Nevertheless, the potential monetary benefit is often of secondary importance with hybrid and authoritarian regimes. In fact, decisions about bidding for hosting a mega sport event may be based upon other values. In many cases, the primary aim is to improve the image of the country, and the promotion of the international recognition of a country/city overrides all other targets. And similarly, although the driving force behind the bids of democratic countries for hosting sporting mega events is generally the chance to gain economic benefits, in principle, non-monetary values might also contribute to their intention to hold a mega sport event.

Since the 1988 Olympics proved to be a “coming out party” for South Korea, because, as a consequence of holding the Games, the country was then recognized as an accomplished economic power and as a serious international partner (Bridges, 2008), researchers have paid critical attention to the psychological impact of mega sport events. There is scientific evidence that while the impact of national sporting successes on the “feel good” factor are statistically insignificant, certain mega sport events, especially football World Cups promote a population’s well-being (Kavestos & Szymanski, 2010).

Notwithstanding, in practice, the promotion of national well-being, national pride, and national identity seem to get weaker in the prospect of the dubious outcome. In countries with full democracy, the people living in the venue of the mega sport events are invited to express their views on a bid planned by the authorities. This is what happened in Switzerland, when it was proposed that St. Moritz and Davos would bid for hosting the 2022 Winter Olympics. However, during a state referendum, Swiss voters rejected the idea (Mackay, 2013). A recent poll also showed that half of the inhabitants of Oslo opposed to the city’s plan to bid for the right to host the 2022 Winter Games (The Local Norway’s News in English, June 22, 2012). At the same time, Kazakhstan’s and China’s intentions to compete for hosting the 2022 Winter Olympics have not changed. So the actors might be changed but the show goes on.

The real loser: Grassroots sport

Grassroots sport has been affected more vehemently by the worldwide economic problems; consequences can be observed on local, regional, and national levels. In this paper, the issue is discussed from a European perspective.

At first blush, the explanation seems to be simple. Joblessness hits new records all over Europe, which leads in all probability to common people, who are losing their jobs, their houses, and their savings, to spend less and less on sport. A great part of the youth, the bulk of the potential sport practitioners, belong since the late 2000’s to the so-called disillusioned jobless generation; they do not focus on sport but on their future, and they definitely cannot cover the costs of their sport involvement. However, the impact of the economic crisis on grassroots sport is more complex. The deterioration of the economy is felt unambiguously here because the revenues allocated to it have been diminishing through the other transmission channels as well.
In the related literature identifying the major transmission channels through which an economic crisis can affect sport finance (other than the household expenditure), support coming from the public sector at different levels and support from the private sector in the form of sponsorship and/or donations are listed most frequently. Moreover, revenues from state lottery, betting and gambling, as well as the contribution of the voluntary sector to sport, are mentioned as additional resources.

According to Andreff (2010), within EU member states the structure of the overall sports finance, including grassroots sports, is as follows: household expenditure (49.7%), local authorities (24.3%), enterprises (14.1%), and government (11.9%). The share of voluntary work is estimated to be about 25% of the overall sport finance.

Generally speaking, the funding of grassroots sports has been shrinking in all channels, but the financial difficulties the area faces are also influenced by several other factors: first of all by economic development, sporting traditions, and by sport culture in the individual countries. Based on these factors, the following funding models for grassroots sports are distinguished in the EU (Eurostrategies. Executive Summary, June 2011):

- the northern and western European model, where the share of public funding and private funding is high. In addition, the contribution of the volunteer sector is significant. Therefore, public spending can be relatively low (Austria, Belgium, Denmark, Finland, Germany, Ireland, Luxemburg, the Netherlands, and Sweden),
- the Mediterranean model, wherein public and private funding, as well as the contribution of voluntary work, are lower; compared to the public sector, household expenditure is high (Greece, Italy, Malta, and Spain),
- the rainbow model includes countries where all resources are limited; therefore, the contribution of all sectors (public, private, and civil) to grassroots sports is low. Moreover, the low level of voluntary work does not help lower the cost of sport services (Estonia, Hungary, Latvia, Lithuania, Portugal, Romania, Slovakia, and Slovenia),
- the BCD model: resources are limited and household spending is low, but relatively higher public funding compensates for the lack thereof. This is levied from state lotteries or by voluntary work (Bulgaria, the Czech Republic, and Poland).

Two countries are put in none of the above categories: France and the UK. Based on a comparative analysis, the contribution in France of the public sector to grassroots sports is the highest and the efforts by the households are relatively low. In the UK, the share of state support is low and household spending is high.

Since the current crisis is multi-faceted, the aforementioned models face challenges. The only sustainable ones are those where the contribution of the different types of stakeholders to grassroots sports can be well balanced and in which the human factor is also taken into consideration.

European citizens have obviously personally perceived the social impact of the economic crisis over recent years. The data of the sixth Flash Eurobarometer, launched by the European Commission in 2011, indicated that in most EU member countries the majority of the populations had the feeling that their financial situation had become worse in the previous year and that poverty had increased in their country (European Commission. Public Opinion, 2012). Nevertheless, people living at least over the relative poverty line cut back on their spending on sport only if their awareness of the benefits of sport participation is low. The weaker a national economy becomes and the lower a population’s sport culture is, the stronger the deteriorating impact of the economic crisis on sport. Similarly, a country’s economic position is not the only determinant of the size of public subsidies. The latter might also depend on the social demand for sport, the true value of which is often not recognized and therefore not encouraged by social policies. Although there are large disparities between the individual models regarding the attitudes of states towards their populations’ sporting activity, the crisis is so severe at the level of grassroots sports because when central and local governments distribute their reduced support, priority is often given to elite sport. Grassroots sport
is especially sensitive to the local authorities’ funding. The uneven distribution of the latter can frequently be witnessed. Although this is not a new phenomenon, under the current circumstances amidst the crisis – when local governments should cut their efforts to finance sport because they are overwhelmed by the rise of unemployment, by the rise of social expenses related to it, and by their indebtedness to banks – the stakes are higher and losses suffered by grassroots sport are heavier, especially in the long run. The decrease in the financial support by the local governments to grassroots sport is particularly problematic for sports models wherein the share of funding by local authorities is supposed to be high.

The difficulties faced by local authorities may lead to budget cuts that could have been devoted to sport infrastructure investment. This damage is not just one item in the casualty list; it can jeopardize future generations’ sporting opportunities. This danger is serious all the more so because these days, the construction of new stadiums is rarely financed by private funds.

The private sector has not only withdrawn from sport infrastructure investment but from sponsorship as well. The sponsorship revenue had never been too high at the grassroots level, but it brought in some money. Furthermore, grassroots clubs could also benefit from the cheap or free-of-charge use of sporting infrastructure owned by private companies. The withdrawal of private partners has increased in all areas of sport, but it did so to a much higher degree in grassroots sports than in professional sports. Since solidarity, which has never been sufficient between the various fields of sport, has further diminished, there is no way that revenues received from sponsors or from media rights in professional sport could be channeled to grassroots sport.

The share of different stakeholders in the financing of grassroots sport has been shrinking; all of them have cut back their spending on this area. At the same time, the costs of running local clubs, maintaining sporting facilities, and ensuring qualified human resources have been increasing. Already less money has been spent on grassroots sports, but there are expenses which can be cancelled or diminished further only to the detriment of the quality of sport services offered locally. No doubt, the deepest crisis in sport takes place at grassroots level. Efforts made to counterbalance its negative consequences, namely to stop the shrinking of revenues for grassroots sport and the decreased participation rate, varies across countries. Endeavors have recently been intensified in order to keep costs low, to generate new revenue sources, to promote partnership between the different stakeholders, to improve a kind of solidarity mechanism within the sport movement, and to strengthen volunteers’ work culture. Nevertheless, the key issues for sustainability here seem to be the enhancement of sport culture in the individual countries and the popularization of the additional benefits of sport involvement, thereby raising the level of social demand and promoting the willingness of all stakeholders to pay.

Conclusion

Like other sub-systems of society, sport is not immune to the worldwide economic and financial crisis, but its different areas are not suffering in the same way from its consequences. The examination of two quite different fields of sport undertaken in this paper, mega sport events and grassroots sport, illustrates this statement.

At first blush, mega sport events are hardly touched, since there are still sufficient applicants and the competition for the right to host the events is generally intense. However, a deeper analysis of the issue reveals that the intention to make large financial commitments which are needed in order to win the competition is more and more frequently manifested officially by governments from countries under authoritarian or hybrid regimes, since in their case political aims override financial risk or even heavy economic losses. The major global sporting mega events also attract democratic countries because of their immense psychological values related to the promotion of national identity and national well-being. However, there are warning signs which keep many of them back from bidding: above all, the fact that regarding the economic benefits, ex ante models are generally not confirmed by ex post analysis. Some recent occurrences, such as the Brazilian protest against the huge expenditure in connection with the 2014
football World Cup, and Rome’s last minute withdrawal from the bidding for the 2024 Olympics, show that as an impact of the global economic and financial crisis, the long-term unlimited attraction of hosting mega sport events can sometimes be, and in fact already is, questioned.

According to the diagnosis of the present situation, grassroots sport proved to be even less recession proof. It has to be underlined that no fields of sport have been left untouched by the current global economic crisis, but grassroots sport has suffered the most from it. The cutback is more spectacular here; considerably less money has been spent on this area than previously seen, and the investment in sport infrastructure has been dramatically reduced on the part of both enterprises and local authorities. In the increased competition for funding, grassroots sport has been usually beaten; the solidarity, which had never been high within the sport movement, has become even lower. Household impoverishment led both to a decreased willingness of individual practitioners to pay for sport goods and services and to a decreased contribution of volunteers to working in sport. However, the participation rate seems to be influenced not only by the level of gross domestic product per capita in the individual countries but also by their national sport culture.

There has yet to be found a consensus on how to find adequate, joint answers to the impact of the economic crisis on sport. Above all, policymakers have to recognize that there are no localized solutions for problems that extend throughout societies.

REFERENCES


AUTHOR’S ADDRESS: Gyöngyi Szabó Földesi
Semmelweis University, Hungary
Faculty of Physical Education and Sport Sciences
Alkotás utca 44 1123, Budapest
Hungary
Email: foldesi@tf.hu