Chapter 2: Economic Promises and Pitfalls of South Africa's World Cup

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Introduction

What were the costs and benefits of hosting soccer's great festival? Economic consultants like Grant Thornton[1] and KPMG[2] issued one rosy report after the other prior to, during, and after the 2010 World Cup[3]. There were two standard claims of benefits: a 'massive infusion of cash' into South Africa, resulting in higher Gross Domestic Product and state tax revenues, as well as more jobs, and the 'rebranding' allegedly required for both new Foreign Direct Investment (FDI) and tourism. Setting speculation about the future aside, in general, there are several problems with mainstream economic accounting: failure to consider opportunity costs of the state investments; refusal to incorporate negative social and environmental 'externalities'; and the lack of cognisance of dangerous foreign debt and foreign exchange outflow overhangs associated with the World Cup (which in South Africa are amongst the most extreme of any emerging market).[4]

These problems are extremely costly. They not only partially offset World Cup benefits calculated in purely economic growth terms, but also cause political-economic and political-ecological problems that mainstream economists rarely comprehend, much less measure. Even factors that lend themselves to measurement are hotly contested. Overall estimates of capital expenditure changed dramatically over time, with the amount of R22 billion for stadiums and related infrastructure often cited[5]. Although the upgrade of other infrastructure is more complicated, it is estimated by South African Finance Minister, Pravin Gordhan to amount to R18 billion[6]. Other benefits of a pecuniary character include ticket sales, broadcast sales, advertising, hotel and restaurant trade (highly uneven) and direct revenue from related sales (much of which went to Chinese suppliers). Downstream spin-off benefits are harder to estimate, for they include expenditures on building materials, services-related job creation, and longer-term benefits associated with a successful hosting that in turn attract tourism and foreign investors. [7] Some commentators put the overall estimate of benefits at R93 billion.[8]

Is it accurate to declare the World Cup an unequivocal success for South Africa based on these figures? To assess such claims and to provide countervailing information about costs not usually calculated, this chapter:

- considers the experiences of other countries who had been hosts of the FIFA World Cup,
- recalls claims made of economic multipliers South Africa would enjoy,
- puts the World Cup's economic distortions in context, and
- raises questions about both the economic sustainability of World Cup investments and limited trickle-down benefits that reach poor South Africans.

Lessons of overspending and exaggerated benefits

Before South Africa's bid to host the 2010 World Cup there was already a body of knowledge consisting of both ex-ante and ex-post studies regarding the economic impact of mega-sports events on host countries and host cities. One thing that all hosts have in common is reporting from supporters of the bids that inevitably show a large economic windfall for the host country. On the other hand, ex-post evaluations "tend to find hardly any significantly positive income and employment effects from World Cups, Olympic Games, other large scale sporting events and/or the associated investments in stadia".[9] Moreover, the predicted impact studies are generally inaccurate when projecting costs and benefits for the host country and cities.

A 1994 World Cup impact report by a large private US consulting firm, AECOM Technology Corporation, predicted a benefit of $4 billion; but an ex-post study found that there were overall net *costs* to the US host cities' economies of $9.26 billion.[10] The recent financial crash of the Greek economy was in part blamed on the 2004 Athens Olympics which cost nearly $11 billion by current exchange rates, double the initial budget. Most of the sports infrastructure is barely used and stands empty.[11] Further, Symanski's (2002) study of twenty of the world's largest economies over the past 30 years, many of which either hosted the Olympics or Soccer World Cup at least once, came to the conclusion that the growth of these countries was significantly lower in the soccer World Cup years.[12] Similarly, Matheson's (2005) regression analysis of taxable sales in Florida, USA from 1980 to mid-2005 found that the World Cup and World Series baseball championships actually reduced taxable sales in host regions of $34.4 million per event.[13]

The prior World Cup is also illustrative. Wolgang Maennig (2007) conducted the first ex-post study of the 2006 World Cup in Germany, where it was predicted that investments worth €6 billion would increase income growth between €2 and €10 billion and generate up to 10,000 additional jobs. These estimates were based upon studies carried out by Ahlert 2000, Capital 2006, Deutse Industrie und Handelskammer 2006, Deutse Postbank AG 2005 and 2006, and Kurscheidt 2004. His study was conducted over 111 months from January 1998 to March 2007, and found that "in none of the respective match venues did the effect of the sporting event on unemployment differ significantly from zero".[14] Not only were employment claims exaggerated, there was also no meaningful boost to the German economy.[15] In fact, a survey undertaken by the Duetsche Industrie und Handelskammertag (German Association of Chamber of Industry) found that only 15 percent of the members replied that they expected positive spin-offs while 83 percent expected no net effects and 2 percent expected negative effects of the World Cup.[16] The director of the German Institute for Economic Research, Gert Wagner, concluded, "The World Cup's contribution to economic growth has been negligible. It was great fun. Nothing more, nothing less". The main beneficiaries of the World Cup were FIFA and the German Soccer Association DFB, which cashed in €187 million ($254 million) and €21 million respectively.[17]

When considering where to host the World Cup, FIFA's financial imperatives predominate. South Africa illustrates how FIFA can override any concerns expressed for the huge capital outlay and state mega-subsidies required, especially when it came to moving the location of the Cape Town stadium from Athlone to Green Point. As witnessed in 1994 in the US and in 2002 in Japan and Korea, FIFA's desire to expand its market means willingness to grant hosting rights to countries where there is no mass appeal for soccer, provided that the host country satisfies FIFA's budgetary and commercial interests.[18] Neither country had a large existing infrastructure for soccer, so South Korea built ten new stadiums at a cost of nearly $2 billion, and Japan built 7 new stadiums and refurbished 3 others at a cost of at least $4 billion.[19] An impact study by the Dentsu Institute for Human Studies estimated a $24.8 billion and a $8.9 billion economic windfall for Japan and South Korea respectively.[20]

Disputing such figures, Baade (2004) argues that mega-sports impact studies are generally exaggerated and flawed in three respects[21]:

- firstly, the impact study provides a measure of direct spending that is a 'gross' rather than 'net' measure, and by including local resident spending which has been displaced on the event and would otherwise have been spent elsewhere in the economy, exaggerates the financial impact, and ignores a 'substitution effect' (when Australia hosted the Sydney Olympics in 2000, for example, it was found that while Sydney reported 100 percent occupancy levels this was accompanied by a decline in Melbourne and Brisbane of 19 percent and 17 percent respectively if compared to the same time the previous year);

- secondly, the figures of event tourists coming to the country are exaggerated, for in 2002 in Korea, the number of European visitors was higher than usual (around 400,000) but this was offset by a similar decrease in number of regular Japanese visitors to South Korea if compared to the same period the previous year;

- thirdly, the 'multiplier', that is, the stimulation of other economic sectors caused by direct spending attributable to the hosting of the event - normally doubles the impact figures (gross impact) that economists cite, yet this method is unreliable because it ignores 'leakages' in income through remittances and profit outflows, and also assumes that companies will employ additional staff due to the huge nature of the event, although studies have found that due to underemployment, existing staff may well be requested to increase productivity or work increased hours.

Given the overwhelming evidence that mega-events do not provide substantial economic benefits to a host country or city, and require enormous expenditure of public funds, why then do states compete so fiercely to be the next host? According to Crompton (2006), "Most economic impact studies are commissioned to legitimise a political position rather than to search for economic truth. Often this motivation results in the use of mischievous procedures to produce large numbers that study sponsors seek to support a predetermined position". The exaggeration is so outlandish that reputable firms make extensive use of qualifiers to maintain their credibility. According to Deloitte and Touche, analysis is based upon 'conditions and assumptions provided by the City and the developer'. In this instance the consultants did not bother to "offer (any) critique of the legitimacy of the assumptions given to them by the projects' strongest advocates but merely accept the assumptions as a given irrespective of how outrageous it may be".[22] This was also illustrated by PriceWaterhouseCoopers:

> We have not audited or verified any information provided to us and as such we take no responsibility for the accuracy of the information which was provided by third parties...Some assumptions inevitably will not materialise and unanticipated events and circumstances may occur; therefore actual results achieved during the analysis may vary from those described in the report...and the variation may be material.[23]

It is therefore not surprising that there is so much secrecy surrounding the actual private impact assessment reports which form part of the FIFA Bid Book. Thus the USA Bid Committee, responsible for the United States' Bids for the 2018 and 2022 World Cups, refuses to make the report public, "which at a minimum calls into question the Committee's confidence in its figures".[24] Similarly, South Africa's Bid Book was not available because, "...it is rumoured that, despite requests, the reason why the Bid Book was not being made available is because the numbers are so 'out'".[25]

And if the numbers were so 'out' what does this say about the motives of the World Cup organisers and who its driving forces are? Most studies on mega-events argue that the International Olympic Committee and FIFA are the main beneficiaries of the mega-sports event since the economic effects are negative for the host country and the losses "can be seen as a voluntary exchange in favour of the non-pecuniary positive effects of sporting events".[26] Yes, but as we have shown and as we will demonstrate later, bids to host mega-events are accepted by a range of interest groups including the general public precisely because of the economic benefits they promise.

In 2007 the Human Science Research Council (HSRC) conducted a survey of the expectations of South Africans with regards to the World Cup. About 50 percent of people perceived economic growth and job creation to be the two main benefits of South Africa hosting the event. About one-third of people in the survey believed that they would personally benefit through job opportunities and 50 percent believed the economic benefits would be lasting.[27]

But the FIFA World Cup is a globalised commercially-viable multinational corporate enterprise (see chapter 2: 'FIFA and the sports-accumulation-complex'). By not disclosing the full impact reports for public scrutiny, and by not carrying out a more realistic accounting than those we have surveyed, the questionable procedures used to justify the mega-event will remain unchallenged. That permits a vast amount of unfair profits to flow to FIFA and its commercial partners, the Bid Companies, the Local Organising Committee (LOC), South African monopoly capitalists (especially in the construction sector) and their Black Economic Empowerment partners. Thus we argue that while there may be a 'voluntary exchange' of costs and benefits there is a capital accumulation strategy that goes beyond FIFA and its organising committee. We now consider how, through the exchange of costs, the South African government used public funds as a mega-subsidy to support the capital accumulation process for the World Cup.

Allocating the burden of costs

There are two broad categories of costs associated with hosting the World Cup: the logistics for the management of the event; and the investment in stadiums and other infrastructure. The first set are paid for by broadcasting rights, corporate partners who fund FIFA on an ongoing basis and global corporate sponsors and local corporate supporters who fund the event itself.[28] The second set are funded from public funds, which include the stadiums, transport and broadcasting/telecommunications infrastructure, safety and security, health services and other undertakings to protect and enforce the rights of global partners and international and local sponsors. This was the responsibility of the South African government and host cities.[29]

The hosting of mega-sporting events such as the FIFA World Cup is fiercely contested by national states, while the actual bids are sponsored by multinational corporations. In South Africa the bid process was sponsored by Anglo American, Avis, BMW, SABMiller and Adidas, none of which have their financial headquarters within South Africa.[30] The economic section of the bid document was drawn up by Grant Thornton's Kessel Feinstein, one of the world's leading 'independently'owned and managed accounting and consulting firms. The initial report was prepared for the South Africa Bid Company for submission to FIFA in September 2003.

According to Grant Thornton, "to calculate the overall economic benefit of the event we have applied appropriate income and employment multipliers and taxation rates. Based on our assumptions..." and at a cost of R2,3bn of public spend on stadia and infrastructure, the event would lead to direct expenditure of R12,7 billion, contribute R21,3 billion to the GDP of South Africa, create 159 000 new employment opportunities and add an additional R7,2 billion to Government in taxes. Grant Thornton concluded, "…the staging of the Soccer World Cup in South Africa in 2010 will create significant direct and indirect economic benefits for the country's economy, with minimal tangible and intangible costs".[31] The tangible costs were to be the stadia and infrastructure, with tangible benefits such as job creation, taxation income and contribution to Gross Domestic Product (GDP). The intangible benefits were to include raising the profile of the country, increasing tourism and foreign direct investment and growing pride by the local population in South Africa hosting the World Cup.[32]

Tangible costs and benefits

The current total direct World Cup expenditure is estimated to be R55,3 billion. Of this R8,8 billion or 16 percent was spent by foreigners (tourists, teams, FIFA Organising Committee, the media, sponsors and broadcasters).[33] The majority of economic spend comes from national and local government (municipalities) for infrastructure and operational expenditure. This increased significantly from original estimates, that is, from R2,3 billion (2003), R17,4 billion (2007), and R30,3 billion (2010), with a further estimated R9 billion spent by cities and provinces bringing the total to R39,3 billion. Of this total expenditure, R22,9 billion was spent on stadia and related infrastructure. The total impact on South Africa's economy (direct and indirect) is estimated to be R93 billion with 63 percent spent before the event took place and 38 percent during this year, including during the event itself. The net economic contribution to South Africa's GDP for 2010 is 0.54 percent.[34] The HSRC, in contrast, calculated the World Cup's contribution to be between 0.2 percent and 0.3 percent of GDP, far less than the original prediction of 3 percent.[35]

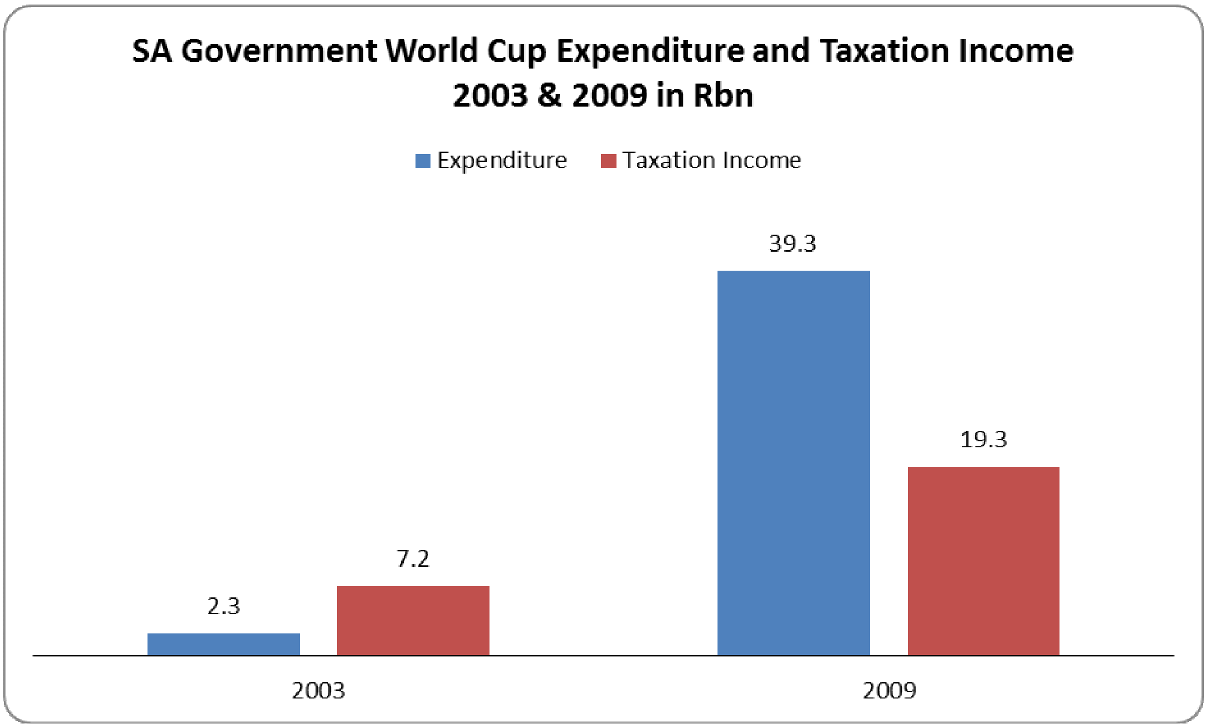
Table 1: Total Direct Spend Estimates 2010 World Cup

	2010 update	**2008 Update**	**2007 Update**	**Bid Book**
Category of Spend	**Total Direct Spend**	**Total Direct Spend**	**Total Direct Spend**	**Total Direct Spend**
Number of foreign visitors	373 609	483 000	483 000	251 453
	Rm	Rm	Rm	Rm
Organising spend	6 805	6 888	5 509	5 492
Foreign & domestic tourism spend	9 273	8 780	7 446	4 917
Infrastructure and stadia spend	39 229	17 400	17 400	2 304
Total Direct Spend	**55 306**	**33 068**	**30 356**	**12 713**
GDP Contribution	92 992	55 714	51 144	21 419
Employment generated	694 758	415 400	381 327	159 697

Source: Gillian Saunders, Grant Thornton (2010)[36]

There are two key considerations when looking at the figures provided by Grant Thornton. The first is that the difference between the original budget and current estimated expenditure indicates that the original budget was hopelessly incorrect. The total tangible costs for the South African government was supposed to be "minimal", estimated at R2,3 billion in 2003. Currently the 2010 estimated cost (and this is likely to be much higher) for the South Africa government is R39,3 billion – an enormous **1 709 percent** increase from the original estimate.[37] Of course here one has to take into account the decision to build additional new stadiums (Cape Town and Moses Mabhida) and the often absurd cost escalations since the original bid was developed. But given that such escalations for hosting mega-events are standard (and that the construction industry is notorious for such padding), should this not have been made part of the original bid's assumptions?

Figure 1



Source: Labour Research Service, August 2010

Secondly, the figure of R93 billion as the contribution to GDP is broken into two parts that are often not clearly specified: R55,3 billion as the total for direct expenditure, and the estimated multiplier effect of R38 billion. There now arises a serious number-crunching problem. All expenditures are pooled as gross expenditure so it is almost impossible to determine the net income to the South African government and citizens. That means that the economic impact reports were 'unscientific', and should be considered as merely a 'best guess scenario' or a guestimate.[38] One such key calculation would be for income derived through taxation before the World Cup and during the event itself. Although we have included the older R19,3bn tax revenue (Figure 1), in Grant Thornton's latest estimates (Table 1) this calculation has all but been excluded. The reason why the tax revenue due the government was left out of the more recent reports is that it is possibly far less than originally estimated. After all, the FIFA associated corporations and FIFA itself paid no taxes.

In 2003 Grant Thornton estimated that with an expenditure of R2,3 billion the South African government would generate R7,2 billion in taxes based on the multipliers, a huge return on the investment to be made. However, even if we took into account the total government expenditure of R39,3 billion and the 2009 estimation of taxation income at R19,3 billion (which is highly unlikely) the FIFA World Cup 2010 represented a very substantial financial loss to the South African government. As spokesperson for the South African Revenue Services (SARS), Adrian Lackey, candidly stated:

> Our approach to the World Cup has been that it was never going to be a revenue-raising exercise. Certainly it would be wrong to view the World Cup as a significant contributor in itself. The concessions we had to give to FIFA are simply too demanding and overwhelming for us to have material monetary benefits.[39]

Those concessions included 17 government guarantees contained in the Bid Book and secured through the Revenue Laws Amendment Act 20 of 2006.[40] Guarantees include a tax-free bubble around FIFA-designated sites, unrestricted import and export of all foreign currencies to and from South Africa, as well as their exchange and conversion into US dollars, euros or Swiss francs, the suspension of any labour legislation that could restrict FIFA, its commercial partners, media and broadcast members, free security and medical care, the protection of FIFA's intellectual property rights and guarantees to indemnify FIFA against all claims and proceedings against it. To enforce these extraordinary concessions to South African sovereignty, FIFA demanded that the state set up and fund special courts. FIFA was also provided offices with free, unlimited access to telephone and internet and other communication equipment, and received a guarantee to ensure that "hotel prices for the FIFA delegation, representatives of the FIFA's Commercial Affiliates, Host Broadcaster, and accredited media shall be frozen as of January 2010" and that "government shall ensure that hotel prices for FIFA's delegation are 20 percent less than the frozen rate".[41] Furthermore, for the entire duration of the competition, no construction works were allowed in the host cities, thereby creating a 'displacement effect' which most ex-ante studies do not account for when considering the impact of infrastructure spending for the FIFA World Cup.[42]

The South African government was compelled to act as guarantor of capital accumulation to fulfil the financial greed of FIFA and its commercial partners. According to Jerome Valcke, Secretary General of the FIFA Executive Committee, the event was a commercial success: "In fact, we have increased our income by 50 percent since 2006 in Germany to 2010 in South Africa".[43] The total revenue accrued to FIFA is R25 billion ($3.4bn) tax free – "making the first World Cup in Africa the most profitable in FIFA's history".[44]

Consider the other very important tangible benefit of the World Cup: job creation. The figures looked very encouraging. The number of annual sustained jobs was estimated to be 695,000 in total for both the pre and post World Cup periods. Of these, 280,000 annual jobs would be sustained in 2010.[45]These figures are a dramatic improvement from the 159 697 new jobs that were to be created according to the 2003 guesstimate.

The Grant Thornton's figures are guesstimates[46] generated though a formula of rands invested (x) producing a number of jobs (y). They are not precise, as the numbers can vary greatly depending on the assumptions they are based upon. In the firm's primary formula, you can determine: a) how many months' employment would constitute a job (three months, six months or one year) and b) whether the amount of jobs are direct jobs or/and indirect jobs. Indirect jobs refer to employment sustained through the utilisation of the wages of those employed through the specific jobs created to purchase commodities in the general economy thereby creating and sustaining indirect jobs.[47]

The use of employment multipliers for mega-events are inappropriate because these events are short-term tourism episodes and can only be applied properly when there is consistent use of a facility. Employment multipliers as used by proponents of mega-sporting events include full-time, part-time and seasonal jobs without distinguishing between them. Nor do they look at hours worked. There is an assumption that because there is an increase in direct expenditure due to hosting the event, additional workers will be employed. While this may be true for the construction sector it may not be the same for the tourism and retail sectors. Because the World Cup is a short event, employers in the latter case will rather increase the number of hours worked because of underemployment and at best hire a few short-term employees while the rapid expansion of construction may increase employment opportunities.[48]

On 27 July 2010, in the immediate aftermath of the World Cup being held in South Africa, the official government statistics bureau, Statistics South Africa released its Labour Force Survey, Quarter 2 (April-June) and stated that, “there was an annual decrease of 4,7 percent (627 000) in employment” in the overall economy and “the loss of jobs in the formal sector was driven by construction where employment contracted by 7,1 percent or 54 000 jobs”. On a year on year basis 111 000 jobs were shed in the construction industry. With all major construction projects completed for the World Cup these jobs have all but disappeared.

It now becomes apparent that, given the blood bath of job losses, the employment figures presented by Grant Thornton are hugely exaggerated with most employment being in the form of short-term unsustainable jobs. Furthermore, the formula used by Grant Thornton is simplistic as it does not take into account the phenomenon that is taking place in the real economy: “jobless growth”. Despite an increase in Gross Domestic Product (GDP), job creation falls. A good example is in South Africa’s tourism sector.

In 2009 South Africa experienced the highest ever recorded number of foreign tourist arrivals (9 933 966). The total direct spend by foreign tourists was R89,3bn (up 7,1 percent from 2008). The increase in expenditure was due to South Africa hosting the 2009 FIFA Confederations Cup, the British Lions Tour and the Indian Premier League.[49] In 2009 the tourism sector employed 398,100 workers in direct employment, a decline of 32 700 workers from the 421, 800 that were employed in 2008.[50] Thus, the employment multiplier employed by Grant Thornton falls apart because instead of increased employment there was an actual decrease in direct employment. What this suggests is that public mega-subsidies for mega-sports events which are tourism events degenerate into vehicles for sponsored private capitalist accumulation. Despite the public subsidies, the working class is the loser with workers engaging in increased competition for scarce jobs and a reserve army of the unemployed driving the wages downwards. Further, this phenomenon of jobless growth is indicative of growing poverty and inequality in South Africa and the World Cup has sustained, if not deepened, this problem.

Estimating intangible benefits

The intangible benefits include raising the profile of the country, increasing tourism and foreign direct investment and growing national pride by the local population in South Africa through hosting the World Cup.

Table 2 – Overnight Tourist Visitors to South Africa in 2009 and 2010

Overnight Tourist Visitors	June	July
2009	505431	623414
2010	721311	680414
difference	215880	57000
% incr.	42.71%	9.14%

Overnight Foreign tourism during the World Cup period increased to 721 311 in June 2010 and 680 414 in July 2010, representing increases when compared to 2009 of 42.71 percent and 9.14 percent respectively. What these tourist figures imply is that there was no 'crowding out' of usual tourists due to the hosting of the World Cup. However, it should be noted that the majority of these tourists were from the African continent and made of up 60 percent of all overnight visitors in June 2010. [51]

Grant Thornton's April 2010 projected number of World Cup visitors was 373 000 (down from a projected 483 000 in 2007). But 'it must be understood that approximately 105 000 of the 373 000 visitors to South Africa in 2010 were expected to be non-ticket holders; 85 000 of whom would come from Africa for a short visit' indicated Gillian Saunders, Principal of Grant Thornton Strategic Solutions. A total of 228 500 overseas ticket holders were projected, accounting for only 38 percent of ticket sales.[52] The expenditures of casual visitors (non-ticket holders) as part of the impact of the World Cup is misleading as these visitors would have spent their funds in South Africa regardless of the event.

Ticket sales to non-SA Africans who are the biggest contributor to South African tourism income,[53] only accounted for 2 percent, with just 11 300 Africans holding tickets. Originally, African ticket holders were expected to total 48 145, a difference of -77 percent. Despite huge interest from the African continent, there has been a failure in distribution channels and an unaffordable pricing of tickets.[54] The implication of the huge costs of tickets for Africans and the highly inflated accommodation and transport costs to attend the games meant that it was Africa's World Cup in name only, making a mockery of a claim by Sindiswa Nhlumayo, the Deputy Director General in the Department of Tourism that "we have promised to host the best-ever World Cup. Not just by providing infrastructure, but by ensuring we convert all participants into Tourism Ambassadors".[55]

There is no doubt that South Africa hosted a 'successful' FIFA 2010 World Cup. There were very few reported logistical hiccups or crimes committed against foreign visitors. Furthermore, the media broadcasted to over 32 billion viewers,[56] the shining lights, spectacular stadiums and background scenery, glamorous outfits of die-hard fans, cheers of football fans – albeit overpowered by the persistent strain of the vuvuzelas leaving a very positive image of South Africa internationally. This positive branding of South Africa, it is hoped, will stimulate further interest in the country as a prime tourist and foreign direct investment destination. But if we look at the tourism generated during the World Cup where one expects the highest rates for occupancy, levels of accommodation utilised were in fact much lower than expected due to lower than expected numbers of World Cup tourists. This is possibly due to the impact of the global economic crisis on soccer fans internationally. The lower levels of occupancy were, however, offset by an increase in the number of unit nights sold in the tourism industry.

According to a preliminary report from Statistics South Africa, the sale of unit nights increased by 15,3 percent in June 2010 compared to June 2009. This resulted in an increase in the total income for the tourist accommodation industry from R1, 4bn in June 2009 to R2, 3bn in June 2010. This was a vast increase of 55, 3 percent from 2009, although only a 9, 9 percent increase from the first quarter of 2010.[57] The increased revenue was attributed to price increases for accommodation and related services. This official report does not provide details of the accommodation between international and domestic tourists, but Grant Thornton estimated that 60 percent of World Cup tickets were bought by South Africans. Again, these preliminary figures do not provide for 'leakage' of revenue for an internationalised tourist industry or displaced spending by locals and the 'net' gain is not explicit. Despite this rosy report of increases in income by the tourism accommodation industry it cannot account for the 'substitution effect' of the World Cup in terms of the tourism industry as a whole.

There were, however, major disappointments, mainly because of cancellations by the FIFA hospitality agency, Match. According to Western Cape Finance, Economic Development and Tourism MEC (member of the executive council), Alan Winde, "…despite the Western Cape's reputation as a tourist destination, the short-term economic impact of the World Cup has been muted. The tourist figures are far lower than expected, and accommodation occupancy rates in the CBD, at just 55 percent, were well below expectation".[58] According to the KwaZulu Natal office of the Federated Hospitality Association of South Africa, Durban experienced similar problems, where occupancy hovered at about 30 to 40 percent during non-match days[59]with the Gooderson Hotel Group condemning FIFA for raising expectations through massive bookings, only to suffer extremely low occupancy rates thereafter.

If these examples of prime tourist destinations in South Africa are anything to go by, the non-tangible benefits of increased tourism after the World Cup are completely speculative taking into account the global financial crisis and competing tourist destinations. South Africa in any case has since 2003 been experiencing upward growth with an annual foreign tourism increase of 3.9% recorded in 2009 despite a worldwide decline of tourism by 4.3%.[60]

World Cup costs soar

Cost escalation is important, and was attributed to South Africa's vulnerability to the 2008-09 world economic crisis. Then Finance Minister, Trevor Manuel remarked in October 2008 that World Cup construction work would be affected, because "building costs are a huge threat to what we want to do" (Sapa 2008). Although South Africa's currency fell dramatically in January 2008 and again in October 2008, by July 2009 the real effective exchange rate had fully recovered. Hence, arguments that the huge cost escalations incurred on stadiums – especially the rising cement prices – stemmed from the volatility of global and South African financial markets, were not convincing and require further justification.

Not only is confidence in the government's ability to contain costs at stake, but this issue is also crucial in terms of the 'Keynesian multiplier' anticipated from stadium and infrastructure investment, which was intended to stimulate the rest of the economy. There are many missing billions of rands in escalations announced from 2009 to 2010 that simply do not make sense, and likewise, if these rands were not spent on real economic activity but instead on padding the profits of construction companies, they will not have positive knock-on effects elsewhere in economic terms.

Manuel failed to reflect on the October 2007 Competition Commission investigation which set up a team to review the construction materials and services sector.[61] A full-scale investigation into possible anti-competitive practices in the industry focused on consistently high rates of price increases of many products, high levels of concentration in the industry and barriers to entry in the construction-materials market as well as increased possibilities of bid-rigging and that this may become the focus of further investigation[62] Indeed, when the commission completed its investigation in early 2011 it found that South Africa's top five construction companies Aveng, Group Five, Murray & Roberts (M&R), Wilson Bayly Holmes-Ovcon and Basil Read were all involved and that 'bid-rigging had artificially raised the cost of contracts and resulted in the public sector paying more of taxpayers' money for projects… some of which were related to the construction of the 2010 World Cup soccer stadiums, the Gautrain and various road construction projects."[63] (See chapter 4 on construction companies for more detail).

Yet the media hardly mentioned increased costs incurred by the government. Multinational companies were responsible for most of the design, were involved in materials manufacture and construction of the 'iconic' legacy stadiums mostly in joint ventures with South African construction companies. Amongst the most important were German companies HBM Stadien-und Sportstättenbau GmbH, a specialist stadium construction company, GMP Architekten[64] and Hightex engineers,[65] the Italian company Cimolai, the French company Bouygues, and the Dutch company BAM International which was involved in stadia construction where huge increases of costs for stadia construction were incurred. This implies that economists have not yet calculated the losses by South Africa's economy as remittances and profits land in international companies' coffers. Further research and investigative journalism directed to the cost escalations should be a high priority, particularly if further construction activity of this type is anticipated for future mega-events, including a bid to host the Olympic Games in 2020. What this highlights is that calculating the 'net' income rather than the 'gross' impact is therefore very crucial in providing a more accurate picture of the cost and benefits associated with the World Cup.

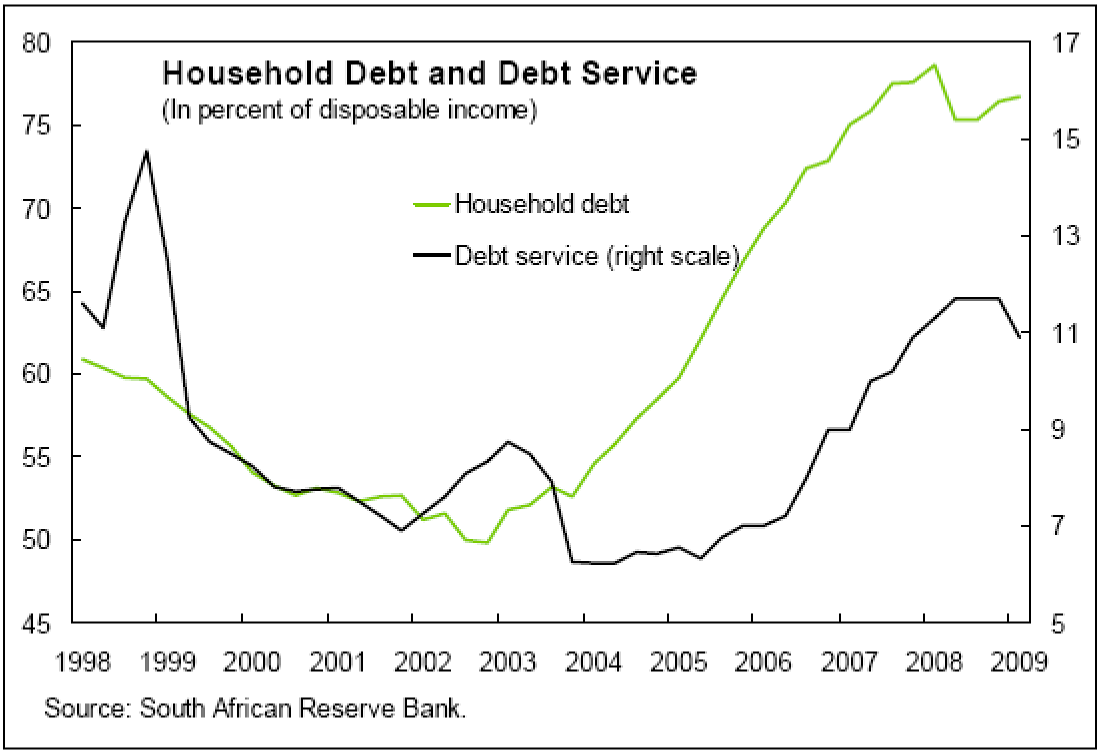
Likewise, a claim has emerged that the World Cup investments were an antidote to the economic crisis. In February 2009, Manuel claimed that South Africa would not even face a recession, even though the first quarter of 2009 registered a massive 6.4 percent decline in GDP. The argument continued into 2010, as KPMG's Blackmore argued "that the almost R800 billion infrastructure 'cracker' helped mitigate the effects of the global recession" and that "while the rest of the world were licking their financial wounds, we here in the South were beavering away". [66] (Tellingly, there is no effort made to assess whether other public works investments related to the World Cup would have had a greater multiplier effect, requiring fewer imports and creating more employment.)

Not only were South African taxpayers subsidising the mega-sporting event at highly inflated costs, locals were also going on a spending spree due to the excitement and the patriotic effect of the World Cup. Standard Bank, South Africa's largest credit card provider, said the number of credit card accounts opened in the first half of 2010 rose 30 percent from a year earlier, boosted by spending for the World Cup.[67] According to a debt councillor for Octogen, Paul Slot,

> Certainly, some people will have made a conscious effort to save in order to afford items such as tickets to one or more matches, the must-have accessories of clothing and memorabilia, even a new TV, but sadly, they tend to be in the minority. By far the majority will be indulging in this once-in-a-lifetime event, and the consequences for normal instalment and debt repayments, even home loan repayments, could be dire.[68]

Officially, Statistics South Africa reported a 7,9 percent increase (year-on-year) in retail spending in July 2010 and 8,1 percent between May to July 2010 (year-on-year).[69] World Cup hype created increased indebtedness through consumer spending in South Africa at a time when debt ratios had risen to extremely high levels, increasing the total number of over-indebted to South Africans to a record high of 11 million people.[70]

Figure 2



Source: International Monetary Fund 2009[71]

Foreign tourists on the other hand increased their spending (1 June 1 to 20 June 2010), on Visa-branded cards (a FIFA official sponsor) exceeding US$ 128 million (R974 million), up 54 percent from US$ 83 million (R629 million) during the same period in 2009.[72] Total spending by foreign tourists in the second quarter of 2010 is estimated at R15 billion, of which roughly R3,5 billion could be associated with the soccer tournament.[73] The World Cup also spurred on international consumerism as people bought new televisions and manufactured goods contributing to increases in retail spending.[74] Unfortunately there is no global data available (that we are aware of) of how this increase in retail sales have impacted on the increased profits of Sony and Adidas, the other official FIFA sponsors. Thus, the financial services, manufacturing and retail sectors were cashing in on the personal debt growth of the World Cup fans as part of a globalised village of capital accumulation with FIFA's commercial partners at the centre of that strategy.

In summary, the idea that the World Cup spending somehow contributed to a Keynesian project is at odds with evidence that South Africa's economy has been 'boosted' by the construction sector, increased spending and finance. Capital investments in the hospitality industry and consumer credit binges are inconsistent with the idea that, somehow, a 'developmental state' could be restored given the collapse of the private sector and the need for government subsidies in so many aspects of World Cup financing. The only voice making such a claim is the South African Communist Party (SACP) and it is worth quickly reviewing the mistakes behind this rhetoric.

The World Cup as 'developmental state' (sic) catalyst

In a press statement, 'SA's done well with the World Cup – SACP Political Bureau commends ordinary South Africans for making the event a success', the South African Communist Party made the following argument:

> The organisation of this World Cup has been different from most others in that government in all spheres has played a much more central role than, for instance, in Germany in 2006. This was necessitated by the scale of <u>infrastructural</u> development - notably with new stadiums and a wide range of new transport-related infrastructure. The SA Police have also had to step in on an even larger scale than originally planned as a result of private security failures (linked, of course, to labour brokering and casualisation). What we have seen has been a developmental state in action, rallying

> the widest range of South Africans around a common vision and a common task. Of course, beyond mid-July the key challenge will be how to build on the momentum and experience gained. This, in any case, is not an issue that has been deferred to mid-July, from the start we have sought to ensure that we use the World Cup to lay down a transformational legacy in our towns and cities. This will particularly be the case with public transport.[75]

The idea of a developmental state typically refers to the East Asian experience combining manufacturing-sector growth and diversification with authoritarian politics,[76] but this oft-abused phrase often means, in the South African context, a combination of macroeconomic neoliberalism and unsustainable mega-project development, dressed up with rather tokenistic social welfare policy and rhetorical support for a more coherent industrial policy. In practice, it has meant the following areas of state subsidy and crony-capitalist relationships:

- The Coega industrial complex in Nelson Mandela Bay Metropole, where massive amounts of electricity and water could one day be consumed in a new smelter (Alcan and subsequently Rio Tinto had in-principle commitments though by early 2008 these faded, as electricity shortages became obvious), and where a new R80 billion PetroSA refinery is anticipated.[77]

- The Lesotho Highlands Water Project mega-dams (Africa's highest dam) which since 1998 have diverted Lesotho's water out of the Senqu River feeding the Free State water table, into the insatiable Gauteng industrial complex, especially for coal-fired power plant cooling and Johannesburg's swimming-pool fill-ups (further mega-dams are on schedule for the 2010s).[78]

- The corruption-ridden R43 billion arms deal, which implicated a wide slice of both Zumite and Mbekite ANC factions starting at the very top.[79]

- Major energy investments such as the Medupi and Kusile coal-fired power plants, as well as nuclear reactors potentially costing hundreds of billions of rands.[80]

- The R25 billion+ Gautrain fast rail network that will link Johannesburg, Pretoria, and the OR Tambo airport (but costs riders five times more than previously advertised, gambles on shifting rich people's behavior away from private cars, but probably will not dislodge Johannesburg-Pretoria commuters, thanks to traffic jams and parking shortages at the new stations, and as labour leader, Zwelinzima Vavi, put it, Gautrain "does nothing for those who really suffer from transport problems – above all, commuters from places like Soweto and Diepsloot. Instead, it takes away resources that could improve the lives of millions of commuters".)[81]

- The new R8 billion King Shaka International Airport, affordable only to elite travelers (and the premature closure of Durban International Airport – which had sufficient capacity until 2017 - proved the single biggest embarrassment for LOC leadership and the Airports Company of South Africa, when King Shaka could not cope with VIP and FIFA private jets that jammed the airport on 7 July 2010, the day of the semi-final, leaving more than 1 000 furious soccer fans in planes that had to be re-routed).[82]

Most of the ten World Cup stadiums fit well within these examples. We do not yet have a final tally of the estimated stadium and infrastructure costs that are directly correlated to the World Cup. The SA Reserve Bank's (SARB) *Quarterly Bulletin* of June 2010 offers a few disturbing indicators of far higher costs to the state – including through state-owned enterprises taking on higher levels of debt. The full implications of this debt were not yet known at the time of writing. But the SARB acknowledged:

> Higher national government spending also stemmed from an increase in current payments by the Justice and Protection Services cluster, mainly from the Department of Police (formerly Safety and Security). This allocation was for security requirements for the 2009 elections and the 2010 FIFA World Cup™ tournament; revamping the criminal justice sector; and inflation-related adjustments, essentially to cover the higher fuel price and salary increases granted in the public sector… Owing to the 2010 FIFA World Cup™ tournament and related activities, non-financial public business enterprises accelerated their capital spending in 2009, resulting in a net borrowing position of R62,9 billion. Similarly, general government reported a deficit of R145,5 billion as revenue collection slowed and infrastructure needs remained high… In 2009 public non-financial corporate business enterprises recorded a financing deficit of R63,0 billion after spending R129,7 billion on gross capital

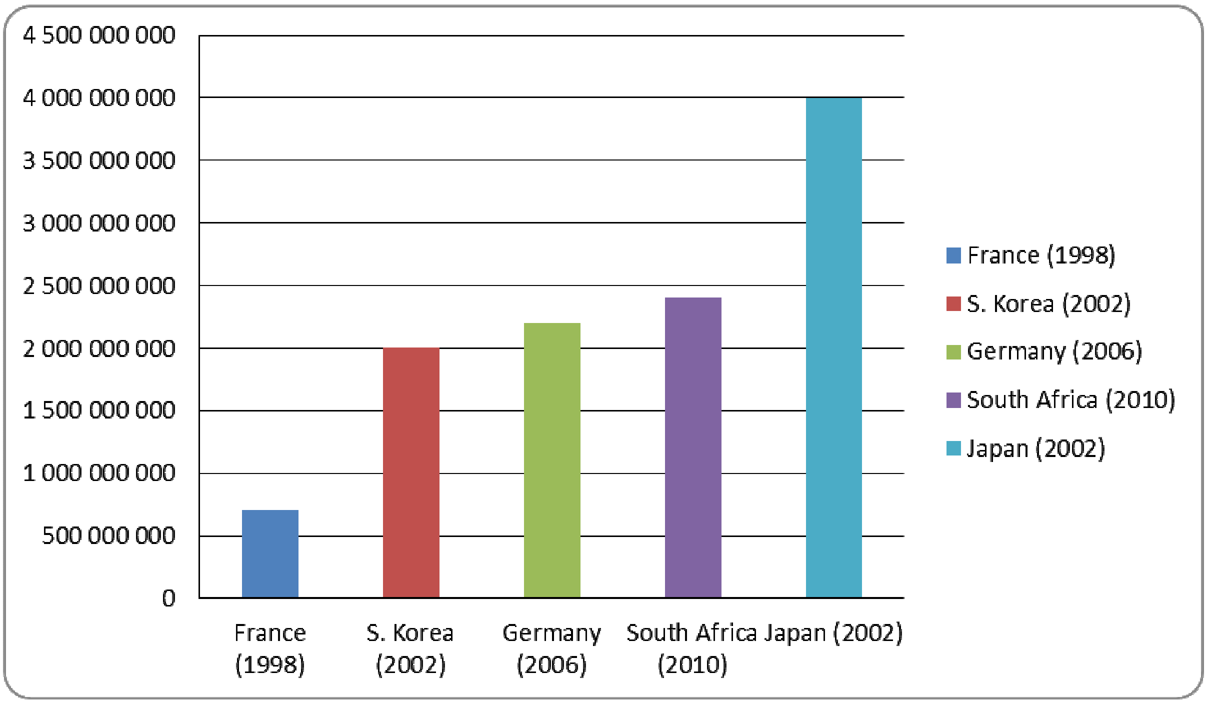
> formation mostly related to providing infrastructure for the 2010 FIFA World Cup™ tournament. The enterprises sourced funds primarily by issuing bills, bonds and loan stock; taking up bank loans and advances; increasing trade credit and short-term loans; and issuing shares. [83]

In short, the World Cup was the excuse to initiate a great many projects, and to be sure, some (like expanded broadband capacity) will have important economic multipliers. But for many reasons, the 'developmental state' initiatives associated with the World Cup and other mega-projects can better be considered *under-developmental* insofar as they contribute to vast eco-social and economic distortions, ranging from excessive reliance upon imported materials – with the consequent rapid increase in SA foreign debt starting in 2006 (reaching more than $80 billion by mid-2010) – to short-term employment due to the capital-intensive nature of the output (just 1.3 percent annual construction sector job increases even during the peak years).

World Cup stadium economics

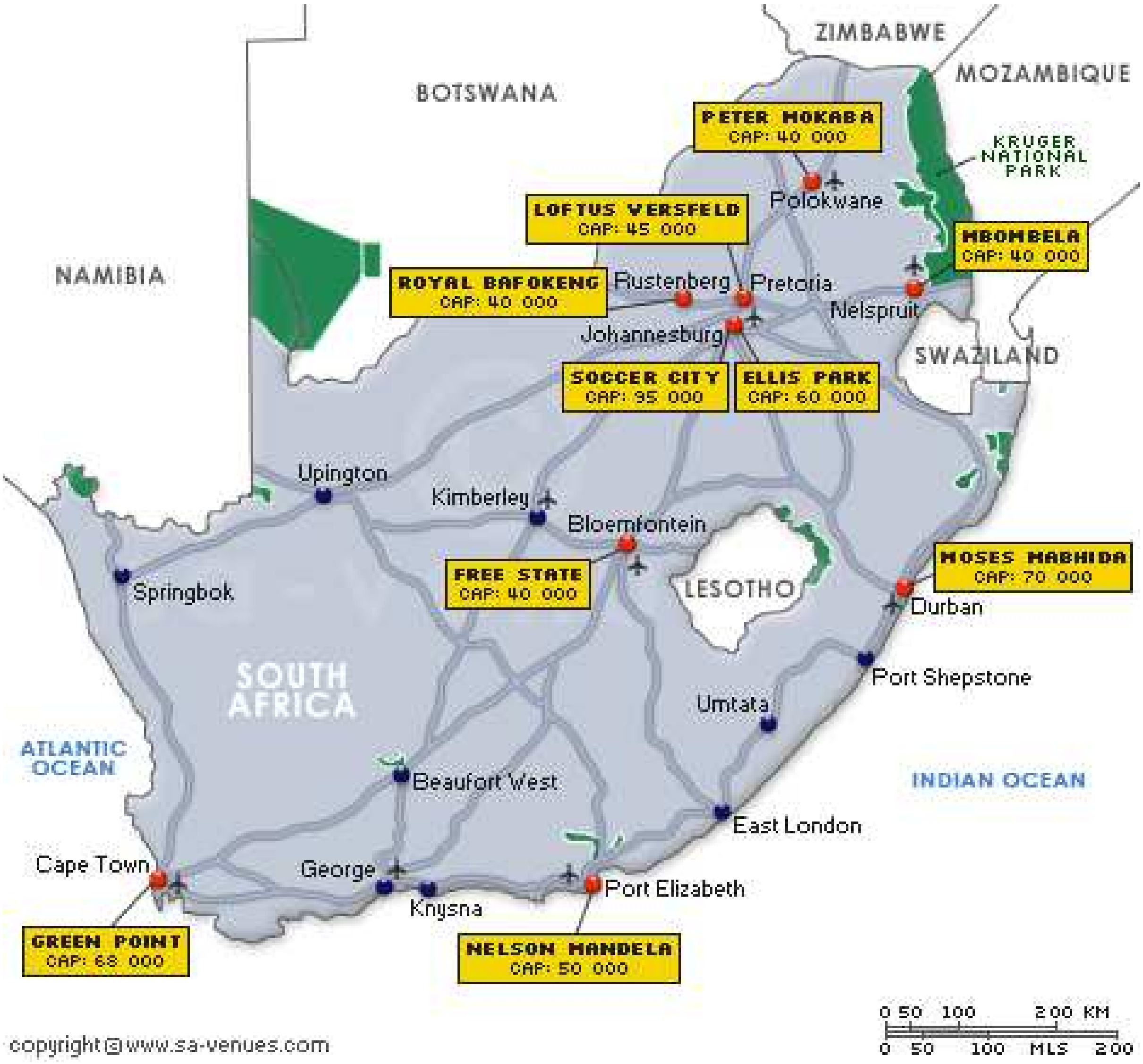
FIFA requires host countries to provide at least eight modernised stadia with a seating capacity of between 40,000 and 60,000. In 1998 France hosted the event at a cost of $700m for stadia construction.[84] In 2002 South Korea and Japan are said to have spent $2bn and $4bn respectively on stadia[85] while in Germany the stadia cost only $2.2bn.[86] South Africa has however, spent R17, 4bn ($2.5bn) on the World Cup stadia (excluding other infrastructure).[87]

Figure 3: FIFA World Cup Stadia Spend



*Calculations by authors in US dollars

There are clearly distinctions to be made in terms of costs in hosting the World Cup between so-called 'developing' and 'developed' countries. Besides the stadia construction, the infrastructure required to host the event will likely be higher and so too the opportunity costs of the capital investment made. [88] Unlike the German World Cup where 60 percent of the World Cup stadiums were financed by clubs and private investors, in South African the stadium investment was publically financed. In light of the huge costs associated with the event the point is whether the South African government has made the best use of the resources at its disposal, in the context of huge social inequality in South Africa. A key promise of the 2010 World Cup has been its sports legacy and in particular this justified the enormous expenditure on the World Cup stadia.



http:/www.sa-venues.com/2010/2010-htm (accessed 6 October 2010)

On 17 August 2010, the sports and recreation committee of parliament heard reports on the topic of the future utilisation and sustainability of the World Cup stadia, which were very much in doubt.[89] Leslie Sedibe, CEO of the South African Football Association (SAFA) expressed concern to parliament that, although the stadiums were built "for the World Cup as part of the legacy from the global event and we accept that they have to be sustainable, the problem is the high cost of hiring these venues".[90] SAFA told the parliamentary committee that it was not consulted in the original planning stages of the stadiums, and "believed that many were not sustainable, since they would require very aggressive business plans".[91] Echoing the concerns of Sedibe, the Premier Soccer League's (PSL) chief executive, Kjetil Siem, stated that the FNB stadium (formerly Soccer

City) is 'just too big' to host teams like Pirates and Santos and the costs too high to make an income for soccer since none will achieve capacity. Even betting on cricket to be the saviour of the stadiums was put to rest. According to the general manager of Cricket South Africa (CSA), Gerald Majola all but one, the Moses Mabhida stadium in Durban, have pitches that are too small to host cricket matches.[92] The Western Province Rugby president, Tobie Titus stated that, on the advice of an independent financial adviser, Western Province Rugby was staying at its current stadium in Newlands and not moving to Green Point Stadium in Cape Town.[93]

South Africa only required the use of a maximum of eight stadiums instead of the ten stadiums built. The five new stadia were built in Cape Town (Cape Town Stadium), Port Elizabeth (Nelson Mandela Bay Stadium), Durban (Moses Mabhida Stadium), Nelspruit (Mbombela Stadium) and Polokwane (Peter Mokaba Stadium). Five others were upgraded and modernised, namely, Johannesburg (Ellis Park and Soccer City), Rustenberg (Royal Bafokeng), Tshwane (Loftus Versfeld) and Mangaung (Free State Stadium). According to Udesh Pillay, director of the Human Science Research Council, South Africa had spent at least R6 bn on three new 'white elephant' stadiums. These are the Peter Mokaba Stadium in Polokwane, the Mbombela Stadium in Nelspruit and the Moses Mabhida Stadium in Durban.[94] Pillay is referring to the fact that both the Peter Mokaba Stadium and Mbombela Stadium have no popular football or rugby teams nearby and that the stadiums 'may have to be demolished to avoid crippling maintenance bills'.[95] While the iconic Moses Mabhida Stadium in Durban is still to establish or make public its full maintenance costs[96], the Green Point Stadium in Cape Town costs R46,5 million per annum to maintain.[97] Both stadiums' managements have already requested an operating cost subsidy from national government in order to sustain the maintenance of the stadiums. The Nelson Mandela Bay Stadium which is still looking for an anchor tenant will cost R65 million per year to run.[98] So, if we include the (unsustainable) Cape Town and Nelson Mandela Bay Stadiums then there are actually five new 'white elephant' legacy stadiums.

The macro-and micro-implications will be felt over many years, not only because the World Cup contributed to South Africa's world-leading income inequality and future economic calamities once debt payments become due. The overspending on new stadiums (in Durban, Cape Town, Port Elizabeth, Nelspruit and Polokwane) and related infrastructure plus extravagant refurbishment expenses for Soccer City brought the state subsidy to over R22 billion. It will be exceedingly hard for nearly all the stadiums to just cover their operating expenses (much less meet capital and interest repayments). Already only eight months after the World Cup the evidence is starting to show. The Sunday Argus recently reported that, the Nelson Mandela Bay Stadium in Port Elizabeth is the key reason for an R800m cut in service delivery provision especially the undignified bucket sewage system.[99]

Yet an African National Congress government allowed FIFA and multinational corporate sponsors full access to 'exclusion zones' with no taxes, no exchange controls and no security worries. Other logistical support, access control, and protection were provided to FIFA's corporate partners (Adidas, Sony, Visa, Emirates, Coca Cola, Hyundai-Kia, McDonalds, local phone giants Telkom and MTN, First National Bank, Continental Tyres, Castrol, and Indian IT Company, Satyam). Only FIFA endorsed items were advertised within a one kilometre radius of the stadium and along major roads, signifying how very little the World Cup managers would permit benefits to trickle down to ordinary South Africans.

Trickle-down promises broken

Little money trickled down and most evaporated. Crafts, tourism and township soccer facilities were all meant to benefit. But as SAFA's Western Cape provincial president, Norman Arendse, confessed, FIFA's 'fatal' top-down approach left grassroots soccer with merely 'crumbs'. [100] StreetNet international in its publication, "This World Cup is Not for Us Poor People" estimates that some 100,000 South African street vendors and informal traders lost their livelihoods during the World Cup as they had been forcibly removed or banned from trading in areas around the World Cup stadiums and official viewing areas.[101]

Likewise, ordinary workers were misled into thinking they would benefit from manufacturing opportunities associated with World Cup paraphernalia, but as Congress of SA Trade Unions (COSATU) spokesperson, Patrick Craven ruefully concluded, "local companies have lost out, Chinese companies have emerged as big winners". [102] Workers lost insofar as they failed to gain local production rights for the Zakumi doll mascot, which was instead produced in what the trade union movement alleged were Chinese sweatshops where teenagers were paid $3/day. The man who arranged the deal was ANC Member of Parliament Shiaan-Bin Huang, whose home district in KwaZulu-Natal, Newcastle, had many idle factories which could have produced Zakumi.[103]

Residents, too, suffered, especially if they were working class and needed treatment at local hospitals. As *Times* journalists observed,

> FIFA's guidelines for designated hospitals around the country - which include keeping wards half empty - will result in long-term patients removed from their beds and shifted to facilities elsewhere. Routine referrals to major specialist hospitals have already been curtailed, if not stopped, until after the World Cup, leaving hundreds of patients without care for the next two months. [104]

As these realities sunk in, more pessimistic perspectives emerged amongst the citizenry. According to Udesh Pillay of the HSRC, in 2005, one in three South Africans hoped to personally benefit from the World Cup™, but this fell to one in five in 2009 and one in 100 by the time the games began. [105]

Some who personally benefited from the World Cup could not even recognise the failure of investments to trickle down. A former leading official in the presidency, Trevor Fowler – subsequently Murray & Roberts construction executive director – claimed there was "much-needed" infrastructure:

> Our roads have seen great improvement, public transport has been elevated to a level not experienced in the country before, we have built stadiums of the highest global standards and hotels, accommodation and other facilities had been constructed that can now be used by the people of South Africa, tourists entering its borders and other sporting events.[106]

Further, all the major construction companies involved in the World Cup aggregated pre-tax profits have been increasing by more than 100 percent per annum (2004-2009) and with this increase in profits there has been a concomitant increase in income inequality and major retrenchments of workers in the industry as stated previously. The wage gap in the construction sector (between a general worker and CEO) increased from 166 in 2004 to 285 in 2009.[107] The World Cup therefore, has made its contribution to increasing inequality within South African society.

Conclusion

One of the most revealing statements about the World Cup was by KPMG senior economist, Frank Blackmore: "One does not have to be an economist to know that things went well".[108] In 2008, economists gained a deservedly scandalous reputation for their inability to calculate underlying political-economic processes associated with the world economic crisis and for advocacy of financial liberalisation due to blind faith in capitalist markets. In a confessional letter to Queen Elizabeth, some used the word 'hubris' to describe their state of mind.[109]

To illustrate, Blackmore's KPMG colleague (and audit director), Devon Duffield was quoted as saying that "all the money that was spent during the 2010 World Cup was still circulating in South Africa, and that money that was circulating faster defined the creation of wealth". [110] Of course, not only did FIFA record R25 billion in profits (without taxes or exchange controls), but all the sponsoring firms expatriated their revenues. And as noted earlier, the high levels of imports associated with World Cup investments created all manner of foreign debt and current account distortions that will most likely contribute to deepening the economic crisis in South Africa in coming years.

Not all the mainstream commentators are so blasé about the World Cup's economic impact. ACE senior underwriter, Trevor Kerst observed that;

> … the return on that [state] investment is by no means assured; add to that the reality that FIFA pays no taxes and institutes exclusion zones around the stadiums where matches take place, and tax income is curtailed. Within these exclusion zones, only FIFA and its partners may sell any goods; nothing from these sales accrues to the government.

As a result, he warned, that domestic debt would force diminished state spending on other major projects. [111]

Still, the overall view is that the World Cup assisted in South Africa's 'creation of wealth' - typically accounted for without considering damages outside the realm of the market, 'externalities'. When economists, for example, consider a GDP increase, environmental destruction is typically omitted, even when the implications are potentially catastrophic, such as in the case of greenhouse gas emissions. The carbon footprint of the 2010 World Cup was twice that of the German games, due to longer flights and new stadium construction.[112]

There has clearly been a lack of effort by government to ensure that a more accurate impact study be conducted, but suffice to say, the large costs associated with ecology, society, politics and economic distortions are substantial casualties that typically go unmentioned by economists and commentators. The excesses of South Africa's World Cup hosting duties deserve much more consideration, because failure to consider what went wrong will lead to a repeat of the model in coming years, most obviously in preparation for a 2020 or 2024 Olympic hosting bid.

The tangible benefits of the World Cup have been greatly exaggerated to legitimise a major rip-off and profiteering by FIFA, its commercial partners and local monopoly capitalists. We can now clearly see that while the original guestimates in 2003 promised that South Africa could host the event with "minimal tangible costs" involved and with "significant" direct benefits, the outcome in reality is the converse.

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