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Turning Olympic Success Into Economic Gold

By Robert Skidelsky

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As Olympic mania swept the world in recent weeks, it transported the host country, Britain, to a rare display of public exultation. Indeed, the successes of "Team GB" produced an upsurge of patriotic rejoicing akin to victory in war. Britain finished third in the gold medal count, behind the United States and China, but ahead of Russia, which traditionally competes with the United States for first place.

So what is the secret of Olympic success? The acquisition of medals, precisely because it brings so much satisfaction, has become the object of scientific inquiry and national endeavor. Before the 2012 Games, the Financial Times combined four economic models to produce the following "consensus" prediction of gold medals (the actual results are in brackets):

1. United States 39 (46)
2. China 37 (38)

3. Britain 24 (29)
4. Russia 12 (24)
5. South Korea 12 (13)
6. Germany 9 (11)

The gold medal rankings and overall medal placement were correctly predicted in all cases.

The most striking finding is that the medal count can be predicted with great accuracy from four key variables: population, gross domestic product per capita, past performance and host status. Everything else, such as different training structures or better equipment, is pretty much noise.

The impact of population and GDP is obvious: A large population increases the chance that a country will have athletes with the natural talent to win medals, and a high GDP means that it will have the money to invest in the infrastructure and training needed to develop medal-winning athletes.

Past performance is also important: The visibility and prestige of a sport increases after Olympic success, as does funding. Medals attract money, while failure results in cuts.

Finally, the "home advantage" includes not just the benefit of morale and the opportunity to train in the actual Olympic venues, but also the funding boost that host status brings. In 2004, British athletes received £70 million ($110 million). By 2008, after London was awarded the 2012 Games, the total was £245 million and stood at £264 million this year. Over the past 10 Olympics, the host country has won 54 percent more medals on average than when it was not the host. Hosting the Olympics boosts performance before the hosted games and has effects that outlast them.

Sometimes, poor countries are priced out of a sport. India was historically strong in field hockey, winning almost all the gold medals between 1928 and 1968. But since the games switched from grass to expensive synthetic turf, the Indians have won just one field hockey medal. Some of the sports at which Britain has done particularly well, like cycling and rowing, are most highly influenced by income and host effects.

Brazil can therefore expect to improve considerably on its modest haul (15 medals) and 21st-place finish when it hosts the 2016 Games. As for the others, the formula for success is fairly simple: select your potentially winning sports, pick the potential medalists in those sports, pour money into them and stick with both the sports and the players until the medals roll in. The funding can be corporate sponsorship (as in the United States), state money (as in China), or a mixture of national lottery proceeds and state money (as in Britain).

Two questions arise. First, why should a country concentrate on accumulating trophies at the expense of other desirable goods? And second, can the formula for picking winners in sports be replicated for competitive success in international trade?

An economist would probably argue that money spent on education, housing and health care brings more "welfare" than money spent in the quest for medals. When all is said and done, sports is entertainment, while the others are necessities.

But that argument ignores the effect of sporting success on national morale, an intangible factor in a country's success in other, more serious spheres of endeavor. A country that can succeed in one sphere of peaceful competition is encouraged to feel that it can do well in others. One can treat this claim with a certain degree of skepticism. After all, the 2004 Athens Olympics failed to produce a Greek economic miracle.

But it does lead to the second question: Can the methods that produce Olympic winners be applied elsewhere? Nothing is more discredited in Anglo-American economics than the policy of "picking winners." The consensus has been that it inevitably leads to the state "backing losers." Economic success, on this view, is best left to the unfettered play of market forces.

This philosophy has been heavily jolted by two inconvenient facts: the financial collapse of 2007-08 and the experience of countries like Japan, South Korea, Taiwan, Germany and even the United States, where economic success depended heavily on sustained government investment of the kind that has produced Olympic medals. As in sports, so in economic life, government commitment can start a virtuous circle of success, while government neglect can trigger a vicious circle of decline.

But the popular hunger for sporting success and the celebratory outpouring that it evokes is bound to provoke some disquiet. It seems to mark humanity's retreat into infantilism. But if the douceur of sports can channel aggressive passions into benign pursuits, why should we deny our star performers their heroic stature?

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