Ours nation’s capital has recently heard extensive debate over the word “crisis.” President Bush’s proposed changes to Social Security assert that the program is in financial crisis. Critics of his plan maintain that there is no imminent crisis. Meanwhile, the nomination of Secretary of State Condoleezza Rice was challenged by some who objected to her earlier claims of crisis in Iraq (when weapons of mass destruction failed to be discovered).

Reauthorization of TEA-21, the surface-transportation funding legislation, expires in May — following six extensions. As Congress considers a new bill, claims have been made that the delay in acting on this legislation has produced a highway construction and repair crisis. This is occurring amid an overarching debate over whether the entire transportation industry is in crisis.

At the Intermodal Expo last November in San Antonio, speakers addressed concerns about this question. Many people cited increasing congestion — specifically in Southern California — as a crisis requiring government intervention. However, some felt that private-sector market mechanisms were more than sufficient to meet future requirements.

Experts agree that further capacity can still be extracted from a more efficiently utilized system. But it is not always clear how to deploy one in a commercially effective fashion. Already this year we have seen several examples of infrastructure in crisis. Two critical main lines of Union Pacific Railroad were washed out in January by flooding in the Southwest. UP’s response was decisive — it immediately imposed an embargo to prevent traffic accumulation, and it brought the full force of its engineering capability to reopen these lines quickly.

In early January, a fire struck a signal relay room in the New York City subway system’s Chambers Street station. The system, built in the 1930s, initially expected the C Line to be out of service for five years. This forecast was later greatly reduced.

These incidents demonstrate the fragility of our country’s transportation network. And while it may be functional, it can slip into crisis when traumatic events occur. Force majeure — literally meaning “greater force” — is standard contractual language excusing a party from liability arising from unforeseen events. Some industry leaders protest that force majeure is being invoked on an increasingly liberal basis. Even routine snowfall, with modest or moderate accumulation, will sometimes be classified as an “act of God.”

These actions may be indicative of a greater problem. The economics of transportation carriers’ operations presents a growing challenge. Besides potential driver shortages, the problems in the areas of insurance, fuel and security are being discussed and should not be ignored. The accumulation of these individual challenges may represent a crisis in its own right.

All of this talk may boil down to the traditional posturing between carrier and customer, which is as old as our entire industry. Carriers can induce customers to be more compliant with rate increases in an environment of crisis. Very often, this provides political cover for a transportation manager to justify increased cost to management, which has come to expect declining rates.

Price elasticity of demand measures how demand for a quantity of a good or service responds to a change in price, with all other factors held constant. For most of the past 20 years, demand has been very elastic. A small change in price corresponded to major shifts in traffic, and carriers were forced to price aggressively. Today, demand appears relatively inelastic. Carriers are able to increase prices without great fear of losing volume. For the most part, capacity concerns outweigh financial desires.

With import trade growth projected to grow 10 to 12 percent this year, ocean carriers are expecting the period of inelasticity to last through this year. Railroads and truckers are hoping for the same trends. Time will tell if we can survive the peak season — with its daunting numbers — without incident. The size of the trade increase represents 1.5 million to 2 million TEUs. Consider that only Los Angeles, Long Beach and New York-New Jersey now handle volumes greater than that. The traffic increase is equal to the total volume of ports such as Oakland, Tacoma, Charleston, Hampton Roads, Savannah, or Seattle.

Crisis or not, the red light is starting to blink.

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