Olympic hurdles

On July 6, the International Olympic Committee, meeting in Singapore, will select the site for the 2012 Olympic Games. Nine candidates initially applied for this “honor” and five have made the short list. One of the five is New York.

Lacking a suitable venue for the Olympic stadium, New York drafted plans to build a football stadium on Manhattan’s West Side to fulfill this requirement. Even with promises of a Super Bowl in 2010, city officials could not prevail. The public sector balked at putting up $600 million for the stadium.

The benefits of hosting the Olympic Games have always been open to speculation. In the past, cities such as Tokyo and Seoul have used the games to demonstrate their arrival on the world stage. The upfront investment is intended to spark economic revival — and ensure significant ongoing business. But hosting the Olympics is not what is used to be. In 1973, Montreal Mayor Jean Drapeau said, “The Olympics can no more have a deficit than a man can have a baby.” The 1976 games went over budget by 500 percent and left Canada $1 billion in debt. The debt from Athens in 2004 is estimated to be in excess of $10 billion.

There is little doubt that massive public investment generates economic activity. The question is how much bang is gotten for the buck. Many economists believe that sports venues, convention centers and other location-based economic incentives are misspent and the money spent can usually be deployed elsewhere in the economy. In the last 30 years, many believe that globalization, unemployment and increased corporate mobility have resulted in a “race to the bottom” by the public sector seeking to retain and attract business.

Today, a similar dilemma confronts the international transportation and logistics industry. Continued growth of trade and transportation requires increased infrastructure availability. Certainly we can get more productivity out of existing assets, but sooner or later we will need to build. Consider the growth of container shipping: At the current rate of trade growth, annually we need to add new capacity equal to the total throughput of the Port of Oakland. Such largesse seems unimaginable.

Although the federal government contributes to infrastructure construction and operation in many ways, the private sector and local government are primarily responsible for transportation investment. The private sector has a fairly clear threshold. Barring some extenuating requirement, if a project can’t return the cost of invested capital, then the investment isn’t made.

Public-sector decisions are a little more difficult to quantify. An entire industry of consultants and economists are employed by entities seeking to justify new projects on the basis of jobs and other economic benefits. An objective calculation is difficult because benefits — or externalities — can be positive and negative. For every new job created, increased pollution and congestion may result.

Such arguments are very common with ports and airports. Neighbors who used to advocate not building in my back yard (NIMBY) have become much more strident in their attitude — the prevailing view today could be BANANA: Build absolutely nothing anywhere near anything. It can hardly be an accident that the two most likely new ports in North America are in areas where organized local opposition is highly unlikely: Mexico (where opposition is missing) and Prince Rupert (literally in the middle of nowhere).

Infrastructure investment has become increasingly problematic. New risks materialize continuously. Fundamental economic assumptions — that physical life always exceeds economic life — may no longer apply. Look at the Port of Long Beach, which, in its efforts to provide seven mega-terminals, is tearing up previously constructed infrastructure — sometimes for the second, third or fourth time.

Current underlying business models used by investors may also change. Airports that welcomed airlines to establish fortress hubs now worry that these same airlines will resort to bankruptcy court to repudiate lease payments that were negotiated in better times. The lease rate may change, but the underlying finances for the airport will not. In even more extreme cases, some financially troubled airlines have decided to hoard (now unused) gates to prevent market access by low-cost competitors.

When it comes to the Olympics, everyone is watching. Not so for freight infrastructure — not even for 17 days every four years. Still, all parties must figure out how to accommodate future transportation growth. Reconciling costs and benefits of the local population with those of the nation will be an essential component. It isn’t as glamorous as hosting the Olympics, but it is a huge thread in the fabric of our economy.

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