


Global TransPark Is a Risky Investment for the State

by Michael L. Walden



Far from a can't-miss proposal, Global TransPark would be a risky venture in which to invest taxpayers' hard-earned money. Proponents' rosy economic forecasts are speculative at best, and are based on some shaky assumptions and questionable methodologies. Those projections also underestimate potential problems caused by noise and other environmental considerations. In sum, the proposal invites the question: If it's such a good idea, why doesn't private industry do it?

 Think about it: A new concept in transportation and manufacturing that could create thousands of jobs and pump billions of dollars into the state's economy. That's how supporters promote the proposed air-cargo industrial complex, or Global TransPark. In short, the project would integrate an airport with an industrial park. Companies there would use "just-in-time" manufacturing techniques and the adjacent jetport to rapidly respond to product demand while creating satisfied customers worldwide. (See Figure 1, p. 28.)

Promoters envision Global TransPark as a major competitor to California's Silicon Valley, while claiming it would bring enormous benefits to the state. Indeed, the project's feasibility study estimates the complex could create 59,200 jobs and \$3.8 billion in annual revenue by the year 2000 and 101,200 jobs and \$12.9 billion in annual revenue by 2010.¹ (See Table 4, p. 37.) The report estimates that benefits compared to costs could

reach 8:1 by 2000 and 29:1 by 2010. With such projections, it looks like the proposal can't miss. Right? Well, not necessarily.

Study Is Based on Questionable Assumptions, Techniques

Although the Global TransPark report reaches some optimistic conclusions, a closer look at the study raises some troubling questions. How did the consultants who wrote the report derive the benefit/cost estimates? What assumptions and techniques did they use? What happens to the conclusions if their major assumptions are altered?

The Global TransPark study is really two reports. The first part looks at the future of air cargo in North Carolina in general; the second part stud-

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ies the economic feasibility of the global air-cargo/ industrial park complex.

The first portion reaches reasonable conclusions about the future of the air-freight business. Air cargo shipments have grown rapidly in the state and the report predicts that will continue. (See Table 5, p. 44.) It forecasts that the 12 percent average growth rate from 1983-1990 will continue for the next 20 years, increasing air cargo at North Carolina airports from 254,500 tons in 1990 to 2.2 million tons in 2010. But that may be overly optimistic because the baseline period—hence, the forecast—doesn't include any full recessions. A key point, however, is that the report shows that this expected growth can be accommodated at *existing* North Carolina airports, primarily those in Charlotte, Greensboro and Raleigh-Durham. That is, there's no need to build a new air-cargo facility to handle projected loads from existing North Carolina firms. Quoting from the report, "All of the airports in the State have adequate land to meet these needs . . ." ² Furthermore, a recent Federal Aviation Administration study concluded that all air-cargo airports aren't economically feasible at this time. ³

Therefore, to justify an all air-cargo airport, it must be combined with an industrial park—the so-called Global TransPark. The second part of the Global TransPark study deals with the proposed complex, concluding that it would be economically feasible. Unfortunately, the assumptions and methodology used to reach that conclusion are highly questionable. For example, the report's authors surveyed potential in-state users and found almost two-thirds expressing no desire to locate there. The report then concludes that out-of-state firms would be the primary targets for Global TransPark. But the consultants did not survey any

firms outside North Carolina to determine their interest in the complex.

The Fifteen Percent Solution

Without surveying out-of-state firms, how did the consultants develop their employment and revenue projections for the years 2000 and 2010? They guessed. Quoting from the report, "Since most North Carolina firms surveyed did not express a desire to relocate within the State to a hypothetical [Global TransPark] location, and since the scope of this study did not include re-searching a broad sample of firms outside of North Carolina, it was necessary to postulate 'a priori' the mix of industries and levels of future activity/output which could be attracted to the [Global TransPark] by the years 2000 and 2010." ⁴ In other words, the report speculates—without any hard evidence—about the growth the complex would attract.

What was this guess? The report assumes that firms that would locate in the Global TransPark would be similar to the air-cargo intensive firms currently located in the Silicon Valley of Santa Clara, Calif. I might buy this assumption. But hold on to your hats for the next, and most critical, assumption. The report assumes that by the year 2000, the complex would attract the number of plants (and associated employees) equal to 15 percent of the air-cargo intensive plants in Silicon Valley in 1990. Furthermore, the report assumes that comparable North Carolina firms would expand to Global TransPark, reaching 10 percent of the number of such plants statewide in 1990.

To estimate the economic impact for 2010, the consultants assume that the number of plants would increase by 5 percent per year from 2000 to 2010,

In short, the consultants took a "build it and they will come" approach to their economic forecasts. The impressive estimates of employment and revenue growth generated by the Global TransPark proposal come tumbling down if one makes lower assumptions about plant relocations.



Karen Tam

Studies show that North Carolina's existing airports can handle projected growth in air cargo and that the proposed Global TransPark could draw business away from those facilities, at least in the short run.

and that the number of employees per plant would increase by 1 percent annually. In short, the consultants took a "build it and they will come" approach to their economic forecasts. Presuming that Global TransPark will reach a capacity equivalent to 15 percent of Silicon Valley by the year 2000 is no small assumption. Silicon Valley is one of the largest producers of computers, computer parts, and electronic components and equipment in the world. In 1990, the valley had 150,000 people employed in more than 1,000 cargo-intensive plants, and those industries generated 268 million pounds of air freight.

The impressive estimates of employment and revenue growth generated by the Global TransPark proposal come tumbling down if one makes lower assumptions about plant relocations. In short, no one can really say if the complex would attract plants and employment equal to 15 percent of Silicon Valley by 2000. The actual percentage may be more, or it may be less. Because that assumption is a guess, there's much "softness" or risk in the economic projections.

Overly optimistic economic projections are nothing new when it comes to state announcements about industrial growth. In 1985, for instance, two independent studies found that the

N.C. Department of Commerce had vastly overstated the number of jobs created by new and expanding industries in North Carolina. One of those studies, by researchers at N.C. State University, found that during the 1971-80 period, less than half (47 percent) of the announced new jobs actually came to exist. The other study, by the N.C. Center for Public Policy Research, found similar results: Only 61 percent of the new jobs announced during the 1978-84 period actually came to exist.⁵

Project Could Hurt Existing Airports

There are many other questions raised by the Global TransPark proposal. One is whether existing airports could be expanded to handle any new traffic generated by a massive influx of new firms. Even with the 15 percent assumption, the report doesn't justify the need for a new cargo airport to handle the additional traffic. Moreover, some airport administrators question the assumption that Global TransPark would enhance rather than draw business away from existing airports.

"Their own numbers don't bear that out," says T. Jerome "Jerry" Orr, aviation director for Charlotte-Douglas International Airport. Indeed, the

feasibility study forecasts that by 2000 the Charlotte airport would handle approximately 370,000 tons of cargo if the Global TransPark were built and about 424,000 tons if it were not.⁶ Similar trends were forecasted for Raleigh-Durham and Piedmont Triad airports. Nevertheless, the study predicts that by the end of the decade the total amount of air cargo handled in the state would increase from 820,000 tons to 911,000 tons if the new complex were built.⁷

The report also doesn't address questions concerning "just-in-time" manufacturing, a process in which firms limit inventories and start production only after receiving orders. Speed is the essence of just-in-time production. But it assumes that raw materials will always be available and that laborers will agree to work only when there's an order. That means workers must be flexible, understanding, and available on demand.

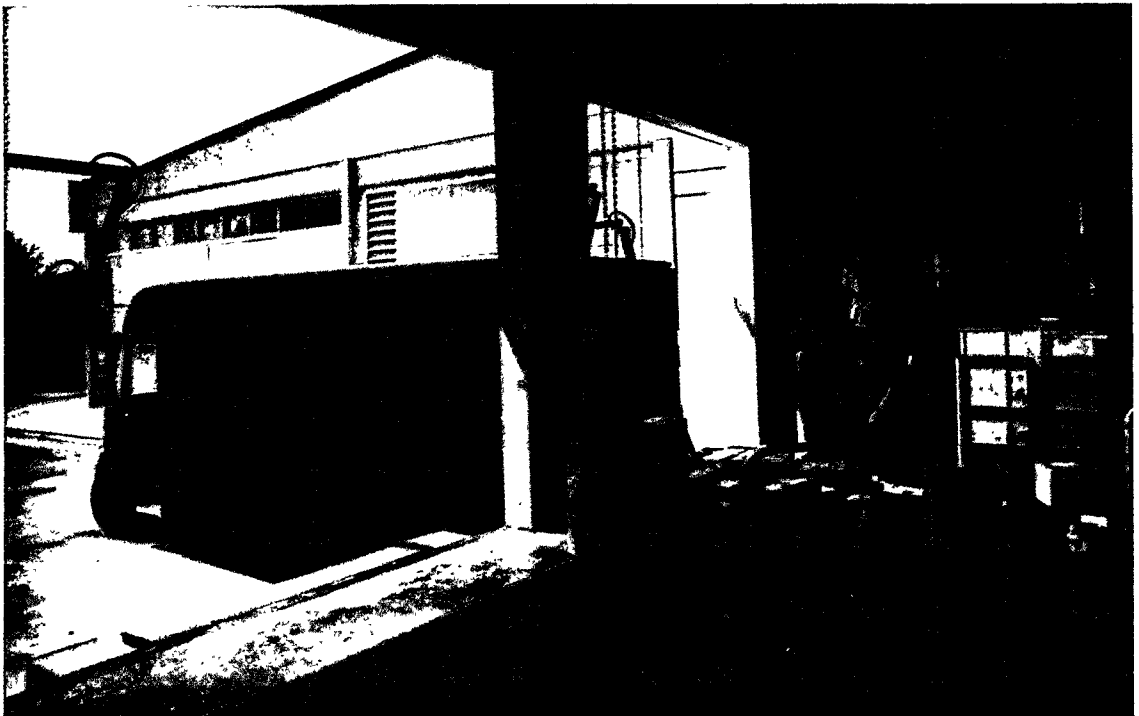
Even if one accepts the premise that global trade, just-in-time manufacturing, and air freight are growing in importance, there is reason to question the need for an all-cargo airport. Orr of the Charlotte airport says most airlines have plenty of

unused space for more cargo. Likewise, he maintains that most airports should have no trouble meeting future demands, even though air-freight business has increased tremendously over the past decade and is expected to continue growing. "We have plenty of excess capacity for freight," Orr says. "Seven [Boeing] 747s a day full of freight would be less than 1 percent of our traffic. The point is that seven 747s a day is a lot of freight, and that is an insignificant amount of our [total air] traffic."

Orr also questions the notion that companies would want to locate factories right at an airport. "We have 5,000 acres of land and miles of taxiway frontage," he says of the Charlotte airport. "Yet we haven't had any interest in that type of development. You can speculate on that all day long, but I would assume it's because nobody's interested in doing it. Just-in-time has certainly come. It's here. But the way cargo is carried doesn't require that the cargo-makers be located right next to the taxiway."

A better way to encourage more air-cargo business, Orr says, is to invest more money in

United Parcel Service truck delivers packages for transporting via American Airlines' air-cargo center at Raleigh-Durham airport.



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existing airports. "We're building a new road right now on the cargo side of our airport, funded with \$3 million of our money, because the state did not have the money available—and it's their road."

Who Should Pay?

Since the Global TransPark is no sure thing, and since it won't be cheap (projected costs start at \$156 million), we must consider carefully who would finance the project. (See Table 6, p. 54.) The feasibility study favors public financing because it claims state tax-exempt bonds are cheaper than private bonds. (Tax-exempt bonds pay a lower interest rate than private bonds; therefore, interest costs are less.) That assumption is false. State tax-exempt bonds are cheaper mainly because holders don't pay federal (and usually state) taxes on the interest earnings. But that also means that federal and state governments receive less revenues—a factor that should be considered an additional cost of the tax-exempt bonds.

There are private alternatives for financing the Global TransPark, and to the report's credit, it identifies them. Presumably the cargo airport would generate revenues from the services it provides to industrial park tenants. Operators, therefore, could secure private bonds for construction based on the airport's projected revenues. The interest rates on the bonds necessary to attract the funding would reflect the private market's (e.g., venture capitalists and investment bankers) view of the soundness or riskiness of the proposal.

Another private option is that airport operators could issue construction bonds backed by the airlines and industrial park tenants that plan to locate there. This is the "let them come and we will build it" approach, meaning that operators would line up users before committing to build

the complex. It makes sense for the airlines and industrial tenants to assume the financing risk, because they would be the major beneficiaries of the facility.

Industrial Policy Vs. Market Signals

The question of how to finance the Global TransPark gets to the heart of the issue: Should the state of North Carolina be involved in an industrial policy that identifies and finances business ventures? Or, should we rely on the private market and investors to decide which projects are feasible?

I support the private market. It should surprise no one that private firms and investors have not jumped forward to put their money on the line. In fact, the feasibility study admits that "much of the support for the Global TransPark has come from potential beneficiaries of the project, i.e., potential host communities, engineering firms, political groups, developers, etc., while less enthusiasm has been shown by potential private sector users and tenants."⁸ Private firms and investors apparently view the project as too risky and uncertain at this time. If the private market is implicitly sending us a signal to hold back, then why should the state ignore this signal and proceed? Why should the state be a better judge of the potential payoff to business ventures than the private marketplace? What does the state know that profit-seeking entrepreneurs don't know?

Those who support public funding argue that if North Carolina doesn't develop Global TransPark, some other East Coast state will build

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the facility and reap the benefits. That argument assumes, however, that the complex would generate large profits. But, again, I maintain that the private market is better able to judge this than state government. Certainly there are other uses for \$150 million or more in state funds that have a more certain rate of return than the proposed air-cargo complex. Alternatively, that money could be left in the pockets of North Carolina's citizens for their best use. It is often ignored that private-sector spending generates economic benefits. The state must justify any shifting of spending from the private to the public sector by showing that the benefits of public use would exceed those from private use.

Global TransPark supporters talk about the need for government and business cooperation for

North Carolina (and the U.S.) to compete in the world economy. In doing so, supporters compare the proposed complex to Research Triangle Park, which they claim never would have succeeded without state support. Talk of government and business cooperation may sound nice, but such words are loaded with danger. Do we really want the state attempting to pick economic winners and losers by committing public money to the chosen few industries and projects? Why would the state be better able to select economic winners than the private market? Do we want to entangle the political and the economic processes?

That explains why some of the project's most vocal criticism has come from administrators at existing commercial airports. "I am not opposed to the concept; I am opposed to the state doing it,"

Table 6. Global TransPark: Projected Costs For Options
(In millions, adjusted to 1991 dollars)

Components Of Global TransPark	Options		
	Expansion Of Existing Airport	Joint Use— Combined With Military Base	Greenfield— Built At New Site
Airport	\$56	\$133	\$375
Cargo Center	\$56	\$56	\$56
Industrial Park	\$22	\$27	\$55
Roadways	\$22	\$65	\$66
TOTAL¹	\$156	\$281	\$552
Financing Expenses	\$378	\$539	\$1,112

SOURCE: Transportation Management Group, *North Carolina Air Cargo System Plan and a Global Air Cargo Industrial Complex Study*, Executive Summary, February 1992, pp. 2, 21.

¹Totals would be lower if state obtained a grant from the Federal Aviation Administration, which pays up to 90 percent of the construction costs for approved airport facilities.



Much of the air-cargo business—including loading, flying, and unloading—takes place in evening and early morning hours when passenger business is slowest.

says Orr of Charlotte-Douglas airport. “That’s because I don’t think the state should be involved in building airports to compete with its cities. It seems to me that the state getting involved is putting the state in the position of having to choose between her children, as to which one she will favor. And I don’t think the state ought to do that.”

Of course, many observers point to Japan and its well-known Ministry of International Trade and Industry (MITI) as the shining example of successful industrial policy. But a closer look at MITI reveals a less than shining record and—more than anything—a good propaganda job. Admirers forget that MITI bureaucrats tried to prevent the development of the transistor in Japan in the 1950s and opposed the country’s auto companies moving into the export market.⁹ The major benefit that the Japanese government provided to its businesses in the 1960s and 70s was a favorable economic environment—that is, stable inflation and interest rates, low taxation, brief and mild recessions, and a relatively small central government.¹⁰ Similar policies pursued by both our state and federal governments would do more to promote economic development than any collective “industrial policy.”

What About The Environment?

Questions also remain about the massive complex’s potential strain on the environment and nearby housing, schools, and roads. The airport would cover at least 15,000 acres,¹¹ about 20 square miles, and would generate nearly 100 flights daily when fully operational.¹²

Such concerns already have spurred opposition to the proposed Global TransPark. Within days after the N.C. Air Cargo Airport Authority selected Kinston Regional Jetport as the preferred location for the complex, local landowners were vowing to fight the project.¹³ (See Figure 2, p. 38.) A key point of contention is likely to be the potential noise from planes flying in and out of the airport. Cargo flights generally are busiest when people are most sensitive to noise, during the late evening and early morning hours. Such concerns led Chatham and Randolph county residents to quickly form a group called Land Owner United Defense, or LOUD, in the autumn of 1991 after the Siler City town council considered bidding for the air-cargo complex. “Basically our group was not willing to give up the peace and tranquility of the

“What happens if we get this thing started and another energy crisis comes along? If energy is as significant a factor as I think it is, you would see us as very vulnerable. If energy prices went way up, you could see this thing close down virtually overnight.”

—ROBERT J. WASSON, SIERRA CLUB

countryside for the economic benefits,” said Benjamin S. Albright, a Randolph County attorney who helped organize the opposition group. “It would be a loss of our way of life, our lifestyle.”

Potential noise was one reason why Raleigh-Durham airport made no attempt to land the complex—even though the airport has a \$30-million project underway that will quadruple its freight capacity by 1993. “We do want our cargo business to grow here, but not as the global air-cargo complex for the whole eastern United States,” says G. Smedes York, chairman of the RDU International Airport Authority and former mayor of Raleigh. “I don’t think there’s anyone clamoring for this to be located right next to Research Triangle Park. The night-time flights, quite frankly, would be a very big problem for an airport located like RDU. We’ve got noise issues that we’re very sensitive to.”

Some environmentalists also question whether the state can build the complex without destroying valuable wetlands and wildlife habitats. And they ask whether it’s wise to promote greater dependence on aviation, which is arguably the least energy-efficient mode of transportation. “Energy is the big question,” says Robert J. Wasson, transportation issues chairman for the state chapter of the Sierra Club. “The airport would be primarily for all-cargo aircraft, and it takes a heck of a lot of energy to fly cargo around. Before you start a new

program, you’re supposed to look at the energy consequences of doing it. This looks to me like we’re heading off in the wrong direction.”

Wasson points to federal studies showing that it takes seven times more fuel to send freight by air than by truck.¹⁴ If, instead, goods are transported in the bellies of scheduled passenger planes, the energy efficiency of air cargo is roughly equivalent to trucking—assuming that the air freight uses only the extra fuel needed to carry the additional weight. But future increases in petroleum prices would likely raise costs for the more energy-intensive carriers, in particular, the all-cargo planes. That leads Wasson to question the economic and environmental wisdom of using public money to lure air-cargo dependent industries to a complex more than 80 miles from the nearest major passenger airport. “What happens if we get this thing started and another energy crisis comes along?” Wasson says. “If energy is as significant a factor as I think it is, you would see us as very vulnerable. If energy prices went way up, you could see this thing close down virtually overnight.”

Other critics worry that a project as large as the proposed cargo complex would put tremendous strain on nearby infrastructure—the roads, bridges, schools, hospitals, and other services largely paid for by local taxpayers. “When you take a county of 25,000 people and you talk about creating 55,000 new jobs, you’re talking about major changes,” says Albright, the lawyer from Randolph County.

Conclusion

Global TransPark may be a great idea—some day. But promoters can economically justify it right now only by guessing how many firms would locate there. The fact that private firms and entrepreneurs have shown little interest in the facility is a “market signal” that the concept is too risky and speculative. Given that uncertainty, the state should not commit millions of dollars in public funds to this project.

That is not to say that the air cargo/industrial park concept should be discarded. The state should encourage private entrepreneurs, venture capitalists, and investment bankers to pursue the concept if they deem it economically feasible. But the decision-making and funding should be left where it belongs—in private hands.

Private investors and entrepreneurs are best suited to judge where North Carolina’s markets are and what role an air cargo facility would have

in reaching those markets. Global Transpark proponents claim the facility would enable North Carolina businesses to compete with West Coast firms in Pacific Rim markets. But the marketplace indicates that North Carolina is better positioned geographically to compete in European and North and South American markets, which are the destinations of most of the state's exports.¹⁵ As the trade journal *Traffic World* reported, "At first glance, North Carolina seems an unlikely venue for a cargo airport, especially since most cargo airlines have their hubs in the U.S. Midwest and most of the international growth is likely to come across the trans-Pacific."¹⁶

Leaders should use the debate over the Global TransPark to review the state's proper role in economic development. In my mind, the proposed complex is an example of the popular buzzwords, "industrial policy." I reject the notion of an industrial policy, which suggests that the state should direct resources to private ventures that will be economically successful. The state shouldn't try to take the place of the private market. Private investors are best suited for acquiring and processing information about business ventures and deciding which ones to pursue. The state is best suited for providing a supportive climate in which the private market can function—including sen-

sible regulations, a reasonable tax system, and efficient public expenditures. □□□

FOOTNOTES

¹ All dollars expressed in 1990 values. For more details, see: Transportation Management Group Inc., *North Carolina Air Cargo System Plan and a Global Air Cargo Industrial Complex Study*, Raleigh, N.C., February 1992, Chapter 7, p. 89.

² *Ibid.*, Chapter 6, p. 4.

³ U.S. Department of Transportation, Federal Aviation Administration, *A Feasibility Study of Regional Air-Cargo Airports*, Washington, D.C., 1992.

⁴ Transportation Management Group, Chapter 7, p. 43.

⁵ For more information on inflated job forecasts, see Bill Finger, "Phantom Jobs: New Studies Find Department of Commerce Data To Be Misleading," *North Carolina Insight*, Vol. 8, No. 3-4 (April 1986), pp. 50-52.

⁶ Transportation Management Group, Executive Summary, pp. 9 and 20.

⁷ *Ibid.*, Executive Summary, p. 20.

⁸ *Ibid.*, Chapter 7, p. 77.

⁹ See Don Lavoie, "Two Varieties of Industrial Policy: A Critique," *The Cato Journal*, Vol. 4, No. 2 (Fall 1984), pp. 437-484. The journal is published by the Cato Institute, a libertarian think-tank based in Washington, D.C.

¹⁰ See Katsuro Sakoh, "Japanese Economic Success: Industrial Policy or Free Market?," *The Cato Journal*, Vol 4, No. 2 (Fall 1984), pp. 521-543.

¹¹ John D. Kasarda, "A Global Air Cargo-Industrial Complex for the State of North Carolina," Kenan Institute of Private Enterprise, UNC Business School, Chapel Hill, N.C., February 1991, p. 15.

¹² Transportation Management Group, Chapter 1, p. 3.

¹³ Jerry Allegood, "Huge Kingston airport plan doesn't sit well with some neighbors," *The News & Observer*, Raleigh, N.C., May 25, 1992, p. 6A.

¹⁴ U.S. Department of Energy, *Energy Efficiency: How Far Can We Go?*, Oak Ridge National Laboratory, Oak Ridge, Tenn., Publ. No. ORNL/TM-11441, January 1990, pp. 58, 61.

¹⁵ John Dutton and Edward Erickson, *Highlights of North Carolina Exports: 1987-1990*, Division of Economics and Business, N.C. State University, June 1991, p. 7.

¹⁶ "North Carolina considering plan to build first all-cargo airport," *Traffic World*, Dec. 31, 1990, p. 26.



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