

Investing in Goods Movement Infrastructure Will Help Create 1 Million Good Jobs

Economist John Husing says that a \$36 billion in the region's goods movement infrastructure will more than pay for itself.

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A growing chorus of stakeholders is calling for increased investment in goods movement infrastructure, particularly at the ports of Los Angeles and Long Beach, because of increasing demand and related congestion and air pollution. But investing in the region's goods movement infrastructure is not just needed to mitigate traffic and pollution. As economist John Husing explains in the following excerpts from a Nov. 14 talk at the Mobility 21 Summit, investing in trade infrastructure is also about generating over one million good, high-paying jobs in the region.

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Excerpt:

Much of the discussion about goods movement and the ports has been about infrastructure. And infrastructure is crucial. However, for those of us in Southern California there's another perspective, and that has to do with employment and what will or won't happen if we do or do not build the infrastructure to handle trade through this region. The bottom line is that there is a one-million job economic development strategy for Southern California if in fact we can figure out how to handle the infrastructure needs to go along with goods movement in Southern California.



John Husing

Compared to the other major multi-county regions of the United States, Southern California, as recently as the late-1980s, ranked fourth in per capita income. In 2003 we finally passed, in the negative sense, the Miami area to become the 17th and last out of 17 regions. So our per capita income has not been keeping up with the rest of the United States. Two things have happened. We've lost a lot of jobs in Southern California, and the average pay of the jobs we lost was over \$45,000. We've added more jobs, but the jobs we've added have averaged only \$33,000. There's a \$12,000 exchange, and we have a problem we need to solve. And what really underscores this jobs situation is that 44.6 percent of adults 25 years and older in Southern California have not had a single college class. Here in L.A. County, it's 47 percent. So we have a real challenge, because that's the group of people who are essentially being locked out in the move to an education-based economy. We need to find a strategy that puts them on the route to the middle class.

What we've really lost is manufacturing, and it isn't coming back. We took it from Europe, and Asia is taking it from us; the 150-year cycle is basically done. Now, what do we need to replace manufacturing for that large group of not particularly well-educated workers? One, you need a sector with a base in Southern California, because California's competitiveness is such that if an industry can leave, it will. Second, it needs to be blue collar because of the education level of the people we're talking about. Third, it needs to have good entry-level pay. Fourth, it needs to have defined skill ladders so that once people get into it, there's a way for them to move up and can do that mostly by on-the-job learning. Finally, you would like it to be sectors that are tech-dependent, because technology is the future of the economy.

Manufacturing was once it and I suggest that in the future, logistics is going to provide every one of those ingredients for the labor force. And that is an industry that Southern California can uniquely take advantage of because of where we are. In 2003, we had 548,000 jobs in the combination of sectors that you might call logistics. And, by the way, logistics is not a sector; it's a gang. It's a whole group of industries that have been stove-piped throughout most of their history that all of a sudden have found out they have to learn to live together. It is everything from wholesale trade, truck transportation, courier services, general warehousing, air, rail, and water transportation. Add it all up and you have well over a half-million jobs in the economy today.

Very importantly – and I have to beat most public officials over the head to understand this fact! – logistics offers the best-paying jobs of all the blue collar sectors. Not only that, it does have defined skill ladders and good entry-level pay. It is an industry that is begging people to work for it, and every part of this industry is technology based. It gains efficiency through technology and therefore pays very well.

We have incredible competitive advantages for this sector in Southern California. First of all, we're on the West Coast, and where's most of the production taking place? Asia. That gives us a competitive advantage to start. Second, there's the 8,200 TEU container ship. Just to unload that one ship takes 19 trains double-stacked 1.5 miles long. 10,000 TEU ships are being built. Ships that big can go to only four harbors. L.A. and Long Beach are two of them; Seattle-Tacoma, and Vancouver are the others. That is from Tierra del Fuego to Nome, Alaska. Of those ports, we have the overwhelming advantage in land-side infrastructure. Granted, we're pushing that infrastructure to its limits, but we have enormous advantages.

As for the volume our ports are seeing, in 2000 it was 9.5 million TEUs, in 2004 it was 13.1 million; the forecast for 2010 is 19.7 million. If the industry can grow along with those numbers – which, by the way, it can't without fixing the infrastructure – if it could, there is a 1,381,000 job increase in Southern California that goes with that. Let's say our estimates are off by 30 percent. We're still talking about a potential million jobs, as long as we can solve two problems: first, infrastructure; second, air quality. And if we don't solve both of those, this isn't going to happen.

Those are our issues. We have air quality and in California law the environmental

community will stop everything if in fact we don't take care of that issue. We have rail track capacity issues and grade separation. Intermodal yard capability is just about full. We're talking about using short-haul rail out from the harbor to the inland region where a lot of the facilities are being built. And then it would be really nice if we put the trucks on a separate right of way from the cars so that we're not intermingling and killing each other. Our problem with all of this clearly is money, and I do not believe there's going to be enough money under any scenario that will be able to pay for this simply using public funds. It's ultimately going to have to be a public-private situation.

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Now, what's it going to take? We estimate that the system that we've been working on is going to take about \$36 billion, including \$10 billion in environmental mitigation. Now, how do you do it? You borrow, and then you build. And you institute a user-fee system afterwards to repay the debt with container fees in the range of \$160 or \$170 per container and a toll tax of \$0.86 per mile. Importantly, our work shows that if the combined fees are \$200 or less, the first thing that will happen is that we'll chase away freight that comes into the harbor, gets on a train, and leaves, which does not create work in Southern California except for a few jobs at the ports. However, it creates a 12.5 percent increase in the kind of trade that stays here and creates all the jobs we're talking about, and that's how we get the increase in jobs.

The first thing we need is a truckway. The truckway would go from L.A. up to one of the east-west routes. It would go from there east to Ontario and north up to Victorville. It would be a \$16 billion double-decker. That sounds insane, until you look at the Harbor Freeway towards downtown, which is double-decked. Now, does this make any sense for industry to be involved in this? If there's not a return on investment, it isn't going to happen.

If we do this, in 2030, you would save an hour and two minutes in travel time. If you estimate that trucking costs \$73 per hour, that's a \$76 savings for companies on every load they carry. That pays the tolls, so there's a vested interest in doing this. Actually, the picture's probably even better than that. Because if you're trying to get something to a place on time, and in a 2030 scenario with everything we're planning on building, you'd also save about another two hours in planning time by avoiding unexpected delays on a freeway system that will be absolutely strangled. That gives you a 3:11 total, or \$233, in savings on a \$32 cost, and \$201 going into the bottom line of the companies using this system. In either case, it's tremendously to the industry's advantage to have this system built, to pay the user fees, to help repay the debt for having done so.

If you build and upgrade the infrastructure for rail, you cut projected delays in 2010 from 206 minutes on the BNSF line and 197 on Union Pacific to 30 and 14 minutes. It's a tremendous time savings.

One last piece of the puzzle needs to get put in place. U.S. trade policy is creating the volume of goods that are hitting us on the western side of the United States. Yet there is a

complete disconnect between tariffs and fees charged at the port and anything to do with the land-side movement of goods.

That is utterly nuts.

There has to be a tie to infrastructure development, and the federal government has an enormous responsibility to help accommodate that trade. This is not simply our problem in Southern California. And quite frankly the best thing that happened to us was the 93 ships tied up in San Pedro Harbor with Wal-Mart wondering how they're going to get toys to Iowa. It began to wake people up to the fact that the system is having difficulties.

What's left to do? First, we need to create an institution that could in fact manage the construction of this project across several counties, along the lines of what they did with the Alameda Corridor Transportation Authority, which confined to L.A. county. Second, we need to find out and flesh out the entire environmental mitigation program and get a sign-off from the folks in that part of the political world and show them that in fact this project will be beneficial. Third, research needs to get out in the industry and be passed around for peer review. Fourth, we need several states to create financial pools and make it possible to lower the costs of doing all of this. Fifth, obviously we need federal funding, and that's why the lobbying effort is absolutely crucial.

Finally, we need private sector leadership to develop the agenda. By that I mean folks that are moves and shakers in Southern California need to sit down with folks they're donating money to and say, "Damn it! There is no alternative. This will get done or we'll support somebody else." Elected officials need to understand this agenda and they need to promote it, because it is a crucial centerpiece of the economy of Southern California.