

July 2015

Infrastructure

By Max J. Rudolph, FSA CFA CERA

During the Great Depression of the 1930s, and the booming 1950/early 1960s, a lot of infrastructure in the United States was built. This included the interstate highway system, bridges, and everything in between. Although the architects at the time provided lifespans for replacement, the structures lasted beyond that and the politicians saw no value in fully funding a sustainable ecosystem. We had an opportunity, in 2008, to throw money at the problem but chose instead to focus bailouts on banks. While speeches touted “shovel ready” projects, the impact was minimal and consisted of rebuilding some highways. They are very nice, but overall the system of roads, sewers and other infrastructure is degrading quickly.

I saw this first hand in Detroit. I grew up in the suburb of Dearborn, and visits over the last several years to deal with an elderly parent gave me a lot of time to think about this topic. As the undisputed car capital of the world for many years, protecting the status quo and doing what was best for the car industry was the goal of companies and politicians alike. Michigan even elected a Governor, George Romney, who had been president of AMC (I still remember loading into the back of the swim coach’s Pacer for summer meets). The 1988 movie Tucker, about Preston Tucker and his inability to sell an innovative car following WWII, is historically close enough to reality that it makes one wonder what could have been. The era of low priced gasoline and the 1964 New York World’s Fair led to major urban planning projects in Detroit designed around the spoke of a wheel, with people living in the suburbs and commuting every day downtown in their car. They took out so much dirt to build I-94 west of Detroit toward the airport that it created an island in the Detroit River. People with money left the city proper, and jobs moved to the suburbs too. What was left rioted in the 1960s and was rife with corruption in the decades that followed. Now the city is bankrupt, and the suburbs are not far behind. It’s a mess.

I saw the impact of this on the finances of my hometown as I readied our family home for sale. There was an inspection process, which makes sense and cost money, but for the updates required they nickel and dimed me to death. Most important was the time, since I am not local and did not travel to Detroit often, but \$100 here and \$100 there for inspections from each specialist, providing minimal value, was frustrating. At one point I was driving in Warren, getting passed like I was standing still (but still going at or slightly over the speed limit), and was pulled over for “impeding traffic”. A google search showed this to be a speed trap where out of state license plates were targeted, then rather than giving you a speeding ticket that requires reporting to the home state for

points on your ticket they give you a ticket that is just between you and them. It cost nearly \$300! Needless to say I am not a fan of the Detroit area economically. The only growth industry is health care related, and I wonder what they will do when the boomers have died.

The Great Lakes, and all that fresh water, should make the state a great location in the future. For now the city should consider allowing wilderness to reclaim parts of Detroit. There should be a forester managing the process, and much as some companies are going through zero-based budgeting, local infrastructure should also be required to justify the cost of maintenance. Some of the roads could be converted to gravel or closed. This will be challenging as rush hour is gridlock now. It really is a mess showing an urban planner's design that did not make sense across the scenario that transpired. It makes me wonder how much scenario planning was done, and whether volatile oil prices were contemplated.

Of late there have been efforts to rebuild the downtown area. Hopefully these will be successful. In addition to financial stresses there have been racial stresses for many years. This has the potential to become an event like Ferguson, with religious stresses added to the mix.

Difficult decisions will be thrust upon those who do not choose to consciously pick a course of action. Infrastructure is much like any other risk management project. Keeping it simple is the key. Perhaps a gasoline tax or similar user fee could keep a focus on rebuilding infrastructure. Another option is allowing private donations that build public infrastructure to be deductible on tax forms. There seem to be lots of billionaires out there looking to solve the world's problems. Why not let them solve some a bit closer to home?

Warning: The information provided in this newsletter is the opinion of Max Rudolph and is provided for general information only. It should not be considered investment advice. Information from a variety of sources should be reviewed and considered before decisions are made by the individual investor. My opinions may have already changed, so you don't want to rely on them. Good luck!