



# Cape Fear Firebird

*The Light of Save the Cape*

September 1, 2011

*It's a poor sort of memory that only works backwards.*

Lewis Carroll

## ***The Sunk Cost Conundrum***

When considering a decision to use or dispose of an asset, the cost of that asset is irrelevant. Only the future, avoidable costs and return should be considered. The cost is sunk-gone.

This involves a collision between rational decision-making and emotion. Reason tells us to look only forward in investment decisions. But people (and institutions) are often loss-averse, and unable to ignore the price paid in considering future actions. This is particularly pronounced when the decision is being made by the person who made the original purchase decision. Thus the rust-belt retiree cannot bear to sell the house for which he paid \$200,000 at the current market price of \$150,000, and deprives himself of the funds needed to move someplace warm. The investor who bought Bank of America at 80 cannot bring himself to sell at 8, although the proceeds could then be redeployed in more promising investments. Reason is overridden by optimism-someday that house will again be worth \$200,000; BofA will rise again.

And so the North Carolina State Ports Authority and the State of North Carolina persist in justifying the investment of \$30 million in a 600-acre site near Southport for a deepwater port where the water is not deep, the river is not wide, the markets are distant, and the demand non-existent. Good money has followed bad, in the form of another \$16 million in studies and debt service. All in the futile effort to retrieve that sunk cost (which, alas, remains unpaid) and justify the original decision. All because the disposition decision is in the hands of those who made the original purchase decision. Because bureaucrats and politicians are adverse to the appearance of a loss on their watch-much easier to defer recognition of the mistake. Because the value of the site has shrunk to \$12.7 million. Do another study. See what next year brings.

Thus the State keeps the megaport alive with yet another study-the \$1.7 million Maritime Strategy Study-to find a place for the project in the State's future. And while that is going on, opportunities to use that site in ways beneficial to the State, the County and its people are foregone.

While keeping the site in its natural state is by no means a bad thing, those parts of the site that are not submerged at high tide could be put to work in the projects Brunswick County so badly needs. The State has competed for real economic development activity-clean industry that could have brought real jobs. Real revenues. But the land is stubbornly held in inventory for the dream of the megaport and not available as a bargaining chip. Those projects found homes elsewhere.

Creative people have advanced interesting ideas-a water-accessible park for light industry and research, an alternative energy demonstration site, an oceanographic institute. Much could be done with a fraction of the money being spent to preserve a foolish dream. With reason, not emotion.