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Site C didn't need to be approved just because money was already spent: critics



By Jon Azpiri

Online News Producer Global News

WATCH: Questions are being raised about the stability of the NDP-Green alliance following Monday's Site C Dam decision. Global's Legislative Bureau Chief Keith Baldrey offers his insight.

The B.C. government has decided to move ahead with the Site C project, and critics say the BC NDP may have fallen victim to a common psychological phenomenon that sees people stick with an investment, even if it's not panning out.

On Monday, Premier John Horgan said the government had no choice but to complete the Site C hydroelectric dam rather than absorb a \$4-billion hit by cancelling the project.


Globalnews.ca coverage of the Site C decision:


In a Monday press conference, Horgan blamed the previous Liberal government for the decision, saying the project had reached "the point of no return."

"They gave us, sadly, just one clear choice," he said.

SFU political scientist David Moscrop noted that Horgan's logic sounds like what behavioural economists refer to as the "sunk-cost fallacy."



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The Simi Sara Show

Backlash to Site C Dam Approval



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It's a phenomenon in which people stick with something because they've already invested so much time, money or energy into it, even if it's not the best decision.

"We teach first-year undergrads in reason and critical-thinking classes that that is a logical fallacy," Moscrop said.

“Just because you’ve lost money on something or spent some money on something doesn’t mean you should keep doing it.”

The concept of the sunk-cost fallacy was popularized by Daniel Kahneman, a Nobel Prize-winning economist.

He explained the phenomenon by describing a person who buys tickets to a basketball game and drives through a snowstorm to arrive at the stadium. The person risks treacherous road conditions just so the tickets don't go to waste.

In a similar vein, the provincial government is willing to drive through a blizzard of cost overruns, environmental concerns and changes to the energy market in order to justify the \$2.1 billion in sunk construction costs that are already on the books, according to energy analyst Robert McCullough.

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“The basic rule is if the money’s spent and you can’t get it back, it doesn’t really do you a lot of good to complain about it,” he said.

“In the case of the \$2.1 billion spent... that money is gone. It’s been financed by the province, the bonds have been issued. There really is nothing we can do about it.”

In its final report in November, the B.C. Utilities Commission (BCUC) found that scrapping the project would cost the province nearly \$4 billion — \$2.1 billion in sunk costs and \$1.8 billion to wind down the project.

It also concluded that the dam is unlikely to be on time or on budget.

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Werner Antweiler with UBC’s Sauder School of Business said the sunk-cost fallacy is often tied to “loss aversion,” a phenomenon in which investors act irrationally because they hate losses more than they enjoy gains.

“People do not act based on the best information, but essentially act based on an sentimental attachment to decisions they have made in the past,” he said.

“When people make investments and start losing money they hang on to the investments longer than they should in the hope that they will recover value or generate more value in the future.”

Individuals are prone to such flawed thinking, but the sunk-cost fallacy is “not as closely related to big decisions like the Site C dam as some may think.”

"It's very different for large investments because large investments are scrutinized by experts, essentially they scrutinize all the information and they get expert advice... on such a big project," he said.

"This is exactly what the B.C. Utilities Commission has done in this case. They have done their due diligence."

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People often become caught up in the sunk-cost fallacy when they try to justify past decisions, Antweiler said.

But this doesn't apply to the NDP because the project was started by the BC Liberals, he added.

"It's a new government," he said.

"You could accuse a previous government of psychological bias but you could not accuse a new government because they have just taken over this portfolio."

McCullough, who thinks Site C has the potential to be a multi-billion-dollar boondoggle, goes back to Kahneman's example of the ticketholder driving through the snow.

"You think you have to drive through that blizzard and the fact is you don't," he said.

"This is a very bad way to drive around town and an awful way to go ahead with projects."

- *With files from Dani-Elle Dubé and The Canadian Press*

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