



Here's Why Government Projects Always Cost More

Ethan Barton

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Costs almost always spiral higher on big government projects because of “deception and mismanagement” by Congress, federal managers and contractors, according to scholars at the Cato Institute.

“Cost overruns on large government projects are pervasive,” wrote Chris Edwards and Nicole Kaeding in a report made public Wednesday. “The problem appears to stem from a mixture of deception and mismanagement, and it has not diminished over time. This issue is important because the true cost of projects determine whether or not they make economic sense.”

Edwards is a tax expert while Kaeding is a budget analyst at the libertarian-oriented think tank.

Politicians, officials and contractors “present artificially low costs up front to gain initial funding, and then higher costs are revealed later on one slice at a time when projects are too far along to be canceled,” the report said.

The Obamacare exchange website’s development cost, for example, increased by nearly 78 percent – from \$464 million to \$824 million. Similarly, the Federal Aviation Administration’s NextGen air traffic control system overhaul has faced major cost overruns due to problems that nearly caused “catastrophic” results, The Daily Caller News Foundation previously reported.

Project overruns aren’t new to governments in America. The Erie Canal’s construction by New York between 1817 and 1825 went 46 percent over budget, and its later expansion soared 142 percent over budget.

The problem also isn’t unique to the U.S. Construction costs for the 2012 London Olympics and the 1992 Barcelona Olympics doubled and quadrupled, respectively.

Edwards and Kaeding also point to the lack of consequences for mismanaged projects as a major factor in constantly increasing costs when governments build and buy things.

“With the federal government, there are structural incentives that encourage both low-balled estimates and a lack of control on projects once they are underway,” they said.

Edwards and Kaeding cited a 2014 Government Accountability Office report on Department of Defense contracting that said found “there can be few consequences if funds are not used efficiently.”

Also, “disciplining managers is difficult because of strong civil service and union protections,” and “federal pay is generally tied to longevity, not performance,” the study said. “As a result, federal managers do not have strong incentives to ensure that projects are executed on time and on budget.”

Meanwhile, Congress is incentivized “to support expensive federal projects that benefit voters in their districts and states, even when projects make no sense for the overall nation,” the study said.

Technical reasons, such as price changes for materials or labor, may cause a cost increase, but those possibilities should be considered in estimates, the study said.

“If planners did make realistic projections based on experience ... the errors in cost estimating would go both ways – some projects would be under budget and some would be over budget,” the study said. “However, that is not what happens with large government projects.”

Agencies should solicit critiques from independent engineers and economists and should review completed projects to learn from mistakes, Edwards and Kaeding suggested.

The report also highlights the worst offenders of cost overruns, including the departments of defense, energy and transportation.