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Why government projects so often come in overbudget

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It is no secret that government is inherently inefficient at providing various goods and services. From time to time, we hear about the \$640 toilet seats, \$7,600 coffee makers, government employees playing golf or watching porn on the taxpayer's dime and so forth. A new study from the libertarian Cato Institute offers a good analysis of the history and causes of federal government project cost overruns.

The study cites, for example, the Healthcare.gov website, whose \$824 million price tag ended up being nearly 80 percent higher than its initial \$464 million estimate; the International Space Station, which more than quadrupled in cost from \$17 billion to \$74 billion; and the \$1.7 billion VA hospital in Denver, which cost more than five times its \$328 million estimate. Defense, transportation and energy projects are particularly prone to cost overruns, it notes.

There are a number of reasons for such waste. Congressmen try to bring home the bacon and create jobs in their districts, even when projects make no economic sense and do not serve the national interest. Civil service and union rules lead to bloated bureaucracies, managers who are rewarded for longevity instead of performance and employees who know that it is very hard to get fired, even for poor performance.

In addition, it has become common practice to low-ball cost estimates in order to get projects approved. "In the world of civic projects, the first budget is really just a down payment," former Assemblyman and San Francisco Mayor Willie Brown argued in a 2013 San Francisco Chronicle column. "The idea is to get going. Start digging a hole and make it so big, there's no alternative to coming up with the money to fill it in." That certainly seems to be the strategy with California's high-speed rail project.

While unforeseen circumstances can explain some cost overruns, most of it is due to the waste that results from the ability to freely spend other people's money without consequence and a lack of free-market competitive pressures to minimize costs. This is all the more reason to utilize a transparent, competitive bidding process, and to privatize projects whenever possible.