

Report: Gov't Purposely Lowballs Costs of Projects to Get Them Underway

Ali Meyer
September 17, 2015

The federal government often lowballs the cost of implementing major projects to get them underway, knowing that actual costs will vastly exceed the estimates, according to a report from the Cato Institute.

“The federal government proceeds with large projects on the basis of estimated costs, but once projects get underway officials often revise the costs upward,” states the report. “Cost overruns have plagued the federal government since the beginning.”

One example is the creation of the Healthcare.gov website. The government first estimated the cost to total \$464 million, but it grew to \$824 million by the time it was finished.

Other examples of cost overruns include the International Space Station, which more than quadrupled in cost from \$17 billion to \$74 billion, and the Capitol Visitor Center in Washington, D.C., which was estimated at \$265 million but grew to \$621 million.

A leading expert on cost overruns, Bent Flyvbjerg, found that government cost overruns happen more often than not. After evaluating 258 transportation projects across 20 countries, he found that 90 percent of them went over budget.

Flyvbjerg also found that government policymakers and planners are not learning from their past mistakes and cost overruns are not declining over time. Because of this, he concludes that, “project promoters purposely low-ball initial cost estimates to increase the likelihood of project approval.”

An infrastructure expert at RAND Corporation echoed that saying, “I am absolutely convinced that the cost overruns and patronage estimates were not the result of technical errors, honest mistakes, or inadequate methods.”

“In case after case, planners, engineers, and economists have told me that they had to ‘revise’ their forecasts many times because they failed to satisfy their superiors,” he said. “The forecasts had to be ‘cooked’ in order to produce numbers that were dramatic enough to gain federal support for projects whether or not they could be fully justified on technical grounds.”

Not only do taxpayers have to foot the bill for these costly projects, but many times the costs outweigh the benefits. “Flyvbjerg argues that cost overruns result in the ‘survival of the

unfittest,' meaning that projects with the most exaggerated benefits and low-balled costs get approved, rather than the most worthy ones.”