Federal Government Cost Overruns

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The size of the Federal government and its agencies has become so large that it has become more and more difficult to manage them and ensure they do not engage in wasteful spending practices. One of the most troublesome aspects is cost overrun, especially of infrastructure projects.

The federal government proceeds with large projects on the basis of estimated costs, but once projects get underway, officials often revise the costs upward. For example, cost overruns have plagued hospital construction by the Department of Veterans Affairs.

A leading expert on cost overruns concluded that cost overruns of 50% to 100%, in real terms, are common in megaprojects. This issue is important because the true costs of projects determine whether or not they make economic sense.

The main causes for costs overruns are:

- The costs of materials, labor, or other inputs may change in unexpected ways, or the projects may face delays for reasons not envisioned.
- Project promoters purposely "low-ball" initial cost estimates to increase the likelihood of project approval.
- Federal managers do not have strong incentives to ensure that projects are executed on time and on budget because union and civil service protections make it difficult to discipline them.
- Members of Congress are inclined to support expensive federal projects that benefit voters in their districts, even when projects make no sense economically.

It could be said that project promoters routinely ignore, or leave out important project costs and risks in order to make total costs appear low. Their purpose is to gain initial funding, and then higher costs are revealed later on when projects are too far along to be canceled.

Source: Chris Edwards and Nicole Kaeding, "Federal Government Cost Overruns," Cato Institute, September 2015.