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## Congress' Phony Price Tags

**Legislators have a lousy track record of keeping costs anywhere near their initial projections.**

Veronique de Rugy from the March 2010 issue

Congress says that the health care package it passed at the end of 2009 will cost roughly \$900 billion over 10 years—and will somehow end up saving taxpayers money in the long run. If you think that sounds unlikely, you're right.

With the federal government, massive cost overruns are the rule, not the exception. The \$700 billion cost of the war in Iraq dwarfs the \$50 billion to \$60 billion that Mitch Daniels, then director of the Office of Management and Budget, predicted at the outset. In 1967 long-run forecasts estimated that Medicare would cost about \$12 billion by 1990. In reality, it cost more than \$98 billion that year. Today it costs \$500 billion.

Nor is the problem limited to Washington. In 2002 the *Journal of the American Planning Association* published one of the most comprehensive studies of cost overruns, looking over the last 70 years at 258 government projects around the world with a combined value of \$90 billion. The Danish economists Bent Flyvbjerg, Mette Skamris Holm, and Soren Buhl found that nine out of 10 public works projects had exceeded their initially estimated costs. The Sydney Opera House and the Concorde supersonic airplane were the most spectacular examples, with cost overruns of 1,400 percent and 1,100 percent, respectively. Budget busting occurred throughout the seven decades studied, with the totals spent routinely ranging from 50 to 100 percent more than the original estimate.

How did the United States do? According to the Danish researchers, American cost overruns reached an average of \$55 billion per year. The table shows a small sample of these boondoggles. The Big Dig, the unofficial name of the Central Artery/Tunnel Project in Boston, Massachusetts, is the most expensive highway project in the history of the country. By the time the project was completed in 2008, its price tag was a staggering \$22 billion. The estimated cost in 1985 was \$2.6 billion. The Dig also took seven more years to complete than originally anticipated, and it ran into severe construction quality problems along the way.

The military, too, has a long history of cost overruns. According to Chris Edwards of the Cato Institute, the Pentagon building itself “cost \$75 million to build, more than double the originally planned \$35 million.” Weapon system overruns are routine. Consider the V-22 Osprey, a tilt-rotor, vertical takeoff and landing aircraft that has been plagued with at least \$7.5 billion in cost overruns, mechanical problems, and other failures, including four crashes that took the lives of 23 Marines.

Strangely, lawmakers never seem to anticipate these extra costs even when the excesses take place under their noses. The Capitol Hill Visitor Center, an ambitious three-floor underground facility originally scheduled to open at the end of 2005, was delayed until 2008. The price tag leaped from an estimate of \$265 million in 2000 to a final cost of \$621 million.

Federal entitlement programs have grown far beyond the original promises of limits or budgets. Medicare hasn't merely cost far more than originally expected. Data from the Congressional Budget Office (CBO) show how the scoring office's long-term projections of Medicare spending have steadily increased, even in recent years and over short periods of time. In 2005, for example, CBO projected that Medicare would cost \$1.5 trillion in 2050. Two years later, in 2007, the same CBO projected that this cost would reach \$2.8 trillion in 2050. And in 2009, it projected that the cost would be \$3 trillion instead. In other words, the program's projected cost doubled in four years.

This upward revision of projected costs comes even in spite of CBO's allowances for 'excess cost growth.' Furthermore, the actual expenditures exceed projections—in 2008, federal outlays for Medicare exceeded most recent projections by \$63 billion; in 2009, federal outlays for Medicare exceeded projections by over \$148 billion.

According to the Danish study, such inaccuracies aren't just errors. They reflect widespread, deliberate lying on the part of public officials. "Project promoters routinely ignore, hide, or otherwise leave out important project costs and risks in order to make total costs appear low," the authors conclude.

| Project                      | Estimated Cost and Date of Estimate | Latest or Actual Cost |
|------------------------------|-------------------------------------|-----------------------|
| Medicare (1990 total cost)   | \$12 billion (1967)                 | \$98 billion (1990)   |
| Boston "Big Dig"             | \$2.6 billion (1985)                | \$22 billion (2008)   |
| Capitol Hill Visitor Center  | \$265 million (2000)                | \$621 million (2007)  |
| Yucca Mountain               | \$6.3 billion (1992)                | \$79.3 billion (2008) |
| V-22 Osprey aircraft         | \$4 billion (1986)                  | \$12.5 billion (2006) |
| International Space Station  | \$17.4 billion (1993)               | \$32 billion (2003)   |
| Denver International Airport | \$1.7 billion (1989)                | \$4.8 billion (1995)  |
| Kennedy Center               | \$18.3 million (1995)               | \$22.2 million (2003) |
| Kennedy Center Parking Lot   | \$28 million (1998)                 | \$88 million (2003)   |

Sources: various government sources and "Government Schemes Cost More Than Promised," by Chris Edwards, *Tax and Budget Bulletin*, Cato Institute, September 2003

At a time of acute political anxiety over government spending and high federal deficits, the politicians behind the latest health care legislation are relying on the same modus operandi. President Barack Obama has repeatedly asserted that he wouldn't sign a bill that cost more than \$900 billion over 10 years, and the CBO has certified that the plan fits this constraint.

Yet the true costs for the first 10 years of the Senate bill should be closer to \$1.8 trillion. Democratic legislators got the CBO score they wanted by using an old gimmick: They crafted the legislation so that only 1 percent of the first 10 years' expenses occur in the first four years, backloading costs so the price tag would look smaller than it really is.

Lawmakers thus have essentially estimated the costs for a *six*-year period, from 2014 through 2019; if the new law basically starts the clock in 2014, the proper end point for estimating its 10-year cost should be 2023. (Also, CBO estimates do not take into account the fact that Congress is unlikely to follow through on the bill's future Medicare spending cuts. "CBO estimates the effects of proposals as written and does not forecast future legislation," Director Doug Elmendorf explained.)

It's hardly surprising that politicians lie so routinely. Voters let them get away with it. When programs go over budget, fail to deliver on their creators' promises, or simply do not work at all, taxpayers rarely punish those responsible. So lawmakers keep making unreliable promises of low costs, and we keep on accepting those promises at face value. Indeed, voters generally reward legislators who bring more federal funds to their states or districts.

The key to minimizing cost overruns is to return most of the public services to the private sector. Projects such as airports, playgrounds, and entertainment facilities are properly the role of the private sector, not the government.

As far as controlling rising costs within health care goes, a better alternative to the semi-nationalization that the president has in mind would be to increase individual responsibility for medical decisions. When people aren't exposed to the true cost of their care—even if they pay for it in foregone wages and higher taxes—they consume more. Like lying politicians, we all respond to incentives.

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