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Government Schemes Cost More Than Promised

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In 1985 government officials claimed that Boston's "Big Dig" highway project would cost \$2.6 billion and be completed by 1998. The cost ballooned to \$14.6 billion and the project is still not finished. In 1988 Medicare's new home health care benefit was projected to cost \$4 billion by 1993; the actual 1993 cost was \$10 billion. Congress is now considering a prescription drug bill with a \$400 billion price tag. If enacted, the actual cost will almost certainly be much higher.

Large cost overruns are commonplace in government construction projects, procurement, and entitlement programs. Politicians and officials routinely deceive taxpayers by low-balling cost estimates to win initial spending approval. Then, when programs go over budget and do not work as promised, politicians place the blame on particular management blunders by the bureaucracy and private contractors. But the evidence indicates that cost overruns and program failure are not isolated errors; they are systematic and widespread in the federal government.

Planes, Trains, and Automobiles

Federally funded projects often turn into debacles plagued by large cost overruns, as illustrated by a wide range of examples in Table 1. For example, Boston's Central Artery project, the Big Dig, has been grossly mismanaged, as described by a recent *Boston Globe* investigation.¹ The state government bailed out bungling Big Dig contractors 3,200 times instead of demanding accountability. Contractors were essentially rewarded for delays and overruns with added cash and guaranteed profits. The project's estimated total cost rose from \$2.6 billion in 1985 to \$14.6 billion today.

In the 1980s Denver's mayor Federico Pena sold the public on a new international airport on the basis of bad cost estimates. The public agreed to a \$1.7 billion airport in a 1989 referendum, but the cost mushroomed to \$4.8 billion by the time the airport was opened in 1995.²

In 1994 Virginia officials claimed that the Springfield interchange or "mixing bowl" project would cost \$241 million. The cost has now soared to \$676 million.³ On the other side of the Potomac, there are cost overruns at the \$300 million Capitol Hill Visitors Center, and the cost of the Kennedy Center parking lot has jumped to \$88 million from the original 1998 estimate of \$28 million.⁴ High above the Potomac, the cost of NASA's Space Station has skyrocketed from \$17 billion in 1995 to \$30 billion today.⁵

Table 1. Selected Government Cost Overruns

Project	Estimated Cost and Date of Estimate	
	Original	Latest or Actual
Transportation		
Boston "Big Dig"	\$2.6b (1985)	\$14.6b (2002)
Denver International Airport	\$1.7b (1989)	\$4.8b (1995)
Virginia "Mixing Bowl"	\$241m (1994)	\$676m (2003)
Seattle light rail system	\$1.7b (1996)	\$2.6b (2000)
Kennedy Center parking lot	\$28m (1998)	\$88m (2003)
Energy		
Yucca mountain radioactive waste	\$6.3b (1992)	\$8.4b (2001)
Hanford nuclear fuels site	\$715m (1995)	\$1.6b (2001)
Idaho Falls nuclear fuels site	\$124m (1998)	\$273m (2001)
National ignition laser facility	\$2.1b (1995)	\$3.3b (2001)
Weldon Springs remedial action	\$358m (1989)	\$905m (2001)
Defense (per unit)		
F/A-22 Raptor fighter	\$89m (1992)	\$248m (2002)
V-22 Osprey aircraft	\$23m (1987)	\$90m (2001)
RAH-66 Comanche helicopter	\$31m (2000)	\$52m (2002)
CH-47F cargo helicopter	\$8m (1998)	\$18m (2002)
SBIRS satellite system	\$732m (1998)	\$1.6b (2002)
Patriot advanced missile	\$4m (1995)	\$10m (2002)
EX-171 guided munition	\$39,000 (1997)	\$147,000 (2002)
Medicaid		
Special hospital subsidy	\$100m (1987)	\$11b (1992)
Medicare		
Part A (HI), cost in 1990	\$9b (1965)	\$67b (1990)
Home care benefits, cost in 1993	\$4b (1988)	\$10b (1993)
Other		
1996 farm law (over seven years)	\$47b (1996)	\$118b (2002)
International Space Station	\$17b (1995)	\$30b (2002)

Sources: Compilation by author and assistant Madison Kitchens based on sources in endnotes 2, 3, 4, 5, 6, 7, and 12.

These are not isolated cases of bad management. Reports by the Government Accounting Office make it clear that overspending permeates federal budgeting, as it does in Pentagon procurement and Department of Energy contracting (see Table 1).⁶ DOE contracting was put on GAO's watch list for waste, fraud, and abuse more than a decade ago. But a recent GAO review found that little had changed.⁷ In 2001, 38 percent of projects examined had more than doubled in cost, and the National Research Council concluded that DOE is "not in control" of many of its contracts. Billions of dollars have been wasted on DOE projects that were terminated, such as the \$2 billion spent on the Texas Superconducting Super Collider.⁸

A study last year by Danish economists looked at 258 government transportation projects in the United States and abroad with a combined value of \$90 billion. They found that cost overruns are routine and stem from government deceit, not honest errors.⁹ Nine of 10 projects examined had cost overruns, with an average overrun of 28 percent. The study concluded that lying, or intentional deception, by public officials was the source of the problem: "Project promoters routinely ignore, hide, or otherwise leave out important project costs and risks in order to make total costs appear low." Politicians use "salami tactics" whereby costs are only revealed to taxpayers one slice at a time in the hope that the project is too far along when true costs are revealed to turn back.

Salami tactics are just one problem that makes federal funding of state, local, and private activities wasteful. Another problem is that the states compete with each other to secure federal dollars, and thus they are prone to exaggerate benefits and minimize costs of projects. When cost overruns occur, state officials seek to cover up poor contractor performance in order to conceal their own bad oversight, as occurred with the Big Dig. In addition, the federal government does not ensure efficient use of funds sent to states. For example, the GAO found that half of the federally funded highway projects it examined recently had cost overruns of greater than 25 percent.¹⁰

Entitlement Cost Overruns Are Endemic

Federal "entitlement" programs, such as Medicare and Medicaid, grow unconstrained and far beyond promised limits. Politicians low-ball initial costs to gain approval by putting supposed benefit limits in legislation. But cost limits either do not work, are evaded, or are later repealed. When costs soar and programs do not work, politicians hold hearings to cast blame elsewhere, such as on drug firms or hospitals. But that is just a charade – Congress should know by now that high costs and poor performance

are to be expected when central planning, as in Medicare, is substituted for private competitive markets.

To enact Medicare in the 1960s, public officials deceived the public in numerous ways, such as promising that the payroll tax rate would not rise higher than 1 percent.¹¹ When Medicare Part A was enacted in 1965, costs were projected to rise to \$9 billion by 1990, but actual costs reached \$67 billion by 1990.¹² Or consider that when the Medicaid special hospitals subsidy was added in 1987 annual costs were projected to be \$100 million. By 1992 costs had risen to \$11 billion annually.

Today, most analysts are projecting that the \$400 billion prescription drug plan will end up costing far more than is being claimed. Important drug bill supporters are already saying that they plan to push for further drug spending after any initial bill is passed.

Return Economic Activities to the Private Sector

Governments are wasteful users of resources because they tend to replace competition with monopoly and market pricing with bureaucratic regulations. Also, since public officials do not risk their own personal funds, they are more likely to support unsound schemes and be less interested in keeping programs on budget. As a consequence, we would be better off if Congress scaled back entitlement programs, privatized infrastructure such as airports and energy projects, and let entrepreneurs put up their own capital for risky pursuits such as space exploration.

¹ See the "Easy Pass" series of reports by Raphael Lewis and Sean Murphy, www.boston.com/globe/metro/packages/bechtel.

² Transportation data from Alan Altshuler and David Luberoff, *Megaprojects* (Washington: Brookings Institution Press, 2003).

³ Michael Shear, "Springfield Interchange Project Is Defended," *Washington Post*, November 26, 2002, p. B1.

⁴ General Accounting Office, GAO-03-1014T, July 15, 2003, and GAO-03-823, September 5, 2003.

⁵ GAO, GAO-02-735, July 17, 2002.

⁶ Defense data from GAO, GAO-03-476, May 15, 2003. The consumer price index was used to roughly convert GAO's constant dollar defense data into current dollars.

⁷ Energy data from GAO, GAO-03-570T, March 20, 2003.

⁸ GAO, GAO/RCED-97-17, November 26, 1996.

⁹ Bent Flyvbjerg, Mette Skamris Holm, and Soren Buhl, "Underestimating Cost in Public Works Projects: Error or Lie?" *Journal of the American Planning Association*, Summer 2002.

¹⁰ GAO, GAO-03-764T, May 8, 2003.

¹¹ Sue A. Blevins, *Medicare's Midlife Crisis* (Washington: Cato Institute, 2001), pp. 53-63.

¹² Health care data from Peter G. Peterson, "Remember Cost Control," *Newsweek*, July 25, 1994.