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## LYING ABOUT INFRASTRUCTURE COSTS: IMPLICATIONS FOR FLORIDA HIGH-SPEED RAIL

By WENDELL COX

**There is a very simple incentive for large contractors to lie. It is profitable. The reward is more money. And, there is an incentive for public officials to believe the lie.**

Two years ago the voters of Florida approved a constitutional amendment that requires a high-speed rail network to be built throughout the state. Like the various previous unsuccessful attempts to build high-speed rail in Florida, a prerequisite to this one seems certain to be a substantial infusion of taxpayer funding. Earlier this year, The James Madison Institute published *Local System, Statewide Obligation*, which suggested that the eventual network could cost as much as \$40 billion, a cost so onerous that only the core of the system would be built, perhaps Miami to Orlando and Tampa-St. Petersburg, or even simply Orlando to Tampa-St. Petersburg. The result would be a severely truncated system, serving only the state's largest urban areas, which would, however, be paid by taxpayers from Key West to Pensacola.

A new comprehensive, international study confirms the concerns raised by JMI. Danish university Professors Bent Flyvbjerg, Mette Skamris Holm and Soren Buhl have published research covering more than 250 transportation infrastructure projects from around the world over the last 90 years. The results should give pause to Florida public officials and voters. They found that there was a general tendency to underestimate project costs, and that the principal cause of this underestimation was ... lying.

*The use of deception and lying as tactics in power struggles aimed at getting projects started and at making a profit appear to best explain why costs are highly and systematically underestimated in transportation infrastructure projects.[1]*

There is a very simple incentive for large contractors to lie. It is profitable. The reward is more money. And, there is an incentive for public officials to believe the lie. The "Edifice Complex," which drives so many elected officials to build virtual monuments and to seek "legacy" is served by underestimating costs, since less costly projects are simpler to sell to governing bodies and the electorate than more costly projects.

In the United States, they found that rail projects tend to escalate in costs a rate five times that of road projects. While the authors do not attempt to explain why such a great difference exists, the composition of the supplier market may give a clue. The large rail projects tend to be built by a very small market of international contractors. The size of such projects makes a truly competitive market problematic, since smaller companies do not have the resources to overcome the substantial financial barriers to entry. On the other hand, road projects tend to be broken up into much smaller components, with healthy competition from small, medium and large companies. A company that developed a reputation for driving up costs would soon find itself disqualified from many competitions. But where there are just a few international competitors, as is the case with the very large projects, governments are more subject to contractor abuse, such as has been identified by the study's authors.

Independent evidence supports this thesis. Some of the most severe cost escalation has occurred on a road project, the so-called "Big Dig," which is placing freeways in tunnels in downtown Boston. This now \$15 billion

project was to have cost \$5 billion. Unlike most road projects, this project was a single procurement. As a result, the short list of competitors were the same companies that have developed such a dismal (but profit-serving) record in project cost escalation — the companies that build rail systems.

What seems clear is that the taxpayers of Florida are at risk. The Florida High Speed Rail Commission has published a report that would barely begin the promised system. In so doing, it has done the international rail promoters one better. As *Local System, Statewide Obligation* notes, the Commission's cost estimates are below even those produced by the international consortium behind the now defunct Florida Overland Express (FOX) high-speed rail line. A previous JMI report showed that the cost of the FOX project was much underestimated, and contributed to the decision to give it the burial it deserved.

As it stands, the state of Florida is poised to undertake a project that seems sure to cost much more than the taxpayers are being told, and a project that will deliver much less. The message of the Danish researchers is that this has been going on for nearly a century. If Florida proceeds, it will continue at least another 20 years.

[1] Bent Flyvbjerg, Mette Skamris Holm and Soren Buhl, "Underestimating Costs in Public Works Projects: Error or Lie?" *APA Journal*, Summer 2002.

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