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Economics

Megaprojects and Megamistakes

By Cindy Wagner

When big thinking creates big problems.

The Suez Canal cost 1,900% more to build than planners originally estimated. The Sydney Opera House cost 1,400% more. And the Channel Tunnel (Chunnel) between Britain and France exceeded its estimated costs by a modest 80%.

Big projects always cost big money, but nine times in ten they cost far more than planners say they will. Cost overruns are often at least 50% higher than the estimates for grandiose development projects like intercontinental transportation systems and other "mega" infrastructure schemes--and 100% overruns are not uncommon, according to the authors of *Megaprojects and Risk*. Because more and more of these large infrastructure projects are being proposed and built, their poor economic track records bear closer scrutiny.

Is the problem poor planning or duplicitous developers? Clearly, developers want their projects developed and so might deliberately underestimate costs or overestimate benefits. But the real culprit is the

failure to take risk into account in planning, whether that failure stems from the planners' oversight or willful attempts to deceive those holding the purse strings, suggest development scholars Bent Flyvbjerg, Nils Bruzelius, and Werner Rothengatter.

The environmental impacts of megaprojects (dams in particular) are a major source of additional cost surprises, the authors note. Environmental impact assessments are routinely prepared, but their conclusions may justifiably provoke suspicion. For instance, though developers of the Chunnel studied such factors as the impacts of changes in rail and traffic patterns on the U.K. side, "no major environmental risks were identified as a result of the assessment," the authors report. "A further investigation of environmental impacts regarding safety, noise, and air pollution resulted in an overall positive figure." Yet the Chunnel has been strongly criticized for the environmental impacts in southeastern England, particularly for the high-speed rail connections.

Other inflationary risks come from unanticipated changes in regulations, financial markets, and the public's (and other stakeholders') enthusiasm for a particular megaproject. But if cost estimates can't be trusted, how and why do these projects get approved in the first place? Because they meet higher goals, supporters claim. In Europe, one such higher goal is unification. Projects like the Chunnel, the Great Belt link between eastern Denmark and continental Europe, and the Øresund link between Sweden and Denmark support the desire to create a "zero-friction" economy--one in which people, goods, and ideas move freely, regardless of geography, the authors note.

One key to overcoming the problems of megaproject miscalculations is to hold

the developers more accountable for those miscalculations. In the public sector, officials giving the green light for megaprojects need to include the involvement of citizens and other stakeholders. The authors also recommend transferring the cost of risk to private financiers rather than the public sector--i.e., taxpayers. The authors conclude: "By making the decision conditional on private financiers' willingness to invest in a project, and by letting them bear the consequences of a wrong decision, there will be a better guarantee that a project will indeed only be built if there is a demand for it."

Source: *Megaprojects and Risk: An Anatomy of Ambition* by Bent Flyvbjerg, Nils Bruzelius, and Werner Rothengatter. Cambridge University Press, www.cambridge.org. 2003. 207 pages. Check price/buy book.