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Why are costs lowballed? 'Lying pays off'

Vaughn Palmer

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VICTORIA - Big transportation projects usually go over budget. The average overrun was almost 30 per cent, a recent around-the-world survey of 250 rail, transit, road, bridge and tunnel projects found.

Why so much budget-busting?

The authors of the survey believe project boosters deliberately underestimate costs at the approval stage, knowing construction will be well under way before the truth comes out.

There is, in short, a pattern of "strategic misrepresentation -- lying," to quote the trio of Danish academics who conducted the survey.

The findings by Bent Flyvbjerg, Mette Holm and Soren Buhl from Denmark's Aalborg University were published last summer in the Journal of the American Planning Association. They chose a provocative title: Underestimating Costs in Public Works Projects: Error or Lie?

They began by documenting what they characterized as "a striking and highly interesting bias" in budgeting on public sector transportation projects. After surveying 258 projects in 20 countries on five continents over 70 years, they found that nine out of 10 had gone over budget by an average 28 per cent.

Could forecasting errors account for this pattern? Not likely, the Danes concluded.

"If underestimation were unintentional and related to lack of experience or faulty methods," they wrote, "then we would expect underestimation to decrease over time as better methods were developed and more experience were gained."

Instead, "underestimation today is in the same order of magnitude as it was 10, 30 or 70 years ago."

What about wishful thinking?

Perhaps planners are guilty of nothing more than over-optimism on behalf of their project progeny.

That, too, was discounted: "Promoters and forecasters would indeed have to be an optimistic group to keep their optimism through the 70-year period our study covers and not learn that they were deceiving themselves and others by underestimating costs."

People are supposed to learn from their mistakes. But that wasn't happening on transportation megaprojects. "No learning seems to take place in this important highly costly sector of public decision making," they wrote, displaying a degree of sarcasm rarely seen in academic studies. "This seems strange and invites speculation," which they then turned to.

Economic self-interest: "When a project goes forward it creates work for engineers and construction firms and many stakeholders make money."

Politics: "There is an obvious incentive to make a project look better and hence to underestimate costs in the campaign leading up to an election."

Ego: "Politicians may have a monument complex, engineers like to build things and local transportation officials sometimes have the mentality of empire builders."

Competition for government funding: "This creates an incentive for cities to make their projects look better or some other city may get the money."

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Bureaucratic self-interest: "Project promoters routinely ignore, hide or otherwise leave out important projects costs and risks in order to make total costs appear low . . . planners cook forecasts in order to produce numbers that would satisfy their superiors and get projects started."

And in most instances, by the time the budgetary truth comes out, much of the money will have been spent.

"The cost estimates used in public debates, media coverage and decision-making for transportation infrastructure projects are highly, systematically and significantly deceptive," the academics write.

"If we now define a lie in the conventional fashion as making a statement intended to deceive others, we see that deliberate cost underestimation is lying and we arrive at one of the most basic explanations of cost underestimation: Lying pays off."

The liars lie again and again because they know they can get away with it.

The article concludes with a call for more research -- "we don't claim to have provided final proof" -- and for better fiscal controls and independent scrutiny of project budgets.

Meantime, the authors favour healthy skepticism: "It is sound advice for policy and decision makers, as well as investors, bankers, media and the public, to take any estimate of construction costs with a grain of salt.

"Those . . . who value honest numbers should not trust the cost estimates presented by infrastructure promoters and forecasters."

Advice worth remembering, especially for B.C. taxpayers.

vpalmer@direct.ca

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