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Why big projects usually exceed cost estimates

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Have you ever gotten the impression that there are always huge cost overruns on big infrastructure projects, like high-speed rail lines? If so, you haven't gotten the wrong impression. That's the message from [Virginia Postrel](#), writing for Bloomberg News. She quotes a definitive study of cost and ridership estimates by Oxford business school scholar Bent Flyvbjerg, which nails the case.

"It is very common to have cost overruns in big construction projects," she quotes Flyvbjerg as saying. "It's the norm. It's not the exception. "

As Postrel points out, the incentives are usually all wrong—contractors and promoters of big projects pay for these estimates, from firms who specialize in making them and know that high cost and low ridership estimates will put them out of business.

This reminds me of the fact that securities, including the now notorious mortgage-backed securities, are rated under the SEC's regulatory scheme, by firms which are paid by the sellers of the securities. We saw how well that worked . But there are alternatives. The United Kingdom has apparently taken the lead on something they call "reference-class forecasting," which produces more realistic estimates and stops some projects before they get started.

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