

## Overoptimism and Cost Overruns

Either as a result of overenthusiasm by the proposer or deliberate obfuscation, investment costs commonly exceed the initial estimates. For example, one study looked at 258 transport infrastructure projects spread across 20 countries and totalling \$90 billion. Ninety percent of these projects came in over budget and the average cost escalation was 27.6%.<sup>1</sup>

The list of cost overruns in major projects seems to be endless, but here are a few examples:

**Sydney Opera House** The initial cost estimate in 1957 for constructing the Sydney Opera House was \$7 million, and the planned opening date was January 1963. In the event the building opened ten years late at a cost of \$102 million, 14 times the original estimate.

**Boston's Big Dig** The Big Dig rerouted Interstate 93 through central Boston and involved construction of a 3.5-mile tunnel. It was originally scheduled to be operational in 1998 at an estimated cost of \$2.8 billion. However, it was not completed until nine years later at a cost of over \$14.6 billion making it the country's most expensive highways project.

**James Webb Space Telescope** is an international project designed to put a huge telescope into space. The telescope was originally forecast to cost \$3.5 billion and had a planned launch date in 2014. By 2012 the estimated launch date had been put back to 2018 and the forecast cost had risen to \$8.8 billion

**Scottish Parliament Building** In 1997 the Scottish parliament building was forecast to cost £40 million and to open in 2001. It finally did so in 2004 with an estimated cost of £430 million, over ten times the initial estimate.

**Channel Tunnel** By the time that the Channel Tunnel opened in 1994 the construction cost amounted to £4.7 billion, over 80% higher than early estimates. Initial revenues were less than half those originally projected.

**Denver International Airport** The \$5 billion cost of constructing Denver's airport was almost 200% over budget and passenger traffic in the first year was only half of forecast levels.

**The Great Belt Link** The Great Belt Link connects East Denmark with continental Europe and involves the longest suspension bridge in Europe and the second longest underwater rail tunnel. In

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<sup>1</sup> B. Flyvbjerg, M. Skamris Holm and S. L. Bent, "How Common and How Large are Cost Overruns in Transport Infrastructure Projects," *Transport Reviews* 23 (2003), pp. 71-88.

1987 investment costs were forecast at DKK 13.9 billion. Twelve years later when the project was completed these costs had increased in real terms by 54%.