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Privatize the Army Corps of Engineers

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The Army Corps of Engineers has been in the news as the owner of the levee system in New Orleans. The levee system could not handle a storm of the strength of Hurricane Katrina, and its failure contributed to the disastrous flooding of the city.

The Corps of Engineers is a federal agency that builds and maintains infrastructure for ports and waterways. Most of the agency's \$5 billion annual budget goes toward dredging harbors and investing in locks, channels, and other works on rivers such as the Mississippi. The Corps is the largest owner of hydroelectric power plants in the country with 75 plants worth \$18 billion.¹ It also manages 4,300 recreational areas, funds beach replenishment, and upgrades local water and sewer systems.

This bulletin examines the inefficiencies that result from federal funding of such local infrastructure, and proposes that the Corp's civilian activities be privatized or devolved to the states.

A Pork Barrel Machine for Congress

Congress has used the Army Corps as a pork barrel spending machine for decades. Funds are earmarked for low-value projects in the districts of important members of Congress, while higher-value projects go unfunded. Federal decisions on spending for local infrastructure are often based on political pull, not on economic analysis. That is true for the Army Corps and for federal spending on airports, highways, transit systems, and other facilities.

The *Washington Post* notes that "powerful members of Congress dictate the selection, pace, and price tag for major projects" of the Army Corps.² Indeed, data from Citizens Against Government Waste show that Congress inserted 1,073 special interest, or pork, projects into the Corp's budget for 2005.³ The result is that while levee upgrades in New Orleans were stalled, dubious projects in other states moved ahead.

The Corps epitomizes the "iron triangle" that produces excess and misallocated federal spending. It tends to favor expensive projects that expand its empire and please its political overlords. Politicians use the agency's budget to

curry favor with special interests in their districts. Of course, those interests would rather have federal taxpayers fund their projects than pay for them locally.

One problem with the federalization of local infrastructure is that it makes local officials complacent about planning for their own needs. Louisiana politicians have complained that the Bush administration underfunded New Orleans's levees, but they were closest to the problem and should have funded the upgrades themselves.

A History of Flawed Analyses

The Corps of Engineers performs cost-benefit analyses in order to select projects that have a high return. But the agency has often supported white elephant projects based on flawed and manipulated studies.⁴ The Corps has a pro-spending bias because it does the analyses of proposed projects that it will build itself. Authorities such as the Government Accountability Office have found that various studies by the Corps have been faulty or purposely rigged. Studies for inland waterway projects, for example, have used inflated barge traffic projections to justify approval.

The Corps cooked the books on a study for a \$2 billion project for navigation improvements on the Upper Mississippi River. Two National Academy of Sciences studies found that Army Corps data justifying the project were bogus. Nonetheless, Sen. Kit Bond (R-Mo.) "vowed to make sure the projects are funded no matter what the economic studies ultimately conclude," according to the *Washington Post*.⁵ The *Post*'s Sebastian Mallaby called the project "Kit's Caboodle."⁶

A similar scandal erupted over a \$286 million project to dredge the Delaware River. The GAO found that the Corp's study for the project "was based on miscalculations, invalid assumptions, and outdated information . . . we found that the project benefits for which there is credible support would be about \$13.3 million a year, as compared to the \$40.1 million a year claimed by the Corps."⁷

Such problems have been ongoing for decades. In a 1952 book, Sen. Paul Douglas (D-Ill.) noted that "the

Army Corps have never been restrained in estimating the benefits which will result from their projects and . . . in recent years have greatly underestimated the costs.”⁸ In 2004 a study by Taxpayers for Common Sense (TCS) and the National Wildlife Federation identified 29 of the Corp’s projects that they argued would impose environmental damage and waste a total of \$12 billion.⁹

Even if the Corps had a track record of accurate analyses, politicians are inclined to intervene to favor certain projects and override rational budgeting decisions. In one recent incident, the *Post* found that “after a \$194 million deepening project for the Port of Iberia flunked a Corps cost-benefit analysis, Sen. Mary Landrieu (D-La.) tacked language into an emergency Iraq spending bill ordering the agency to redo its calculations.”¹⁰

Reform Options

To solve these problems, the civilian activities of the Corps should be transferred to state, local, or private ownership. A rough framework for reform might be:

- Privatize: port dredging, hydroelectric dams, beach replenishment, and other activities that could be supported by user fees and revenues.
- Transfer to lower governments: levees, municipal water and sewer projects, recreational areas, locks, channels, and other waterway infrastructure.

Such reforms could accompany broader reforms to U.S. ports and waterways. For example, U.S. ports are owned by state and local governments and are dredged by the Army Corps. But ports could be privatized, and they could purchase dredging services in the marketplace. The harbor maintenance tax could be repealed, and ports could recover dredging costs from port users. For example, if the \$286 million Delaware River dredging project made sense, it could be funded by the refineries and other industries along the river that would be the beneficiaries.

In Britain, 19 ports were privatized in 1983 to form Associated British Ports. ABP and a subsidiary UK Dredging sell port and dredging services in the marketplace. They earn a profit, pay taxes, and return dividends to shareholders.¹¹ Two-thirds of British cargo goes through privatized ports, which are highly efficient. In the United States, there are complaints that governments are not investing enough in port facilities and dredging to the detriment of U.S. international trade. If ports were privatized, they could invest and expand as needed to relieve congestion and accommodate larger ships.

Privatization is also a good option for the Corp’s large inventory of hydroelectric dams. The Corp’s recreational areas should be transferred to state governments or to the private sector if they could generate sufficient user fees. Municipal water, sewer, and beach projects should be left to local governments. Waterway and environmental projects, such as the \$8 billion Florida Everglades Restoration Plan, should be funded by state governments. Waterway facilities that affect numerous states, such as those along the Mississippi River, could be transferred to the states and managed under a regional agreement.

Conclusion

For decades, presidents have tried to rein in wasteful spending by the Corps of Engineers. President Eisenhower vetoed a Corp’s spending bill in 1958 because it included numerous projects that made no economic sense. In 1977 President Carter gave Congress a hit list of wasteful water projects that he wanted to cut. The Bush administration has tried to cut the agency’s waste and to refocus its budget on completing the high-value projects in its large construction backlog. But as TCS noted, “the administration has failed to follow through and defend those budget cuts,” which is a common problem with this White House.¹²

A better solution is to privatize and devolve to lower governments the Corp’s activities. The New Orleans levees, for example, should be transferred to the State of Louisiana. State, local, and private ownership would better ensure that infrastructure is efficiently maintained and upgraded, and not subject to neglect because of distracted policymakers in far away Washington.

¹ GAO, GAO-05-379, June 2005, p. 59.

² Eric Pianin and Christopher Lee, “Corps of Engineers Chief Drafts Plan to Reorganize Agency,” *Washington Post*, September 24, 2003, p. A27.

³ Database for the 2005 CAGW *Pig Book*, www.cagw.org.

⁴ Taxpayers for Common Sense and National Wildlife Federation, “Crossroads: Congress, the Corps of Engineers and the Future of America’s Water Resources,” March 2004.

⁵ Michael Grunwald, “Army Corps Delays Study Over Flawed Forecasts,” *Washington Post*, October 5, 2000, p. A33.

⁶ Sebastian Mallaby, “Kit’s Caboodle,” *Washington Post*, June 7, 2004, p. A23.

⁷ GAO, GAO-02-604, June 2002, p. 5.

⁸ Paul H. Douglas, *Economy in the National Government* (Chicago: University of Chicago Press, 1952), p. 105.

⁹ TCS and NWF, p. i.

¹⁰ Michael Grunwald, “Money Flowed to Questionable Projects,” *Washington Post*, September 8, 2005, p. A1.

¹¹ See www.abports.co.uk and www.ukdredging.co.uk.

¹² TCS, press release for “Crossroads,” March 18, 2004.