

# Does the U.S. Army Corps of Engineers need more economists?

David Zetland

Economist, Aguanomics Solutions

AWRA (#43)

Portland ~ 6 Nov 2013

# You can't give everything to everyone

Congressional Research Service (R41243, Oct 2013):

*In part because of competition for funds and because Corps authorizations outpace appropriations, many authorized activities have not received appropriations. There is a backlog of more than 1,000 authorized studies and construction projects.*

**Problem:** Administrative lock-up

# Why is the Corps providing private or club goods?

- ▶ One third of budget is on coastal and inland navigation
- ▶ Half the budget is on O&M (harbors, locks, dams)
- ▶ Local beneficiaries pay only 10 percent (at most) cost share

Perhaps, in the past, the nation needed to subsidize infrastructure, but that's gone too far (cf. *Cadillac Desert*)

**Problem:** Subsidies rob taxpayers and divert resources

## Wrong projects, biased cost-benefit analysis

- ▶ Net benefits [NB] = total benefits less the total costs. Used to select an action from alternatives
- ▶ Benefit-cost ratio [BCR] = benefits/cost. Used to compare projects
- ▶ NB method assumes unlimited budgets: \$1 billion project creating \$100 in gains is “better” than a \$150 project creating \$50 in gains
- ▶ BCR estimates from regional offices *are biased*

**Problem:** Arbitrage and inaccuracies

## Corps failing to provide public or common pool goods

Corps is charged with preventing net loss of wetlands (Section 404 of the Clean Water Act) via mitigation, etc... “parts of [Corps’] guidance are vague or internally inconsistent.” – GAO-05-898

This is NOT a solution: “Section 214 of the Water Resources and Development Act authorizes the Corps to accept and expend funds from nonfederal public entities—known as funding entities—to expedite the evaluation of permit applications that may affect wetlands.” –GAO-10-385R

**Problem:** Underprovision of national public goods

# Economic solutions

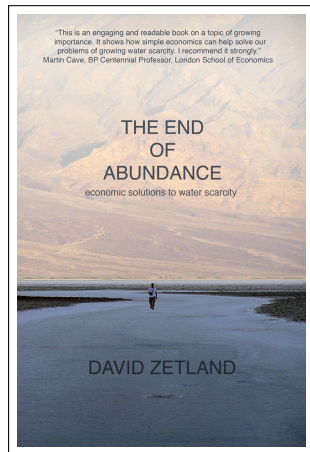
- ▶ Privatize ports, harbors, canals, etc. based on users fees
- ▶ Stick with common pool goods (environment)
- ▶ How to choose projects
  - ▶ Rank by BCR and fund until budget's gone, but
  - ▶ Bias, so locals need skin in the game:
    - ▶ Have voters (in the watershed?) approved project?
    - ▶ If so, what cost-share will they contribute?

# Questions?

Blog: [aguanomics.com](http://aguanomics.com)

Book: [endofabundance.com](http://endofabundance.com)

Contact: [dzetland@gmail.com](mailto:dzetland@gmail.com)



\$15! Conference price :)