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WASTEFUL SPENDING IN THE FEDERAL GOVERNMENT: AN OUTSIDE PERSPECTIVE

HEARING

BEFORE THE

SUBCOMMITTEE ON FEDERAL SPENDING
OVERSIGHT AND EMERGENCY MANAGEMENT

OF THE

COMMITTEE ON
HOMELAND SECURITY AND
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

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WASTEFUL SPENDING IN THE FEDERAL GOVERNMENT: AN OUTSIDE PERSPECTIVE

WEDNESDAY, JUNE 10, 2015

U.S. SENATE,
SUBCOMMITTEE ON FEDERAL SPENDING,
OVERSIGHT AND EMERGENCY MANAGEMENT,
OF THE COMMITTEE ON HOMELAND SECURITY
AND GOVERNMENTAL AFFAIRS,
Washington, DC.

The Subcommittee met, pursuant to notice, at 2:30 p.m., in room SD–342, Dirksen Senate Office Building, Hon. Rand Paul, Chairman of the Subcommittee, presiding.

Present: Senators Paul, Ayotte, Ernst, and Baldwin.

OPENING STATEMENT OF SENATOR PAUL

Senator PAUL. I call this hearing of the Federal Spending Oversight Subcommittee to order.

The topic today is going to be government waste and how we can practically do something to curb waste, but also to ameliorate the problem we have with the growing deficit. We have a deficit this year that is expected to be about $583 billion, and some will say we are fixing the deficit because it is getting smaller. Yet the overall debt is growing enormously larger.

We have about $1 million that we borrow every minute, and I think this is a threat to our economy, and some economists have said it is costing us millions of jobs, just the burden of this debt.

So what we are going to do is talk about some of the waste, and some of this has been talked about in the past. But my hope from the discussion today is to actually itemize some of this, and as we itemize this, then give advice to some of the people who spend this, the committees that spend this. And too often we have reports, and they just never get acted upon.

The new majority has said we are going to try to pass all of the appropriation bills. There is a great deal of power to the purse if we will actually use it. It is what the expression is supposed to mean, that we are supposed to express how we would like the money to be spent. But if you do not have appropriations bills, you are lumped all together in some omnibus or continuing resolution (CR). You lose your power as to direct how to spend it, and as a consequence, we never eliminate any of the waste. I have seen very little example that we eliminate any waste that we determine.

But it is my hope to not just have a discussion of this today, but at the conclusion to actually have a blueprint for how we could get rid of government waste.

With that, I would like to turn it over to our Ranking Member, Senator Baldwin.

OPENING STATEMENT OF SENATOR BALDWIN

Senator BALDWIN. Great. Good afternoon, everyone. Good afternoon, Chairman Paul. It is great to join you for our inaugural Subcommittee hearing. I very much look forward to working with you on this issue and others under our Subcommittee's jurisdiction as we move forward.

I want to take a few moments to outline a couple of issues for today's hearing, as well as moving forward. And I will go on, if you will indulge me for a few minutes here, because this is our inaugural meeting and I am very excited to kick things off.

First of all, in my home State of Wisconsin people are working harder than ever and taking home less. And hardworking families and businesses in Wisconsin are struggling to get ahead. I know that is the case for many places in the United States. Congress has a choice to recognize this and work together to create a stronger economy and security for our people.

Now, I am a Wisconsin progressive, and I know well the legacy of Senator Bill Proxmire. He took on wasteful government spending, and I know that he did not take on this fight and pass out Golden Fleece awards because he was opposed to government. He did it because our progressive values hold to the belief that every dollar of waste was a dollar that was not being invested in growing the hardworking middle class in the United States.

And as I have traveled the State of Wisconsin, people ask nothing more than a fair shot at getting ahead. They expect us to cut wasteful government spending and tax expenditures that favor those at the top. They also expect smart investments that grow the economy and create shared prosperity. In short, they want us to reduce spending without shortchanging their future.

In Wisconsin, we have a work ethic that is second to none. We pinch our pennies, and our people expect us to do the same with taxpayer dollars. And in my view, that is what today's hearing is all about.

Now, I want to just mention a couple of things that I know we are going to focus on today and I trust we will continue to focus on in the future.

First of all, the Government Accountability Office (GAO) reports every 2 years on areas within the Federal Government that are vulnerable to waste, fraud, abuse and mismanagement. Since the 1990s the GAO has identified more than 50 areas that are at high risk. However, steady progress has been made in these areas, and 23 areas have been removed from the list altogether.

For example, the Food and Drug Administration has significantly improved its oversight of medical device recalls; the Defense Department (DOD) has shown some strides and is making progress in the management and oversight of its contracting approaches; and NASA has significantly strengthened its acquisition management functions.

Yet, in spite of this progress, many challenges remain. Earlier this year, the GAO added two new areas to its high-risk list, including the Veterans Affairs (VA) Health Administration. The GAO

determined that VA facilities have failed to provide timely health care and in some cases have harmed veterans. We need to do better for our Nation's veterans.

Another area that I know we will discuss today with this expert panel, one that is ripe for congressional review is improper payments.

In fiscal year (FY) 2014, governmentwide improper payments reached approximately $124.7 billion, and that is an increase of $19 billion from the prior fiscal year.

GAO has found that agencies continue to struggle with reducing the number of improper payments and lack the internal controls to determine the full extent of the improper payments.

This is an area that I think we can all agree that more work needs to be done.

I want to move on from areas where the GAO believes that we can achieve savings and on to an area that I personally feel passionately about and want to further explore.

A critical part of improving economic security is guaranteeing that everyone has access to high-quality and affordable health care. The Affordable Care Act (ACA) has already made a strong investment in the health security of middle class families across this country. More than 10 million Americans have signed up for affordable health insurance provided by the new law. In Wisconsin, over 180,000 people have quality health plans, and 90 percent of them are benefiting from premium tax credits to help pay for this coverage.

The law is also strengthening our investments in Medicare and reducing costs for our Nation's seniors. About 9.4 million seniors on Medicare have each saved an average of $1,598 on prescription drugs in the "donut hole."

I am committed to making sure that America's new health law works in Wisconsin and across the country, and I am committed to fixing what does not work. That means putting partisanship aside to implement the law and finding common-sense areas in which to improve the law.

To that end, I believe that there are significant savings that can be achieved within our health care system without compromising quality of care or slashing benefits that seniors have earned. There are a number of nonpartisan and bipartisan think tanks and other groups that have issued recommendations to Congress about delivery system reform in the health care arena, some arguing that we could realize up to $1 trillion dollars in savings without affecting health care outcomes by enacting smart and targeted health care delivery reforms.

These are truly impressive savings that would strengthen our Nation's health care system without shifting costs to seniors or to States.

Chairman Paul, I would hope that as we begin a dialogue about finding solutions to Federal waste, fraud and abuse, we can also begin this dialogue about how to produce health care cost savings.

I am confident that if both parties in Washington do what people in the State of Wisconsin and in all of our States do everyday—which is put progress ahead of politics—we can root out wasteful

spending and improve the delivery of our Nation's priorities for all Americans.

So, again, thank you, Chairman Paul, for providing us with the opportunity to discuss these important issues and to our witnesses for being here today to take part in this discussion.

And my hope is that when we leave here today, we will have areas we can address so that we can deliver our Nation's priorities in the most efficient and effective way possible.

Senator PAUL. Thank you, Senator Baldwin.

With that, I think we will start with Ms. Romina Boccia. Ms. Boccia has a master's degree in economics from George Mason University (GMU) and is currently the Grover M. Hermann Research Fellow in Federal Budgetary Affairs, and research manager for the Institute for Economic Freedom and Opportunity at the Heritage Foundation. Boy, that is a mouthful. Her work there focuses on a variety of spending and budgetary process issues. Delving into the Federal budget, she is keenly aware of government spending and, in particular, government waste. We look forward to hearing your insights.

TESTIMONY OF ROMINA BOCCIA,[1] GROVER M. HERMANN RESEARCH FELLOW IN FEDERAL BUDGETARY AFFAIRS, AND RESEARCH MANAGER, THE HERITAGE FOUNDATION

Ms. BOCCIA. I thank you, Chairman Paul and Ranking Member Baldwin, for inviting me today to present my views on wasteful spending in the Federal Government. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

A Gallup poll last year reported that Americans believe that the Federal Government wastes 51 cents of every dollar that they pay in taxes. Another Gallup poll in the same year reported that trust in the Congress is at an all-time low, with only 28 percent of Americans reporting that they had a great deal or even just a fair amount of trust in the House of Representatives and the Senate.

Certainly these dismal polling results do not necessarily reflect how much or how little waste there actually is in government, nor how trustworthy law makers are, but I do think they show a disturbing trend.

As trust in government has declined, Americans' perception of government waste has increased at the same time that Federal spending has grown. High perceptions of government waste and low levels of trust are, I believe, in part a result that Americans recognize that the Federal Government is doing too many things that would be better done by individuals or the private sector or businesses or by State and local governments, or that should not be done at all.

Moreover, recent bank and auto industry bailouts and massive government handouts to well-connected business as part of the so-called stimulus conveyed to Americans in no uncertain terms that cronyism and corporate welfare are rampant in Washington.

Americans increasingly believe that the system is rigged against them. Corporate welfare and crony capitalism are reflected in back-

[1] The prepared statement of Ms. Boccia appears in the Appendix on page 31.

room deals in which a small group of individuals is able to influence legislation or regulation to the benefit of a narrow interest at the expense of the public. They are also reflected in the establishment and continuation of government programs that purport to serve broader noble goals but that mostly divert resources away from the wants and needs of consumers and toward political purposes.

The most comprehensive, lasting, and sustainable solution to address corporate welfare and cronyism in Washington is to return to limited government. To reduce the size of government, we must limit the scope of government. As part of my written record today, I am presenting to the Committee a list of 21 programs that I categorize as "corporate welfare spending" that wastes taxpayer and economic resources. Many of these very same programs have also been recommended for elimination by other organizations and for many years. Each program on this list takes taxpayer money and gives it to a business or uses it to promote business activities either for the purpose of supporting the business directly or to achieve some other goal that also lies outside the proper scope of the Federal Government.

Moreover, several programs on my list are duplicative of other Federal, State, and private efforts, and several have come under scrutiny due to waste and abuse. Congress should eliminate these programs. They include the Export-Import Bank, which presents an immediate opportunity for the Congress to do nothing and allow the Bank to expire once and for all. They also include the Overseas Private Investment Corporation, which is the government agency that promotes investment in developing countries by, for example, financing Papa John's Pizza franchises in Russia and a Ritz-Carlton in Turkey. Moreover, it includes costly FCC Universal Service Fund Programs that have long outlived their purpose and that today nickel-and-dime Americans on their telephone bills to provide overpriced telephone lines to, for example, resort towns in Colorado.

Every dollar spent by the Federal Government for the benefit of a well-connected interest group is a dollar that is no longer available to American families and businesses to spend and invest to meet their own needs and desires.

Corporate welfare spending is particularly morally reprehensible when government spends resources that belong to the next generation. With deficits of half a trillion dollars and growing, cutting corporate welfare and waste is long overdue.

The Defense Department's Base Closure and Realignment Commission (BRAC), provides a valuable mechanism for eliminating wasteful and unnecessary government spending. I believe that the idea that an independent commission guided by clear criteria can overcome special interest politics and congressional gridlock in pursuit of the national interest, I think it deserves serious consideration.

Thank you.

Senator PAUL. I think rather than go on to the next, I want to just do it a little bit differently. We get so much information by going through five. There are only two of us to ask questions, so we are going to ask a few questions, if that is OK with you.

Senator BALDWIN. Absolutely.

Senator PAUL. On the Ex-Im bank, some people maintain, well, it makes a profit for the government—we will start with Ms. Boccia, but we will let the panel answer—one, that it makes money and, two, that everybody else does it, so why shouldn't we do it? Ms. Boccia, would you care to respond?

Ms. BOCCIA. Yes. With the Export-Import Bank, what many miss is that there are huge taxpayer liabilities that may not come due tomorrow or next year. But in an economic downturn like the one we recently experienced, it is possible that taxpayers could face large liabilities from the loan guarantees that the Bank makes.

Moreover, the Bank only benefits a very narrow group of special interests, in particular Boeing. And just because other countries are doing the wrong thing does not mean the United States should be doing the same thing. I think we should be leading as a country with the right policies.

Senator PAUL. Anybody else want to comment to that question?

Mr. EDWARDS. I will give you an opinion on Ex-Im bank that is not based on data, but I believe it is the most important thing with corporate welfare, and that is, I believe corporate welfare makes U.S. businesses weaker. I cannot prove that, but I have read about many programs over the years and looked at how these companies, they spend their time in Washington lobbying rather than concentrating on making better products, which is what they should be doing. I think Solyndra was a great example of that. They were so focused on getting the government subsidies in Washington, they did not realize that China was creating inventions and innovations that went around them, and ultimately they went bankrupt because of that.

So just like conservatives often complain that welfare programs have harmful effects on the individuals who receive them by sapping their interest and incentive to work, it is the same with business subsidies. Business subsidies weaken American business, I think.

Senator PAUL. And I think one response to that also would be that one thing that Americans seem to hate about government is they think there is too much money involved in their government, that money buys influence. The Solyndra loan was from a very big campaign donor to one party. The corporation that gets a lot of money from Ex-Im bank is very active here in town, and the question is: If you are really for campaign finance reform, maybe we ought to start with not giving out specific items that seem to go to specific corporate entities.

Mr. ELLIS. Mr. Chairman, I just wanted to add, we are certainly also opposed to Ex-Im bank, but also, on the other side of the ledger, some of the companies that are benefiting in other countries are actually State-owned companies that are also extremely well off, like Pemex in Mexico. And there is a good analysis done by the Mercatus Center over at George Mason University that has a lot of that there.

Mr. SCHATZ. I do not want to take more time on that, but I agree with everything everybody has said, and I think it is something—again, Congress has to start somewhere, and in this case it is easy. Just do not reauthorize it.

Senator BALDWIN. I take a different view on the Export-Import Bank.

Small firms in Wisconsin—and I would say largely it is smaller firms that utilize the export-import bank. Those firms export directly or supply to the larger Boeings. If you think about their business plan, they working with a lot of smaller businesses that supply parts, and they are really assemblers more than they actually produce the raw materials that go into the final products—planes, for example.

A lot of the small businesses have not been able to find the type of support they need for starting to export their products from community banks, from banking institutions, but not only that, the insurance products that are and unique to the Export-Import Bank. And I wonder why you feel certain that products that are not currently being offered by the private sector are all of a sudden going to materialize across the United States to help our small businesses be able to compete in those export markets.

Mr. SCHATZ. There are lots of other companies and businesses that export products that may not be related to a particular industry, and I think the point we are—I am not speaking for everybody, but I think we all agree that it is so focused on Boeing and a few other companies that it does distort other opportunities to export products that may be available through other sources. And, clearly, Boeing itself is capable of finding all kinds of money in the commercial sector, commercial banks to export their products and in turn help these other companies who may be making parts.

Ms. BOCCIA. If the Export-Import Bank is, in fact, making a profit—and I would argue it is not, especially not in the long run—then this would be the greatest sign for a private sector bank to step in and take over those functions if Congress allowed the Bank to expire.

Dr. KETTL. Senator, one thing that I want to emphasize is your point about the extended production chain, there are two points here that are worth making. The first is that Boeing is obviously a large company, and it clearly has access to capital. But it, as you pointed out, is often much more an assembler of products that are produced across the entire country as opposed to just being produced in Seattle, Washington.

And the second point that is important is that while Boeing has ready access to capital, that may not always be the case for other companies down the production chain, and the cost of the product that Boeing makes is the product of the assemblage of all the pieces that go into planes along the way. And the ability of Boeing to be able to produce a quality product at a reasonable price depends on the ability of each of those individual elements of the chain to be able to obtain their own financing. And they are often at a very different situation than is the case with Boeing.

So it is a complicated situation, to be sure, but it would be a mistake, I think, to look at the Export-Import Bank solely in terms of the ability of Boeing as a company to be able to obtain financing to be able to export, because, in fact, it is a much more complicated piece.

Senator BALDWIN. I think about the Wisconsin economy, the small businesses and medium-sized businesses that I visit that use

the Export-Import Bank services and financing. Businesses selling farm implements into countries in Eastern Europe, for example, where there are significantly different norms and customs in the financial system. If you do not have a local bank that has some knowledge of those customs and rules, it is really difficult. And yet there are these relationships between small communities in Wisconsin and markets abroad that are very important to our economy. I do not think there would be other solutions for them without the Bank. And again I do not know where you think that expertise would be developed across the country to help our small businesses make headway in those markets.

Mr. EDWARDS. I mean, it does strike me, Senator, what you are talking about is extremely important. I want American businesses to be the most competitive in the world, and we should be. But Congress does a lot of stuff that makes American businesses less competitive: regulatory stuff, we have the highest corporate tax rate in the world. I would think it would be fantastic after Export-Import expired that Congress looked at some of these competitiveness issues with U.S. businesses. I mean, financial services is massively regulated today. That has not done anything good to provide a flow of capital to small and large businesses. Again, the Tax Code is a horrible mess.

So, I guess I would try to look at positive things Congress can do to sort of get out of the way of American exporters.

Senator PAUL. Good. That is where we are going now, back to Mr. Edwards. Our next witness is Chris Edwards, who is the Director of tax policy studies at Cato, editor of DownsizingGovernment.org, and author of a book by the same name. Prior to joining Cato, he served as the senior economist on the Joint Economic Committee and a manager with PricewaterhouseCoopers and an economist with the Tax Foundation. Needless to say, Mr. Edwards has extensively looked at what is not working in our government, and his testimony today should be very informative.

Mr. Edwards.

TESTIMONY OF CHRIS EDWARDS,[1] DIRECTOR OF TAX POLICY STUDIES, AND EDITOR, WWW.DOWNSIZINGGOVERNMENT.ORG, CATO INSTITUTE

Mr. EDWARDS. Thank you, Chairman Paul and Ranking Member Baldwin. Thanks for inviting me to testify. The government is still running huge deficits, so cutting wasteful spending should be a high priority. Wasteful spending includes not just the sort of mismanagement like improper payments we are all used to. I think more broadly waste includes spending that is low value and would be more efficiently handled by State governments.

Wasteful spending has plagued the Federal Government since the very beginning. As just one example, even back in the 19th Century, the Army Corps of Engineers (ACE) was known for cost overruns and pork barrel spending. The government is far larger today, and so the waste has multiplied.

[1] The prepared statement of Mr. Edwards appears in the Appendix on page 47.

There are basic structural reasons for Federal waste. Unlike businesses, Federal agencies, of course, do not have to earn profits, so they have little incentive to restrain costs and improve quality. Unlike businesses, failed Federal programs do not go bankrupt. Ten percent of all U.S. companies go out of business each year. Failure gets punished in the private sector pretty severely, but failed Federal performance management system unfortunately last for decades often.

Federal workers almost never get fired. The firing rate in the private sector in the United States is 6 times higher than the firing rate in the Federal Government. The firing rate for corporate Chief Executive Officers (CEOs) is 20 times higher than the firing rate for the Senior Executive Service (SES), who are the senior career people in the Federal Government.

Bureaucratic layering is a problem. Research has found that corporate America has become a lot leaner in recent decades, with fewer layers of management. The Federal Government has gone in the reverse direction. Research by Paul Light of Brookings has found that the number of layers of management in the Federal Government has increased substantially in recent years, and he argues that those excessive management layers in the Federal Government have been the main cause of a number of the recent failures and scandals.

The vast size of the Federal Government makes it impossible to oversee. There are 2,300 Federal subsidy programs; all of them are susceptible to waste, fraud, and abuse. And here is a remarkable statistic I came across recently. The Federal budget of $4 trillion a year is 100 times the average State government budget in the United States. So the Virginia State budget is $40 billion. The Federal budget is 100 times greater. So Federal spending is far too large for auditors and oversight committees to properly monitor.

The best solution to the waste problem is to cut the Federal Government's size, and I think a prime target for cuts ought to be Federal aid to State and local government, which costs over $600 billion a year. Aid to States is particularly susceptible to waste for reasons I go into in my written testimony. I am just going to mention a few aid to State programs that I think Congress ought to cut.

Urban transit, $13 billion a year. Federal aid encourages cities to buy expensive light-rail systems rather than more efficient bus systems. Without Federal aid, cities would make more efficient investment choices, and they would have much more incentive to control costs.

Disaster aid. The Federal Emergency Management Agency (FEMA) provides billions a year in preparedness grants and disaster aid to States. In the last couple decades, the Federal Government has intervened in many more localized disaster events that ought to be handled instead by State and local governments. I think this is a big mistake. Federal intervention, in my view, will ultimately weaken America's ability to respond to natural disasters. I think FEMA ought to be cut, and I think we would have a stronger response system to natural disasters because of it.

The Economic Development Agency (EDA) in the Department of Commerce, $450 million a year. That was actually one of Senator

Proxmire's—it won many Golden Fleece awards from Senator Proxmire decades ago, and the problems are the same today actually. The EDA sends out money to local governments and businesses. The money used to go to high poverty areas. Now it is sprinkled across the country, often to high-income areas. There is no reason for the EDA to exist. I looked on the EDA's website yesterday, and just yesterday they handed out a $1.2 million grant to a poultry company in Arkansas to build an access road from its facility to the highway. Now, that sounds like a useful project, but why should the Federal Government be involved? I think local projects ought to be handled and funded locally. I think Federal involvement in such local projects just creates bureaucracy. So I think the EDA ought to be ended.

The School Lunch and Breakfast Program, $16 billion a year. Because the funding comes from Washington, local school administrators have very little incentive to reduce waste and abuse. The improper payment rate in the School Lunch Program is 16 percent. The improper payment rate for the Breakfast Program is 25 percent. Those are enormous improper and fraud rates in those programs. The reason is local governments have an incentive to maximize the number of students on those programs to draw more funds from their State and the Federal Government. If local governments had to rely on their own funding, they would have stronger incentives to reduce waste.

So, in sum, I think a great place to start cutting spending would be the $600 billion a year we spend on aid to State and local governments. The cuts I mentioned today and many others are proposed on Cato's website, DownsizingGovernment.org, and thank you very much for holding these hearings. I think it is a very important subject.

Senator PAUL. Well, thank you for your testimony. I think one of the interesting things about it is if we want to define how ineffectual government is, Senator Proxmire talked about something, what, 25 years ago, 30 years ago, and we still have not gotten rid of it. We have gotten great reports. Senator Coburn was good at getting reports from GAO on waste and duplicative programs, and yet we still have them. I think that is why the people are frustrated with us, that we actually have the answers to a lot. It may not balance the budget, but it would make our government a lot less unwieldy and wasteful if we were to get rid of some of the things we all know about and yet cannot seem to get bipartisan support for doing it.

But I think you also pointed out a bigger problem that I think is important to point out. I will often ask the question rhetorically when I speak with folks, and I will say, well, it is not that government is inherently stupid, although that is a debatable question. It is that they do not get the right incentives. So government employees do not really—in a business you are trying to maximize—it is the beauty of capitalism that people sort of take for granted. It is how would we do things without the Ex-Im bank, without that knowledge. Well, that knowledge is out there in the capitalist world, and iTunes does not need it, iPads do not need it. Good products do not need any help from government. They sell. And it is an amazingly intricate process figuring out where you get all the

components even for a pencil. Leonard Read wrote the little pamphlet, "I, Pencil," many years ago, and just how complicated it is to make something as simple as a pencil, requiring ingredients from different continents, putting them together and selling them for pennies. A pencil would cost, $1,000 if government made pencils because they do not have the proper incentives to do anything efficiently, so, therefore, we ought to minimize what government does, send it back closer to the people, to the State level is a little bit better, and then ultimately back to the people, if we can.

I think that when we look at this, you see this also in the firing rate that you mentioned. We cannot even fire people in government who have committed malfeasance sometimes. The VA employees, we had to pass a law to fire them. I am still not sure if we have actually fired anybody over the falsification of the waiting lines.

We talk about how we get good people. The post office I think loses $1 billion a quarter, and I remember questioning that they wanted to pay them more, and the answer was, well, to keep good people you need to pay them. And I said, well, how good do you have to be to lose $1 billion a quarter?

But I think you are right, what we have to do. The problem is when we get to this—and this is the danger, and this is why people do not want to talk about the specifics of waste, because, my goodness, you are talking about school lunches, and so people are like, oh, no, not the children, we are not going to do this to the children.

Well, the way I look at it is a little differently. With disability or with children, I look at it that if you have a 20-percent improper payment rate, you are stealing that from what we have—the limited resources we have to help people. So I am not against the School Lunch Program, but I am against giving my kids a free lunch. And I think all the kids at my kid's school can get it because we are beyond a certain amount. I think everybody can get the free lunch if they want to.

And so, we do have to do these things. The earned income tax credit, there can be a place for that, but we have there $20 billion worth of overpayments, false payments.

Social Security, the report came out recently, $17 million going to dead people. You would think we could agree bipartisanly not to pay dead people anymore. But it goes on year after year after year. Social Security thinks currently there are 6.5 million people over the age of 112. That is where their computer resources are at this point.

So, yes, we have to do more, and the question I have in general is, I guess: How do we finally do what we have identified for years and decades and decades? How do we finally get it done? And how do we talk about emotional subjects like school lunches without being portrayed as the Grinch? Chris.

Mr. EDWARDS. Well, Romina talked about a BRAC commission which worked very successfully, I guess four rounds or more, with the Pentagon, a great program and a great design of that. I am not sure that would work for most of the rest of the budget. I think Members of Congress have to believe in reducing spending for it to actually happen. You can have all the rules you want, and we can change the procedural rules, but ultimately, people have to believe that State and local governments can do these things better.

I am in favor of a balanced budget amendment to the Constitution. If you support it, Senator Paul, I think that is a way that we can force discipline. Forty-nine of the 50 States have legal, constitutional, or statutory requirements to balance their budget, and it works extremely well. Liberal States, conservative States, ultimately they have to take responsibility. They have to make tough decisions. You folks up here, with due respect, you do not make the tough decisions. So I think that is one solution to the problem.

Senator PAUL. And I think what it does is it forces you to prioritize. Because we have a printing press and we do not seem to care about the debt, people come up and everybody has a program. Everybody has something that tugs at the heart, and so we give them all money. And you are right. If there was an overall rule that you only spent what came in, then we would have to prioritize, and we would have to say, you know what? Maybe healthy people should not get disability. Or maybe this person has a disability that is worse that needs it, but that we cannot give everybody in the country disability. So, anyway, thanks for your response.

Senator Baldwin.

Senator BALDWIN. Because not everyone has testified, I am trying to recall what each of you addressed in your written testimony. Mr. Edwards I want to follow something that I believe you put in your written testimony and did not necessarily elaborate on just now.

The metrics available in the private sector are somewhat different than the metrics available in the public sector to be able to measure outputs and to measure efficiency and effectiveness. But where they are available, certainly we want to seize those and use that. I think, Dr. Kettl, you had some similar observations about the inherently different role of private enterprise and public enterprise.

We had a hearing in the full Homeland Security Committee yesterday about the Transportation Security Administration (TSA). One of the whistleblowers who was at the table testified that the metrics they have if there are undue delays in getting through a security line are very precise. They have to report to the airlines if somebody spent more than 5 minutes in a PreCheck line and more than 20 minutes in a non-PreCheck line. But the measurements and the metrics and the yardsticks for catching any dangerous item that might be in luggage are far less clear and far more difficult to pin down.

What I am getting around to is this: Can you envision better performance metrics for the critically important enterprises that we oversee in the Congress working as well in government as they do in the private sector? And are there any improvements that you can suggest would reduce our inefficiencies? I am thinking of the Government Performance and Modernization Act for example.

Mr. EDWARDS. The government goals are very amorphous often, so it is difficult to pin down heads of agencies whether or not their agencies are succeeding or failing.

An additional problem is that most government activities are monopolies. The TSA has an aviation security monopoly. It is hard to judge monopolies because there is nothing to compare it to.

And so what I have written about with the TSA, for example, is to move to a system like they have in Canada and Europe where the screening at airports is decentralized to the airports. In Canada, all the airports use private security. They have private security companies competing for the contracts. They give them contracts. They say, "You have to meet these levels of performance. If you fail, you are fired." In Europe, it is generally the airport's responsibility. They can keep their own in-house security. They can use private security.

So I think when you have a decentralized solution like that, the government, the overseer of aviation security could compare airports, could publish metrics comparison. We could have the GAO do their undercover investigations at the airports. We could compare results. If companies are not doing a good job, they could be fired.

Senator BALDWIN. I think what they are struggling with is what those metrics should be. And it is easy to say, "Did somebody pass through PreCheck in 5 minutes," and did somebody check through the non-PreCheck security screening within 20 minutes, and what factors led to that not happening? But the essence of TSA is making sure that we are safe in our travel. It is great if that can happen expeditiously, but safety is the bottom line. And those metrics are much harder. Dr. Kettl.

Dr. KETTL. And, Senator, that is an incredibly important point, and it is important to remember that, regardless of whether the security function is being performed by a government agency or by a private company, the central goal is the same. Should, heaven forbid, a problem happen, it will not matter in a sense whether it was a private or a public security screener who was responsible for it. And it is worth remembering that the problems of 9/11 came through for the most part private security screeners there as well. So it is not privateness or publicness that really defines the problem of measuring government performance. It has to do with first trying to understand what it is we want to try to accomplish, how we can explain to taxpayers what value they are getting; second, to recognize that we have made tremendous progress under both the current and the previous administration. Republicans and Democrats have been together in trying to improve government performance. The Bush Administration deserves enormous credit for its efforts. The Obama Administration has as well. And one of the most important things that Congress can do is to ensure that that progress continues to the next administration after that, to turn up the heat, to keep it on, to force at every occasion when members of the administration come to testify, regardless of party, to come and explain to taxpayers what value they are producing for the dollars that they are getting, and then use the measures and the metrics that have been developed to try to do that.

Senator Ayotte has been very active in the moneyball movement, which is another way to try to provide better metrics. We have proven that this has been, can be, must be a bipartisan effort. And if it has to do with the public interest, we can debate separately who best can perform it. But we should not debate whether or not performance metrics have to be at the core about what it is that government does.

Senator PAUL. I see that Senator Ernst is here. You can either ask questions now if you want—we are kind of going one person at a time. If you are ready and have a question, go ahead. If not, we will go to the next person, and then you can ask questions.

OPENING STATEMENT OF SENATOR ERNST

Senator ERNST. Certainly. Thank you, Chairman Paul. I appreciate that opportunity.

This is an important hearing, so I am glad we are here today and able to visit with you. Thank you. I apologize for my tardiness.

I do want to start off with just a brief comment that is fitting for today's hearing topic before I move into my question. Today I am introducing the Program Management and Improvement Accountability Act with Senator Heitkamp, and the bill targets wasteful spending in Government that is a direct result of poor program and project management in agencies.

Shortcomings and failures in program management have plagued our Federal Government for decades. This is an ongoing issue. And we have read about these failures in the media; we have read about them through Inspector General (IG) reports, through the GAO high-risk list. Many of you are intimately familiar with that. And poor program management leads to projects that are grossly over budget, delayed, or do not meet the intended goal of the project. And I have just a few examples that we have compiled of that. One is the VA Scheduling Replacement Project which was terminated in September 2009 after spending an estimated $127 million in 9 years. So it was terminated.

The Homeland Security new headquarters, the project is 11 years behind schedule and more than $1.5 billion over budget. The project is the D.C. area's largest planned construction project since the Pentagon, and it was to be finished in 2014, but is still almost entirely undeveloped, though it has cost $4.5 billion so far. The new completion date is now 2026. Great example.

Department of Defense's Expeditionary Combat Support System, it was canceled in December 2012 after spending more than $1 billion and failing to deploy within 5 years of initially obligating the funds.

These are just a few examples of where we have seen program management failures, and I really could go on and on. We have found so many examples of this through all different types of agencies.

The Federal Government is literally wasting billions and billions of dollars because they are not working smartly on these projects.

So, Dr. Kettl, thank you for being here today, but you mentioned managing boundaries and human capital as one of the root causes to the government's ongoing problems of wasteful spending. And these issues are really at the heart of why I am focusing on this bill and trying to improve this situation. Can you elaborate on both of these issues a little bit more?

Dr. KETTL. Senator, there is nobody alive who could possibly justify long delays, waste of money, and nonperformance of governmental programs. Everybody agrees that is a bad idea. The question is what we do about it. And we could either decide we are just not going to do it, but if we decide it is something we must do, then

the challenge is figuring out how. And as I will talk a bit more when I testify shortly, if you look at the high-risk list, and, on the one hand, it could be read as a string of horror stories. On the other hand, it can be seen as a set of opportunities to learn about what it is that the most difficult problems in government have in common.

And if you look down over those issues, there are problems of contract management, of the fact that nothing that really matters any longer is any one problem that any one agency or any one sector can possibly control. And so we need to get managers who are better at building boundaries and make the coordination work better.

But in the end, ultimately, this comes down to making sure we have the government's talent management problem under control, getting the right people with the right skills in the right places to be able to do the things that have to be done. And in a lot of ways, the issues of trying to manage the VA comes down to things like that. One of the government's biggest problems is acquisition management. It is having enough smart acquisition managers to do the things that we decide that government must do, and we have to find a way to close the acquisition talent gap that is there.

Not long ago, I was privileged to be at a meeting of some of the smartest people in town talking about the issues confronting the next administration, regardless of party. And, surprisingly, the one issue that came boiling out of everything was the issue of talent, that we can talk separately about how many government employees we ought to have, but it is clear that we face a significant gap between the kind of workforce that we need with the right incentives and the kind of jobs that we expect government to do. And too often we separate out the question of government's function, which is something we need to debate, and the question of how best to try to fulfill it. And assuming that we can simply cut government employees and produce a better government, that is not always the case.

One of the things that I discovered in preparation for the hearing today is this: I was curious about the Centers for Medicare & Medicaid Services (CMS), which have enormous amounts of problems of wasteful spending, enormous amounts of improper payments. On average, each employee who works for the Centers for Medicare & Medicaid Services is responsible for $144 million per employee, and we have to ask: How is it that we are likely to get better performance and reduce improper payments if we do not at least figure out what we need to make sure that the agency is managed well?

We ought to, we need to, we must have a debate about the basic ideological principles and the basic goals for achieving government, but once we set those governmental goals, we have an obligation to taxpayers to make sure that we have the capacity to deliver. And if we do not, if we do not invest in that, there is no single waste that is bigger in government than that.

Senator ERNST. Thank you, Dr. Kettl. I appreciate it.

Senator PAUL. Thank you, Senator Ernst.

I just wanted to mention, since Senator Ernst and Senator Ayotte are here, if you have specific ideas like the legislation you are doing, my goal at the end of this hearing is to collect them. We

may not all agree on them, but if 8 or 10 of us agree on some reforms, we sign it, send it to the Subcommittee on Appropriations and say these are changes that we can do, if it legislation we can push out of here, yes, but let us try to have—when we finish this, we will ask the experts—we will try to have some specific ideas on how we could actually save money and send it in a written form to the Appropriation Committees.

I am going to change the rules one more time. This is my first time to be in charge so I get to change the rules. [Laughter.]

I think we need to get through the testimony, so let us go through Mr. Ellis, Mr. Schatz, and Dr. Kettl, and then Senator Ayotte will go. Is that OK with you? All right.

I am going to give the introduction here. Mr. Steve Ellis is the vice president of Taxpayers for Common Sense, where he has been for nearly two decades now. Over this time, Mr. Ellis has written and spoken on a wide array of topics related to government spending. He is a graduate of the Coast Guard Academy and served there with distinction, and this Committee welcomes Mr. Steve Ellis.

TESTIMONY OF STEVE ELLIS,[1] VICE PRESIDENT, TAXPAYERS FOR COMMON SENSE

Mr. ELLIS. Thank you. Good afternoon, Chairman Paul, Ranking Member Baldwin, Senator Ernst, Senator Ayotte. Thank you for inviting me to testify here today about government spending, waste, and what can be done about it. I am Steve Ellis, vice president of Taxpayers for Common Sense, a national nonpartisan budget watchdog.

Senator Proxmire has come up a few times. I just wanted to note that the late Senator was our honorary advisory board chair, and he bequeathed the Golden Fleece to us in 2000. And, in fact, we gave Golden Fleece just last week to the House and Senate Appropriations Committees for continuing a program that ships Pennsylvania coal to Germany to power some of our U.S. bases there.

I was asked to address nondefense discretionary spending outside of agriculture. My written testimony includes wasteful policy that leads to failed resource management and future taxpayer liabilities. I want to assure each and every one of you that Taxpayers for Common Sense is willing, ready, and able to work with you to eliminate waste and inefficiency in all areas of government—including defense and tax expenditures—to give taxpayers a government that works. I brought our "Common Sense Cuts for the 114th Congress: Silencing Sequester Scaremongers with $2 Trillion in Deficit Reduction"[2] that I would like to enter into the record.

There are a variety of spending programs that are either wasteful, corporate welfare, or simply not a Federal responsibility. Here are a few highlights.

There are many subsidy programs at the Department of Energy (DOE) for sources new and old. Spending, tax credits, and mandates such as the Renewable Fuel Standard create a crazy quilt of government support that often works at cross purposes. It would

[1] The prepared statement of Mr. Ellis appears in the Appendix on page 56.
[2] Information submitted by Mr. Ellis appears in the Appendix on page 95.

be better to simply eliminate all energy subsidies and start with a blank slate. Then policymakers can determine what basic research the United States should support. For example, just three of the energy subsidy programs—Fossil Energy Research and Development, Mixed Oxide-Fissile Materials Dispositions, and Fusion Energy Sciences—received more than $1.3 billion in fiscal year 2015. All told, the energy subsidy programs from renewables to nuclear to fossils received many billions more.

A subset of energy, more than $200 million in bioenergy subsidies are scattered throughout the Department of Energy—Departments of Agriculture (USDA), Treasury, and EPA. From research and development to harvesting and storing them, taxpayers subsidize every step of the biofuels/biomass process. We even pay to convert heat and power sources at biofuels facilities to run on biomass, then subsidize production and retail.

Over the last decade, Congress has transferred more than $50 billion from the Treasury to backfill the Highway Trust Fund. The Congressional Budget Office (CBO) estimates the gas tax shortfall could require as much as $167 billion over the next 10 years at the current rate of spending. Leaving aside debates about revenue sources, the spending beyond the trust fund's means must stop. Furthermore, there is a bias for new construction over maintenance. This preference for funding ribbon cutting over repairs will add additional pressure on the bankrupt Federal funding system.

The Essential Air Service (EAS) is a relic of the 1970s and airline deregulation. EAS subsidizes air carriers to maintain flights between rural communities and regional hub airports. These trips cost taxpayers as much as $1,000 per flight, and often the small planes that service the routes run nearly empty. Taxpayers for Common Sense (TCS) has uncovered numerous examples of communities that could link to nearby hubs with intercity bus service that could be run with little or no subsidy at all. Annually, this program costs taxpayers roughly $250 million.

The U.S. Army Corps of Engineers Civil Works Program suffers from a lack of prioritization, which inevitably leads to waste as lower-priority projects are funded over more critical ones. There is also the duplicative and wasteful environmental infrastructure program and beach replenishment subsidies. The inland waterway industry contributes nothing to maintaining inland waterways. They should pay at least 50 percent, and low-use or no-use waterways should be removed from the Federal system. The Inland Waterway Users Board can be eliminated entirely. These reforms would save more than $500 million annually, eliminating wasteful projects, and taming the more than $60 billion project backlog could push annual savings to $1 billion.

Other areas I highlighted include eliminating the Maritime Administration, the Coast Guard Bridge Program, and reforming international food aid. I would also add the regional development authorities.

While not part of regular discretionary spending, Federal disaster spending should be considered. The number and cost of disasters are increasing, and the Federal share of those costs have also dramatically increased, rising from less than 30 percent after Hurricane Hugo in 1989, to more than 75 percent after Superstorm

Sandy in 2012. Between 1980 and 1999, we averaged $4 billion disasters; since then, seven. The median disaster cost between 2000 and 2006, $6.2 billion; 2007 to 2013, $9.1 billion.

The Nation's disaster programs need to be reformed to provide incentives for communities and States to plan for the inevitable disasters and ensure every dime spent responds to the next inevitable disaster. We also know that every dollar spent on mitigation saves $4 in recovery. We should be helping people, communities, and States prepare for disaster and respond in a way that protects taxpayers by reducing future risks and costs.

I appreciate the opportunity to testify before you. As I said at the beginning, Taxpayers for Common Sense is ready to work with you to root out waste and ensure that our precious tax dollars are being spent wisely and effectively. Thank you, and I would be happy to answer questions you have on the testimony or any other area of discretionary spending.

Senator PAUL. Thank you.

We are going to next move to Mr. Thomas Schatz, who is president of Citizens Against Government Waste (CAGW). Mr. Schatz represents an organization wholly focused on working to root out and eliminate government waste. Mr. Schatz himself has played a big part in those efforts in the almost three decades he has been working with CAGW. Mr. Schatz has a law degree from George Washington and a bachelor's degree from the State University of New York at Binghamton.

Mr. Schatz.

TESTIMONY OF THOMAS A. SCHATZ,[1] PRESIDENT, CITIZENS AGAINST GOVERNMENT WASTE

Mr. SCHATZ. Thank you very much, Mr. Chairman, Ranking Member Baldwin, Senators Ayotte and Ernst. I very much appreciate the opportunity to be here today, especially with my colleagues who have contributed a great deal to this effort, and we are always happy to work together with both you and them to achieve our mutual goals.

I am Tom Schatz, president of Citizens Against Government Waste, an organization that was founded in 1984 by J. Peter Grace and Jack Anderson to followup on the implementation of recommendations made by President Ronald Reagan's President's Private Sector Survey on Cost Control, which is why it became known as the Grace Commission.

It is no secret that wasteful spending is pervasive throughout the Federal Government and every agency could perform its functions more effectively and efficiently. Recommendations to eliminate waste, fraud, abuse, and mismanagement are provided regularly by government agencies and the private sector. For example, since 1993, Citizens Against Government Waste has released "*Prime Cuts*," the latest version of which identifies 601 recommendations that would save taxpayers $639 billion in one year and $2.6 trillion over 5 years. And to your point, Chairman Paul, about making recommendations for wasteful spending, we send recommendations from "*Prime Cuts*" on a regular basis when appropriations bills are

[1] The prepared statement of Mr. Schatz appears in the Appendix on page 64.

heading to the floor, suggesting amendments that could be considered by the House. We have not done it for the Senate because they have not really done appropriations, so we look forward to being able to do that this year.

While my written statement covers numerous systematic and legislative efforts to eliminate wasteful spending, today I am going to focus on agriculture. Proponents of the 2014 farm bill claimed that it reformed many programs, but that certainly was not true about the sugar program. Nothing was done whatsoever. This is an outdated and wasteful program that provides price supports, tariffs, quotas, loans, and domestic marketing allotments that have artificially inflated the price of sugar to about 40 percent higher than the world price, costing consumers about $3.5 billion annually between 2009 and 2012 for sugar-containing products, and thousands of jobs have been lost in industries that use sugar, particularly candy manufacturers.

Sugar products forfeited $152 million worth of sugar to the USDA in September and October 2013. In March 2015, CBO forecast that the U.S. sugar program will cost taxpayers an additional $115 million over the next 10 years, and as my friend Steve Ellis has pointed out, in most cases farm bill "savings" have been vastly underestimated, and I think Taxpayers for Common Sense said $450 billion for the 2004–08 bill. So we know these numbers are not going to be achieved.

Despite efforts in both the House and the Senate, and even in President Obama's budget, to eliminate or reduce spending for the Market Access Program (MAP), this program survives. It is a poster child for corporate welfare. MAP has delivered advertising subsidies to companies such as Blue Diamond, Butterball, Dole, McDonald's, Pillsbury, Sunkist, Tyson, and Welch that clearly can afford their own advertising overseas.

One of the most absurd examples under MAP was the $20 million provided to the Cotton Council International in 2011, some of which was used to create an Indian reality TV show in which designers created clothing made from cotton in order to promote the general use of cotton, but not necessarily cotton from the United States. And, remember, this is U.S. taxpayer dollars. In fact, India produces twice the amount as U.S. cotton growers and is a net exporter.

Perhaps the most outrageous waste of money under MAP was in the early 1990s $3 million provided to the California Raisin Board to air in Japan those well-known ads featuring dancing raisins singing "I Heard It Through the Grapevine." It could not be translated into Japanese, so it ran in English and was, therefore, incomprehensible. Children thought the figures were potatoes or chocolate, and there was something about cutting off fingers by some criminal syndicates in Japan. In any event, it ended up costing $2 for every $1 worth of raisins that even reached the store shelves, let alone sold there.

So if those two examples are not embarrassing enough to really get rid of MAP, maybe there will be more. But it is something that really should be terminated. Taxpayers should not be doing any of this. It costs $200 million a year. Eliminating it would save $1 billion over 5 years.

Another area we have looked at is stimulus broadband grants and loans to the Rural Utility Service (RUS), $2.5 billion to RUS. A March 2013 USDA Inspector General report noted that numerous projects overbuild next to existing private sector competitors and providers, and they approved 10 projects worth more than $91 million that could not even be completed within the 3-year timeframe. Steve mentioned the regional authorities, in particular the Delta Regional Authority established in 2000. It is supposed to improve conditions in the economy for 10 million people residing in 252 counties and parishes in 10 Mississippi Delta States, duplicates other programs, and really should not be funded. It has had earmarks worth $17.8 million, and it is something else that should be done.

But in terms of what Congress should do, better stewardship of the taxpayers' money should be what every Member of the House and Senate considers every day, thinking first and foremost how to better manage the taxpayers' money and solve problems effectively with the resources that are already allocated rather than doing what, unfortunately, members of both parties have done, which is to create a new program to solve a problem. Let us determine how to solve the problem first, look at what is out there. With $4 trillion, there has to be enough money to do what needs to be done.

Thank you. I appreciate it and am happy to work with the Committee on additional recommendations.

Senator PAUL. Thank you.

Before we get to Dr. Kettl, Senator Ayotte has another Committee hearing, and I am going to recognize her.

Senator AYOTTE. Thank you so much, Chairman Paul, and I appreciate this hearing. I just want to thank all of you for the work that you do. It is obviously very important.

I just had a followup. I know that the Chair and Ranking Member are going to be gathering legislative proposals, so I think that is a great way to approach this and figure out what we could send from this Committee that is more direct and specific.

Mr. Schatz, I noticed in your testimony that you said Congress would be well served to act on its own watchdogs' voluminous reports. I agree with you, because GAO has done a lot of work on this, and so I have a bill, the Duplication Elimination Act, that perhaps we could take up, but basically it forces expedited action on those recommendations instead of having them sit on the shelf to make the President bring forward a proposal, whether within a certain time as to when—once the GAO issues the duplication report, as to which recommendations he or she will adopt or not and then has us vote yes or no on them, and I think that would be good to at least get us acting on the work that has already been done. So I hope we can take that up.

But I wanted to just touch briefly on the tax side of it, because one particular tax provision that has really bothered me is the refundable tax provisions. One is the additional child tax credit, and there have been investigations done of that tax credit that have shown when you file as a taxpayer, you do not have to put a Social Security number for even the child. First of all, the filer does not, but the child—to identify the child that you are seeking the refund on, you do not have to. And what we have learned is just by requir-

ing a Social Security number for the child, just to seek that refund, you would save $20 billion over 10 years. So there is real money there.

What other thoughts do you have in terms of—I agree with you on the government spending side, there is a lot of work we should do, and you have identified a whole host of areas and GAO has as well. What thoughts do you have on the tax expenditure side as using the ACTC as one example that I have certainly been trying to make us change that, but other low-hanging fruit, and I think there is a lot of it that we could look at on both sides of this equation.

Mr. ELLIS. Certainly in the Common Sense cuts, we include a lot of tax expenditures in there that could be eliminated, and certainly in the biofuels round there were a lot of tax expenditures that are included in there as well. And then we have looked at reforming even some of the scary ones to make sure that they actually perform better, even to go into something like the mortgage interest deduction and making it so that it is more useful to more people but also less costly, following on a recommendation from the CBO, actually.

And so I think that that is a very ripe opportunity, and we would certainly be willing to work with you and identify—and like I said, there are many tax expenditures in our report that we would like to introduce into the record.

Senator AYOTTE. Great. Yes?

Dr. KETTL. Senator, if I might, to put this in a broader context to underline how important the question is, we are now at the point where tax expenditures are as large as the discretionary spending in the entire Federal budget. That is a staggering fact, but it turns out to be true. Tax expenditures are as large as discretionary spending.

We pay fairly careful attention to discretionary spending. We pay very little attention to the question of how tax expenditures work, who benefits from them, whether there are better ways of being able to do it, and whether or not we might be able to even apply the lessons from the book you co-authored, "Moneyball," which by the way my students have as required reading in the fall to make sure that they get the message on this, that we need to find ways of being able to provide better analytical support for the kind of decisions——

Senator AYOTTE. Well, actually measuring whether something works, shocking.

Dr. KETTL. Exactly. And trying to combine the moneyball approach with the tax expenditure piece, we know we do not pay nearly enough attention to discretionary spending, but we pay almost no attention to tax expenditures. And if we used that moneyball approach to understand what we are getting for the money that we are spending and apply that to the tax expenditure side, that in itself would be an enormous breakthrough.

Senator AYOTTE. Thank you.

Mr. SCHATZ. Senator, it seems to me one of the ways to address tax expenditures is to simplify the Tax Code.

Senator AYOTTE. Amen. I agree. Yes. Thank you all. I appreciate it.

Senator BALDWIN. I will take the privilege of introducing Don Kettl for his testimony. Dr. Kettl I am glad you have had a great opportunity to speak to some of the questions already.

I want to add my personal thanks to you for being here. Dr. Kettl is a professor of public administration at the University of Maryland and has been associated with many fine academic institutions, but I remember getting to know Dr. Kettl back in 1992 when he was at the University of Wisconsin-Madison. While I was beginning my career in public service and first elected to the State Assembly, Dr. Kettl led several very important efforts in Wisconsin. He chaired the Governor's Blue Ribbon Commission on Campaign Finance Reform and later the Wisconsin Governor's Blue Ribbon Commission on State and Local Partnerships for the 21st Century. That later became known Statewide as the "Kettl Commission." We still refer to it. I am tremendously pleased, Dr. Kettl that you are joining us today to provide us with your insight on how we can address the issues of wasteful spending.

Dr. Kettl comes at it from a perspective of someone who has worked in public management and in budgeting for almost his entire adult life. So thank you for being here, and we await your testimony.

TESTIMONY OF DONALD F. KETTL, PH.D.,[1] PROFESSOR, SCHOOL OF PUBLIC POLICY, UNIVERSITY OF MARYLAND

Dr. KETTL. Mr. Chairman, Senator, it is a great privilege for me to be here today. And while I am no longer living in Wisconsin, I still am a proud shareholder of the Green Bay Packers as well. So I have my roots still firmly rooted back in Wisconsin as well.

As I mentioned earlier today, the foremost, the most important question that we have to try to focus on is simply this: How can we best deliver value to taxpayers? And that is the question that we need to get up every morning and be prepared to look at, ask, and to be able to answer, and to be able to get—the question of government waste, there is nothing that is more important than trying to get a handle on that, and I want to suggest two ways.

The first is trying to understand what it is that government ought to do and whether or not government ought to be doing it at all. That is the movement that Senator Ayotte has been so influential in, and moneyball, bringing better data analytics to governmental programs, is something that could provide a terribly fundamentally important way to be able to resolve those questions.

I want to spend most of my time today looking at a second question, which is: Once we decide that government needs to do something, how can we best deliver quality services? Because there is nothing ultimately more wasteful to the public than for the government to commit to doing something and then not to do it well. And so what I want to do is to try to examine the question about how best to try to do those things that we all agree that government must do.

There is Medicare and Medicaid, and while we can think about reformulating it, we are not likely to walk away from that.

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[1] The prepared statement of Dr. Kettl appears in the Appendix on page 87.

There is food safety, which is increasingly not just a domestic issue but a global issue. One of the assignments I give my students is to go to the canned goods aisles and read the labels and find out where the food that they are eating actually comes from.

We have critical infrastructure, airport security, and a whole host of other things that we all agree that one way or another must be done and must be done well, and there is nothing that is more fundamentally wasteful and there is nothing that fundamentally is more damaging to the social contract between government and its citizens than the failure to deliver. So I want to try to examine that question and try to figure out how we can get to the bottom of things.

I want to try to focus on four basic issues, which begin first with the GAO high-risk list. And I think that one of the things that we can admit is that the list is far too long and it costs far too much money. But most importantly, a careful look at it—and this is very important for the Committee's work—we can identify those things which we can do to help agencies get off the list. There are root causes that lie at the core of the problems in the high-risk list. They include, first, the boundary management question. It is important to recognize that, for example, in terms of food safety is a close partnership between government's inspectors on the one hand and government's food producers, its packagers, its retailers, all along the line. And food safety is only as good as that chain is. And so in this, as in so many other cases, government's effectiveness depends on being able to manage those boundaries.

The second is performance metrics. Not only is there the Government Performance and Results Modernization Act, but we have seen already in this hearing today through both the Bush and the Obama Administrations that substantial progress has been made in trying to improve performance metrics in government, and more work on that front would have enormous payoffs.

There are information systems. A key part of the problem of delivering quality services to veterans is to get the information systems in the Pentagon, which document injuries that members of the armed services have been exposed to, to talk to the data systems that are in the VA. That turns out to be an extraordinarily difficult problem, and we will never serve the veterans well until we solve the problem of integrating those information systems.

This technology management, which gets down to the $22 billion effort to develop the next generation of air traffic control system, and then human capital, which is fundamentally important to everything.

If you look at the issues of human capital and talent management that run through GAO's high-risk list, not only are two-thirds of the programs in GAO's analysis directly attributable to problems in human capital management, but at the end every single issue to be solved requires the right people with the right skills and in the right place at the right time to ensure that what government must do gets done and gets done well.

I mentioned one figure earlier, which is that $144 million of spending by the Centers for Medicare & Medicaid Services is counted for each individual employee, which is a staggering number.

My other favorite statistic, maybe my single favorite statistic about the entire Federal Government, is that Medicare and Medicaid combined account for 20 percent of all Federal spending but 0.2 percent of all Federal employees. So we can debate separately about how many Federal employees we need, but I think we have to recognize the fact that that is the place where we need good Federal employees because, otherwise, what we must do will not get done.

But the most important thing is that we know that if we solve these problems—and this is my second major point—we can save substantial amounts of money. My own guess is that something like $150 billion a year of savings could be achieved by simply tackling and solving the problems in the high-risk list—at least $150 billion a year, of which $125 billion simply are coming through the improper payments.

The third thing is that—and this is maybe the most reassuring piece—these problems are solvable. In the course of the last 25 years or so, GAO has actually removed 23 programs from the high-risk list, as Senator Baldwin pointed out earlier. There are those who referred to it as the Hotel California: Once you check in you cannot check out. But it turns out that, in fact, agencies have been able, with strong leadership and effective management, to get off the high-risk list and by doing so save taxpayers money, and that is a good thing. It requires strong leadership, strong backup, and the ability to be able to put into practices the analysis of the root causes that we have talked about. But that can save substantial amounts of money.

The last thing is to reduce wasteful duplication and overlap. It is clear that we have way too much of this, that going back and asking how we can better do the things that could be done, including, for example, simply coordinating the transport of patients to government and private medical facilities, could have enormous impact. The Partnership for Public Service has found that shared public services could also go a long way toward trying to accomplish some of the same objectives. If we can find ways of achieving better coordination, we can save a substantial amount of money.

But most importantly, it gets down to, first, understanding what it is that government should and should not do and having a serious conversation with ourselves about that. But, second, once we commit as a government to doing things on behalf of citizens, nothing is more fundamentally important than doing that well. And there is nothing more wasteful of governmental money, there is nothing more destructive of trust of citizens in their government than having government programs in which the government does not deliver.

I very much appreciate the chance to appear before you today. I would be happy to try to explore any questions that might be of use to the Subcommittee.

Senator BALDWIN. Great. I want to ask you to drill down a little bit more deeply in some of the issues that you outlined. In particular, let us start with information technology (IT). As I hear the 30,000-foot discussion among my colleagues, there is tension between the increasing need for interoperability—the ability for agencies to communicate, share data, share information to be most effi-

cient. Against that, we see news of cyber attacks that allow hackers to access millions of people's identifiable information.

Do you think a more interconnected network increases vulnerabilities in this regard, compared with lots of smaller systems? Or do you think it is possible that we can improve the capacity and coordination, as you outline, protect privacy, as well as protect from identity theft?

Dr. KETTL. That is an important question, Senator, and it is worth underlining the fact that this is not just a public sector problem. If we go back and look at what happened to Sony, you could have taken everything that you just said and scratch off "the government," insert "Sony," and be making exactly the same points. This is a larger society-wide question that we all are trying to deal with right now.

On the one hand, having more data systems that are interconnected is simply an inevitability. It is not something we can avoid. It is not really a policy choice any longer if we are going to have any kind of connection whatsoever to quality of service. We just cannot imagine being able to make payments in Medicare without having an interconnection of information between patients, providers, financial intermediaries, Medicare and Medicaid, State governments, the Federal Government, and those who are responsible for dealing with all that. There is just no way to be able to deal with it.

The question of centralization then becomes the important question, and the technological reality is that the more dispersed the information systems are, in some ways the more potentially vulnerable the entire system is, because all it takes is one individual, one 16-year-old in some basement somewhere, burrowing into some system anywhere, getting access to that, and being able then through the network to be able to get access to everything. And, in fact, there are lots of 16-year-olds and lots of very sophisticated government employees working for other governments trying to do exactly that at this very moment. The VA right now gets 1 billion probes a month into its information systems.

So the question is: How best can we protect ourselves? The more we distribute the information, on the one hand, it may seem like we are protecting it, but we are actually increasing vulnerability because we are increasing the points of penetration. The best way to try to protect is to at least make sure that we have central coordination of those efforts to try to protect and provide security, and it is one of the things that we have found through the data breaches that occurred most recently. The greatest points of vulnerability have come through the systems that are most distributed.

So this is not an argument, and it raises important concerns about privacy and about government's power, and it is the kind of thing that really is increasingly a fundamental puzzle and problem. But the basic technological facts are the more distributed we make the system, the more points of vulnerability we create.

Senator BALDWIN. Do you want to go back and forth?

Senator PAUL. Go ahead, because I think I will just finish up when you are done.

Senator BALDWIN. If there are others who would like to focus on the information technology piece of this, please add your comments. Mr. Edwards, please go ahead.

Mr. EDWARDS. On the technology issue, I agree with a lot of what Don says, but I do not agree with one of his comments that, we can always improve the management and make government work better. The Federal Government, the civilian outside of the Pentagon in particular, has always had a problem with technology. It has never done technology very well. He mentioned the FAA, air traffic control, is having a giant problem currently with a big next-gen project. I have looked in history. If you go back decades, the GAO has done reports in the 1990s, the 1980s, the FAA has always had problems implementing new technology. And, air traffic control, it is a high-tech business. I do not think the government does high-tech very well.

And, so here is an example where I think this is something that should be moved outside of government. We have examples now in Britain in Canada. They privatized their air traffic control over a decade ago, and it has worked extremely well. We no longer have the best air traffic control system in the world. The experts are generally pointing to Canada, which has a stand-alone nonprofit. And some of the advantages they have by having this stand-alone system, they can hire the best tech experts. They can pay them flexibly. They can make decisions quickly. They can innovate and create new technology. The Canadians now with air traffic control, they are creating new ATC technology; then they are exporting it to the world. We cannot do that with our system because it is government, it has civil service rules.

So I think when industries and activities of the government get very technologically advanced, we ought to think about moving them outside of government.

Senator BALDWIN. Let me followup with perhaps both of you on this. I want to get to the intersection of, Dr. Kettl, your comments about needing the right people at the right time in the right place, this management of human capital and talent to address whether it is the GAO high-risk list or other issues, and also this idea that we should be learning from those efforts that have removed agencies or enterprises from the GAO high-risk list, what are the lessons to be learned that could be exported to other entities or within an entity that has seen repeated problems one right after the other, the intersection of those two issues? And I do not know if you could explore that further for us, Dr. Kettl, and then take any response.

Mr. KETTL. Sure. Let me just use one example. I had a long conversation not too long ago about two kinds of things in a session that we organized at the National Academy of Public Administration. I was looking at the high-risk list not as a spotlight on government mismanagement but a spotlight on government learning, because it turns out that, if you look carefully at it, there are important things that one can learn if you look at the overall systems and tease out of that those things that actually work.

There are lots of things that government surely does not do right, but the fact that almost two dozen programs have been removed from the high-risk list for doing things well is evidence that those

things that we expect government to do actually can be done better if certain things are done effectively. And one important point is it is fascinating to watch the story of the census over the last couple times. They have been on the high-risk list twice, and twice have been removed. They are now gearing up for the next round of the census in 2020. So we can debate lots of things, but unless we amend the Constitution, the one thing that the government has to do is to conduct a census because the other body needs it for apportioning seats. And so the Constitution requires that.

They have already started the process of figuring out how to manage the technology to be able to make that happen. They had technological problems the last time around that they have worked to study and learn from. They are doing alpha testing and beta testing of the new technological systems. My guess is that they will do the next round very well, and here is an example of technology in government that is likely to work pretty effectively. And there are other things government clearly is not struggling as well with.

What is the difference? And the answer is they are looking at this as a strategic problem. They are getting high-level leadership to focus on it. They are getting highly skilled people to work on it. They are interacting with citizens right now to figure out how to deal with the testing of it. They are working with other countries as well to export and to share some of the learning processes that are possible. So it is a possible problem to solve.

Government often tends to do very hard things, often tends to do things with not enough in the way of resources, under very high levels of expectation. There are lots of cases where, in the private sector, problems are buried in dumpsters out back that end up on the front page of newspapers just because the process is different. It is not to be apologetic, but to recognize the fact that when you try to do hard things, you are going to make mistakes. The way to learn is to learn from those mistakes and to build those in. There is no better example of that in government, especially in technology, than to watch what is now happening with the census.

It is 2020 we are talking about. They are hip deep already in the process of beta testing the technology they are going to be rolling out.

Senator PAUL. Well, I want to thank the panel for coming today, and I wanted to conclude by—we will see if anybody has any final remarks to make, but I think there are ways we can look at government waste. There could be process reforms, there could be program elimination, or there could be program modification.

With the process reforms, I think there are a lot of good ideas. One of the ideas that we have put forward and are trying to get a vote on this week on NDAA is to give civilians bonuses based on finding savings. Spending apparently speeds up to about 5 times faster than normal in the last month; a lot of conventions seem to be in Las Vegas in the last month of the fiscal year. I would love to give somebody who is in charge of $12 million and saves the taxpayers $1 million, I would love to give them $10,000 and put it back into the Treasury. Give them a $10,000 bonus and put the money back in the Treasury. If you ask any American in the country should we do this, it is an overwhelming—it is probably a 99 percent issue. But up here it is difficult because people are, like,

"Oh, no, we have appropriated it; we have to spend it." But this is something that has a great deal of popular support. That would be a process reform.

We have the same for the Department of Defense contractors. If you have a $1 billion contract and you will save $100 million, give them a little more profit to save the taxpayer. Give them a percentage of the savings they can find. This is after it has already been competitively bid, if they will come in under. We are going the opposite way; we are always going over bid. If you will come under bid, give them more profit. Build incentives into a system that is not a marketplace and does not have all the incentives that make capitalism work efficiently.

I do not think any Committee has tried to do this before, but what I would really like is a continuing process to see if you will give us a list of things that can be process reforms, program elimination, or program reforms. Now, we may not get everybody to agree to have a lot of program elimination, so bear that in mind. But let us say we had 100 ideas from all of you, from us, from the minority, and we all went through, all of us, and we checked off and we agreed on 20, we could have a consensus report of being for 20 reforms. I do not know if it is possible or not, but I think it is worth a try. Nothing else seems to have worked around here since Senator Proxmire left. And we will see.

But bear in mind, I do not mind if we get ideas for eliminating things that we may not agree on. Let us just see. Maybe there are some programs we would agree on eliminating. Maybe there would be some reforms. Like I do not think there is a going to be a consensus or anybody saying let us get rid of the School Lunch Program, but would there be a way to better police it so we are not giving it to everybody, where we are giving it to those in need?

I think that is true of so many of our things, and people go crazy anytime you want to talk about disability, but the thing is healthy people should not get disability? And somebody who has quadriplegia or paraplegia and cannot take care of themselves, we have enough money for stuff like that, but we do not have enough money for everybody who is currently on disability, and I think there are some problems where we could make it better, all kinds of things throughout government, but we never try to get to consensus. My hope is that we will try and you will continue to help us with lists on this. My staff will communicate with you and your staff. You all are part of bigger organizations that can help. If you will continue to work with us, we will see what kind of list we can come up with, and then if Senator Baldwin will work with us, we will see if we can get any kind of consensus.

Does anybody have any kind of remark they would like to make as we close?

Mr. SCHATZ. If I might, Romina brought up corporate welfare. When John Kasich was a Member of Congress, he brought together people from the left and the right. I remember sitting in a room with Ralph Nader and many others talking about corporate welfare, something that neither side really likes, but yet it always seems difficult to eliminate, the Market Access Program being a prime example. That might be a place to start. You may draw on some other members that may look at this in a different way.

And then in terms of process, just in terms of doing things, Senator Ayotte has a good idea about the GAO reports. There also should be a rule for Senate committees that while you probably cannot stop them from creating a new program, perhaps the existing programs for that particular area can be listed in the Committee reports. That is now true in the House. Senator Lankford, when he was a Member of Congress, helped lead the House rules to be amended to require the committees to include that information, so there should be more transparency about whether a program duplicates another program. That is at least a place to start. Maybe there is a good argument to have another program, but usually there is not.

Mr. KETTL. And, Senator, one thing I would add—and, Mr. Chairman, I think it is terribly important—is the potential role that this Committee can play in ensuring continuity of action on some of these things that we think really could be effective. By putting this list together, it is an agenda not just for legislative action in the relatively near term, but as we debate the ongoing management and decisionmaking about policy decisions in this country, we can set some markers down that could help shape the debate as we go forward. And the Committee would be playing an enormous public service in doing that if nothing else.

Ms. BOCCIA. I agree with Dr. Kettl that there are many ways that government could operate better, but I think one of the challenges that we face is that government is trying to do too much, and so it is not doing very many things well.

There are lots of low-hanging fruit, programs that if we could finally eliminate, the Congress could focus its oversight efforts on those things that the government must do and then could do those things better. We should be more selective about what the government should do. And I think budget process matters there. We are currently having a debate whether to increase discretionary spending. There is a cap on it. I think we should leverage this as an opportunity to prioritize within the budget. And we also should be careful not to shift spending from the discretionary budget to the mandatory side of the budget. There is a bill right now in the House, the Cures bill, that proposes to do exactly that. We should not be looking for ways to get around spending caps. We should be good stewards of taxpayer dollars and prioritize better within those dollars that are available.

Mr. EDWARDS. One thing that I wish Congress would do more of, and Washington in general, frankly, is look at some of the good-government reform ideas that have been implemented abroad that we could do in the United States as well. Big changes are risky, but I think when we have other high-income, advanced countries making major reforms and they work, we should look at that and learn from it. I mentioned air traffic control, but there is also the post office, which you mentioned, Chairman Paul. Germany and the Netherlands have privatized their post offices, and Cameron privatized the 500-year-old Royal Mail last year. These have been successful reforms.

California has been having a big water drought the last few years. Some countries have gone to privatized water markets.

Farm subsidies have come up at the hearing today. New Zealand completely abolished all their farm subsidies a couple decades ago. The farmers initially resisted, but after a while they realized they could actually do a lot better in free markets than with the subsidies.

So there are good ideas out there. Often we can get them from our trading partners abroad.

Mr. ELLIS. Thank you, Mr. Chairman. Just wrapping up a few things that have come up in the hearing, I have been thinking about it. We started out talking about the Export-Import Bank, and we talked about duplication, and so you have trade assistance programs at Commerce, the Small Business Administration, USDA, and the U.S. Trade Representative. So we talked about duplication, and that is certainly one area where we should figure out what works, what does not, and consolidate and come up with a solution there.

Certainly, Mr. Chairman, we support your bonus for cost cutters legislation and will be interested to see about Senator Ayotte and Senator Ernst's legislation as well. And Senator Ernst talked about the projects way behind schedule and way over budget, and I have some classmates from the Coast Guard Academy that are over at St. Elizabeths where the DHS is going to go, because the Coast Guard headquarters has already moved there.

But, one of the programs I talked about, in the program the MOX, the mixed oxide fuels, that project was supposed to be done in 2013. The estimated date has been pushed back to 2033. So there are issues there.

And then, also, we talked about IT and communications, and I think about some of the issues we had seen, like, for instance, in farm payments, there are means-testing rules there, and part of the limitation and why there have been overpayments to certain farmers is because they cannot communicate and get the information from the IRS. The same thing happened with Medicare in some of the overpayments as well.

And so, we are really excited about this opportunity to really raise a lot of these programs, the process and the program elimination, and it started—one of the questions was about how you actually tackle these, and we think this type of hearing is exactly the right thing, to bring up specific ideas, to talk about them, to talk about the underlying problems and what we are trying to solve with these government programs. And then we either improve them or we decide that it should not be something that we do at all. And so we are very excited about it.

Thank you.

Senator PAUL. Thank you all for coming. The record is open for 2 weeks if anybody wants to add to it. Those who have requested that their written remarks be made part of the record, it will be.

Thank you very much for your testimony.

[Whereupon, at 4:01 p.m., the Subcommittee was adjourned.]

APPENDIX

The Heritage Foundation

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CONGRESSIONAL TESTIMONY

Corporate Welfare Wastes Taxpayer and Economic Resources

Testimony before
the Subcommittee on Federal Spending Oversight and
Emergency Management
United States Senate

June 10, 2015

Romina Boccia
Grover M. Hermann Research Fellow in Federal Budgetary
Affairs and Research Manager
The Heritage Foundation

My name is Romina Boccia. I am the Grover Hermann Research Fellow in Federal Budgetary Affairs and Research Manager at The Heritage Foundation's Institute for Economic Freedom and Opportunity. I thank Chairman Paul and Ranking Member Baldwin and members of the committee for the opportunity to express my views on wasteful spending in the federal government. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

A 2014 Gallup poll (the most recently available) reported that Americans believe the federal government wastes 51 cents of every dollar that they pay in taxes.[1] The first and last time respondents had the perception that the U.S. government wastes more than half of all the resources it takes from its citizens was in 2011. In that year Standard and Poor's downgraded the U.S. credit rating after Congress and the President agreed to an inadequate budget deal that signaled little commitment to controlling the sources of growth in federal spending, and in exchange for raising the debt limit by more than $2 trillion.[2] 2011 was also the year in which Occupy Wall Street set up camp in New York City, Washington DC, and other cities, in part to protest corporate welfare that institutionalizes inequality under the law.[3]

As Congress is increasing deficit spending by exploiting loopholes in the Budget Control Act of 2011 and by intentionally excluding new mandatory spending from statutory pay-as-you-go rules (as was the case with this year's agreement to repeal the Medicare sustainable growth rate formula or "doc fix") it is no surprise that Americans are continuing to loose faith in their government to act in the public interest and effectively address growing spending and debt.[4]

My remarks today will focus on how corporate welfare wastes taxpayer and economic resources. Corporate welfare or crony capitalism is a destructive force that undermines public trust in the institutions of the free market and in government itself. As average Americans' perception of wasteful spending in a system that is rigged against them has increased, so has public trust in government declined. A late 2014 Gallup poll (the most recently available) shows that while trust in all three branches of government is at or near record lows, trust in the legislative branch has declined the most. Only 28 percent of Americans said they had a great deal or even a fair amount of trust in the House of

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[1]Rebecca Rifkin, "Americans Say Federal Gov't Wastes 51 Cents on the Dollar," Gallup, September 17, 2014, http://www.gallup.com/poll/176102/americans-say-federal-gov-wastes-cents-dollar.aspx (accessed September 22, 2014).
[2]J. D. Foster, "U.S. Credit Rating Downgraded: Now They've Done It," Heritage Foundation *WebMemo* No. 3337, August 6, 2011, http://www.heritage.org/research/reports/2011/08/us-credit-rating-downgraded-now-theyve-done-it.
[3]Nicholas Kristof, "Crony Capitalism Comes Home," *The New York Times*, October 26, 2011, http://www.nytimes.com/2011/10/27/opinion/kristof-crony-capitalism-comes-homes.html?_r=0 (accessed June 4, 2015).
[4]Romina Boccia, "What the Budget Conference Should Accomplish," *The Daily Signal*, April 28, 2015, http://dailysignal.com/2015/04/28/what-the-budget-conference-should-accomplish/ (accessed June 4, 2015).

Representatives and the Senate.[5] Trust in the legislative branch has been falling since 2006, and fell 6 percentage points this year to the new low of 28 percent. That is a deeply disturbing trend.

As trust in government declines, Americans' perception of government waste has increased along with government spending.

High perceptions of government waste and low levels of trust are in part a result of Americans recognizing that the federal government does too many things that would be done better by individuals or businesses in the private sector, by state and local governments, or that should not be done at all. Moreover, bank and auto industry bailouts and massive government handouts to well-connected business as part of the so-called stimulus conveyed to Americans in no uncertain terms that corporate welfare and cronyism are rampant in the federal government.

Corporate welfare and crony capitalism are reflected both in backroom deals in which a small group of individuals influence legislation or regulation to benefit a narrow interest at the expense of the broader public and in the establishment of government programs that purport to serve broader noble goals but divert resources away from the wants and needs of consumers and toward political purposes.

Corporate welfare and crony capitalism is reflected in a variety of different activities, including:

- Direct subsidies, loan guarantees, and technical assistance programs;
- Narrow tax credits to benefit certain industries;
- Regulation and trade barriers; and
- Congressional and presidential earmarks to reward political friends.

Corporate welfare and crony capitalism waste taxpayer resources by spending resources taken for the public benefit on a more narrow, well-connected interest group instead. Taxation inherently creates economic distortions and unnecessary taxation that goes beyond what is necessary to pay for constitutional government and needlessly wastes taxpayer and economic resources. Regulation, not for the benefit of the public but to provide advantages to certain firms at the expense of others, further distorts economic processes and creates a less prosperous and more unequal society than would be the case under limited, constitutional government.

Every dollar spent by the federal government for the benefit of a well-connected interest group is a dollar that is no longer available to American families and businesses to spend and invest to meet their own wants and desires. Corporate welfare spending is particularly morally reprehensible when government spends resources that belong to the next generation of Americans.

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[5]Jeffrey M. Jones, "Americans' Trust in Executive, Legislative Branches Down," Gallup, September 15, 2014, http://www.gallup.com/poll/175790/americans-trust-executive-legislative-branches-down.aspx (accessed June 4, 2015).

With permanent and chronic deficits today and in the foreseeable future, every additional dollar spent on corporate welfare is a dollar that is taken from the next generation. Lawmakers should keep this in mind when they hand out taxpayer money to corporations and politically connected nonprofit entitities that are anything but nonprofit. Businesses and charitable organizations should succeed if they provide value for consumers and donors, not because they receive favorable treatment by government officials.

The most comprehensive, substantive, and lasting solution to addressing the corporate welfare and crony capitalism that emanates from Washington is to return to limited government. To reduce the size of government we must limit the scope of government.

One approach to reducing the size and scope of government is to eliminate programs that provide special benefits to groups who do not provide a public good. Corporate welfare and crony capitalism clearly meet this litmus test. To this end, I have compiled a list of 21 programs that represent corporate welfare spending that wastes taxpayer and economic resources. Each program on this list takes taxpayer money and gives it to a business or uses it to promote business activities, either for the purpose of supporting the business directly or to achieve some other goal that lies outside the proper domain of the federal government. In addition, several programs on this list are duplicative of other federal, state, and local efforts and several have come under scrutiny for blatant waste and abuse. Congress should eliminate these programs.

Recognizing the limitations of Congress's budget process and the realities of logrolling in Congress to get bills passed, I follow this list of recommended programs to eliminate with a proposal to establish a waste commission that can overcome the political difficulties inherent in trying to eliminate corporate welfare and other wasteful federal programs.

Corporate Welfare Programs Congress Should Eliminate

1. Export–Import Bank. The U.S. Export–Import Bank (Ex–Im) is the government agency that subsizides American exports by foreign firms with taxpayer backing of its loans. Proponents claim the bank aids small business, creates jobs, and "levels the playing field" in global trade. In fact, Ex–Im is little more than corporate welfare. It provides overseas companies with billions of dollars in financing at favorable rates. Ex–Im disadvantages American airline companies by favoring foreign buyers of American aircrafts. Delta Airlines and the Airline Pilots Association, for example, filed a legal challenge last year against Ex–Im for subsidizing the purchase of Boeing aircraft by foreign airlines. According to the lawsuit:

> The bank's aggressive approach to aircraft financing allows foreign airlines to borrow at much cheaper rates than they could in the private market. Cheaper financing, in turn, leads to competitive advantages for foreign airlines…shifts industry growth abroad, and puts downward pressure on American production and employment.[6]

[6] *Delta Air Lines v. Export–Import Bank of the U.S.*, Case No. 13-00424, U.S. District Court, District of Columbia.

Ex–Im backs less than 2 percent of U.S. exports each year, mostly to the benefit of giant companies like Boeing and Caterpillar. As my Heritage colleague, Diane Katz, has laid out in greater detail, just 10 companies were the beneficiaries of 64 percent of Ex–Im subsidies in 2013, including Boeing (30 percent), General Electric (9.5 percent), Bechtel (6.6 percent), and Caterpillar (4.9 percent).[7] Moroever, the chairman of the government's Export–Import Bank has repeatedly mischaracterized several deals that have benefited billionaire Elon Musk, claiming that Ex–Im support for SpaceX represents necessary support for a small business with limited export financing options.[8] Congress should allow Ex-Im's charter to expire on June 30.

2. Overseas Private Investment Corporation. The Overseas Private Investment Corporation (OPIC) is the government agency that promotes investment in developing countries. OPIC provides loans and loan guarantees; subsidizes risk insurance against losses resulting from political disruption, such as coups and terrorism; and capitalizes investment funds. OPIC subsidizes private risk and puts taxpayers on the hook for this exposure, similar to the Export–Import Bank.[9] Government backing of private loans encourages moral hazard in lending as companies take on more risk than is prudent because they are largely shielded from losses. Some OPIC projects that reak of corporate welfare include financing for Papa John's pizza franchises in Russia and financing for a Ritz-Carlton hotel in Istanbul, Turkey. Congress should eliminate OPIC.

3. The Market Access Program. The Market Access Program (MAP) uses taxpayer dollars to promote U.S. agricultural products overseas. MAP is nothing more than a corporate welfare program that costs millions of dollars to help large, profitable corporations and trade associations with overseas marketing and promotion. In fiscal year (FY) 2015, MAP allocated $173 million to groups like:[10]

- The Cotton Council International ($16 million);
- The U.S. Meat Export Federation ($11 million); and
- The Popcorn Board ($400,000)

Under MAP taxpayers have recently helped to fund international wine-tastings, organic hair products for cats and dogs, and a reality television show to promote cotton in India. The Department of Agriculture's Market Access Program also provided $400,000 to the liquor lobby, which used part of those funds to transport foreign journalists to different

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[7]Diane Katz, "Ex-IM Misrepresents Subsidies to Prominent Billionaire," *The Daily Signal*, May 1, 2015, http://dailysignal.com/2015/05/01/ex-im-misrepresents-subsidies-to-prominent-billionaire/.
[8]Ibid.
[9]Brad Watson, "Eliminate the Overseas Private Investment Corporation," Heritage Foundation *Budget Book*, 2015, http://budgetbook.heritage.org/international-affairs/eliminate-overseas-private-investment-corporation/, and Bryan Riley and Brett D. Schaefer, "Time to Privatize OPIC," Heritage Foundation *Issue Brief* No. 4224, May 19, 2014, http://thf_media.s3.amazonaws.com/2014/pdf/IB4224.pdf.
[10]U.S. Department of Agriculture, Foreign Agricultural Service, *MAP Funding Allocations – FY 2015*, 2015, http://www.fas.usda.gov/programs/market-access-program-map/map-funding-allocations-fy-2015 (accesssed June 4, 2015).

breweries and distilleries in the southeastern United States. Taxpayers should not be forced to subsidize the marketing that private businesses should do on their own.

4. TIGER grants (National Infrastructure Investment Grants). National Infrastructure Investment Grants, more commonly known as TIGER grants (for Transportation Investment Generating Economic Recovery), were established during the stimulus as a temporary program to boost federal spending on infrastructure. Unsurprisingly, the program has outlived its original "temporary" status and continues to dole out funds for the construction of local pet projects that waste resources as projects get funded with federal taxpayer money that states and localities may not have otherwise undertaken.

From 2009 to 2014, TIGER grants funded local projects such as:

- **City of American Falls Complete Streets project ($2.3 Million).** Federal money will fund the establishment of wider sidewalks, bike lanes, trees, lighting, art, and streetscaping in American Falls, Idaho. The project will "narrow travel lanes" to accommodate these supposedly transportation-enhancing projects.[11]
- **Carrie Furnace Flyover Bridge ($10 Million).** Grant funds will be used to help "redevelop a historic blast furnace site" suffering from environmental degradation in Allegheny County, Pennsylvania.[12]
- **Vision Zero Program in New York City ($25 Million).** Provides $25 million for New York City—a bastion of auto congestion—to establish "safe pedestrian access to schools and transit, and safe bicycle access to jobs." This will be accomplished primarily through building "curb extensions, pedestrian islands, expanded sidewalks, and protected bike lanes."[13]

The TIGER grant program has long outlived its temporary status and continues to fund projects that should either not be funded, or funded at the local or state level if desired by local citizens. Federal-level spending funds projects that might otherwise not get taxpayer funding, acting as a boon for local construction projects. The program should be eliminated after drawing down existing commitments.

5. The Essential Air Service Program. The Federal government subsidizes little-travelled rural flights through the Essential Air Service (EAS) program. EAS was established following the deregulation of the airline industry in 1978 and was initially expected to be temporary, but has been constantly renewed. Airlines should establish routes on the basis of whether those routes make business sense. EAS funding is often used to subsidize flights that are almost entirely empty: data shows that 44 of the 113 subsidized routes flew at least two-thirds empty.[14] Federal taxpayers should not subsidize airline routes, especially when cheaper or more practical alternatives that do not require subsidies exist. The Essential Air Service should be eliminated, leaving its routes to

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[11]U.S. Department of Transportation, *TIGER Grant Data*, October 3, 2014, http://www.dot.gov/policy-initiatives/tiger/tiger-grant-data (accessed June 4, 2015).
[12]Ibid.
[13]U.S. Department of Transportation, *TIGER 2014 Awards*, 2014, http://www.dot.gov/sites/dot.gov/files/docs/TIGER14_Project_FactSheets.pdf (accessed June 4, 2015).
[14]CBS News, "Is Essential Air Service Wasting Taxpayer Money?" CBS Interactive Inc., February 24, 2015, http://www.cbsnews.com/news/government-subsidized-essential-air-service-waste-of-taxpayer-money-some-say/ (accessed June 4, 2015).

stand on their own merits in the private sector or to be subsidized at the state or local level if those governments deem it absolutely necessary.

6. Amtrak Subsidies. Amtrak is a money-losing entity addicted to corporate welfare subsidies. Whether Amtrak is a fully private or public entity or something in between,[15] the facts are that Amtrak has been a managerial morass and perennial money loser for the federal government, which continues to provide operating and capital subsidies to even the most inviable routes (essentially all of Amtrak's routes outside the DC-NY-Boston Northeast Corridor). Last year Amtrak's net losses totaled almost $1.4 billion, including an operating loss of almost $227 million.[16] Congress should phase out federal subsidies for Amtrak and allow privatization and competition on the Northeast corridor and other routes that make financial sense. Long-haul routes and other inviable routes should be closed or turned over to state management.

7. The New Starts Program. The New Starts Program (also known as Capital Investment Grants) provides perverse incentives for state and local governments to ignore maintenance of existing infrastructure in favor of building brand new transit projects that are expensive and unnecessary. This "free" federal money often leaves states on the hook for losses and expensive maintenance that they cannot afford after projects are completed. In addition, the program does not use rigorous standards to ensure that recipient projects are economically, logistically, or environmentally beneficial for the receiving area. As a result, many New Starts projects actually increase congestion, reduce mobility, or consume more energy than the current system or cheaper alternatives ineligible for New Starts funding.[17] Congress should eliminate the New Starts Program and leave state and local governments to direct transportation funding as they deem best.

8. The Maritime Administration (MARAD). MARAD funds a host of subsidy programs that protect the U.S. shipbuilding industry from foreign competition. In addition, a Government Accountability Office (GAO) report has identified that MARAD's loan programs, which administer billions of dollars in loan guarantees for ship and shipyard construction, did not comply with statutory requirements and experienced "large-scale defaults" as a result of mismanagement and violation of sound business principles.[18] Protectionism is further entrenched by the taxpayer-funded Operation Differential subsidy, which pays ship operators to use more expensive American shipping, and the incredibly restrictive Jones Act, which requires that any

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[15]Robert Barnes, "Supreme Court Says Amtrak Is More Like a Public Entity Than a Private Firm," March 9, 2015, http://www.washingtonpost.com/politics/courts_law/2015/03/09/dd125130-c691-11e4-aa1a-86135599fb0f_story.html (accessed June 4, 2015).

[16]News release, "Amtrak Delivers Strong FY 2014 Financial Results," Amtrak, November 25, 2014, http://www.amtrak.com/ccurl/160/780/Amtrak-FY14-Financial-Results-ATK-14-107.pdf (accessed June 4, 2015).

[17]Randal O'Toole, "'Paint is Cheaper Than Rails': Why Congress Should Abolish New Starts," Cato Institute Policy Analysis No. 727, June 19, 2013, http://object.cato.org/sites/cato.org/files/pubs/pdf/pa727_web.pdf (accessed June 4, 2015).

[18]U.S. Government Accountability Office, "Weaknesses Identified in Management of the Title XI Loan Guarantee Program," GAO–03–657, June 30, 2003, http://www.gao.gov/products/GAO-03-657 (accessed June 4, 2015).

cargo (including passengers) shipped between two U.S. ports must travel on a vessel built, staffed, and flagged in the U.S.[19] MARAD should be eliminated, turning over its international regulatory responsibilities to another federal agency, such as the State Department. Congress should also repeal the Jones Act and all other protectionist regulations and subsidies that have hindered competition in the maritime industry.

9. Rural Business-Cooperative Service. The Rural Business-Cooperative Service (RBS) directs taxpayer money to rural businesses and government-favored activities in rural areas. The RBS also has a significant focus on pushing biofuels and renewable energy projects. Beyond the rhetoric, government funding to help private businesses or energy sources succeed, be they in rural or urban areas, is simply crony capitalist—it is picking winners and losers by government fiat. Private funding finds its way to worthy investments.

10. Technology Innovation Program. The Technology Innovation Program (TIP) was created by the America Competes Act of 2007 and replaced the previous Advanced Technology Program (ATP) which Congress eliminated because it represented wasteful corporate welfare. TIP provides grants to small and medium-sized companies to "support, promote, and accelerate innovation in the United States through high-risk, high-reward research in areas of critical national need," where "need" is defined by government bureaucrats. Government subsidies for innovation are unnecessary and wasteful. Instead of picking winners and losers in the U.S. innovation race, the government should focus on reducing needless regulatory barriers and tax penalties on saving and investing.[20]

11. Economic Development Administration. The Economic Development Administration (EDA) provides taxpayer money and technical assistance to economically distressed areas in the form of "grants" and "investments" for local projects, including the private sector. The EDA uses taxpayer dollars to target local political pet projects with a very narrow benefit—in many cases just one particular company or small segment of the population. The EDA is just one of about 180 federal economic-development programs, including the Small Business Administration's disaster-assistance loans, the Agriculture Department's rural development programs, and others that Congress should eliminate.[21]

12. Foreign Market Development Program (FMDP). The Foreign Market Development Program (FMDP) was created with the intention of creating, expanding, and maintaining long-term export markets for U.S. agricultural products. It redistributes about $35 million in taxpayer dollars a year to agricultural boards and associations. For

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[19]Emily Goff, "Close Down the Maritime Administration and Repeal the Jones Act," Heritage Foundation *Budget Book*, 2015, http://budgetbook.heritage.org/transportation/close-maritime-administration-repeal-jones-act/ (accessed June 4, 2015).

[20]Brian M. Riedl, "The Advanced Technology Program: Time to End this Corporate Welfare Handout," Heritage Foundation *Backgrounder* No. 1665, July 15, 2013, http://www.heritage.org/research/reports/2003/07/the-advanced-technology-program-time-to-end-this-corporate-welfare-handout.

[21]U.S. Government Accountability Office, "Economic Development Administration: Documentation of Award Selection Decisions Could Be Improved," GAO–14–131, February 6, 2014, http://www.gao.gov/products/GAO-14-131 (accessed June 4, 2015).

example, the Almond Board of California received funding for "trade promotion" and "trade relations."[22] Government needs to do little more to encourage trade than to reduce export restrictions. Agriculturual producers are perfectly capable of promoting their own exports without wasteful government trade distortions.

13. Emerging Markets Program (EMP). The Emerging Markets Program (EMP) promotes exports of U.S. agricultural products to countries that already have or are developing market economies.[23] Taxpayer funding is given to large agricultural boards and associations, including many of the same companies as benefit from other rural development and export programs. This is another program providing corporate welfare for the agriculutural industry and is needlessly duplicative.[24]

14. Technical Assistance for Specialty Crops (TASC) Program. The Technical Assistance for Specialty Crops Program (TASC) provides funding to organizations for projects that address various sanitary barriers that affect the export of specialty crops. Some of the projects include, but are not limited to, field surveys, pest research, and disease research. While many other U.S. industries fund their own research and surveys, the agricultural industry benefits from various government subsidies, which are unfair and distortionary.[25]

15. Hollings Manufacturing Extension Partnership. The Hollings Manufacturing Extension Partnership provides subsidies to consultants, manufacturers, and business advisers with the goal of bettering the business practices of small and medium-size businesses. The government should not be playing a role in the development of business—this is simply corporate welfare.[26]

16. The Advanced Manufacturing Technology Consortia. The Advanced Manufacturing Technology Consortia (AMTech) is a grant program through the National Institute of Standards and Technology (NIST) to strengthen private-sector technology. Some of its programs include allocating technology planning grants, funding

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[22]U.S. Department of Agriculture, *Report to the Congress of the United States Activities of the Foreign Market Development Cooperator Program*, 2012, http://www.fas.usda.gov/sites/default/files/2013-11/fmd_report_2012.pdf (accessed June 3, 2015).
[23]U.S. Department of Agriculture, Foreign Agricultural Service, *Emerging Markets Program (EMP)*, http://www.fas.usda.gov/programs/emerging-markets-program-emp (accessed June 3, 2015).
[24]U.S. Department of Agriculture, Foreign Agricultural Service, *FY 2015 Compliance Review Schedule – Market Development Programs,* March 30, 2015, http://www.fas.usda.gov/programs/resources/fy-2015-compliance-review-schedule-market-development-programs (accessed June 3, 2015).
[25]U.S. Department of Agriculture, Foreign Agricultural Service, *Technical Assistance for Specialty Crops,* http://www.fas.usda.gov/programs/technical-assistance-specialty-crops-tasc (accessed June 3, 2015).
[26]Emily Goff and Romina Boccia, "House Can Save $2.3 Billion More on the Commerce, Justice, and Science Bill," Heritage Foundation *Issue Brief* No. 3991, July 17, 2013, http://www.heritage.org/research/reports/2013/07/house-can-save-$2-3-billion-more-on-the-commerce-justice-and-science-bill, and Michael Sargent, Romina Boccia, Emily J. Goff, David B. Muhlhausen, and Hans A. von Spakovsky, "Cutting the Commerce, Justice, and Science Spending Bill by $2.6 Billion: A Starting Point," Heritage Foundation *Issue Brief* No. 4220, May 12, 2014, http://www.heritage.org/research/reports/2014/05/cutting-the-commerce-justice-and-science-spending-bill-by-26-billion-a-starting-point.

competitions for advanced manufacturing planning, and funding technology research. While the Advanced Technology Program was abolished in 2007, AMTech essentially carries out the same mission. The ATP was infamous for being corporate welfare, awarding money to IBM, GE, GM, Motorola, and other Fortune 500 companies.[27]

17. Department of Energy (DOE) Loan Programs and Loan Guarantees. DOE Loan Programs and Guarantees provide protection for lenders to encourage them to invest in energy projects of government interest. If the project fails, the government pays back the lender in full. This effectively shifts the risk of a loan from the lender to taxpayers. Most importantly, loan guarantees are highly likely to fund government pet projects, such as the $535 million Solyndra failure. This is cronyism at its best. The government has given the majority of these loans to large companies that already receive backing from plenty of private investors. Moreover, many of the companies that qualified for loan programs were also eligible for loans through the American Recovery and Reinvestment Act and were effectively "double-dipping" in the pool of taxpayer money.[28]

18. International Trade Administration. The International Trade Administration (ITA) serves as a sales department for certain businesses and promotes investment in the U.S., offering taxpayer-funded subsidies for businesses that promote their products overseas. Promoting U.S. exports is also a task carried out by the Department of Agriculture and the State Department, causing government overlap.[29] The ITA's protectionist policies, including antidumping and countervailing duty laws, prevent free trade and drive up costs for both consumers and businesses. One of the ITA's programs is the International Buyer Program (IBP) through which the ITA sets up a space "where foreign buyers can obtain assistance in identifying potential business partners, and meet with U.S. companies to negotiate and close deals." Private companies should facilitate their own business meetings or do so through voluntary trade assocations, not on the taxpayers dime.

Universal Service Fund Programs (19–21)

The following three programs are funded from fees paid by telecommunications users through the Universal Service Fund (USF). Run by the Federal Communications Commission (FCC), these programs fund a number of subsidy programs, including those for rural telephone companies, schools and libraries, and low-income consumers. At least two USF programs no longer have any justification for remaining in existence. FCC data show that mobile voice service is already available to 99.9 percent of households and wireless broadband service to over 99.5 percent of the U.S. population, including 97.8

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[27]National Institute of Standards and Technology, *Advanced Manufacturing Technology Consortia (AMTech) Program*, http://www.nist.gov/amo/ (accessed June 3, 2015), and Riedl, "The Advanced Technology Program: Time to End this Coroporate Welfare Handout."

[28]Nicolas Loris, "Eliminate Department of Energy Loans and Loan Guarantees," Heritage Foundation *Budget Book*, 2015, http://budgetbook.heritage.org/energy/eliminate-department-energy-loans-loan-guarantees/.

[29] Sargent et al., "Cutting the Commerce, Justice, and Science Spending Bill by $2.6 Billion: A Starting Point."

percent of rural residences.[30] Moreover, all three programs have come under scrutiny for blatant waste and abuse.

19. FCC High-Cost Fund/Connect America Fund. The "high-cost fund," which costs about $4.5 billion annually, largely supports rural areas where the cost of providing telecom connections is high. The USF, which traditionally subsidized rural phone companies, is currently being replaced by a new fund focusing on rural broadband and wireless service—the USF Connect America Fund. The program provides federal cash regardless of need. Residents of Aspen, Colorado, and Jackson Hole, Wyoming, for instance, receive support regardless of need at the expense of poorer Americans elsewhere.[31] Moreover, the program has come under scrutiny for blatant waste. Ten telephone carriers in Alaska, Arizona, Colorado, Hawaii, Michigan, Oklahoma, Texas, and Washington were paid the highest subsidies in 2010, including one company in Washington State that received nearly $24,000 per line in federal subsidies for 16 telephone lines in and around a resort lake town.[32] This fund represents corporate waste at its worst and should be ended.

20. FCC E-Rate Fund. The schools and libraries E-Rate fund costs about $4 billion annually. Originally intended to finance the connection of schools and libraries to the Internet, this goal was completed years ago. Thus, the program was expanded to fund other Internet-related goods and services. The program is unnecessary and has come under scrutiny for blatant waste, including building new fiber optic lines alongside those already in existence, in an effort to bring high-speed broadband to schools in underserved areas in Colorado in 2013,[33] directly competing with local telecommunication providers. The report cited a school in Agate, Colorado, which serves 11 students and now has three separate high-speed broadband connections, including the one provided by taxpayer dollars. The program should be eliminated.

21. The Lifeline Fund. The Lifeline Fund provides discounted phone service and equipment to low-income Americans. The program has been plagued by fraud and abuse, as costs tripled from under $600 million in 2001 to almost $1.8 billion in FY 2013.[34] Recipients typically receive a free wireless phone and a certain amount of airtime. Comparable plans cost almost $400 annually per phone.[35] Although Lifeline is restricted to one phone per household and only available to those who have an income below 135

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[30]Thomas Hazlett and Scott J. Wallsten, "Unrepentent Policy Failure: Universal Service Subsidies in Voice and Broadband," 2013, http://works.bepress.com/scott_wallsten/81 (accessed June 5, 2015).
[31]James L. Gattuso, "Cut Universal Service Subsidies," Heritage Foundation *Budget Book*, 2015, http://budgetbook.heritage.org/commerce-housing-credit/cut-universal-service-subsidies/.
[32]News release, "Move Over 'Obama Phone': FCC Wastes up to $24,000 Per Line a Year on Phone Subsidies Going into High-Income Areas Around U.S.," Market Watch, July 10, 2013, http://www.marketwatch.com/story/move-over-obama-phone-fcc-wastes-up-to-24000-per-line-a-year-on-phone-subsidies-going-into-high-income-areas-around-us-2013-07-10 (accessed June 4, 2015).
[33]Deborah Collier, "E-Rate for Education," Wastewatcher, July 2013, http://cagw.org/media/wastewatcher/e-rate-education (accessed June 4, 2015).
[34]James L. Gattuso, "Cut Universal Service Subsidies," Heritage Foundation *Budget Book*, 2015, http://budgetbook.heritage.org/commerce-housing-credit/cut-universal-service-subsidies/#fn2-315.
[35]TRACFONE, 2015, https://www.tracfone.com/direct/Purchase?payGo=true&app=TRACFONE&lang=en (accessed June 4, 2015).

percent of the federal poverty line or are enrolled in a means-tested entitlement program, the FCC reported that duplicate Lifeline subscriptions topped 2 million, warranting millions in fines to companies for failing to verify recipients' income.[36] According to figures supplied by the FCC to *The Wall Street Journal*, 41 percent of subscribers were unable to prove their eligibility for the program.[37] Lifeline, a program intended to provide phone service to Americans in need is now a corporate welfare subsidy for phone companies. It should be eliminated. Congress should further resist attempts to expand Lifeline to providing broadband subsidies.[38]

Concentrated Benefits and Dispersed Costs

The current budget process provides Congress with more incentives to keep funding duplicative and ineffective government programs than to eliminate them, wasting hundreds of billions annually. Although Congress has an opportunity each year, through the appropriations process in particular, to eliminate wasteful corporate welfare programs, Congress almost never leverages this opportunity. Congress's failure to follow regular order in appropriations over the past several years has further worsened the ability for special interests to receive continued taxpayer support as Congress simply extends current funding with a continuing resolution or passes spending bills that span a thousand pages or more.

Special interest groups working closely with lawmakers are able to influence legislation more effectively than individual taxpayers, in part because they have a greater interest in investing time and resources to secure their taxpayer subsidies. A federal government program, for instance, that costs $135 million annually might give taxpayer dollars to 10 private companies for certain investments. Divided equally among the 10 beneficiary companies, each company receiving $13.5 million in government support will care a great deal about this program. The beneficiaries will send lobbyists to Washington, making sure that Congress understands how important this program is to them. Moreover, they will work to convince Congress that this program is not only in the companies' private interest, but also serves a grander national purpose.[39]

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[36]Federal Communications Commission, *Guide*, 2015, http://www.fcc.gov/guides/lifeline-and-link-affordable-telephone-service-income-eligible-consumers (accessed June 4, 2015), and Federal Communications Commission, "FCC Proposes $33 M in Penalties Against Three Lifeline Providers," *Commission Document*, November 1, 2013, http://www.fcc.gov/document/fcc-proposes-33-m-penalties-against-three-lifeline-providers (accessed June 4, 2015).

[37]Spencer A. Ante, "Millions Improperly Claimed U.S. Phone Subsidies," *The Wall Street Journal*, February 11, 2013, http://online.wsj.com/news/articles/SB10001424127887323511804578296001368122888 (accessed June 4, 2015).

[38]Rebecca E. Ruiz, "Republicans Resist F.C.C. Proposal for Lifeline Broadband Subsidies," *The New York Times*, June 2, 2015, http://www.nytimes.com/2015/06/03/technology/republicans-resist-fcc-proposal-for-lifeline-broadband-subsidies.html?_r=1 (accessed June 4, 2015).

[39]Romina Boccia, "How Congress Can Improve Government Programs and Save Taxpayer Dollars," Heritage Foundation *Backgrounder* No. 2915, June 10, 2014, http://www.heritage.org/research/reports/2014/06/how-congress-can-improve-government-programs-and-save-taxpayer-dollars.

Taxpayers, on the other hand, have much less of an incentive to defend themselves from such a wasteful and unjust program. Divided by the number of federal income taxpayers in the U.S., this program's cost would be less than $1 for every taxpayer. The incentives, then, are aligned in such a way that the concentrated private interest will dominate over the largely dispersed public interest in terms of the effort that each group will put in to achieve their goals. A program cost of less than $1 per taxpayer might not sound harmful—until considering that thousands of such programs exist that are, indeed, "nickel and diming" the American public ever deeper into debt.

Today I have listed merely 21 federal programs that receive funding because of concentrated benefits to private firms as costs are dispersed among taxpayers who have more important things to do with their lives than appeal Congress to eliminate this or that program. However, there are many more that Congress should stop funding.

Each year, Congress is confronted with the decision of which federal programs to fund, and to what level. Too often Congress will provide new budget authority for programs whose statutory authorization (the legal authority for the program to continue) has expired. This is known as an unauthorized appropriation. Programs whose authorization has expired should not receive funding until Congress has debated the matter in the appropriate authorizing committee. To the detriment of the nation's fiscal health, Congress has made it a practice to ignore its own budget process rules and continues to authorize funding for programs whose authorizations have long since expired.[40]

Lawmakers are currently considering how much funding to appropriate for discretionary programs—the one-third of the budget Congress must decide on each year. Although Congress is bound by the statutory spending caps enacted as part of the Budget Control Act of 2011, rumors are circulating that some lawmakers would like to spend more than allowed under current law.

Congress could save many billions of dollars by eliminating corporate welfare, reducing duplication and overlap, and eliminating programs that fall outside the proper scope of the federal government. The purpose of a spending cap is to motivate Congress to prioritize among programs and to identify savings in areas that should not receive funding to make resources available in areas of critical need. Congress should not increase discretionary spending as long as Congress's current budget is plagued by waste, corporate welfare, and inefficiencies.

Even if a program has no beneficiaries in a particular lawmaker's district, the lawmaker may agree to fund it with the expectation that his fellow lawmaker will return the favor when it comes to his own pet project.

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[40]John Gray, Norbert J. Michel, and Michael Sargent, "House Transportation, Housing and Urban Development Appropriations: The Highway to Bankruptcy," Heritage Foundation *Issue Brief* No. 4414, June 4, 2015, http://www.heritage.org/research/reports/2015/06/house-transportation-housing-and-urban-development-appropriations-the-highway-to-bankruptcy.

Members of Congress in this way collaborate when it comes to funding their pet projects. Lawmakers will exchange favors by granting political support and votes for each other's projects. This practice is known as "logrolling." The practice of earmarking—directing funds to specific projects—was one of the most visible forms of logrolling before Congress adopted a rule banning earmarks in 2010.

Earmarks contributed to spending on often-inappropriate (beyond the scope of government) and wasteful federal programs. At their peak in FY 2006, more than 15,800 earmarks were included in appropriations bills, accounting for almost $72 billion in federal spending.[41] Even after transparency measures reduced the prevalence of earmarks in FY 2007, FY 2010 appropriations bills still allocated $32 billion in 11,320 earmarks, according to data compiled by the Congressional Research Service.[42]

Yet even with the earmark ban in place, lawmakers continue to allocate funding to wasteful, failed, and inappropriate federal programs. This furthers the existence of duplicative and unnecessary federal programs, many of which are nothing but corporate welfare and contrary to the public interest. Broader reforms are necessary to improve government programs and save taxpayer money.

Process Lessons from BRAC

The Defense Department's Base Closure and Realignment Commission (BRAC) provides a valuable mechanism for eliminating wasteful and unnecessary government spending. Creating an independent Government Waste Commission modeled on BRAC would be an effective way to consolidate duplicative programs and eliminate wasteful and inappropriate spending.[43]

After the Cold War, Congress showed bipartisan interest in closing obsolete military bases around the world in order to re-prioritize military activities, freeing up money to fund other missions or to reduce the deficit. Yet, base closures resulted in the dynamics of concentrated benefits and dispersed costs. Districts in which bases were closed experienced the immediate pain of that decision while the benefits were shared among all taxpayers. It became increasingly difficult to carry out base closures as Members of Congress banded together to protect each other's districts from base closures. This was the case despite the fact that many communities recovered quickly as they turned closed military facilities into engines of private-sector job creation. A commission to close and realign defense bases broke through the gridlock.

In 1988, the Base Closure and Realignment Act established a process for closing or realigning military bases through the Base Closure and Realignment Commission.[44] The

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[41]Congressional Research Service, "Earmarks in FY2006 Appropriations Acts," *Memorandum*, March 6, 2006, http://www.cq.com/pdf/crsreports-3588337 (subscription required; accessed January 22, 2014).
[42]Ibid.
[43]Boccia, "How Congress Can Improve Government Programs and Save Taxpayer Dollars."
[44]The Base Closure and Realignment Act of 1988, Public Law 100–526, Title II; extensively amended in 1990 (Public Law 101–510).

process began with the Department of Defense examining its forces and installations to compile a list of recommended BRAC actions. The independent BRAC reviewed the list and submitted it to the President with any recommended changes. The President then either approved or rejected the commission's recommendations and submitted the list to Congress for review. If the President approved BRAC's recommendations, but Congress disagreed, Congress could pass a resolution to reject BRAC's plan as a whole, at the risk of a presidential veto. If Congress took no action, the BRAC changes became law.

Although the 2005 BRAC process suffered from several shortcomings and inaccuracies,[45] overall it has been successful. Congress could apply a similar approach by establishing an independent commission to consider federal government programs based on clear and objective criteria, including attainment of performance goals, adherence to legislative intent, relevance of program goals, outcomes of randomized controlled trial experiments, financial performance, and overlap and duplication with other federal, state, local, and private activities. The idea that an independent commission guided by clear criteria can overcome special interest politics and congressional gridlock in pursuit of the national interest deserves serious consideration.[46]

[45]Government Accountability Office, "Opportunities Exist to Improve Future Base Realignment and Closure Rounds," GAO–13–149, March 7, 2013, http://www.gao.gov/products/GAO-13-149 (accessed May 8, 2014).
[46]Boccia, "How Congress Can Improve Government Programs and Save Taxpayer Dollars."

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Reducing Wasteful Federal Spending

Statement of Chris Edwards,

Editor, DownsizingGovernment.org, Cato Institute,

before the Senate Committee on Homeland Security and Governmental Affairs

June 10, 2015

Mr. Chairman and members of the committee, thank you for inviting me to testify today. My comments will examine the need to cut spending, the causes of budget waste, and the reasons why aid to the states is particularly inefficient.

The Need to Cut Spending

Without major reforms, federal spending and debt are expected to soar in coming years. The "alternative scenario" from the Congressional Budget Office (CBO) shows that spending will grow from 20 percent today to 32 percent by 2040, while debt held by the public will grow from 74 percent to 170 percent.[1]

Those projections are disturbing enough, but they are optimistic for a number of reasons:

1. Policymakers may continue to break the discretionary spending caps.
2. The United States may face unforeseen wars and military challenges.
3. The economy may have another deep recession.
4. Future presidents and congresses may launch new spending programs.
5. Interest rates may be higher than projected, thus pushing up interest costs.
6. Rising spending and debt will suppress economic growth. That negative effect is not accounted for in CBO's basic scenarios after the first decade.

These factors create major negative risks to our fiscal outlook. So policymakers should be prudent and begin to cut wasteful spending as soon as possible. "Wasteful" spending includes cost overruns, improper payments, and other types of mismanagement. But more broadly, waste includes spending that has a low value compared to the added tax burden created to fund it. And waste includes federal spending on activities that would be handled more effectively at lower cost by the states.

Causes of Waste in Federal Spending

In recent years, federal performance has been "dismal" and federal failure "endemic," concluded Yale University law professor Peter Schuck in his 2014 book, *Why Government Fails So Often.*[2] He examined dozens of federal programs and found that many were not delivering promised results, had large amounts of fraud and abuse, and intruded on activities that the private sector could perform better.

Schuck found that "many, perhaps most, governmental failures are structural. That is, they grow out of a deeply entrenched policy process, a political culture, a perverse official

incentive system, individual and collective irrationality, inadequate information, rigidity and inertia, lack of credibility, mismanagement, market dynamics, the inherent limits of law, implementation problems, and a weak bureaucratic system."[3]

Schuck is right: the problems are structural, and they have plagued the government since the beginning. A federal effort to run Indian trading posts starting in the 1790s, for example, was beset with inefficiency.[4] During the 19th century, the Bureau of Indian Affairs was rife with fraud and corruption, while the Army Corps of Engineers was known for cost overruns and pork-barrel spending.[5] And in the early 20th century, the government had a hard time closing unneeded Army forts, post offices, and Treasury assay offices because of parochial politics.[6] The government is far larger today, and so the waste has multiplied.

Here are some of the structural reasons for federal waste:[7]

- **Huge Size**. The government has more than 2,300 subsidy and benefit programs, and all of them are susceptible to waste, fraud, and other types of inefficiency.[8] Remarkably, the federal budget at $4 trillion is 100 times larger than the budget of the average-size state government. Federal spending is far too large for auditors and oversight committees to adequately monitor or review. Waste has ballooned as the government has grown larger.
- **Absence of Profits.** Unlike businesses, federal agencies do not have the straightforward and powerful goal of earning profits. So agencies have little reason to restrain costs, improve the quality of their services, or increase their management effectiveness. Many federal activities are monopolies, and that further reduces their incentive to operate efficiently.
- **Absence of Losses.** Unlike in the private sector, poorly performing federal activities do not go bankrupt. There are no automatic correctives to programs that have rising costs and falling quality. In the private sector, businesses abandon activities that no longer make sense, and about 10 percent of all U.S. companies go out of business each year.[9] By contrast, "the moment government undertakes anything, it becomes entrenched and permanent," noted management expert Peter Drucker.[10]
- **Output Measurement and Transparency.** Business output can be measured by profits, revenues, and other metrics. But government output is difficult to measure, and the missions of federal agencies are often vague and multifaceted. That makes it hard for Congress and the public to judge agency performance and to hold officials accountable for results. While businesses interact with customers, suppliers, and capital markets, federal agencies are often insular and less open to outside feedback, and that makes them more vulnerable to failure.
- **Rigid Compensation.** Federal employee pay is based on standardized scales generally tied to longevity, not performance. The rigid pay structure makes it hard to encourage improved efforts or to reward outstanding achievements. The pay structure also reduces morale among the best workers because they see the poor workers being rewarded equally. Furthermore, the best workers have the most incentive to leave, while the poor workers will stay, decade after decade.

- **Lack of Firing**. Disciplining federal workers is difficult because of strong civil service and union protections. When surveyed, federal employees themselves say that their agencies do a poor job of disciplining poor performers.[11] *Govexec.com* recently noted, "There is near-universal recognition that agencies have a problem getting rid of subpar employees."[12] Just 0.5 percent of federal civilian workers get fired each year, which is just one-sixth the private-sector firing rate.[13] The firing rate is just 0.1 percent in the federal senior executive service, which is just one twentieth the firing rate of corporate CEOs.[14]
- **Red Tape**. Federal programs are loaded with rules and regulations, which reduces operational efficiency. One reason for all the rules is to prevent corruption and fraud, which are concerns because the government hands out so many contracts and subsidies. Another reason is that there is no profit goal in government, and so detailed rules provide an alternate way to monitor workers. Finally, government workers themselves have reasons to favor red tape: if they follow detailed rules, they can "cover their behinds" and shield themselves from criticism.
- **Bureaucratic Layering**. Research has found that American businesses have become leaner in recent decades, with flatter managements.[15] By contrast, the number of layers of federal management has greatly increased. Paul Light of the Brookings Institution found that the number of layers, or ranks by title, in the typical federal agency has jumped from 7 to 18 since the 1960s.[16] Light argues that today's "over-layered chain of command" in the government is a major cause of failure.[17] Overlaying stifles information flow and makes it harder to hold anyone accountable for failures.
- **Political Appointees**. At the top of the executive branch is a layer of about 3,000 full-time political appointees.[18] Political leadership of federal agencies has some benefits, but it also contributes to failure. Administrations come into office eager to launch new initiatives, but they are less interested in managing what is already there. Political appointees may think that they know all the answers, and so they repeat past mistakes. The average tenure of federal political appointees is short—just two and half years—and so they shy away from tackling longer-term, structural reforms.[19] Another problem is that many appointees are political partisans who lack management or technical experience.

Some of these problems could be reduced by procedural reforms in Congress and management reforms in the executive branch. But as long as the federal government is so large, it will continue wasting many billions of dollars. So the best way is improve federal management and reduce waste is to greatly reduce the government's size.

Aid to the States Is Particularly Inefficient

While our biggest fiscal challenges stem from Medicare and Social Security, another area to find savings is aid to state and local governments, which costs more than $600 billion a year. There are more than 1,100 different aid-to-state programs, including those for education, transit, housing, economic development, and welfare.[20]

Aid to the states is particularly susceptible to waste for a number of reasons:

- **Misallocation.** In markets, the price mechanism and supply and demand allocate resources efficiently across the nation. The government has no such mechanism, and so federal aid is distributed based on guesswork and parochial politics. Allocating resources from Washington for local activities, such as schools, is less efficient than each state balancing the costs and benefits of its own spending programs.

- **Bad Incentives.** State and local governments have an incentive to overspend when the funds come "free" from the federal government. As for federal policymakers, they are often more focused on securing spending for their states than on ensuring money is spent efficiently with high-quality results.

- **One Size Does Not Fit All.** Americans have diverse needs and beliefs. Some programs make sense for some states, but not for others. Yet the federal aid system requires that all the states pay for programs created in Washington. Furthermore, aid comes with top-down regulations that raise costs and stifle local innovation. The states are supposed to be laboratories of democracy, but federal aid undermines that.

- **Intense Bureaucracy.** Federal aid is not a costless injection of funding to the states. It engulfs government workers in unproductive activities such as proposal writing, program reporting, regulatory compliance, auditing, and litigation. Many of the 16 million people employed by state and local governments must deal with complex federal regulations related to the plethora of aid programs.

- **Policymaker Overload.** Federal lawmakers have jam-packed schedules, and they simply do not have the time to properly oversee the vast aid system. Nor are lawmakers experts in the hundreds of local policy areas that federal aid supports. Furthermore, the more time lawmakers spend on local issues, the less time they have to ensure that money is being spent efficiently on properly federal activities, such as defense.

So federal aid is a roundabout and inefficient way to fund state and local activities, and it should be cut. Here are some suggested areas for savings:

Urban Transit. The federal government will spend about $13 billion on urban transit in 2015.[21] Federal aid is heavily tilted toward the capital costs of transit systems, not the operating costs. That bias induces local governments to favor expensive rail systems, rather than cheaper and more flexible bus systems.[22] Federally funded rail lines are prone to cost overruns and optimistic ridership projections.[23]

Without federal aid, states and cities would make more efficient investment choices using their own funding, and they would have more incentive to control project costs. Ending federal aid would also encourage cities to experiment with private and entrepreneurial transit options.

Disaster Aid. The Federal Emergency Management Agency (FEMA) provides aid for disaster preparedness, response, and relief. FEMA's budget fluctuates, but spending has trended upward in recent decades. The agency will spend about $14 billion in 2015.[24]

FEMA's response to some major disasters has been slow, disorganized, and profligate, as was the case with Hurricane Katrina.[25] Despite such failures, the federal government has become more involved in natural disasters in recent years, even smaller localized events. The number of federal disaster declarations—which trigger the flow of federal funding—soared from 29 in the 1980s, to 74 in the 1990s, to 127 in the 2000s, and to 128 so far in the 2010s.[26]

This is a troublesome development. Federalism is supposed to undergird America's system of handling natural disasters, but growing federal intervention is undermining the role of the states and private institutions. FEMA is very bureaucratic, and its activities can slow state and local disaster relief and rebuilding. The Government Accountability Office (GAO) found that the share of FEMA relief spending going toward paperwork has risen substantially over the years.[27]

FEMA's aid to states for preparedness is also known for wastefulness. Annual grants of $2.8 billion are used by local governments to pay for such items as vehicles, equipment, and conferences.[28] FEMA money is "free" to local governments, and so they tend to squander it. A report by former Senator Tom Coburn described how cities have used preparedness grants to buy armored vehicles, hovercrafts, underwater robots, and other fancy equipment that is little used.[29]

State and local governments should handle most natural disasters by themselves, and they can do so more efficiently without FEMA intervention. Cutting FEMA aid for natural disaster preparedness and relief would save billions of dollars a year.

Employment and Training. The federal government spends $8 billion or more a year on 47 different employment and training programs.[30] In a 2011 report, the GAO said "little is known about the effectiveness of employment and training programs we identified."[31] That is remarkable—taxpayers have been funding these sorts of programs for decades, yet federal auditors are still not sure whether or not they work.

There are few, if any, roles that the federal government can fill in employment and training that the states and private sector cannot fill. Even though millions of Americans have been out of work in recent years, relatively few of them have used federal employment and training services.[32] Instead, individuals looking for jobs and training these days rely on personal connections, the myriad of Internet resources, temporary staffing agencies, private education firms, and other market institutions.

Federal aid for employment and training programs tends to be spent inefficiently by local employment agencies and private contractors. A report by former Senator Tom Coburn cataloged the waste, fraud, and abuse of federal aid dollars in these programs by local administrators.[33] Congress should terminate these programs as ineffective and obsolete, and allow the states to go their way with workforce development.

Economic Development Administration (EDA). The Department of Commerce EDA provides subsidies to state and local governments, nonprofit groups, and businesses in regions that are economically distressed. At least that was the original idea, but political pressures intervened, and today the EDA spreads subsidies widely across the nation.[34]

The EDA will spend about $453 million in 2015 on a hodgepodge of activities, such as local road and sewer projects, construction and rehab of buildings, and direct business subsidies.[35] A June 1 press release from EDA, for example, announced an $862,557 grant to a company in Loveland, Colorado, to rehab an old building to house artist's businesses.[36] A May 8 press release announced a $2 million grant to Chester County, South Carolina, for a local sewer upgrade needed by a business.[37] These might be worthy projects, but what are the advantages to the economy of federal involvement? There are none. Federal intervention will simply add more bureaucracy to such projects.

The agency often claims that its projects generate high returns, but if that were true then local governments and businesses would eagerly tackle them by themselves. The EDA often claims that its spending creates "multiplier effects," but that ignores the negative multipliers that are generated from the higher taxes needed to fund the projects.

The EDA has funded many dubious projects over the years. The agency was a frequent target of former Democratic Senator William Proxmire and his "Golden Fleece Awards."[38] Back in the 1980s, Proxmire argued that the EDA "deserves to die."[39] Congress should follow though, and eliminate the EDA.

Community Planning and Development (CPD). The Department of Housing and Urban Development will spend about $11 billion on CPD in 2015.[40] Like EDA spending, CPD spending is a hodgepodge of subsidies for purchasing properties, construction and repair of facilities, and aid to nonprofits and businesses.[41] Funding goes for such projects as shopping malls, parking lots, museums, colleges, theaters, swimming pools, and auditoriums. CPD activities reflect the 1960's optimism that federal experts could efficiently fix local urban problems. But that top-down approach has not worked.

CPD funds were originally supposed to go to high-poverty areas, but the subsidies are spread widely today, even to high-income areas. The 2009 federal budget noted that the formula for CPD grants "has not been updated in over 30 years and as a result, many lower-income communities receive less assistance than wealthier communities."[42] A 2013 report by Reason Foundation also documented this problem, and it highlighted the corporate welfare aspects of CPD spending, such as subsidizing marinas and breweries.[43]

CPD activities should be funded by local governments or the private sector, not the federal government. Only local officials—using their own funding—can properly balance the costs and benefits of local projects. Congress should end CPD and save $11 billion annually.

School Lunch and Breakfast. The Department of Agriculture will spend about $16 billion on the school lunch and breakfast programs in 2015.[44] The programs illustrate a classic problem with aid programs—because the funding comes from Washington, local administrators have little incentive to control costs and reduce waste and abuse.

The improper payment rate for the school lunch program in 2013 was 15.7 percent, while the rate for the breakfast program was 25.3 percent.[45] Those rates of error and fraud are huge, and they amount to improper payments of at least $2.6 billion annually.[46] Many families claim benefits that they are not eligible for, for example, by falsely stating their income.

Schools strongly encourage participation, and families are not required to submit supporting documents when they apply, such as tax returns or paystubs.[47] Schools have strong incentives to maximize the number of kids on the lunch and breakfast programs because it affects the amount of resources they receive from other federal and state programs, such as Title 1 education grants.[48] As for school districts, they have little incentive to verify eligibility, and are only required to check three percent of applications each year.[49] Because these benefits go to about 100,000 schools, there is no way that officials in Washington can oversee the spending effectively.

School lunch and breakfast programs should be devolved to state and local governments. If they were relying on their own funding, they would have stronger incentives to improve efficiency and reduce waste.

Conclusions

Federal debt is piling up and spending is expected to soar in coming years. Projections show rivers of red ink unless policymakers enact reforms. The main problem is rapid growth in the major entitlement programs. But federal policymakers should tackle waste in every department to help solve our fiscal challenges.

A great place to start would be to cut aid-to-state programs. When the federal government takes over state and local activities, it generates bureaucratic waste and inefficiency, which ultimately harms the economy and reduces our standard of living. A decentralized approach where the states are left free to fund their own activities would lead to better governance for the whole nation.

Thank you for holding these important hearings.

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Testimony of Steve Ellis
Vice President, Taxpayers for Common Sense

Federal Spending Oversight and Emergency Management Subcommittee of the
Senate Committee on Homeland Security and Government Affairs
hearing on
"Wasteful Spending in the Federal Government: An Outside Perspective"

June 10, 2015

Good afternoon, Chairman Paul, Ranking Member Baldwin, members of the subcommittee. Thank you for inviting me here to testify at this hearing about government spending, waste, and what can be done about it. I am Steve Ellis, vice president of Taxpayers for Common Sense, a national non-partisan budget watchdog.

I was asked to concentrate my testimony on non-defense discretionary spending outside of agriculture. I have also included wasteful policy that leads to failed resource management and future taxpayer liabilities as well as disaster spending issues. And beyond today, I want to assure each and every one of you that Taxpayers for Common Sense is ready, willing, and able to work with you to eliminate waste and inefficiency in all areas of government – including defense – and give taxpayers a government that works. I have a copy of our most recent cut list "Common Sense Cuts for the 114th Congress: Silencing Sequester Scaremongers with $2 Trillion in Deficit Reduction" that I would like to enter into the record. This follows on other cut lists such as Common Sense Proposal to Rappel the Fiscal Cliff, Sliding Past Sequestration, and Super Cuts for the Super Committee.

Eliminate Wasteful Spending

Throughout government there are a variety of spending programs that are either wasteful, corporate welfare, or simply not a federal responsibility. Here are a few highlights in the areas I've been asked to cover.

Biofuels and Biomass Programs

Bioenergy subsidies are scattered throughout the Departments of Agriculture, Energy, Treasury, and the Environmental Protection Agency. The 2014 farm bill reauthorized numerous wasteful biofuels and biomass subsidy programs. Together, these mandatory/discretionary programs subsidize every portion of the biofuels/biomass production process:

- From research and development, promotion, and public education (through USDA's Biomass Research and Development Initiative, the Biobased Markets Program, and Biodiesel Fuel Education Program, respectively)
- Establishing and planting biomass crops, and then collecting, harvesting, and storing them (through the Biomass Crop Assistance Program),
- Converting heat and power sources at biofuels facilities to run on biomass (through the Repowering Assistance Program), and
- Finally, the actual production of biofuels or heat/power itself (through the Bioenergy Program for Advanced Biofuels and Biorefinery, Renewable Chemical, and Biobased Product Manufacturing Program).

From 2011 to 2014, the USDA Rural Energy for America Program (REAP) subsidized the installation of corn ethanol blender pumps even though a tax credit - the Alternative Fuel Vehicle Refueling Property Credit - already existed. While the 2014 farm bill prohibited REAP spending on blender pumps, USDA announced in May 2015 that it found $100 million in new spending for these pumps.

Farm bill bioenergy programs, specifically REAP, also subsidize normal costs of doing business such as replacing agricultural producers' grain bin dryers, irrigation systems, and oxygen monitoring systems for catfish farms, not to mention other wasteful expenditures such as the installation of tobacco production equipment, replacement of "syrup evaporators," and the construction of confined feeding operations. And while certain programs were designed to support advanced biofuels, derived from non-food crops, USDA still finds ways to prop up the mature corn ethanol and soy biodiesel industries.

Energy

There are many subsidy programs at the Department of Energy including those for energy sources new and old. Subsidy programs, tax credits, and mandates such as the Renewable Fuel Standard create a crazy quilt of government support that often works at cross purposes. TCS maintains it would be better to simply eliminate all energy subsidies programs (both discretionary and tax expenditures) including the discretionary spending for research and development subsidy programs to start with a blank slate. Then policymakers can determine what basic research the U.S. should support. For example, a quick (but not exhaustive) list of programs receiving more than $300 million in fiscal year 2015 includes: Fossil Energy Research and Development, Mixed Oxide – Fissile Materials Dispositions, and Fusion Energy Sciences.

Transportation

Over the last decade, Congress has transferred more than $50 billion from the Treasury to backfill the nation's Highway Trust Fund. And the Congressional Budget Office estimates the gas tax shortfall could require as much as $167 billion over the next ten years at the current rate of spending. While debates about revenue sources for the trust fund are for another time, the spending beyond the trust fund's means has to stop. In addition, too much spending is going to constructing new lane miles over repair. In a recent report with Smart Growth America, we found that between 2009 and 2011, states spent $20.4 billion to add 8,822 lane-miles, which

makes up one percent of the system. During the same period $16.5 billion was spent maintaining the other 99 percent of the system. By the end of that period the cost to bring all the roads in poor repair up to good condition increased to $45.2 billion, nearly three times the amount states spend on repair. This preference for funding ribbon cuttings over repairs will add additional pressure on the bankrupt federal funding system.

Essential Air Service

The Essential Air Service (EAS) program is a relic of the 1970s and airline deregulation. EAS provides subsidies to air carriers to maintain scheduled flights between rural communities and regional hub airports. These trips cost taxpayers as much as $1,000 per flight, and often the small planes that service the routes run empty or nearly empty. In addition, there are many instances where the subsidized airport is close enough to a hub airport that driving is not unreasonable. Finally, TCS has uncovered numerous examples of communities that could maintain transportation links to nearby hubs with intercity-bus service that could be run with little or no subsidy at all. . Annually, this program costs taxpayers roughly $250 million. The simple fact is EAS could be eliminated in all states but Alaska, saving taxpayers more than $1 billion over the next decade, with minimal impact on small communities.

Maritime Administration

The Maritime Administration was created in 1950 and has served as little more than a cheerleader for the maritime industry. The agency could be eliminated with funding remaining for the U.S. Merchant Marine Academy and support for state maritime academies. The responsibility for the Ready Reserve Force and National Defense Reserve Fleet can be returned to the Department of Defense.

U.S. Army Corps of Engineers

The Corps of Engineers Civil Works program suffers from a lack of prioritization for its funding. Up until the earmark moratorium the prioritization and guidance came from the project-by-project funding in the annual appropriations. Earmarks of course were a political prioritization process rather than a merit-based one. This inevitably led to waste as lower priority projects were funded over more critical ones. Taxpayers for Common Sense urges Congress to substitute merit or competitive or formula processes for allocating federal funds that have transparent and accountable metrics and criteria. This will reduce the justification and perceived need for earmarks to prevent future backsliding.

In FY10 (the last year for earmarks) the Corps civil works budget included 1,738 different projects worth roughly $4.6 billion. That represented a slight increase from the President's budget request of $4.5 billion, but a major growth in earmarks. Congress stuffed in 629 earmarked projects worth more than $500 million, by cutting and shaving budgeted projects, while increasing the total tab by $100 million. The problem with this is that they diluted priorities and spread the money further and thinner which increases project cost and delays completion and project benefits.

Fast forward to the earmark moratorium. Congress can't add 629 earmarks. So as they have done in recent years, the FY16 spending bills include 24 "slush-y" funds (in the Senate, 18 in the House) to fund various areas of the Corps' budget. The Corps would decide what projects to fund, but some of these funds were micro-targeted to ensure certain types of projects would fare well. Congress provided some squishy criteria, but it was little more than pabulum. In fiscal year 2015, Congress provided an additional $450 million in slush-y funds and in the March 2015 work plan, the Corps still hadn't figured out how to spend $131 million of it. That's half-way through the fiscal year.

There are many wasteful Corps of Engineers projects and policies that I would be happy to detail for you in writing. For instance the duplicative and wasteful environmental infrastructure program or reducing beach replenishment subsidies. The inland waterway industry should contribute fifty percent of the cost of maintaining inland waterways, currently they contribute nothing. Low use or no use waterways should be removed from the federal system. Also, the Inland Waterway Users Board can be eliminated entirely, there is no analog for any other trust fund. We always like to point out that Corps' motto should be: we may take twice as long, but we cost twice as much.

Coast Guard Bridge Program
When a bridge is determined to be an impediment to navigation, the Coast Guard has a program to cost-share the alterations to the bridge with the owner (often a railroad). This is something that should be paid for entirely by the bridge owner and possibly the navigation industry. Federal taxpayers shouldn't be involved.

U.S. In-Kind Food Aid
The U.S. provides a wide variety to foreign assistance, including food aid. In-Kind Food Aid is where the food aid is bagged in the U.S. and shipped on U.S. vessels to the affected region. This is more about supporting U.S. agriculture and shipping interests than it is about delivering aid quickly and efficiently through either monetary assistance or purchases in the region. In addition, there is a program of monetization where assisting organizations sell the food to fund development projects in the affected region. Both in-kind and the monetization programs should be eliminated.

Failed Resource Management

As long they exist, public lands are taxpayer assets and should be managed in a way that preserves their value, ensures a fair return from private interests using them for profit, and avoids future taxpayer liabilities. Revenues should be collected accurately and diligently from resource development on public lands – including renewable resources. Failed revenue management run the gambit from inadequate royalty collection for everything from solar development to coal extraction, to money losing timber sales, to below market water rates through the Bureau of Reclamation.

Oil and Gas Royalty Relief
The mismanagement and under-collection of oil and gas royalties has been highlighted by the GAO in several reports and featured in their "High Risk" series since 2011. The 1995 Deep Water Royalty Relief Act (DWRRA) awarded royalty "relief" for leases sold from 1996-2000. At the time the law was passed, oil and gas prices were only $18/barrel and royalty "relief" might have seemed like a small incentive for drilling, but DWRRA has since become one of the biggest subsidies the oil and gas industry receives— it's projected to cost taxpayers roughly $19.6 billion over the next 10 years.

Grazing
Federal grazing rules are outdated, too generous, and don't even come close to covering the costs taxpayers bear in maintaining federal grazing lands. Private land owners charge grazing fees of roughly $18 per Animal Unit Month (AUM represents the amount of forage a cow and her calf need for a month). States' fees range but Nevada, for example, charges $15 per AUM. As of Jan. 2015, the BLM charges $1.69. Even taking into account varying quality of lands, that's far too low. In fact, the fee has only gone up 46 cents since 1966. The GAO estimated that grazing fees covered roughly 13 percent of the overall program cost in fiscal year 2004.

Fair Market Value for Renewable Development on Federal Lands
Although wind and solar development do not extract finite resources from federal lands, this commercial development does take benefit from public resources, and taxpayers should be appropriately compensated. The Bureau of Land Management (BLM) has implemented wind and solar programs through the issuance of right-of-way (ROW) authorizations, which have traditionally not been offered via competitive bidding, raising questions about the current practice's ability to ensure a fair return for wind and solar development rights. BLM has recently proposed a competitive process for the issuance of solar and wind energy ROWs on public lands, a critical step toward fulfilling the fair market value mandate set forth in the Federal Land Policy and Management Act (FLPMA). BLM has also proposed the creation of a megawatt capacity fee. While inferior to a royalty, this would still represent a critical component of any comprehensive development plan for renewable energy development.

Fair Market Value for Coal Leases
For years coal companies have been underpaying royalties because coal's value is much lower domestically than it is abroad. In our report, *Federal Coal Leasing: Fair Market Value and a Fair Return for the American Taxpayer*, we found that the federal coal leasing program has consistently failed to obtain fair market value for taxpayers. The controversial Lease By Application (LBA) system improperly skews the valuation of lease tracts, garners significantly reduced bids, and shrouds crucial information in secrecy. It fails to account for the growing export markets for federal coal, and seldom generates competitive bids, resulting in revenue losses from 1983 to date as high as almost $29 billion. Congress should work with the Department of Interior on upcoming rule changes to ensure coal companies pay a fair royalty based on the actual price they receive for their coal. Previous court rulings have upheld this interpretation.

1872 Mining Law Reform

In 1872, Congress enacted a General Mining Law to entice people to settle the American West. Largely unchanged more than 140 years later, this is now a massive subsidy that has allowed companies to remove billions of dollars of gold, uranium, silver, and copper from public lands each year without a dime going to taxpayers. Any meaningful reform effort will address the three primary ongoing injuries to taxpayers under the 1872 law: the giveaway of federal lands; the extraction of federal mineral assets without taxpayer compensation through a royalty; and the creation of taxpayer liability by allowing the abandonment of contaminated mine lands.

Liabilities

To date, the federal government has more than $3 trillion in loans and loan guarantees on the books. The bulk of these are for housing and students, but there are loan programs for ships and fishing vessels, rural broadband and rail lines, energy projects and biorefineries, just to name a few. Many of these programs should simply be eliminated, but I will highlight just one of them.

Department of Energy Loan Guarantees
Created in 2005, the Title XVII Loan Guarantee program backs nuclear, coal, biofuels, transmission, energy efficiency and renewable projects. After getting beefed up in several appropriations bills and finally again in the 2009 stimulus, the Loan Guarantee program now provides loan guarantees for emerging energy technologies. For the first several years, this program stayed below the radar. The high profile default in 2011 on Solyndra's $535 million loan guarantee brought the program and its potential losses under increased scrutiny, and we urge Congress to stop the entire flawed program from issuing any more loan guarantees.

A more recent example of waste are the loan guarantees to the Vogtle project, which was more than 16 months behind schedule and $1.5 billion over budget when DOE issued two loan guarantees worth $6.5 billion to its owners in February 2014. Since then, the schedule for the project has been pushed back an additional 18 months, raising its cost another $1.5 billion. Putting taxpayers on the hook for billions for the project was mistaken, but by failing to acknowledge the project's risk, DOE has compromised its ability to recoup any potential losses. The program's history of poor decision making is deeply troubling for taxpayers as DOE continues negotiating a $1.5 billion guarantee for a third Vogtle partner and evaluates applications under three broad new solicitations it finalized last year offering $23 billion for Energy Efficient, Fossil Energy, and Advanced Nuclear Energy projects.

Energy Liabilities
For the nuclear industry, the Price-Anderson Act makes the federal government responsible in the case of a nuclear accident that does more than $2 billion in damage at any nuclear reactor. Damages from any serious nuclear accident are likely to be well above $2 billion—estimates for the costs of the nuclear tragedy in Fukushima, Japan top $100 billion. While it is hard to know the value of Price-Anderson subsidy it is clearly a liability to taxpayers.

FEMA and Disaster Spending

Disaster
While not part of regular discretionary spending, emergency federal disaster spending and policies regarding it should be examined. The desire to provide robust funding after a major event is understandable, but the ad hoc, scattershot approach creates an opportunity for waste, fraud, and abuse. Worse, in too many cases the money doesn't actually alleviate the risk of future disaster harm or spending, but actually puts people and infrastructure back in harm's way. An analysis by the Wharton Risk Management and Decision Processes Center found that the federal share of disaster costs has steadily increased from less than 30 percent in the wake of Hurricane Hugo in 1989 to more than 75 percent after Superstorm Sandy in 2012.

The Stafford Act, which guides much of the nation's disaster programs, needs to be reformed to provide incentives for communities and states to plan for the inevitable disasters and to adopt building codes and programs that lessen their impact. Right now, disaster assistance is provided with a 75 percent federal cost-share. We would propose that in order to get the maximum level of assistance, states should be required to plan and mitigate before the disasters or at a minimum make those commitments as a condition of assistance. In addition, states and communities should be required to explore and possibly purchase insurance for public infrastructure rather than expecting Uncle Sam to self-insure the public infrastructure for the entire country. For example, New York City's Metropolitan Transportation Authority has the world's largest catastrophe bond in case of disaster. It is a parametric bond that will automatically pay out if tides reach a certain designated level.

National Flood Insurance Program
Through both the National Flood Insurance Program (NFIP) and the U.S. Army Corps of Engineers flood and storm damage reduction programs we encourage development in an unsustainable manner. The policy orientation of NFIP (mandatory purchase requirement only in areas with less than one percent chance of flooding in a given year) encourages low and medium level flood protection from the Corps of Engineers. This induces more and more intense development in areas which exposes people, property, and infrastructure to greater losses when large events occur. Reforms intended to move toward more risk-based rates in the Flood Insurance Reform Act were rolled back last Congress. We understand that there are legitimate affordability issues, but those should addressed in a targeted, responsible manner. Charging closer to actuarial rates will enable the private market – as is the case in most developed countries – to remove some of the burden on taxpayers. The flood insurance program – which takes in about $3.5 billion in premium revenue each year – is $24 billion in debt to taxpayers. It is not sustainable.

On the other side of the ledger, research indicates that every dollar spent on mitigation saves four or more dollars in recovery. We should be helping people, communities, and states prepare for disaster and respond to disaster in a way that protects taxpayers, but also reduces future risks and costs.

Conclusion

I appreciate the opportunity to testify before you. And I as said at the beginning, Taxpayers for Common Sense is ready to work with you to root out waste and ensure that our precious tax dollars are being spent wisely and effectively. Thank you and I'd be happy to answer questions you have on the testimony or any other area of discretionary spending.

Testimony of

Thomas A. Schatz

President, Citizens Against Government Waste

Before the Senate Committee on Homeland Security and Government Affairs

Subcommittee on Federal Spending Oversight and Emergency Management

June 10, 2015

My name is Thomas A. Schatz, and I am president of Citizens Against Government Waste (CAGW). CAGW was founded in 1984 by the late industrialist J. Peter Grace and nationally-syndicated columnist Jack Anderson to build support for implementation of President Ronald Reagan's Grace Commission recommendations and other waste-cutting proposals. Since its inception, CAGW has been at the forefront of the fight for efficiency, economy, and accountability in government. CAGW has more than one million members and supporters nationwide, and, over the past 31 years, it has helped save taxpayers $1.3 trillion through the implementation of Grace Commission findings and other recommendations.

CAGW does not accept government funds. The organization's mission reflects the interests of taxpayers. All citizens benefit when government programs work cost-effectively, when deficit spending is eliminated, and when government is held accountable. Not only will representative government benefit from the pursuit of these interests, but the country will prosper economically because government mismanagement, fiscal profligacy, and chronic deficits soak up private savings and crowd out the private investment necessary for long-term growth.

It is no secret that wasteful spending is pervasive throughout the federal government and that every agency could perform its functions more effectively and efficiently. Recommendations to eliminate waste, fraud, abuse, and mismanagement are regularly provided by the Government Accountability Office (GAO), the Congressional Budget Office (CBO), the President's budget, and congressional authorizing and appropriations committees. Outside of the government, think tanks, advocacy groups, and private-sector companies also provide ongoing analysis of government expenditures. For example, since 1993, CAGW has released *Prime Cuts*, a compendium of recommendations that emanate from both public and private sources; some still date back to the Grace Commission. *Prime Cuts 2015* identified 601 recommendations that

would save taxpayers $639 billion in the first year and $2.6 trillion over five years. Since the organization's inception in 1984, the implementation of CAGW's recommendations has helped save taxpayers $1.4 trillion. *Prime Cuts 2015* can serve as a blueprint to cut government spending and put the nation on a path toward fiscal stability.

The first modern comprehensive effort to reform government and/or eliminate wasteful spending occurred through the Commission on Reorganization of the Federal Government, which was established by Congress in 1947 under President Harry Truman and became known as the Hoover Commission, as it was led by former President Herbert Hoover. The commission met from 1947-1949 and again from 1953-1955. More than 70 percent of the recommendations were implemented by executive and legislation action, including the establishment of the Department of Health, Education and Welfare, as well as the General Services Administration.

The next comprehensive study of the federal government occurred under President Reagan, who created the President's Private Sector on Cost Control in the Federal Government in 1982, which became better known as the Grace Commission. The commission issued its final report in 1984 and made 2,478 recommendations that would have saved $424.4 billion in the first three years after full implementation of the recommendations. Through executive orders, President Reagan saved $100 billion. The administration's annual reports on management of the federal government tracked the implementation of Grace Commission recommendations and provided a list of initiatives that were included in the President's budget.

The Hoover Commission inspired many states to establish similar entities. California created the Little Hoover Commission on State Government Organization and Economy in 1962, and that operation continues today. In turn, President Reagan referred to the Little Hoover Commission as one of the reasons for his desire to establish a similar entity at the federal level.

According to the Little Hoover Commission's website, its mission is to provide reports, recommendations, and legislative proposals to promote efficiency and economy in government. The commission is composed of five citizen members appointed by the governor, four citizen members appointed by the legislature, two senators, and two assembly members. The website states that the commission's "role differs in three distinct ways from other state and private-sector bodies that analyze state programs." First, the commission examines how programs "could and should function in today's world" rather than just determining whether programs "comply with existing requirements." Second, the commission produces reports that "serve as a factual basis for crafting effective reform legislation." Third, the commission follows through with legislative proposals to "implement its recommendations, build coalitions, testifying at hearings and providing technical support to policy makers."

There is no comprehensive list of state-based, permanent entities that function like the Little Hoover Commission. Some states have more specific operations, such as the Sunset Advisory Commission in Texas, which was established in 1977 and is charged with reviewing all state programs every 12 years on a rotating basis.

The commission's mandate covers approximately 150 state government agencies. Since its inception, 78 agencies have been abolished or consolidated; 37 agencies were completely abolished, and 41 had some functions transferred to existing or newly created agencies. The Texas Sunset Commission's website notes that every dollar spent on the sunset process earns the state of Texas $29 in return.

There have never been permanent operations similar to the Little Hoover Commission or the Texas Sunset Commission at the federal level.

While the Hoover and Grace Commissions reviewed operations at virtually every federal agency, there have been both legislative and executive branch efforts to review specific agencies or programs, including task forces, boards, and formal reviews. For example, the Packard Commission in 1981 and the Clinger-Cohen Act of 1996 focused primarily on management functionality at the Department of Defense (DOD). The National Performance Review under Vice President Al Gore was an interagency task force intended to reform and streamline government to be more efficient and less expensive.

The Office of Management and Budget (OMB) under President George W. Bush created the Performance Assessment Rating Tool, which disappeared at the end of the Bush administration. President Obama has initiated numerous efforts to eliminate wasteful spending, including a June 2011 executive order entitled, "Delivering an Efficient, Effective, and Accountable Government," which created the Government Accountability and Transparency Board, and a presidential memorandum sent to the heads of all executive departments and agencies instructing them to dispose of all unneeded federal real estate.

Congressional attempts to improve the management of the federal government included enacting the Grace Commission's recommendation to establish chief financial officers, which occurred in 1989 (begging the question as to why it took 215 years to provide a financial officer in federal agencies). The Office of Federal Financial Management was created at OMB in 1990 (begging the same question). The Government Performance and Results Act was passed in 1993, and the Government Performance and Results Modernization Act was signed into law in 2010.

While these initiatives were long overdue and helped improve the management of federal agencies, adopting the Grace Commission recommendation to reorganize OMB into the Office

of Federal Management would help change the focus of both OMB and Congress from spending to managing.

Despite the best intentions of presidents and legislators to address wasteful spending and improve government efficiency, the size and scope of government continues to grow. The President's budget has included a list of program terminations and consolidations for many years; a limited number of these programs are eliminated or consolidated, usually saving a few billion dollars. On the other hand, the creation of new programs and the funding or expansion of existing programs always overwhelms those efforts.

An underlying reason for this consistent failure to improve government efficiency and eliminate waste, fraud, and abuse is the tendency of members of Congress to create a program to solve a problem. Rather than spending the time to examine an issue in depth, including whether or not an existing program can address the subject matter, members are usually more likely to move forward with a new program. While the term "waste" can be subjective, everyone should agree that taxpayer dollars should not be mismanaged, and duplication and overlap in and of themselves can be wasteful. Unfortunately, there are very few systems in place to prevent such misspending by Congress and the executive branch.

In an effort to help prevent the creation of new, duplicative programs, Sen. Tom Coburn (R-Okla.) introduced S. Res. 427, the Preventing Duplicative and Overlapping Government Programs Resolution, in the 112th Congress. The resolution would require the report accompanying any bill reported by a Senate congressional committee to contain analysis by the Congressional Research Service (CRS) on whether the bill created a new federal program that would duplicate or overlap any existing federal entity, program, or initiative. S. Res. 427 would

also require the reporting committee of a bill to explain why the creation of each new program or office would be necessary if a similar program, office, or initiative already existed.

A companion measure, H. Res. 623, was introduced in the House. Both resolutions would amend the respective rules of each body of Congress. On June 29, 2011, the Senate voted 63-34 in favor of Sen. Coburn's amendment containing identical language to S. Res. 427 to S. Res. 426, a resolution to provide for expedited Senate consent of certain nominations subject to advice and consent. That was four votes short of the 67 needed to amend Senate rules. On February 2, 2012, the Senate voted 60-39 on a reintroduced version of the measure, which again failed to receive the requisite amount of votes necessary for passage.

In other words, the Senate voted twice to continue creating new programs without any information about whether or not the program duplicated or overlapped with an existing program, or explaining why the new program was necessary. Sen. Coburn reintroduced the resolution as S. Res. 110 on April 4, 2013, but the measure did not receive a vote in the 113th Congress.

At the beginning of the 113th Congress, the rules of the House were amended to require committee reports to state whether a new or reauthorized program duplicates another federal program(s), and the committee chairman may ask GAO to perform an analysis regarding that duplication with results included in committee report. These rules were again adopted at the beginning of the 114th Congress.

Congress would be well-served to act on its own watchdog's voluminous reports. GAO has issued five annual reports on duplicative and overlapping programs in 2011, 2012, 2013, 2014, and 2015, which are required by law to be issued every year. The reports address areas in virtually all major federal departments and agencies, demonstrating the widespread existence of

such mismanagement throughout the federal government. In its first four annual reports from 2011 to 2014, GAO identified 440 actions across 180 areas where "opportunities existed for executive branch agencies or Congress to reduce, eliminate, or better manage fragmentation, overlap, or duplication." In its 2015 report, GAO presented 66 actions that the executive branch or Congress could take to improve efficiency and effectiveness across 24 areas that span a broad range of government missions and functions.

Among the more egregious instances of overlap identified by GAO's 2015 report are the 42 programs across six federal departments that provide nonemergency medical transport, for which the Department of Health and Human Services (DHS) alone reported costs to taxpayers of $1.3 billion for FY 2014. There are 112 programs across eight federal agencies devoted to mental illness, for which a subset of 30 of the programs cost $5.7 billion for FY 2013.

In GAO's 2014 report, 11 new areas of fragmentation, overlap, and duplication were identified. The 2014 report recommended 64 actions which could improve efficiency in 26 areas, and 19 actions which would reduce duplication.

GAO's 2013 report, "Actions Needed to Reduce Fragmentation, Overlap, and Duplication and Achieve Other Financial Benefits," identified 31 areas of government "where agencies may be able to achieve greater efficiency or effectiveness. Within these 31 areas, [GAO] include[s] 17 areas of fragmentation, overlap, or duplication where multiple programs and activities may be creating inefficiencies." The 2013 report identified hundreds of agencies, offices, and initiatives that provide similar or identical services to the same populations, including: 679 renewable energy initiatives at 23 federal agencies and their 130 sub-agencies, costing taxpayers $15 billion in FY 2010; 76 programs to prevent or treat drug abuse spread across 15 agencies, costing $4.5 billion in FY 2012; three federal offices involved

in overseeing catfish inspections; and six separate offices at DHS involved in research and development, two of which awarded five separate contracts that each addressed detection of the same chemical.

GAO's 2012 report recommended 81 cost-saving measures that could save taxpayers tens of billions of dollars, including: consolidating federal offices, selling excess uranium at the Department of Energy, replacing the $1 bill with a $1 coin, and cutting improper payments by Medicare and Medicaid. Despite the recommendation to cut improper payments, GAO's 2015 annual report stated that improper payments jumped by $18.9 billion, from $105.8 billion in FY 2013 to $124.7 billion in FY 2014.

The 2012 report also cited 209 science, technology, engineering, and math (STEM) programs costing $3.1 billion spread across 13 agencies in FY 2010. More than one-third of these programs were first funded between FYs 2005 and 2010, yet the U.S. still does not have enough future workers in STEM fields and U.S. students "continue to lag behind students in other highly technological nations in mathematics and science achievement."

GAO stated that 173 (or 83 percent) of the 209 programs "overlapped ... with at least 1 other program in that they offered similar services to similar target groups in similar STEM fields to achieve similar objectives." This complicated and fragmented system was a result of efforts to "both create and expand programs across many agencies in an effort to improve STEM education and increase the number of students going into STEM fields." The proliferation of new programs in a short period of time "contributed to overlap and, ultimately, to inefficiencies in how STEM programs across the federal government are focused and delivered."

GAO's 2015 report stated that some progress has been made in reducing the amount of STEM programs. In 2012, the total number of STEM programs decreased to 158, and the

President's FY 2016 budget proposed to further consolidate and eliminate 20 STEM programs across eight agencies.

The 2012 report cited 82 teacher quality programs in 10 agencies that cost $10 billion in FY 2009. GAO noted the adverse impact of such a large number of similar programs: "The proliferation of programs" and "fragmentation" has limited "the ability to determine which programs are most cost-effective, and ultimately increase program costs."

GAO's 2012 report also identified 56 programs across 20 agencies to promote financial literacy, which are intended to improve the fiscal acumen of the American people. While it would be funny if it wasn't so sad, there is no reliable financial data on the total cost of the financial literacy programs, and a government that itself is going broke is trying to teach others how to balance their checkbooks.

Finally, GAO identified 47 job training programs in nine agencies that cost $18 billion in FY 2009 and cited the nearly complete absence of program analysis. Only five programs had an impact study completed since 2004 to determine whether or not participants secured a job as a result of the program itself rather than a separate cause, and about half have not had a single performance review since 2004. Therefore, "little is known about the effectiveness of most programs."

In an attempt to address this history of waste and overlap in job training programs, in 2014 Congress passed H.R. 803, the Workforce Innovation and Opportunity Act. H.R. 803 eliminated 15 job training programs and introduced a single system to measure every federal workforce program under the law. Although this was a start, it is imperative that lawmakers continue to build upon the progress made during the last 113th Congress.

Congress cannot claim ignorance of duplicative, bloated programs. Even prior to the publication of the five annual reports on fragmentation, overlap, and duplication, GAO has published thousands of accounts of improvident spending. GAO representatives have testified repeatedly before congressional committees, often reiterating findings from prior reports that the House and Senate have ignored. Some of the recommendations in the five annual reports on duplication and overlap, while not repetitive of each other, are based on previous GAO reports on specific issues. Others who testify before Congress also find themselves repeating the same proposals ad nauseam, all of which makes taxpayers sick and angry that insufficient steps are being taken to eliminate the waste, fraud, abuse and mismanagement that pervades the federal government.

In an effort to force congressional committees to hold hearings on duplicative programs identified by GAO that fall under their jurisdiction, Sens. Cory Gardner (R-Colo.) and Gary Peters (D-Mich.) have introduced S. Res. 102, the Congressional Oversight to Start Taxpayer Savings Resolution. The legislation requires each Senate standing committee (except the Appropriations Committee) to begin hearings within 90 days of the release of GAO's annual reports. It is absurd that a congressional resolution should even be required to force committees to do what they are supposed to do on a regular basis.

The elimination of duplication and overlap within federal agencies was the focus of legislation introduced by Sen. Sam Brownback (R-Kan.) and Rep. Todd Tiahrt (R-Kan.) in 2004. The bills would have established a Commission on the Accountability and Review of Federal Agencies (CARFA), subjecting agencies to three areas of review. First, when two or more agencies were performing the same function, the commission would recommend that the function be consolidated or streamlined into a single agency or program. Second, when the

commission found an agency was mismanaging resources or personnel, wasting funds by egregious spending, or using funds for the benefit of a special interest group, the commission would recommend that the agency or program be eliminated or realigned. Third, when the commission would that an agency or program had failed to meet its objectives, become irrelevant, or completed is intended purpose, the commission would recommend the elimination of such agency or program.

After completing its evaluation, the commission would submit to Congress both a plan with recommendations of the agencies and programs that should be realigned or eliminated and proposed legislation to implement this plan. As with the successful base closing or BRAC model, Congress would consider this legislation on an expedited basis with a comment period from the committees of jurisdiction. Within the expedited time frame, the Congress would take an up-or-down vote on the legislation as a whole without amendment. If CARFA's recommendations were enacted, significant savings would likely result. If CARFA's recommendations were rejected, congressional committees would still have a useful guide for identifying areas in need of scrutiny.

Needless to say, nothing was done about CARFA by the House or the Senate, and no similar legislation has been introduced since Sen. Brownback and Rep. Tiarht left Congress.

Whether or not CARFA legislation is reintroduced or other legislation to establish a new Grace Commission or other comprehensive review of federal expenditures, a bi-partisan examination of government waste, fraud, abuse, and mismanagement could review the operations of federal agencies and evaluate improvements; look for increased efficiency and reduced costs that can be realized by executive action or legislation; provide additional

information and data relating to government expenditures, indebtedness, and personnel management; and seek opportunities for increased managerial accountability and improvements.

Robert Freer, Jr., chairman and founder of the Free Enterprise Foundation and an executive committee member of the Grace Commission, wrote in 2010 that:

> More than two decades have passed with only partial adoption of [the Grace Commission's] suggestions, and we are in even deeper soup just as it suggested we would be if we did not follow through. In fact, we are several leagues beyond anything the Commission even conceived of in fiscal jeopardy due to our own profligacy. Any rational society would have long ago reined in its appetites, re-examined its approach to social services, and sharpened its management pencils. It is unclear whether the more than 100 new agencies of government to be created to carry out the new health care initiative will ever be funded, but even the existing governmental structures are woefully in need of a sharp management knife to prune waste, inefficiency, and fraud from their administration. While lamenting the total irresponsibility in growth of government, in calling for a new Grace Commission, we can still hope that government does what it can to carry out its ill conceived programs in a manner as devoid of waste, inefficiency and fraud as possible. A new Grace Commission would help.

In September 2010, shortly before he was elected to the United States Senate to the seat once held by President Obama, then-Congressman Mark Kirk (R-Ill.) wrote in *The Hill*, "Congress and the president should establish a new Grace Commission. ... After a two-year study at no taxpayer expense, the panel made 2,478 recommendations, which it estimated would save $1.9 trillion by the year 2000. A 21st century Grace Commission should also be given the

powers of the Base Realignment and Closure Commission, with its recommendations facing certain up or down votes in both chambers."

In a June 15, 2011 editorial, the *Las Vegas Review-Journal* opined on President Obama's contemporaneous announcement of a new effort to eliminate government waste – the "Campaign to Cut Waste," with Vice President Biden to chair the oversight board of federal departments and agencies. The op-ed concluded as follows: "If Vice President Biden's new commission is really interested in eliminating waste and redundancy, the first thing they do should also be the last thing they do: Order new copies of the Grace Commission report printed up and handed out to the president and each member of Congress, and then set a good example by voting themselves out of existence."

Arguments have been made by members of Congress that a new Grace Commission or CARFA is not needed since Congress already has the authority to make any changes it wants to agencies and programs. However, if that were correct, the number of duplicative, overlapping, and fragmented programs would be reduced; the efficiency of remaining programs would be vastly improved; and the nation would be on a path to a balanced budget. Therefore, it remains true that every possible proposal to stop mismanaging the taxpayers' money should be pursued.

Since its inception, CAGW has been closely following spending at the United States Department of Agriculture (USDA), particularly during consideration of the Farm Bill by Congress. The Farm Bill creates a rare situation in which the headwinds to eliminating waste are more regional than partisan. In other words, eliminating waste in federal agriculture spending is not any easier than cutting profligate spending in other areas of the budget where the differences are partisan. My testimony today will focus on eight specific programs within federal agriculture spending which, if eliminated, would save tens of billions of dollars.

On February 3, 2014, when Congress finally passed the Agriculture Act of 2014, more commonly known as the 2014 Farm Bill, it codified a piece of legislation that is on track to be even more expensive and wasteful than the abysmal 2008 Farm Bill that it replaced. The Congressional Budget Office (CBO) estimated that the 2014 Farm Bill would save a measly $16.6 billion over 10 years compared to a $956 billion cost of the legislation over the same timeframe. The projected cost of the 2014 Farm Bill was therefore 49 percent greater than the projected 10-year, $640 billion cost of the 2008 Farm Bill.

CBO has a long history of underestimating the cost of farm bills, which makes it unlikely that even the miniscule $16.6 billion in savings will be achieved. According to an analysis by Taxpayers for Common Sense, CBO underestimated the cost of the 2002 and 2008 Farm Bills by a cumulative total of $450 billion. Given this track record, there is little reason to believe that any of the projected savings for the 2014 Farm Bill will materialize.

Despite claims to the contrary by members of Congress, the 2014 Farm Bill did not sufficiently reform or terminate profligate subsidy programs. Although the bill did eliminate the indefensible direct payments program, it expanded crop insurance subsidies, left intact the market-distorting sugar program, and failed to repeal the $200 million, corporate-welfare stalwart, Market Access Program.

The sugar program not only distorts the free market, it also keeps prices much higher than necessary for consumers and taxpayers. The U.S. sugar program could accurately be described as an outdated, Soviet-style command-and-control program that uses price supports, prohibitive tariffs, import quotas, guaranteed loans, and domestic marketing allotments to artificially inflate the price of sugar. The program is often justified as providing assistance to small farmers; however, the sugar program is designed to benefit about a dozen highly profitable sugar

processors and about 4,700 sugar farms that are not surprisingly some of the nation's wealthiest farms.

While the federal government has been supporting sugar beet and sugar cane growers and processors for more than 75 years, the sugar program has been particularly pernicious to taxpayers since the 2008 Farm Bill. That legislation increased loan rates for raw and refined sugar; continued a domestic allotment system; placed new restrictions on the ability of the secretary of Agriculture to allow imports even if they are needed to fill shortfalls in the U.S. sugar market; and created the federal Feedstock Flexibility Program, which requires the U.S. Department of Agriculture (USDA) to sell surplus sugar for ethanol production (an industry which receives its own federal subsidies) at a huge loss to the government. Despite the best efforts of taxpayer and consumer groups, amendments to mitigate the negative effects of the 2008 Farm Bill were defeated during consideration of the 2014 Farm Bill.

The sugar program has caused the price of sugar to be about 40 percent higher than the world price, resulting in increased costs to consumers of $3.5 billion annually between 2009 and 2012. Thousands of jobs in sugar-using industries, particularly candy manufacturers, have been lost. Finally, sugar producers forfeited $152 million worth of sugar to the USDA in September and October 2013. CBO forecast in its March 2015 Baseline for Farm Programs that the U.S. sugar program will cost taxpayers an additional $115 million over the next 10 years.

The 2014 Farm Bill created the Dairy Producer Margin Protection Program (DPMPP), which replaced the Milk Income Loss Contract Program and the Dairy Product Price Support Program. The DPMPP pays dairy farmers when the national margin on milk sales falls below a certain set level.

Written into permanent law and therefore not subject to periodic reauthorization in the Farm Bill are federal milk marketing orders (FMMOs). FMMOs are the federal government's milk pricing regulations, which date back to the Great Depression. They are one of the last remaining areas of direct government market intervention in food prices. As such, FMMOs have a substantial impact on hundreds of millions of U.S. consumers and taxpayers.

FMMOs initially provided an important service to the American public. Specifically, they were adopted to ensure an adequate supply of fluid milk, particularly in rapidly growing cities, with a pricing system based on the distance from Eau Claire, Wisconsin. Today, that mission has been fulfilled, and the continued existence of FMMO milk pricing regulations is no longer in the best interests of consumers and taxpayers.

Despite efforts in both the House and Senate to eliminate or reduce spending on MAP, which is a poster child for corporate welfare, the program survives. MAP has delivered advertising subsidies to successful firms, such as Blue Diamond, Butterball, Dole, McDonald's, Pillsbury, Sunkist Growers, Tyson, and Welch Foods, as well as agriculture trade associations and farmer cooperatives, to market their goods abroad.

A June 2012 report on MAP by former Sen. Tom Coburn (R-Okla.) disclosed that some of the $20 million that was given to the Cotton Council International (CCI) in 2011 was used to create an Indian reality TV show in which designers create clothing made from cotton. The show was intended to promote the use of cotton generally, not necessarily cotton from the U.S. Indeed, India does not have any need for U.S. cotton, as it is a net exporter of the product, producing twice the amount of U.S. cotton growers. MAP has provided more than $169 million to CCI over 10 years.

MAP was included among the recommendations in GAO's 2013 duplication report. Over the past decade, MAP has provided nearly $2 billion in taxpayer money to the programs beneficiaries. President Obama's FY 2012 budget proposed a 20 percent cut in MAP, which included in an amendment on the floor of the Senate and defeated. Numerous attempts to eliminate the entire program have consistently been rejected in the House.

According to an article in *The Los Angeles Times* regarding a particularly absurd expenditure:

> [MAP] financed a $3-million advertising campaign in Japan for the California Raisin Board, featuring the animated dancing raisins that were such a hit in the United States. It bombed.
>
> The campaign's theme song, 'I Heard It Through the Grapevine,' couldn't be translated into Japanese, so it ran in English and was therefore incomprehensible to most viewers, according to the GAO. The shriveled dancing figures disturbed Japanese children, who thought they were potatoes or chunks of chocolate. The characters' four-fingered hands reminded television viewers of members of criminal syndicates, whose little fingers are cut off as an initiation rite. If all that wasn't enough, the Raisin Board couldn't even get its product onto store shelves during the promotion period.
>
> The board's goal was to sell 900 tons of raisins in Japan during the campaign; exports during the period reached a little more than half that. And the U.S. government spent $2 in promotion costs for every dollar's worth of raisins that reached Japanese store shelves.

Taxpayers should not subsidize advertisements for private entities. According to *Prime Cuts 2015*, the elimination of MAP would save taxpayers $200 million in the first year and $1 billion over 5 years.

In the 2009 American Recovery and Reinvestment Act (stimulus), Congress allocated $7 billion for broadband grants and loans. The Rural Utilities Service (RUS) received $2.5 billion for its Broadband Initiatives Program (BIP) for 320 projects in 44 states and territories. According to the USDA, the RUS has obligated $2.28 billion to broadband grants, and used $87 million to back $1.26 billion in broadband loans, with the remainder of its allocation used for administration and oversight. Despite the program's widespread funding reach, the money is not necessarily being spent wisely by grant recipients.

A March 2013 USDA IG report on the stimulus funds stated that "RUS funded BIP projects that sometimes overlapped preexisting RUS-subsidized providers and approved 10 projects, totaling over $91 million, even though the proposed projects would not be completed within the 3-year timeframe RUS established and published." The IG also found that "the agency could have implemented the program so that it would have focused more exclusively on rural residents who do not already have access to broadband."

On February 27, 2013, the House Committee on Energy and Commerce held a hearing on the status of broadband spending under the stimulus. Witnesses stated that much of the stimulus broadband funding has produced overbuild leading to direct competition with incumbent private sector providers of broadband services. While Connect North Georgia President, Bruce Abraham, lauded the economic benefits to northern Georgia stemming from the $33 million broadband stimulus loan it received, Vermont State President of FairPoint Communications, Michael K. Smith, described millions in federal dollars being used for overbuild projects

throughout New England that "create a publicly financed competitor aimed at putting FairPoint and other private providers at a competitive disadvantage."

While the RUS broadband initiative primarily issues and guarantees loans for broadband expansion into rural areas, the High Cost Program of the Universal Service Fund (USF) also provides a funding mechanism for the expansion of telecommunications services to areas of the country that are either unserved or underserved (particularly rural areas) where costs to build infrastructure is higher. This means that there are at least two federal programs that have essentially the same mission: to provide funding for the expansion of broadband into high cost, unserved or underserved regions of the country. This situation also provides a mechanism whereby grant recipients have an opportunity to draw from two separate federal resources for funding broadband projects, with little oversight. When the Federal Communications Commission began discussion of the Connect America Fund to further promote broadband across the country, RUS officials raised concerns that the USF grants that are included by applicants as income for RUS loans might be in jeopardy under the Connect America Fund.

In addition to competing unfairly with provide broadband providers, numerous RUS broadband projects are appallingly wasteful. For example, in 2009, Buford Communications of LaGrange, Arkansas, (population 122) received $667,120 to build a hybrid fiber coaxial network and a new community center. This equates to $5,468 per resident of LaGrange.

Despite ample evidence of waste and mismanagement in the RUS broadband program, Congress expanded it by creating the Rural Gigabit Network Pilot Program in the Agriculture Act of 2014. There is $50 million allocated for the project over five years for the development of "ultra-high-speed" broadband access to rural cities and towns. Among other requirements, proposals for funding through this pilot program are limited to areas that do not already have

ultra-high speed service available, and the project must be completed within three years of receiving funding.

Increased broadband connectivity is important, and many private sector companies have already stepped up and improved service for both wireline and wireless customers through their own capital investments. However, when taxpayer funds are used through either grant or loan programs, there should be increased accountability for where and how tax dollars are being spent in order to avoid wasteful spending and overbuild of existing infrastructure. CAGW's *2015 Prime Cuts* highlighted wasteful spending at RUS and called for the elimination of the entire agency, which would save $9.6 billion in one year and $48.1 billion over five years.

Programs designed to support the peanut subsidy have existed in some form since the early 1900s. The 2014 Farm Bill moved the program to be covered by the expanded crop insurance system; peanut farmers chose in late 2014 to participate in either the Agriculture Risk Coverage (ARC) program or the Price Loss Coverage (PLC) program. Under the PLC program, payments are made to farmers when the price for a crop dips below its "reference price." The Farm Bill set the reference price for peanuts at $535 per ton. Under the ARC, USDA makes a payment for a covered crop in any year that "actual crop revenue" for the commodity is less than its "agriculture risk guarantee."

Many economists believe that the cost of the expanded crop insurance programs will significantly exceed initial estimates, as crop prices are beginning to fall much sooner than projected. On January 26, 2015, the Congressional Budget Office (CBO) released a revised baseline that showed annual payments to farmers could average $4.8 billion over the next decade. This represents a nearly 50 percent increase over CBO's estimate following passage of the 2014 Farm Bill.

The Delta Regional Authority, established in 2000, is supposed to provide economic development assistance to support the creation of jobs and improve local conditions for the 10 million people who reside in 252 counties and parishes throughout the Mississippi Delta states of Alabama, Arkansas, Illinois, Kentucky, Louisiana, Mississippi, Missouri, and Tennessee. However, the Republican Study Committee's FY 2016 budget pointed out that these efforts are duplicative of other federal programs and support mostly local projects. This is true of most federal "regional" commissions, authorities, and programs. Since FY 2003, the DRA has received six earmarks totaling $17.8 million, as noted in CAGW's *2015 Congressional Pig Book.*

The legislation that authorized ethanol tax credits expired in January 2012, yet ethanol subsidies live on through the Renewable Fuel Standard (RFS). The RFS creates a government-guaranteed demand for ethanol by requiring that increasing amounts of transportation fuel come from renewable sources, notably corn-based ethanol, until 2022. Since the RFS was implemented in 2005, costs of vital food commodities, including corn, grains, milk, eggs and may other commodities have increased as disproportionate amounts of corn are diverted away from food and animal feed and instead directed toward fuel. The government should do everything in its power to eliminate senseless policies that artificially inflate the price of gasoline and cost consumers millions of dollars each year through higher commodity prices.

Better stewardship of the taxpayers' money should be the mantra for every member of Congress. Every American would be well-served if every day representatives and senators came to work thinking first and foremost about how they could better manage the taxpayers' money and solve problems effectively with the resources that are already allocated to the federal treasury and through the use of existing programs, and only after doing all that can be done to

answer that question affirmatively then seek another way to solve the problem. In other words, rather than thinking that his or her committee or subcommittee has the best or the only answer to solve a perceived problem, each representative and senator should first think about how to solve the problem and then determine if a new program is needed.

I appreciate the opportunity to testify before the committee today, and would be glad to answer any questions.

Testimony

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"Wasteful Spending in the Federal Government:
An Outside Perspective"

Subcommittee on Federal Spending Oversight and Emergency Management
Committee on Homeland Security and Governmental Affairs
United States Senate

June 10, 2015

Mr. Chairman and members of the Subcommittee, it's a genuine honor to appear before you and to share my perspective on the problem of cutting waste in government. I've been working in the field of public management and budgeting for 40 years and, over that time, have had the chance to examine closely the best practices in the United States and around the world in building strategies to reduce government's cost and to improve its effectiveness. There's never been a time when smart work on these problems has been more needed, and the Subcommittee's work could not be better timed.

There are two fundamental kinds of wasteful government spending. One is doing things that shouldn't be done—or that shouldn't be done by government. That's fundamentally a political judgment shaped, as the nation's founders intended, by the good women and men who work in this building. There are important new contributions to these judgments through the movement to bring more and better evidence to government decisions, through strategies like "Moneyball for Government," which Senators Kelly Ayotte and Mark Warner have championed. Supporting this effort is legislation like the Government Performance and Results Modernization Act of 2010 and management reforms of both Presidents George W. Bush and Barack Obama, which have brought sharper analysis to the measurement of government performance. At the core, however, the question of what government should do is a political question that must be answered by our politically elected officials.

The other kind of wasteful government spending is doing poorly those things that government must do. Once Congress passes legislation and the president signs it, there is an obligation in law—and a promise to citizens—to "take Care that the Laws be faithfully

executed," as the president's oath of office in the Constitution puts it. We should see that the laws are executed effectively, efficiently, and accountably. Too often, as we know all too well, this doesn't happen. That's wasteful government spending we can—indeed, we must—do something about.

There are things that *virtually everyone agrees government must do*: providing quality health care to veterans, managing Medicare and Medicaid effectively, ensuring the safety of the food supply, protecting critical infrastructure, and a host of other things. It is *imperative that we do better the things that government must do*. Nothing is more wasteful of taxpayer dollars, nor more offensive to the social contract between citizens and government, than to do these essential things poorly.

But here's where we have a problem. As I wrote in the January/February 2015 issue of *The Washington Monthly*, a September 2014 Washington Post/ABC News poll shows that most Americans believe that government fails too often. Of those surveyed, 74 percent said they were dissatisfied or angry with the way the federal government works. Another 23 percent were satisfied—but not enthusiastic. Those enthusiastic about the federal government's performance? Just 1 percent. We can—and must—do better.

Government Programs That Work Well

In fact, however, much of government actually works pretty well, most of the time. The Heritage Foundation points to "the breathtaking, long-term improvements in safety in the airline industry," with tough, smart work by the National Transportation Safety Board leading to just a single fatal accident on an American airline since 2009, when a commuter jet crashed near Buffalo. For all the (often overblown) concerns about the long-term fiscal strength of Social Security, the bureaucracy that actually administers the program, the Social Security Administration, makes monthly payments to sixty-four million Americans with an accuracy rate of more than 99 percent and administrative costs that are (at 0.7 percent) but a fraction of those of private pension plans. Harvard University researchers found that stronger government regulations for air quality have led to longer lives. Even at the troubled Veterans Health Administration, a new technology system shrank the claims backlog by 60 percent.

Government usually gets only the hard problems—the puzzles that the private sector cannot or will not tackle, or that the private sector itself creates. In 2009, the United States found itself the majority stockholder in General Motors and pumped billions into Chrysler. Government bailouts saved an insurance company (AIG) and a bank (Citigroup). With its $49.5 billion bailout, the feds saved GM and millions of jobs, lost just $11.2 billion in the turnaround, and got out of the car business by the end of 2013. The government actually made money—$22.7 billion—on the AIG bailout and another $15 billion on Citigroup, far offsetting its auto-industry loss. Six years after the government launched these bailouts, it's still staggering to imagine how bad things would have gotten if the government had left private enterprise to itself. And these weren't aberrations. Again and again over the years, Washington has bailed out companies deemed vital to the economy, like Lockheed in 1971,

Chrysler in 1980, and the entire airline industry after 9/11. Each time, the actions saved the companies and Washington made a profit on its investments. A huge part of government works pretty well most of the time, as we take for granted every time safe drinking water comes out of the tap.

What To Do About Programs that Don't

But, too often, important programs do not work well. These are problems that cost untold billions in taxpayer dollars. Most importantly, however, these are problems that can be fixed.

Table 1
GAO High-Risk List (2015)

Strengthening the Foundation for Efficiency and Effectiveness
• Limiting the Federal Government's Fiscal Exposure by Better Managing Climate Change Risks
• Management of Federal Oil and Gas Resources
• Modernizing the U.S. Financial Regulatory System and the Federal Role in Housing Finance*
• Restructuring the U.S. Postal Service to Achieve Sustainable Financial Viability*
• Funding the Nation's Surface Transportation System*
• Strategic Human Capital Management
• Managing Federal Real Property
• Improving the Management of IT Acquisitions and Operations (new)
Transforming DOD Program Management
• DOD Approach to Business Transformation
• DOD Business Systems Modernization
• DOD Support Infrastructure Management*
• DOD Financial Management
• DOD Supply Chain Management
• DOD Weapon Systems Acquisition
Ensuring Public Safety and Security
• Mitigating Gaps in Weather Satellite Data
• Strengthening Department of Homeland Security Management Functions
• Establishing Effective Mechanisms for Sharing and Managing Terrorism-Related Information to Protect the Homeland
• Ensuring the Security of Federal Information Systems and Cyber Critical Infrastructure and Protecting the Privacy of Personally Identifiable Information*
• Ensuring the Effective Protection of Technologies Critical to U.S. National Security Interests*
• Improving Federal Oversight of Food Safety*
• Protecting Public Health through Enhanced Oversight of Medical Products
• Transforming EPA's Processes for Assessing and Controlling Toxic Chemicals*
Managing Federal Contracting More Effectively
• DOD Contract Management
• DOE's Contract Management for the National Nuclear Security Administration and Office of Environmental Management
• NASA Acquisition Management
Assessing the Efficiency and Effectiveness of Tax Law Administration
• Enforcement of Tax Laws*
Modernizing and Safeguarding Insurance and Benefit Programs
• Managing Risks and Improving VA Health Care (new)
• Improving and Modernizing Federal Disability Programs
• Pension Benefit Guaranty Corporation Insurance Programs*
• Medicare Program*
• Medicaid Program*
• National Flood Insurance Program*

Source: GAO. | GAO-15-290

*Legislation is likely to be necessary to effectively address this high-risk area.

The "high-risk list" prepared every two years by the U.S. Government Accountability Office provides clues about the scale of the problem and how to solve it. The 2015 high-risk list contains 32 programs especially prone to fraud, waste, abuse, and mismanagement (see Table 1). They are, without exception, programs that must be managed well and where the failure to do so wastes money. So this is an important place to look for clues. Several points are important here.

1. *Government's ongoing problems of wasteful spending share a small number of root causes.* My careful review of GAO's high-risk list (see Figure 1) reveals that the wide and varied collection of programs share a relatively small handful of root causes:

- *Managing boundaries.* No problem that matters can fit within a single organization. Reducing waste requires that we build strong bridges among those who share responsibility for managing a program. Medicare and Medicaid are only as good as the bridges they build among those who deliver care. Defense spending depends on good partnerships between government's procurement officials and the army of private contractors who supply most of the goods and services. Food safety requires a strong chain that stretches from food producers to processors and distributors, often across international borders. Boundary-management is increasingly essential in ensuring effective management—and reducing government waste.

- *Performance metrics.* Measuring progress in reducing wasteful spending requires a yardstick. The government-wide effort prompted by the Government Performance and Results Modernization Act, along with the initiatives of the Bush and Obama administration. NASA, for example, reduced cost increases and missed schedules by enhancing its performance management system.

- *Information systems.* Delivering the services that citizens want—and making sure we don't pay for costs that are illegal—is a keystone to reducing wasteful spending. Doing so requires good information systems. For example, improving the systems for payment of benefits due to veterans not only demands a robust information system. It requires close integration of the information systems in the Department of Defense (which track the hazards to which members of the armed services were exposed and the injuries they suffered) and in the Department of Veterans Affairs (which track the post-service health care they receive). When that doesn't work well, costs go up and service goes down.

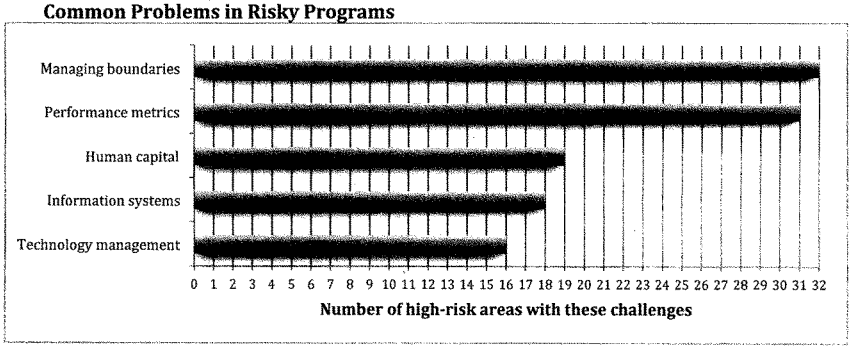
- *Technology management.* Big improvements in government services depend on technological advancements. But government has often struggled with the development and deployment of new technological systems. For example, the Federal Aviation Administration will be spending as much as $22 billion by 2025 to install the new NextGen air traffic control system. The FAA, however, has struggled with the system's development. The government's technological systems—an $80 billion a year investment—has often been plagued by cost overruns and schedule

slippages. The government needs advanced technology to solve many of the nation's most important problems, but failure to manage that technology can lead to significant wasteful spending.

- *Human capital.* All of these areas depend on enough smart government managers, in the right places at the right times with the right skills. The GAO has identified human capital problems in two-thirds of its high-risk programs. In fact, human capital and talent management are the essential foundation for solving *every* one of government's toughest problems—to the point that GAO has identified strategic human capital management as a high-risk area all its own. We surely need to introduce more flexibility in the government's workforce, and we should not tolerate managers who don't perform. Far more important, however, we need to ensure we have the right people with the right skills. The former is a serious problem; the latter is far more likely to cause problems of wasteful spending, because it puts the entire system at risk.

  Consider just the case of the Centers for Medicare and Medicaid Services. The agency is responsible for managing 20 percent of the budget but has just 0.2 percent of all federal employees. These employees manage the programs through a partnership with private and nonprofit health care providers and by the private intermediaries that administer the payments system. On average, each employee is responsible for $144 million of CMS spending (the agency's $913 billion in outlays in fiscal year 2014, divided by its 6,333 employees). The pattern is played out across the government, with federal employees leveraging vast amounts of taxpayer dollars and private sector energy. Nothing is more wasteful than to fail to build the right workforce to get this leverage right.

Figure 1
Common Problems in Risky Programs



2. Solving these problems has the potential for dramatically lowering wasteful spending. It's impossible to know for sure just how much of government's spending is wasteful. But among the 32 programs on GAO's high-risk list, the total is surely more than $150 billion per year: $125 billion of improper payments, and at least $25 billion in wasteful spending in the rest of the high-risk list—and throughout the rest of the government.

In March 2015, GAO estimated (GAO-15-482T) that the federal government made $125 billion of improper payments in fiscal year 2014. That is an increase of 18 percent from the previous year. The improper payments occurred in 124 programs, scattered among 22 different agencies, and the error rate in payments was 4.5 percent in 2014, up from 4.0 percent in 2013. Two thirds of the improper payments were in just three programs: Medicare, Medicaid, and the Earned Income Tax Credit Program.

What are the root causes of these improper payments? In general, we don't have strong enough information systems to detect improper payments before they're made. As a result, the government gets into a "pay-and-chase" mode, of trying to track down and recover payments that never should have been made in the first place. Preventing that from happening requires linking documentation for home health services with claims for payments (in Medicare), documentation errors and inadequate state information systems (in Medicaid), improper income reporting and the issuance of checks before income verification (in the Earned Income Tax Credit program), and claims for unemployment benefits after individuals had returned to work (in the Unemployment Insurance program).

The issues here track with the broader underlying issues in the high-risk list:

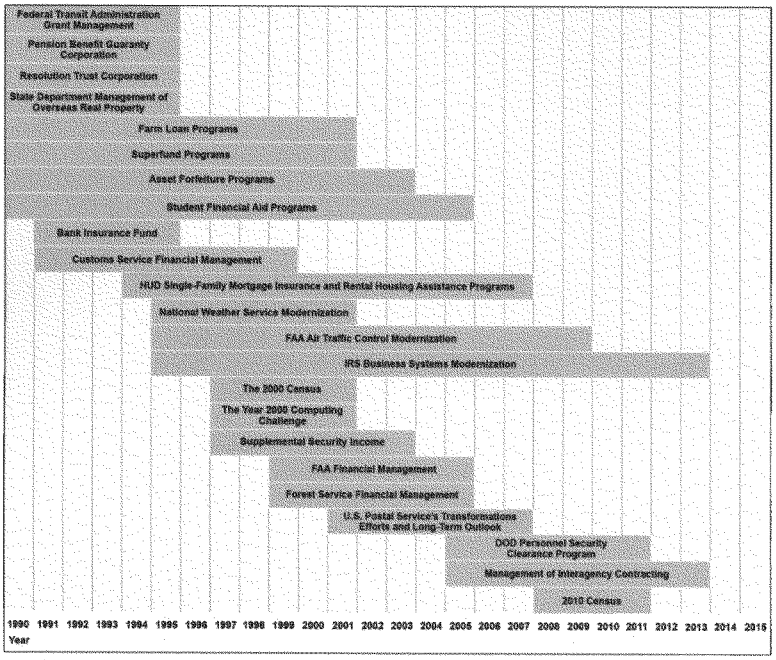
- Managing boundaries
- Performance metrics
- Human capital
- Information systems
- Technology management

3. The problems are solvable. In the last 26 years, GAO has removed 23 programs from the high-risk list (see Figure 2). That's powerful evidence that even the toughest problems of government waste are solvable.

This is fundamentally good news. It's unreasonable to expect zero defects in the administrative of government programs. Government does a large number of very hard and very complicated things, from trying to reduce poverty to putting satellites into space. And it's not the case that there's no waste in the private sector: Ten percent of fast food ends up in the trash because it doesn't meet corporate standards for freshness. If fries aren't served within 7 minutes of cooking, McDonald's restaurants throw them out. But there's no doubt that waste in government is too high—and that we can do better.

To do better, however, requires an action plan and strong backing from the nation's highest officials to support it. GAO's high-risk list measures the scale of the problem. But, far more important, a close look at the underlying causes—and the steps that agencies have taken to remove their programs from the list—creates a new list of actionable items that can significantly reduce wasteful spending in the federal government.

Figure 2
Programs Removed from High-Risk List



Source: GAO | GAO-15-290

4. Reducing wasteful duplication and overlap. In addition to these management improvements, we can also save substantial taxpayer dollars by reducing duplicative and overlapping governmental programs. GAO, for example, has estimated (GAO-15-404SP) that the government could save $500 million per year by changing the way the government reimburses cancer hospitals for treatment of Medicare patients. The Environmental Protection Agency and the Food and Drug Administration duplicate each other's work by inspecting the same laboratories. At least 42 different programs, in six different departments, provide non-emergency medical transportation, and the savings for better

coordination are enormous. The Partnership for Public Service, likewise, has found that shared public services, in which one provider performs basic administrative services like information technology, human resources, and financial management, can provide better services and save taxpayers money (See *Helping Government Deliver II* [2015]).

The basic lessons here are clear. Government can choose not to do things, and that can save taxpayers money. But there are many things that taxpayers—citizens—expect government to do, and to do well. Nothing is more wasteful than failing to do well the things that must be done. We can do better the things that government must do. And that is an essential, irreplaceable step in reducing wasteful spending in the federal government.

TAXPAYERS FOR COMMONSENSE
MAKING GOVERNMENT WORK

Common Sense Cuts for the 114th Congress

Silencing Sequester Scaremongers with $2 trillion in deficit reduction

Washington policymakers are quick to decry the budget caps put in place by the Budget Control Act of 2011 (BCA), failing to note that Congressional and Presidential inaction on deficit reduction is the reason the caps are in place. Some lawmakers rail against the across-the-board cuts known as sequestration, conveniently ignoring that sequestration is only a process unleashed if lawmakers choose to exceed the spending caps they set. There is no sequestration if Washington makes the tough, but necessary decisions to spend below the caps or alleviate them with tough but common sense choices. Rather than rhetoric and saber-rattling, lawmakers should come up with responsible fiscal solutions including cutting programs that don't work and eliminating tax breaks that persist because of political influence, rather than resorting to creative attempts to avoid budget discipline and promises of future fiscal fidelity.

In his Fiscal Year 2016 budget request the President increased discretionary spending by $74 billion, blowing past the budget caps. The increase was equally divided between defense and non-defense spending. Not to be outdone, the House and Senate agreed to budget resolutions that technically abided by the caps but only through evasive maneuvers including adding $38 billion to uncapped Overseas Contingency Operations to increase defense spending. That of course is $1 billion more than the President proposed for defense spending.

To help Congress and the President come up with fiscally responsible solutions, Taxpayers for Common Sense has drafted **Common Sense Cuts for the 114th Congress: Silencing Sequester Scaremongers with $2 trillion in Deficit Reduction**. That's right, $2 trillion in deficit reduction over ten years, and to help with the near term, we detail nearly $270 billion worth of immediate savings in fiscal year 2016 alone. The cuts range from national security programs, energy tax breaks, agriculture policy reforms, and more.

This is not intended to be an exhaustive list of TCS proposals, but rather a sampling of some of the work policymakers should do if they want to responsibly undo some or all of the BCA mandated budget caps. There is no threat of sequestration if Congress and the President do their jobs and craft a better, more fiscally responsible and more credible budget plan.

Common Sense Cuts for the 114th Congress

	Savings: 10-Year	FY 2016
Agriculture	**$ 94.01 billion**	$9.50 billion
Energy	**$139.43 billion**	$13.65 billion
Infrastructure	**$ 4.24 billion**	$0.456 billion
Miscellaneous Government	**$112.13 billion**	$11.04 billion
National Security	**$512.77 billion**	$109.94 billion
Public Lands	**$ 19.51 billion**	$1.94 billion
Tax Expenditures	**$ 1.10 trillion**	$107.51 billion
Transportation	**$ 184.20 billion**	$14.62 billion
Savings total	**$2.166 trillion**	**$268.65 billion**

Agriculture

Ten-Year Savings: $94.01 billion
One-Year Savings: $ 9.50 billion

	10 Year Savings $(Millions)	In FY 2016 $(Millions)
Eliminate Unnecessary Commodity Supports		
Price Loss Coverage (PLC)	$25,125	$1,345
Agriculture Risk Coverage (ARC)	$16,313	$2,679
Marketing Loan Benefits	$2,557	$240
Reform Federally Subsidized Crop Insurance		
End Subsidies for Harvest Price Option	$18,906	$1,665
Reduce Subsidies to Insurance Companies	$6,694	$1,338
End Stacked Income Protection Plan (STAX)	$3,126	$204
Eliminate Supplemental Coverage Option (SCO)	$2,579	$137
Cut Corporate Welfare Programs		
Environmental Quality Incentives Program—CAFOS	$16,458	$1,674
Market Access Program	$1,877	$178
Foreign Market Development Program	$348	$33
Biobased Markets Program	$30	$3

Energy

Ten-Year Savings: $139.43 billion
One-Year Savings: $ 13.65 billion

	10 Year Savings $(Millions)	**In FY 2016** $(Millions)
Production Tax Credit	$32,800	$3,280
Ending Royalty Relief (Oil)	$18,252	$1,621
Excess of Percentage Over Cost Depletion, Oil and Gas	$14,800	$1,480
Volumetric Biodiesel Excise and Renewable Biodiesel Tax Credits	$14,540	$1,436
Expensing of Exploration and Development Costs, Oil and Gas	$12,900	$1,200
DOE Fossil Energy Research and Development Program	$5,666	$567
Mixed Oxide - Fissile Materials Dispositions	$3,643	$364
Fusion Energy Sciences	$3,116	$312
Amortization of Air Pollution Control Facilities	$3,100	$400
Biological and Environmental Research - Biological Systems Science	$3,058	$306
Modification to Special Rules for Nuclear Decommissioning Costs	$2,900	$200
Excess of Percentage Over Cost Depletion, Other Fuels and Coal	$2,600	$260
Non-Defense Environmental Cleanup	$2,389	$239
Department of Energy Bioenergy Technologies	$2,286	$229
Tax Credits for New Plug-in Electric Drive Motor Vehicles	$2,200	$220
Credit for Investment in Clean Coal Facilities	$2,000	$200
Fuel Cycle Research and Development	$1,916	$192
Amortization of Geological and Geophysical Expenditures, Oil & Gas	$1,400	$140
Ending Royalty Relief (Natural Gas)	$1,370	$136
Exemption from Bond Arbitrage Rules for Natural Gas	$1,317	$42
Reactor Concepts Research and Development	$1,229	$123
Natural Gas Distribution Lines	$1,100	$200
Expensing of Exploration and Development Costs, Other Fuels/Coal	$1,000	$100
Nuclear Energy Enabling Technologies	$861	$86
Capital Gains Treatment for Royalties on Coal	$797	$31
Rural Energy for America Program (REAP)	$524	$52
Alternative Fuel Vehicle Refueling Property Credit	$380	$38
Industrial CO2 Capture and Sequestration Tax Credit	$380	$110
Biomass Crop Assistance Program	$240	$24
Passive Loss Exemption for Oil and Gas	$239	$22
DOE Fuels and Lubricant Technologies program	$180	$18
Gains from Industrial Source CO_2 as Qualifying Income for Publicly Traded Partnerships	$121	$7
Expensing of Tertiary Injectants	$57	$7
Department of Agriculture Biomass Research and Development	$30	$3
Repowering Assistance Program	$24	$2
Biodiesel Fuel Education Program	$10	$1

Infrastructure

Ten-Year Savings: $4.24 billion
One-Year Savings: $456 million

	10 Year Savings $(Millions)	In FY 2016 $(Millions)
Require Users to Cover 50% of O&M on the Inland Waterways	$3,000	$300
Army Corps of Engineers Environmental Infrastructure Program	$470	$47
Army Corps of Engineers Beach Replenishment	$450	$45
Follow Standard Cost Share for Olmsted Locks and Dam	$308	$63
Eliminate the Inland Waterways Users Board	$8.6	$0.86

Miscellaneous

Ten-Year Savings: $112.13 billion
One-Year Savings: $ 11.04 billion

	10 Year Savings $(Millions)	In FY 2016 $(Millions)
Last in, First Out Accounting	$111,853	$11,014
Respect Barge Fuel Tax Increase as Offset in H.R. 647, ABLE Act of 2014	$273	$27

National Security

Ten-Year Savings: $512.77 billion
One-Year Savings: $109.94 billion

	10 Year Savings $(Millions)	In FY 2016 $(Millions)
Eliminate the Overseas Contingency Operations Account	$339,000	$96,000
Cancel the F-35	$51,600	$4,800
TRICARE for Life: Introduce Minimum Out of Pocket expenses	$39,700	$2,500
Cancel Next Generation Bomber	$32,400	$379
Eliminate Taxpayer Funded Commissaries	$14,000	$1,400
Cancel Littoral Combat Ship	$12,071	$1,696
Reduce Carriers and Airwings by 1 each	$9,700	$970
Cancel the Building of the Uranium Processing Facility	$6,500	$355
Cancel the V-22	$4,856	$1,400
Cost-share B61 Bomb Life Extension with NATO Allies	$1,746	$321
End Unrequested M-1 Abrams Upgrades	$1,200	$120

Public Lands

Ten-Year Savings: $19.51 billion
One-Year Savings: $ 1.94 billion

	10 Year Savings $(Millions)	In FY 2016 $(Millions)
Special Tax Treatment for Qualified Timber Gain	$5,000	$500
Forest Products (Within Integrated Resource Restoration)	$3,391	$339
Expensing of Timber Growing Costs	$3,000	$300
Amortization and Expensing of Reforestation Expenditures	$2,400	$240
1872 Mining Law Reform (12% royalty and collection of fees)	$1,200	$120
Wildlife Services Program	$1,075	$108
Percentage Depletion Nonfuel Minerals	$1,000	$100
Expensing of Exploration and Development Costs, Nonfuel Minerals	$1,000	$100
Reduce Funding for Money-Losing Timber Sales	$690	$69
Special Rules for Mining Reclamation Reserves	$400	$40
Use State Formulas to Set Grazing Fees	$257	$14
Bureau of Land Management Public Domain Forest Management	$98	$10

Tax Expenditures

Ten-Year Savings: $ 1.10 trillion
One-Year Savings: $107.51 billion

	10 Year Savings $(Millions)	In FY 2016 $(Millions)
Bonus Depreciation	$452,700	$45,270
Modify the Mortgage Interest Deduction	$252,900	$17,400
Deduction of income attributable to domestic production (corporate)	$135,600	$13,200
Section 179 Full Price Expensing	$116,380	$11,638
Foreign Tax Credit (Pooling and Dual)	$109,867	$16,748
Deduction of State and Local General Sales Tax	$29,240	$2,924
Special Expensing Rules for U.S. Film and Television Productions	$2,450	$245
Extension of Classification of Certain Race Horses as 3-year property	$740	$74
Seven Year Straight Line Cost Recovery Period for Motorsports Entertainment Complexes	$110	$11

Transportation

Ten-Year Savings: $184.2 billion
One-Year Savings: $14.62 billion

	10 Year Savings $(Millions)	In FY 2016 $(Millions)
General Revenue Transfers to Highway Trust Fund (Highway)	$125,000	$10,000
General Revenue Transfers to Highway Trust Fund (Transit)	$43,000	$3,000
General Revenue Funds for Federal Aviation Administration	$13,700	$1,370
Essential Air Service Program	$2,500	$250