WASTE IN HUMAN SERVICE PROGRAMS: OTHER PERSPECTIVES

HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES AND INTERGOVERNMENTAL RELATIONS

OF THE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

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WASTE IN HUMAN SERVICE PROGRAMS: OTHER PERSPECTIVES

TUESDAY, MAY 23, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HUMAN RESOURCES AND
INTERGOVERNMENTAL RELATIONS,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:09 a.m., in room 2247, Rayburn House Office Building, Hon. Christopher Shays (chairman of the subcommittee) presiding.

Present: Representatives Shays, Morella, Souder, Chrysler, Towns, and Kennedy.

Staff present: Lawrence J. Halloran, staff director and counsel; Doris F. Jacobs, associate counsel; Robert Newman, professional staff; Thomas M. Costa, clerk; Liz Campbell, minority staff assistant; and Cheryl Phelps, minority professional staff.

Mr. SHAYS. I would like to call this hearing to order and to welcome our participants and our guests and to my colleagues who are here.

This hearing continues our very deliberate, constructive oversight of the Cabinet departments within the subcommittee's jurisdiction: HHS, Labor, HUD, Education and Veterans Affairs.

Today, we will have the opportunity to hear from authors and journalists who have gained a reputation for identifying wasteful spending and fraud in some of the Nation's most important and most expensive human service programs. Previously we heard from the five Cabinet Secretaries on the mission and the challenges confronting each department. The Inspectors General, the General Accounting Office, and others have also testified on opportunities to improve service and reduce expenditures across the broad and varied spectrum of programs in these departments.

This hearing will bring another perspective to a problem that drains needed resources from government and undermines our confidence in government. While there may be different political views on the size and scope of the Federal Government, there is a longstanding bipartisan agreement on the need to confront waste and fraud. Precise estimates are not possible, but there can be no doubt that waste and fraud affect every American in every congressional district. Evidence that profiteers find government largesse easy prey dates back almost to the founding of the republic. As the government has grown, so has the problem.

In 1992, the House Government Operations Committee issued a report concluding that waste, fraud, and abuse cost the government

300 billion in recent years. The report added government waste has not only bilked the taxpayer of billions of dollars, but it has created a public cynicism about government at a time when effective government is needed the most.

In prior Congresses, this subcommittee, under the leadership of my predecessors, including the former Chairman, Mr. Towns, held several hearings on waste and fraud in health care and public housing. With increased budget pressures and justifiable public demand for greater accountability, the need for vigilant oversight of the public purse is just as pressing today. This year, the HHS budget, including Social Security, will exceed the gross domestic product of 97 percent of the nations of the world. That should be a measure of our responsibility to ensure the integrity of public spending.

The terrible trio of waste, fraud, and abuse have been attributed to government programs so often and so imprecisely that I want to state clearly what I take those terms to mean. Waste is the incurring of unnecessary costs as a result of inefficient practices, systems, or controls by management. Fraud is gaining something of value through intentional misrepresentation or concealment of material facts. Abuse is any practice not consistent with rules, regulations, or ethical standards which provides unfair gain for those with access to programs.

In our earlier hearings, witnesses pointed to shocking examples of waste, $115 million in Pell grants and Stafford loans to ineligible noncitizens. Other student loans defaults of more than $57 billion since 1965. I said billion. And losses in Medicare and Medicaid that could be as high as 10 percent of health care spending or more than $20 billion.

The witnesses before us today will help the subcommittees identify specific instances and examples of waste, fraud, and abuse. Each has published his views on government spending and we appreciate and sincerely appreciate their willingness to share their conclusions with us. The witnesses are, panel one: Thomas Schatz, president, Citizens Against Government Waste; and Martin Gross, author. Panel two: James Bovard, journalist and author; Douglas Kennedy, reporter, the New York Post. Panel three: Mr. Ronald Walters, chairman, Political Science Department, Howard University.

There is no easy answer to wasteful spending and fraud against well-meaning programs. Fixing these problems won't balance the budget and I want to make the point that we are not going to balance the budget on waste, fraud, and abuse. Reducing waste and fighting fraud certainly will help scarce budget resources go further and a more efficient Federal Government will have the means to keep its promises to the elderly, the sick, and the disabled while sustaining the confidence of all citizens.

That is our goal and I thank, again, our witnesses. And at this time, I call upon my distinguished colleague, Mr. Towns, who is a pleasure to work with.

Mr. TOWNS. Thank you very much, Mr. Chairman.

Let me begin by applauding you for moving forward with this hearing on fraud and abuse. As you know in the last Congress, we looked at these issues and felt that there was much that needed

to be done. However, the thing that bothered me most is that people came before us and talked about fraud and abuse but they did not have any suggestions or recommendations as to how we might be able to deal with it effectively other than cutting it.

I think that sometimes in order to reform something, you can't cut it. You have to, in some instances, even fund it at the level or even fund it more, additional funds for it in order to straighten it out and then to be able to move forward and to do the kind of things that programs were designed to do, to help people and strengthen them in terms of helping them gain the tools to help them lead a productive life.

So, I am hoping that not only we will get some facts about what is going on, but at the same time, I hope we get some recommendations and suggestions as to how we might be able to strengthen some of these programs. I look forward to the testimony and am going to cut my opening statement short since I was the one who delayed the 10 o'clock starting time.

Mr. SHAYS. You are putting that on the record now.

Mr. TOWNS. I am going to actually put that on the record. So I am going to cut my statement short to be able to get to the witnesses as soon as possible.

So thank you very much, Mr. Chairman.

Mr. SHAYS. I thank the gentleman. And I also want to reiterate your point, that it would be very helpful to have our witnesses document their concerns and also to have any suggestions of how we can deal with their concerns.

I will ask unanimous consent at this time that all Members of the subcommittee be permitted to place any opening statements in the record and that the record remain open for 3 days for that purpose.

Without objection, so ordered.

Mr. SHAYS. And I would now ask my colleague, Connie Morella, who represents a good part of this district.

Mrs. MORELLA. Thank you very much, Mr. Chairman.

And, again, I won't waste time with regard to an opening statement. I really think that this is an important hearing because we have looked at what many of the departments are doing, examined the programs under the jurisdiction of this subcommittee, and now this is a logical next step to have the recommendations of those people who have been studying waste, fraud, and abuse in the various agencies to share their recommendations.

On the Civil Service Subcommittee, we have been looking at this whole concept of contracting out. Do we actually save money by contracting out? And do we really look at the important criteria in so doing?

This is appropriate, I think, in all of the agencies. The kind of dilemma that we have looked at in civil service is applicable to all of them. And then we suddenly open the newspaper one morning and find out that a front page story describes wasteful spending on contracts out of the Department of Defense.

Now, I know that we don't have the Department of Defense under scrutiny this morning in our deliberations. However, this hearing to examine fraud and abuse in the Federal Government immediately brought to mind that concept, alleging that billions of

dollars of taxpayers have been spent on fraudulent payments to defense contractors. According to a GAO report, quote, during the 6-month period in fiscal year 1993, defense contractors returned $751 million and, in fiscal year 1994, they returned $975 million, most of which appeared to be overpayments that were detected by the contractors. That is just a little drop in the bucket.

We are going to hear today about HHS, Education, VA, AFDC, and HUD. I really look forward to our experts giving us their recommendations and profiting by them legislatively, administratively, and in whatever way we can.

So, again, thank you, Mr. Chairman.

Mr. SHAYS. I thank the gentlewoman from Maryland and invite the gentleman from Indiana, Mr. Souder, if you have any opening comment.

Mr. SOUDER. I don't have any opening statement. I just want to say I am against government waste and also against some government programs that aren't even wasteful.

Mr. SHAYS. OK. Mr. Chrysler, we are catching you just as you stepped in here, but I am delighted to have any opening statement you might want to make.

Mr. CHRYSLER. I would just say ditto to what Mark says.

Mr. SHAYS. I thank all of my colleagues and I would just get a housekeeping measure out of way and would ask unanimous consent that our witnesses be permitted to include their written statements in the record and would encourage them certainly to summarize parts of their statement.

And at this time, as you know, we swear in all our witnesses and would ask both of you to stand up and I will administer the oath.

[Witnesses sworn.]

Mr. SHAYS. For the record, I note that both witnesses have answered in the affirmative. And Mr. Schatz, we will invite you to give an opening statement and then we will go to Mr. Gross and then we will take questions.

STATEMENT OF THOMAS SCHATZ, PRESIDENT, CITIZENS AGAINST GOVERNMENT WASTE; AND MARTIN GROSS, AUTHOR

Mr. SCHATZ. Thank you very much, Mr. Chairman.

I appreciate being here this morning on behalf of the 600,000 members of Citizens Against Government Waste. As you have stated, Mr. Chairman, you face a very important task restructuring or, in some cases, maybe eliminating departments and programs under your jurisdiction.

As you know, since 1980 when the Department of Education was established with a budget of more than $14 billion and about 150 programs, the Department has mushroomed to a spending level of nearly $33 billion and more than 240 programs. The Federal Government has appropriated $350 billion to carry out the mission of the Department to ensure equal access to education and promote education excellence throughout the Nation.

I think it would be difficult for Members of Congress to look their constituents in the eye and tell them that the best times for American education have occurred since 1980. If money were the answer to the Nation's education problems, the United States would be

testing first in every category of educational achievement, which of course we are not.

CAGW is well aware that the Department has increased its efforts to coordinate and consolidate its programs, but that's what the Grace Commission called for 10 years ago and here we are still trying to do what needs to be done. The President's fiscal year 1996 budget, to its credit, called for elimination of such programs as Olympic scholarships and the Eisenhower Leadership Program, Teacher Corps, law school clinical experience, and in some cases programs that he asked for elimination of last year yet Congress saw fit to continue spending money on. So sometimes the problem lies at both ends of Pennsylvania Avenue.

More needs to be done to improve management of education programs. Again, looking back at the Grace Commission's recommendations, they called for improved collections of student loans and better tracking of students after they leave school. Again last fall, Citizens Against Government Waste in its Risky Business report cited inaccurate and incomplete data processing and record-keeping systems. One of the things that might be done to keep track of students is an exit interview after school so that they can tell the school where they are going and that's one way to find out where they are because that's something that the Department of Education doesn't do very well.

We know how much is being lost. You mentioned $51 billion. Quite a few students obviously could benefit from that kind of money if it had not gone down the tubes over the years.

Direct student loans may not be the answer. The government-run programs such as the one that was passed last year by Congress may not be more efficient than one that has involved the private sector over the years. And that program most be closely monitored by your subcommittee.

You may wish to consider an entirely different approach. Make student loans unsubsidized but broadly available and managed by the Department of the Treasury, not the Department of Education. After all, these are simply loans and having the education bureaucracy manage loans to those who buy education services is in fact a conflict of interest. Are they more interested in lending the money or keeping track of it? A banker as such, in other words the Treasury Department, would probably keep much better track of that money.

The ultimate question, Mr. Chairman, is whether we even need a Department of Education. Richard Lyman, President of Stanford University, summed up our Nation's educational woes when he said, "The 200-year-old absence of a Department of Education is not the result of simple failure during all that time. On the contrary, it derived from the conviction that we do not want the kinds of educational systems that such arrangements produce." Centralization is not the answer. Local communities can do a much better job.

In the name of reinventing, the President in his 1996 budget has proposed combining nearly 70 programs from four agencies—primarily Education and Labor—into a work force development system for adults and youths and he is to be congratulated on making that effort. It would be administered by the States, but the net

change would be an additional $1 billion in spending over 5 years. And we question whether that really is the way that will actually save money and improve services.

Mr. Chairman, many of CAGW's members are veterans. Their service to our country was invaluable and now they are assisting in America's latest battle, the war on our nearly $5 trillion debt. According to a recent GAO report, the Department of Veterans Affairs overpays hundreds of millions of dollars in compensation and pension benefits. In 1994, VA detected $372 million that it had erroneously paid to compensation and pension beneficiaries. VA collects on average about 30 percent of its outstanding overpayments. The outstanding overpayment balance has increased from $304 million in 1985 to $619 million in 1994.

Again, echoing recommendations made by the Grace Commission 10 years ago, GAO recommends that procedures be established to focus on preventing pension and compensation overpayments. Hopefully this time, these management recommendations will be taken seriously so 10 years from now we are not sitting here reviewing another report on the VA's overpayment problems.

Senator Murkowski has recommended that VA put more emphasis and priority on outpatient care. In the last Congress, the Appropriations Committee agreed with Senator Murkowski, that it was unwise to build more inpatient hospitals and we urge the subcommittee to look at that as well when you are considering the VA budget this year.

Mr. Chairman, restoring fiscal sanity to our Nation is the most important job for the 104th Congress. If you don't take the right steps now, there may never again be such an opportunity to make the fundamental changes that need to be made.

This concludes the summary of my testimony, Mr. Chairman. I will be happy to address any questions arising from this or my written statement.

Thank you.

Mr. SHAYS. I would like to note for the record that your testimony has a great deal more to it and you have in fact summarized it and we appreciate your summary.

[The prepared statement of Mr. Schatz follows:]

PREPARED STATEMENT OF THOMAS SCHATZ, PRESIDENT, CITIZENS AGAINST GOVERNMENT WASTE

Good morning, Mr. Chairman. Thank you for the opportunity to testify today before the Subcommittee on Human Resources and Intergovernmental Relations. My name is Tom Schatz and I represent the 600,000 members of Citizens Against Government Waste (CAGW).

CAGW was created 11 years ago after the late Peter Grace presented to President Ronald Reagan 2,478 findings and recommendations of the Grace Commission (formally known as the President's Private Sector Survey on Cost Control). These recommendations provided a blueprint for a more efficient, effective, less wasteful, and smaller government.

Since 1986, the implementation of Grace Commission recommendations has helped save taxpayers more than $250 billion. Other CAGW cost-cutting proposals enacted in 1993 and 1994 will save more than $100 billion over the next five years. CAGW has been working tirelessly to carry out the Grace Commission's mission to eliminate government waste.

Mr. Chairman, you and the members of this subcommittee face one of the most important tasks confronting this Congress—restructuring or eliminating the departments and agencies under your jurisdiction. Not only do you have an opportunity to save tax dollars, but you also have the chance to truly reduce the size of the fed-

eral government, and with it the degree to which our government intrudes in our lives. Today, CAGW will focus on the billions of tax dollars that are doled out to the Department of Education and the Department of Veterans Affairs.

By asking CAGW and others to recommend specific restructuring proposals and terminations under your jurisdiction, you are making the first step in regaining the trust of the American taxpayer. Discretionary spending is one-third of the federal budget; it's real money. It's time to stop taking our tax dollars and start making tough choices.

We welcome this hearing and your willingness to take a fresh look at every program under your jurisdiction.

Before I begin, let me first take this opportunity and commend the new majority in the House for stepping up to the plate and delivering a balanced budget resolution to the American people. For too long Washington has buried its head in the sand hoping yearly deficits would disappear. How times have changed.

Last week, the House made history and passed a budget resolution that could remake the federal government into a much smaller and less intrusive institution. Budget Committee Chairmen John Kasich (R–OH) and Pete Domenici (R–NM) have wisely taken on the entrenched bureaucracy and status-quo special interests by serving up historic cuts that voters demanded last November. Some say that these proposals will sorely test the political will of your colleagues, and that may be so for the "Eeyores on The Hill." But our view, Mr. Chairman, is that you have a joyful challenge before you; a chance to return power and tax dollars from Washington careerists and special pleaders to the American people.

Reading some of the media accounts of the House budget, you'd think you were about to rip the schoolbooks out of the hands of America's kids and close down the college student loan program. What hogwash, Mr. Chairman. Utter hogwash. When we step back from the rhetoric and take a critical look, what we see is not a future of pain and suffering, but the hopeful end of the federalization of teaching standards and educational curriculum, which have not come close to improving the level of education in the United States.

Since 1980, when the Department of Education was established with a budget of more than $14 billion and about 150 programs, the Department has mushroomed to a spending level of nearly $33 billion and more than 240 programs. Since 1980, the federal government has appropriated more than $350 billion to carry out the Department's programs. Mr. Chairman, can any member of Congress look their constituents in the eye and tell them that the best times for American education have occurred since 1980?

CAGW is well aware the Department has increased its efforts to increase coordination within programs and with other agencies, and if the Department stays intact, these efforts must be accelerated. But like the deck hands on the Titanic, the effort is not enough. The Department of Education is not part of the solution, Mr. Chairman; it is a major part of the problem with America's schools. In fact, last year's report from the Office of Management and Budget on high risk areas cited the department's inadequacies in financial controls, which were not sufficient to produce reliable financial information necessary for sound decision-making.

Student Financial Aid programs, totaling $12.9 billion in FY 1995, are among the biggest boondoggles in government. CAGW's Risky Business report in September of 1994 cited the inaccurate and incomplete data processing and record-keeping systems as major factors in the large number of loans to ineligible student borrowers and tuition payments made to ineligible institutions. In addition, participating institutions have little incentive to prevent defaults or recoup defaulted loans because schools, lenders and guaranty agencies all profit from defaulted loans. At least $2.5 billion, and as much as $4 billion, is at risk each year in the student loan program.

If students take advantage of their education but fail to pay off their loans, there is no punishment for most students. College graduates should not be let off the hook, especially when their lifetime earnings are triple those of noncollege graduates who are working to pay the bills for student loan scofflaws.

No American taxpayer owes another person the sweat of their brow so that person can go to college. Students who borrow the money from other taxpayers, or from future generations should pay the loan and interest or pay the consequences.

Economist Milton Friedman said it best:

> Everyone who has the capacity and desire to have a higher education should be able to do so provided they are willing to undertake the obligation to pay the costs of their schooling either currently or in later years out of the higher income that their education will make possible. . . . We must have a system under which those who are not able or do not go to college are not forced to pay (through their taxes) for those who do.

CAGW urges you to consider reforming the student loan program. It should be unsubsidized but broadly available, and managed by the Department of Treasury, not the Department of Education. Having the education bureaucracy manage loans to those who buy education services is simply a conflict of interest. A loan is a loan, and bankers—essentially the function of our Department of Treasury—should manage loans. This will reduce costs and eventually lower tuitions, once this new system is phased in.

There is little question that American education has declined over the past three decades. Aside from special education and increased opportunities for the disadvantaged, which could have been done through an agency or department, there is a clear, 30-year track record of federal educational ineptitude and self-interest. Today, we ask you why we need a Department of Education.

CAGW believes as did the Founding Fathers that the federal government has no business running the educational system. Currently, state and local communities pay for 95 percent of the nation's total education budget, while the federal government hands out the remaining five percent, most of which never gets inside a classroom or in the hands of students. Siphoned off by educationists at every level, federal dollars assure little else but increasing federal interference and control.

Richard W. Lyman, president of Stanford University, summed up our nation's educational woes when he said, "the two-hundred-year-old absence of a Department of Education is not the result of simple failure during all that time. On the contrary, it derives from the conviction that we do not want the kinds of educational systems that such arrangements produce."

While our schools have deteriorated my co-witness, author and educator Martin Gross, and others, have been in a lonely fight. Mr. Gross has written that the Department of Education has not educated one child and that education should be a local rather than federal concern. Mr. Gross will speak for himself, as well as those who believe that Washington is not the place for our education tax dollars.

Congress has often viewed programs and departments as perpetual, without taking enough time to evaluate their effectiveness. The premise has been: How much was spent last year, and how much are we supposed to spend this year, rather than whether the money should be spent at all. This is, after all, not the government's money—it's the taxpayer's. Every expenditure should be viewed from the ground up—instead of making the assumption that everything is sacrosanct. CAGW agrees with House Economic and Educational Opportunities Committee Chairman Bill Goodling (R–PA) that the term reauthorization should be eliminated from the congressional vocabulary, because it assumes programs will continue from year to year. Chairman Goodling also suggests sunsetting programs, laws and regulations, allowing real review as to whether they are needed. We agree.

America's schools are deteriorating from increased centralization of educational decision-making. Since the Department of Education began in 1980, the focus has been on Washington for answers through new government regulated programs and appropriated funds. But our education and competitiveness problems—providing not just the basics in education, but a real chance to get a job—require innovative solutions that cannot be led by a centralized system.

The answer is right in our local communities—but we have been undercutting our kids by letting someone else create the grand schemes for our schools. Over the past three decades, the number of school districts in the United States has dwindled from roughly 55,000 to 15,000. That means fewer local school officials, parents, and students are involved in the design and curricula of their own schools. It has become too easy for school districts to rely on Washington standards for education, rather than taking on the responsibility at home. As parents and taxpayers, Mr. Chairman, we share the blame. It's time to give back education to people who care more for kids than for union contracts, and more for education than for political correctness.

In February of 1994, President Clinton called for the elimination of specific education programs in his budget for fiscal year 1995, and CAGW applauded his efforts. Unfortunately, many of these programs survived in a spend-happy Congress. Items that the president tried to eliminate, but still survive, include: foreign language assistance, consumer and homemaking education, and the Eisenhower leadership program.

The Eisenhower Leadership Program is a case study in porkology. Gettysburg College wanted to offer courses in leadership. Of course, the school didn't want to go to the trouble of selling such a proposal to alumni, the State of Pennsylvania, taxpayers, or others who might scrutinize the proposal. And, of course, the college president approached Sen. Arlen Specter (R–PA) and Rep. Bill Goodling (R–PA) to find ways to fund the program.

No public hearings were held and many budget procedures were circumvented. In 1992, the Eisenhower Leadership Program was on the federal payroll. By 1993,

nearly $8,000,000 was appropriated. And during fiscal years 1994 and 1995, in which significant budget cuts were made, the Eisenhower program received $4,000,000 each year.

What is the Dwight D. Eisenhower Leadership Development program? Under Part D of Title X of the Higher Education Act of 1965 as amended in 1992, the program is, "to provide grants that establish prototypes that reach out to young Americans and promote the practical study and teachings of leadership through programs specially prepared to foster the development of new generations of leaders in the areas of national and international affairs."

This program continues to live despite the fact that the current and former administrations have never asked for funding. The House stated in the FY 1995 Labor, HHS and Education Appropriations bill, "the Administration has stated that the activities supported by this program are part of many higher education institutions' curriculum, and therefore the program is a low priority for Federal funding."

But the program lives on. Grants doled out through this academic pork program range in size from $25,000 to $500,000. Schools that have received money in the past include such institutions as Harvard University and Wharton Business School.

This one program is more than an example of wasted tax dollars: it is a moral outrage. If you want to know what's wrong with American education, follow the money.

Congress usually has good intentions when appropriating money, but the power to do good is also the power to do mischief with our tax dollars. The waste of tax dollars for federal education programs is no exception.

The line must be drawn, Mr. Chairman, and these and other programs must rejustify their existence—or at least their need for federal tax dollars—if they can.

The President has given it a try and come up short. His FY 1996 Budget talks about consolidation between the Labor and Education departments, which is sadly more appropriate than the White House would like Americans to realize. In the name of reinventing, the President proposed to combine nearly 70 programs from four agencies—primarily Education and Labor—into one "workforce development system" for adults and youth, to be administered by the states. Now, one would expect some savings there, but looking at the fine print, CAGW found that the net change would be an additional $1 billion in the Labor budget. We would suggest that saying one thing and doing another will not work in Washington any longer.

Mr. Chairman, Lamar Alexander's advice about Congress does not apply nearly so well to you and your colleagues as it does to the Department of Education:

"Cut their pay, and send them home."

Turning to the Department of Veteran's Affairs (VA), CAGW recommends shifting responsibility for VA home loans to the private sector, or to the Treasury Department, and eliminating the federal subsidy. More than average Americans, veterans are more qualified for, and far more likely to be granted, mortgages. There is no reason to patronize or subsidize veteran home purchases.

Mr. Chairman, many of CAGW's members are veterans. Their service to our country was invaluable and now they are assisting in America's latest battle—the war on our nearly $5 trillion debt. If our members are willing to put everything on the budget chopping block, members of Congress should listen to them and do so.

According to a recent General Accounting Office (GAO) report, the VA overpays hundreds of millions of dollars in compensation and pension benefits. In 1994, VA detected about $372 million that it had erroneously paid to compensation and pension beneficiaries. VA collects, on average, about 30 percent of its outstanding overpayments. As a result, VA's outstanding overpayment balance increased from over $304 million in 1985 to about $618 million in 1994.

GAO recommends that procedures should be established to focus on preventing pension and compensation overpayments. These include:

- Identifying beneficiaries who will soon become eligible for Social Security benefits in a timely manner to better adjust their benefit payments.
- Collect, analyze, and use information on the specific causes or contributing factors of overpayments to develop strategies for targeting additional preventive efforts.

Many tax dollars are being wasted on numerous VA medical facilities that are built to serve those who served America. One Department of Defense audit found a consistent lack of controls in the planning process for hospitals to assure that requirements were sound and up to date before construction were approved.

Senator Frank Murkowski (R–AK) has recommended that VA put more emphasis and priority on outpatient care. He believes the need for veterans' outpatient care facilities exceeds dramatically the need for inpatient care facilities. Last Congress, the Appropriations Committee agreed with Sen. Murkowski that it was unwise to

build more inpatient hospitals. Sen. Murkowski's recommendations are based on two principles:

> First, VA construction should focus on critical needs for delivering VA care in the century to come. We must focus on ambulatory care and long-term care, not brick and mortar and more hospitals. Second, because resources are scarce, veterans will suffer if money is spent on lower-priority projects.

CAGW urges Congress to heed Sen. Murkowski's advice.

Taxpayers are no longer amused by inadequate and irresponsible management of our government, because their future is in jeopardy. The budget crisis cannot be ignored, and that's why their amusement has been replaced with outrage. Members of this subcommittee must be equally as outraged.

Restoring fiscal sanity to our nation is the most important job for the 104th Congress. The country is awash in a sea of red ink, and every day slips perilously closer to bankruptcy. The national debt is expected to rise to nearly $6 trillion by the end of the century. This is not the legacy that we should leave to our children and grandchildren. Spending has not been cut to the bone. Money is being wasted daily and the clock is ticking. We're sitting on a fiscal time bomb that needs to be defused.

You have an opportunity to continue the mission that Peter Grace and Ronald Reagan started 13 years ago when President Reagan signed Executive Order 12369 in 1982 formally establishing the President's Private Sector Survey on Cost Control, and to deliver on the call for change made on November 8th.

If you don't take the right steps now, there may never again be such an opportunity to make the fundamental changes that need to be made.

This concludes my testimony. I'll be glad to answer any questions you may have.

Mr. SHAYS. Mr. Gross, welcome to the committee, and we invite your testimony.

Mr. GROSS. Well, thank you.

I have written about government in three books, including "The Government Racket: Washington Waste from A to Z," published in 1992, when I first testified before Senator Glenn's committee. At the time, Senator Glenn was contemplating a strong oversight of the Federal Government but it never took place. Instead, we had Vice President Gore's Reinventing Government to which I contributed. But of course it was a very minor activity. It was not very valuable. It represented less than 1 percent of the budget, in terms of reducing the deficit.

Then I wrote a book in 1993 called "A Call for Revolution," where I laid out what I saw as the basic problems of the Federal Government and asked for changes, including closing of some agencies and reforming others.

Well, today I want to discuss the HHS, including of course Social Security, even though it's now being broken off as a separate agency. The HHS budget for fiscal 1996, including Social Security, is estimated at $773 billion which is virtually half the entire expenditures of our government and 60 percent of all our expenditures if we put aside the interest on the debt. The interest on the debt is now taking 60 percent of all of the individual income taxes paid by Americans.

Therefore, we have to understand that balancing the budget is not just an academic exercise. It is the only way to keep America from going bankrupt. Bankruptcy has been estimated to occur, according to some economists, when the debt service equals all the income tax paid by individuals. Then you no longer have an operating government.

Now, HHS is a monster, perhaps the most inefficient organization in America and probably the most inefficient organization in the history of western Democratic society. The reason is that it spends so much money and does so little good for what it does.

For example, welfare. Now, the newspapers, the uninformed Washington Post and New York Times write regularly about the welfare cost of America being $28 billion, singling out the AFDC as the program. The AFDC is the entry point for most people on welfare to 81 programs which have been cataloged by the Congressional Research Service and read by three people: Ms. Vee Burke who wrote it, her typist, and myself. It is a document of 200 pages, a catalog of every welfare program in America. Her last report—she does it every 2 years—was September 1993 for fiscal 1992. Her total was $290 billion for welfare, not the $28 billion mentioned by the New York Times.

There were 81 programs in six different cabinet agencies. Ms. Burke pointed out that it was impossible for anyone, including the President, to know who was on welfare and how much we were spending. Each of the 81 programs had their own computer and there is no computer that correlates it. People could be receiving $80 or $90 or $100,000 a year in benefits and no one would know.

The welfare program is a disaster, of course. Not only is it a disaster financially at $300—by the way, today it is $384 billion using Ms. Burke's estimates of its growth. It is also disaster morally, fiscally, and it is a travesty of intelligence. Why? My father was a manager of a laundry in the Bronx earning a very good living when the laundry closed because of the depression. He walked the streets for 10 hours a day. He was a worker type, but because he couldn't get a job, he went on home relief. Home relief was similar to the AFDC but it had nothing to do with single parenthood. It was just given to families. It was approximately $15 a week, which meant we could barely live, pay the rent and eat mostly potatoes during that period. My father was disgusted, because he couldn't find a job.

Franklin Roosevelt sensed the despair of the Nation and closed the home relief for able-bodied people and substituted the WPA, a magnificent operation which saved America during the depression. By the close of the depression, there were 5.5 million men, mostly men, women weren't expected to work at the time, 5.5 million men equal to 12 million men in today's society.

My father got a pick and ax and worked on the streets in the Bronx, for which he got $21 a week. At that time, the typical private job paid $35 a week. Then the laundry business came back and he went to work in it. But he never lost hope, maintained the work ethic and kept the family alive.

My suggestion, which has nothing to do with fraud and abuse, although it is part of it, but it has to do with giant waste, is that—my recommendation is that of the 81 programs that Ms. Burke has outlined in the six agencies, that 80 be closed immediately. Only one program be maintained for the blind and disabled in America. We should close the 81 programs, AFDC, housing, Pell grants, everything, and substitute a living wage on WPA which will change the inner city overnight. There will be no advantage in having a child out of wedlock because you won't get any money for it. You won't get any money for additional children. You only get money for working.

Are there jobs? Well, my God, the inner cities can be totally rebuilt as can the rural areas by the WPA, which solved the Dust

Bowl by planting 10 million trees in the 30's, which built any decent looking post office in America, which built the dams, which paved the million miles of road. Hospitals need work. Teachers need assistance. We need to rebuild the tenements.

The present welfare program does not solve poverty. It creates poverty. When the person starts to get a welfare check, he is now poor. No one ever got rich on welfare unless they do welfare fraud. Some of that exists, but, by and large, these are honest people who are uneducated and fall into the government trap of dependency.

I say that every welfare bill that is now being contemplated by Mr. Moynihan, et cetera, are pure and absolute nonsense. Nothing will come of it except one this reform and another reform and still another reform. The rolls will increase and the human despair will increase and the crime will increase as well as illegitimacy.

All welfare programs in America must be closed, the WPA reinstituted, and the only eligibility for the job is that you show up. And once you show up, you get a living wage and, equally important, you will receive an HMO health insurance policy which will eliminate half of the Medicaid costs in America, which now total $178 billion, in Federal and State funds.

Having said that about welfare, I might point out in terms of fraud and abuse, some of it is just pure stupidity. In my town in Connecticut, welfare families are getting $1,530 a month for rent, are also getting $1,000 in cash, and they are also getting full health insurance on Medicaid. There is absolutely no reason whatsoever for anybody on welfare in my community to work. But it is a strange community. It is the very affluent community of Greenwich, CT. We have about 225 families on AFDC living very much like the people who bought their way into Greenwich, CT, which excludes about 99 percent of America.

When I spoke to the head of the Housing Bureau in our town, the Greenwich Housing Administration, which is part of HUD, I said: "How can you pay $1,530 a month and be authorized to pay up to $1,710?" She said, that's what it cost to live in Greenwich, which is an absolute non sequitur. We should have a ceiling on HUD costs of perhaps $600 a month. Not because we want to punish anybody, but because we want to maintain the Protestant ethic that built America, the Judeo-Christian ethic which meant family and work. For the government to circumvent family and work is pure immorality, sinfulness, and disaster.

No one in Europe understands how bad the welfare situation is here because their social services extend to all the people, including subsidized railroads and planes and schools and free universities and day care centers. The European system is mild socialism for the middle class and the poor that work. The American system is an absolute abomination that only destroys those people it touches. Except, of course, for the blind and disabled who we should not expect to work. Although, the organizations that handle disability claims that some are perfectly able to work, but that they can't get jobs. The WPA would solve that.

The next travesty that has been under the control of HHS all these years is Social Security. Social Security has been a boon to the elderly. It is absolutely necessary. I am old enough to remember the 1930's, when the aged people were just cast aside before

Social Security. They had no way to live except by the charity of the town or their children, if their children could afford to support them. Social Security has been an enormous success up to this point, but will become the first giant disaster of the 21st century.

Why? Well, there are two reasons. First, the money is not invested. Now, I hear arguments by people in politics that the money is invested. It's a failure of mathematical philosophy. You cannot spend the surplus of Social Security as we are doing now—$58 billion last year, $65 billion next year, going up to a $75 billion surplus—which all goes into the general fund.

The money comes in Monday, goes into the general fund Tuesday, and it's spent on Wednesday. It's not invested at all. It is given a fake certificate of indebtedness. In my book on taxes, I have a list of all the bonds that they've given to the Social Security fund. How do you redeem the bonds? You have to go out and borrow money which increases the national debt. Then the citizen who has been paying the FICA taxes has to pay the interest on the money that the Government is borrowing.

Mr. SHAYS. If I just ask you 2 minutes to close.

Mr. GROSS. Surely.

Now, Social Security can be saved in a very simple way. As a matter of fact, I think Mr. Simpson and Mr. Kerry proposed part of it just yesterday. That is gradual privatization of the fund, meaning that you take the surplus beginning now, with $65 billion. You give that portion back to the FICA recipients to invest privately, on a compulsory basis, in their own fund such as an IRA or a Keogh. Then that we start to relieve the system because the money gets truly invested.

And as a quick example, Chile does this with their entire fund and for the last 10 years has had a 14 percent a year gain. We have had a 16 percent per year loss because of the money stolen by the Federal Government for the general fund. Our Social Security plan is going bankrupt and Chile's is getting rich. Thirty years from now when you go on a cruise ship to Bermuda, they'll all be Chilean old people and very few Americans.

Now, Medicare includes enormous fraud. As a senior citizen, I can give you some personal examples if pressed. The Medicare tax rises each year. Now at the $61,000 level and then the law was passed sending it up to $130,000 income level. Now it is unlimited, yet we understand that the fund is going to go broke in 7 years.

Some of the fraud and waste includes medical equipment which are marketed to the elderly who often don't need it. Medical labs earn twice as much profit from the Medicare fund as they do from private funds. The teaching hospitals take $2.5 billion a year out of the Medicare fund. I didn't know that the aged fund was there to support medical education.

MRI and CAT machines proliferate. We have more in the United States than the whole world put together. They are subsidized by the government, often owned by the doctors. We pay about $500 per scan. People get rich on it. We have too many. The Federal Government, through Medicaid and Medicare, pays 40 percent of the hospital bill in America. It subsidizes the expansion of hospitals to the point where we have 35 percent empty beds while Germany has 12 percent because they haven't had this foolishness.

Greenwich Hospital, where I live, is being destroyed because it is too large. They are tearing it down to build a hospital half the size because that's what we need, yet the first one was built with Federal funds.

Doctors cheat enormously on Medicare when they put down little decimal numbers which determines the check that is sent to them. They cheat regularly. The GAO estimates $20 billion a year. It's probably $40 billion a year. The insurance contractors send out different payments. There is no coordination.

If we want to reduce the increase in the cost of Medicare to 6 percent a year, we must cut down on the waste and fraud. But we also must do something else that is very simple, something that Germany did with its doctors. They decide on the total budget of their medical plan for doctors each year and the computer changes the checks dependent upon the increase the government decides on.

If we want to go from 10 percent rise in Medicare costs—actually last year it was 11.7 percent, which I found out from the annual report—to 8 percent this year, then as the bills come in, the computer merely changes the increase to 8 percent. No matter what bills come in, at the end of the year, you are done.

Medicaid——

Mr. SHAYS. I am going to ask you to stop now.

Mr. GROSS. I just wanted to mention Medicaid. Thirty seconds.

Mr. SHAYS. I learned a lesson from awhile ago. I should have remembered your written statement would be shorter than your summarized one. And that is not a criticism.

Mr. GROSS. That's all right.

Medicaid is rife with fraud and one of the reasons is that the payment to the doctors is so low that the doctors—most doctors won't take it—they set up Medicaid mills. Many of them have gone to jail. They produce an enormous amount of bills for the government, hiking everything up, through volume. Sometimes they even fake the volume.

What we need, of course, is something quite different. We need a different program for the aged. Right now they are mostly in private nursing homes. In Connecticut, we pay $35,000 per patient per year. We need clinics for the children because the children go to the emergency room in Hartford and Stamford in my State. The bill can be $203 to look at a sore throat of a child. There should be pediatric clinics which will cost us $25 a visit for the Medicaid and not $300 or $250.

Everyone in America on Medicaid should be in an HMO which saves 7 percent off the top. When you eliminate fraud and you start to do things efficiently, you can cut $50, even $70 billion a year off Medicaid.

So I tried to touch a few points. Just in summation, I must say that no program in the history of the western world has ever been run as poorly as the HHS.

Thank you.

[The prepared statement of Mr. Gross follows:]

PREPARED STATEMENT OF MARTIN GROSS, AUTHOR

Members of the Committee:

I have appeared before Congress several times to discuss vital issues of government, always with the large working middle class of America in mind.

Today, I would like to look at various aspects of the activities of the Department of Health and Human Services (HHS), by far the largest of all government agencies. According to their most recent budget report, they expect revenue from the Treasury of $773,675,000,000 ($773 billion) in Fiscal 1996, almost half the entire federal budget. It represents some 60 percent of the working federal budget after payment of interest on the national debt.

The HHS is involved in a multitude of operations from the Food and Drug Administration to Indian Health to the National Institutes of Health. But for today's purposes, I will concentrate on four largest of the HHS operations: Social Security, Medicare, Medicaid, and Aid to Families with Dependent Children (AFDC).

In addition to the projected $773 billion intake, we should also consider that the states spend a great deal in matching funds on Medicaid and AFDC, and amount that will soon approach $100 billion a year.

SOCIAL SECURITY

In my new book, THE TAX RACKET, I have devoted a chapter to the Social Security Tax. The key question here is, of course, its solvency, As of January 1995, the government had "borrowed" $413 billion from the Social Security Trust Fund (a bookkeeping item with no fiscal integrity) and given the fund federal notes of indebtedness, part of the $4.8 billion national debt.

As we know, that borrowed money has come from the giant surpluses generated each year since 1983, when the FICA taxes were raised. That was done to create some $2 trillion in surplus CASH by the year 2015–2020 when the baby boomers will be ready to retire. Unfortunately, there will be no cash on hand. Instead, the government will either have to raise FICA taxes or go into the market and borrow the money that has been put into the General Fund and spent.

This is not sound policy. As we know, when they speak of a "balanced budget" by the year 2002, that does not include the $65 billion a year that is being borrowed on a regular basis.

What should we do to make Social Security secure? The retirement age is being raised, with talk of it going to 70. However, no one has figured out how the aged—pushed out of the job market—will live decently from the time they retire from work and are waiting for Social Security payments at age 70.

There is only one answer to the Social Security dilemma, and it will have to be addressed very soon. Right now, we are living in borrowed time.

The answer is to not spend the surplus of $2 trillion (as we're now doing from the General Fund), but to invest it. The SSA should no longer be part of the government, but separated as an independent quasi-governmental agency like the Federal Reserve with a Board named by the President and confirmed by Congress. They, not Congress, should determine Social Security taxes and benefits and manage the fund.

What should they do?

(1) Make retirement no later than 67.

(2) Prohibit the government from borrowing any FICA funds.

(3) Arrange for payback of the money already borrowed.

(4) Invest the annual surplus—not in Treasury debt but in outside negotiable instruments: Fannie Mae, Ginne Mae, Freddie Mac (all of which have had huge gains), and perhaps in top-rated commercial bonds. If the average surplus of $65 billion a year is invested over the next 25 years at just 6% return, there will be trillions available for the baby boomers, instead of zero as presently projected.

(5) Move a little each year toward the Chilean system in which contributors in that nation choose either the government investment plan or one of 12 private investment groups, all regulated by the government. (If one fails, the pensioners receive the government minimum.) These private investment groups have achieved an average gain of 14 percent over the last decade, while our Social Security contributions are reduced daily through non-investment.

Under such a plan, the monthly returns could reach $2000 a month average instead of the present inadequate $698 average.

In terms of additional oversight, the SSI disability system, which is part of Social Security, has had an abnormal growth in "disabled" children because of loose definitions. Those enrollments should be drastically cut back. The same is true of drug addicts and alcoholics, who will still receive SSI payments for 3 years. That should be curtailed immediately.

But most important to Social Security is its fiscal and investment independence and the development of an investment strategy to increase benefits and/or reduce FICA taxes and keep it solvent for the baby boomers and beyond.

MEDICARE

In spite of a Medicare tax in 1983 to 2.9 percent of income (now at $61,200 level), and new IRS rules that put no income ceiling on the Medicare tax, the hospital (Part A) fund is going to be insolvent by 2002, we are told.

What to do?

Obviously, the rate of growth is too high. Estimated outlays for FY 1996 are $195 billion, 11.7 higher than 1995. To bring this program into line outlays must be reduced to about 6 percent a year by the year 2002.

Is it because we have so many more aged? Not really. From 1991 to 1993, Medicare rolls increased by only 4%, but costs went up 23 percent.

How can that be done without destroying the program, which is quite popular with beneficiaries?

There are many ways, some of which I'll outline here.

(1) Stop the enormous fraud in medical equipment (oxygen, wheel chairs, etc.) marketed directly to the aged and paid for by Medicare.

(2) Reduce profits of medical labs providing services for the aged. All reports indicate that their profit mark up is much higher with Medicare than with private accounts.

(3) Drastically cut the multi-billion Medicare payments to teaching hospitals. Medicare is an insurance plan, not a medical subsidy program.

(4) Excessive payments for MRI and CAT scan machine usage, many of which are owned by doctors. Payments should be reduced and some planning introduced so that Medicare doesn't encourage continual purchase of machines which are overabundant in many areas.

(5) Enormous fraud by doctors and hospitals who cheat Medicare for greater profit, adding and exaggerating procedures for greater payment.

(6) The GAO estimates that some $20 billion a year is wasted or stolen in the Medicare program.

(7) Uneven record of payment by different insurance contractors than others.

(8) Inappropriate payment by Medicare when beneficiary has a primary health insurance program at work or as a spouse.

If we want to reduce the yearly increase to 6 percent, all of the above must be corrected. But if that doesn't fully do the job, we must turn to weekly adjustment of payments from Medicare to providers. Setting say a 7 percent increase as an immediate goal, the computers will adjust their payments totals weekly, and made only those proportionate payments that will yield the desired yearly increase. This has successfully been done with physicians in Germany.

Doctors and hospitals who do not cooperate in treating Medicare payments under any new system should have their license withdrawn by the state medical and hospital boards.

We must understand that while Medicare (and Medicaid) are ostensibly insurance plans, in reality they are the major subsidy of the hospital establishment. Both plans (including state Medicaid funds) provide 40 percent of the cost of running American's hospitals. The results of this have been the excessive growth of hospitals, which today have 34 percent empty beds, some and 3 times as much as hospitals in Europe. Critics of reform who fear the closing of hospitals are wrong. That retrenchment is probably necessary of the Medicare budget is to be stabilized.

MEDICAID

Medicaid, the system of providing health care for the poor, is a program in absolute shambles. It is a program that will cost $169 billion in 1996—$96 billion federal and $73 billion by the states, who are generally forgotten in figuring costs.

Medicaid is even more rife with fraud than Medicare. Because most doctors do not want to participate, Medicaid "mills" take over, handling millions of poor patients with extensive billing fraud. Since there's no co-payment, many beneficiaries cooperate. "Upcoding," the process of making treatment seems more complex is commonplace here, just as it is in Medicare.

One of the greatest costs for Medicaid is the excessive use of the emergency rooms by beneficiaries instead of visiting family doctors, many of whom refuse to treat them. (States should require this "charity" work.) Such a visit might cost Medicaid $35, but an emergency room visit is easily $200 or $300 or $400 for routine items like a finger infection or checking a sore throat. Beneficiaries should be placed routinely in HMOs to cut out that expensive practice. Not only will HMOs save about 7 percent of the cost under normal circumstances, but it could cut the cost of Medicaid emergency room visits in half.

Co-payments should be instituted on all Medicaid visits, even if it is only $1 or $2, just to help patients curtail fraud.

Aside from the aged and disabled, two-thirds of the Medicaid patients are children. Vast sums are wasted on their care when we should be establishing pediatric clinics which can operate at a much cheaper cost.

Among the aged, who use more than half the Medicaid funds, the nursing homes are too expensive ($35,000 per patient per anum in Connecticut) for example, for several reasons:

(1) Profit margins in private nursing homes are much too high. Medicaid should cut those in half.

(2) Too many nursing homes are privately-owned. The states should start programs to have them become voluntarily non-profit institutions like our better hospitals.

(3) Federal regulations on nursing homes require hospital-like environments which are not always necessary. Redesigning those rules will lower the cost.

(4) Home-care for the aged costs about ⅓ the amount of nursing home care and should be encouraged, even with subsidies to save billions.

Dentistry, which is provided by Medicaid in 45 states, is another area of enormous fraud. Medicaid needs a fraud unit just to handle that. Dental care is not provided to Medicare patients at all, for example.

AFDC

This primary welfare program, which provides cash mainly to single mothers with children, most out of wedlock, costs approximately $30 billion a year, about 43 percent paid by the states. The cash benefits vary from $120 a month in Mississippi to some $700 a month in New York.

This is only one part of the federal welfare system, even if it is usually the entry point, for 81 different welfare programs from six different cabinet agencies. According to the Congressional Research Service study "Cash and Non-Cash Benefits for People of Limited Income" (Vee Burke, author) showed a $290 billion cost in Fiscal 1992, which is approximately $380 billion in Fiscal 1995.

The AFDC program has been the major stimulus for out-of-wedlock birth, crime, drug addiction, and dependency in America—conditions created by Uncle Sam and this misdirected program. Fraud is commonplace as we read in local newspapers (NYC welfare workers stole $3 million recently with the help of beneficiaries), and little of it is detected. Checks in some cities found welfare recipients who were fugitives from the law.

Each of the 81 welfare programs—from AFDC to rural rental assistance—has its own computer system, and no one in government knows who is receiving what. Immediately, these computers should be connected and no household should be allowed to receive more than $30,000 in all benefits.

The formula to reimburse the states for AFDC money is backwards. Connecticut, which pays an average of $7000 a year to AFDC households, receives 50% back from Washington. Their net cost is $3500 per family a year. Arkansas pays an average of $2500, 78% of which is covered by Washington because they are a "poor state." So each case costs them a little over $500 a year net. Connecticut is paying 7 times as much, a ridiculous formula whose percentage federal sharing should be reversed. It makes no sense mathematically.

The new regulation in New Jersey, which cuts benefits for a second child born to a welfare mother, is helpful. The state has announced an 11 percent drop in birth rate among those families in just one year!

Other reforms (no housing for mothers under 18) will also help, but there will be no appreciable change in the welfare system until it is closed completely. FDR did just that in the 1930s with home relief. He substituted the WPA (Works Progress Administration) which provided a job for every able bodied person and did magnificent work in the Depression. Of the 81 welfare programs, all should be closed except for the blind and disabled. A string of day care centers should be built for young children, where mothers can both work and leave their children. They can also work in schools, hospitals, etc. Similarly, men can rebuild the inner cities and rural slums.

There is no other answer. Surely, we have achieved what we paid for—millions of poor, out-of-wedlock children who contribute disproportionately to dysfunctional behavior. It is time to stop the AFDC and substitute work.

This short testimony is a bare overview of the problems faced by the HHS and Congress. In summary, that agency and its programs are, in general, poorly-designed and executed and need major overhaul and oversight.

Mr. SHAYS. I thank both gentlemen for your testimony. And would throw out a question as it relates to the Department of Edu-

cation, but really the Labor Department as well, and it is the whole job training program. And we could talk about a whole host of different issues.

My interest in this is that I believe that Congress should have in some cases competitive grants, in other cases block grants. I don't believe that Members of Congress should try to get money for a particular community because they happen to have more political clout.

But I was faced with an experience recently where one of the job training organizations in my district who does a very fine job was given a grant of over $800,000 to help retrain 200 employees who would be laid off from a major corporation that is moving from Stamford, CT.

And we announced this grant and after we announced it, I thought to myself, why would this large successful company, a Fortune 500 company, be given a grant—it wasn't given directly to the company. It was given to an employment, nonprofit organization. Why wouldn't the company have made that kind of payment and why did the Federal Government step in?

The only conclusion I have is that we have so much money now in our job training program that we are having a hard time getting to those that are truly in desperate need and there is no other way to pay for it. So my question is:

With 160 job training programs, would you eliminate them? Would you block grant them? Would you reduce their scope? Would you have them tied into the private sector in terms of the company would only get paid if they made sure that the individual they trained got a job in the end? So in other words, you would examine output and outcome? That is my question.

I throw it first to you, Mr. Schatz.

Mr. SCHATZ. Mr. Chairman, I certainly appreciate your view on this.

Mr. SHAYS. I'm sorry to interrupt you, but we are spending over $20 billion a year, combining that with some of our educational loans over $24 billion a year in our educational loans and our job training.

Mr. SCHATZ. Clearly this has not been terribly effective if the money is being thrown out as you say. Everybody agrees, I think, on the goal which is to help people find jobs or retrain them when they truly need it and it is an example of what else goes on throughout the government, which is not targeting. You can look at anything from rural electrification loans which——

Mr. SHAYS. What would be your specific suggestion?

Mr. SCHATZ. Our specific suggestion is to, first of all, target these where they are most needed and whether that is by formula or competition as opposed to, as you know, going where somebody happens to be on a committee or an appropriations committee. We see a lot of that, unfortunately, even now.

Mr. SHAYS. But in this case, this was a program already on the books, and the nonprofit applied for it based on the 200 employees that weren't going to be moving with the company. So it wasn't me getting the grant, I just announced the grant.

Mr. SCHATZ. I understand that.

Mr. SHAYS. So that was a competitive grant.

Mr. SCHATZ. But still the eligibility is too broad. What we find often is that programs get started and then everybody wants a piece of it as opposed to the program getting started and monitoring its effectiveness and then deciding where it should go after that.

And that's one of the things that I think your leadership on this subcommittee and I know Mr. Towns as well has looked at this, it has to be very, very closely monitored. It's one of the reasons we supported a 2-year budget, because you can spend 1 year spending the money and another year watching how it's spent.

Unfortunately, there aren't enough of these types of hearings and oversight where you can really sit down and think about how that money should go. As I said, in recommendations that the Grace Commission made 10 years ago, which were based on previous recommendations——

Mr. SHAYS. Do you have any specific recommendations or maybe I could ask Martin, and if you wanted to come back, any specific recommendations on what we would do with job training programs? How we can make them more effective?

Mr. GROSS. I was on a job training program——

Mr. SHAYS. Can you talk a little closer to the microphone.

Mr. GROSS. I am a veteran of World War II and I was in a job training program when I got out of college. I wanted to be a reporter and there were too many people trying to be reporters. I found out about the GI bill which gave a local weekly newspaper, the West Side News in Manhattan, $25 a week to train me for 1 year. The employer also gave me $25. The government paid him an additional $25.

Mr. SHAYS. So it was actually the employer provided——

Mr. GROSS. Job training outside of employment is a farce. It is a fantasy because the people who are incapable or not interested in handling academic subjects at school are not good subjects for training off the job. But they are magnificent subjects for training on the job because you have a realistic situation.

I would close all 154 programs and have two. And those two programs would be as follows. No. 1, the German apprentice system which is not a haphazard, here and there, school-to-work kind of nonsense. It takes care of all the German children, 70 percent of whom do not go to college. Only 30 percent go to college. The other goes directly into the job market.

They get $7,000 a year for 3 years of apprentice training, which includes the last years of high school. The Chamber of Industry of Germany runs it in cooperation with the government. A letter to the editor just about 6 months ago from the President of the Hanover Chamber of Industry——

Mr. SHAYS. What paper was this?

Mr. GROSS. Wall Street Journal—talked about the fact that this is what made Germany, that the 70 percent didn't go walking the streets. They went directly into——

Mr. SHAYS. What would be the——

Mr. GROSS [continuing]. The apprentice program. Everybody.

Mr. SHAYS. The German model——

Mr. GROSS. But the exact German model. Because if you vary it into American-type government programs, it fails. The program is

very simple. They get $7,000 a year. At the end of 3 years, they get their high school diploma and their journeyman's papers in surveying, metallurgy, computer work, whatever. Their salary is raised to $20 to $25,000 a year at the end of the program. Now, that's for everybody in America. We would reduce the number of college graduates.

The second program is the GI bill. There would be no training outside the industry. It would be for 1 year. The corporation would get half the minimum salary. Let's say the minimum salary is $15,000. The corporation gets $7,500. The corporation or the industry could be an upholstery shop in Harlem, gets $7,500, the person works for a year at the end of which his training is done.

Mr. SHAYS. I always thought the GI bill was aid to go on to college.

Mr. GROSS. We had 12 programs. I took advantage of all 12.

Mr. SHAYS. Let me just say the other mistake I made is somehow we don't have the red light that says when my 5 minutes is up and you are going to be the caller here and my 5 minutes are up, and I thank you both.

Mr. Towns.

Mr. TOWNS. Let me begin by saying, Mr. Gross, you took advantage of all 12 of them, no wonder you are saying some of the things you are saying now. It is understandable.

Mr. Schatz, a recently released GAO report entitled "School Facilities, America's Schools not Designed or Equipped for the 21st Century," found that schools in inner cities and schools with 50 percent or more minority population were more likely to have unsatisfactory environmental conditions, such as lighting, physical security, and less likely to have technology elements.

How do you feel, based on your testimony, that these inequities should be addressed?

Mr. SCHATZ. Mr. Towns, I think there is a question as to how the local communities spend that money and I can point right here to the District of Columbia where I live and my daughter goes to public school. We see right here where the administration of our school system in the District has decided to build a new administrative office for the teachers and has refused to eliminate schools that are no longer needed. They have refused to eliminate teaching positions that are no longer needed.

So I don't think it is a matter of how much money is being spent, I think it is a matter of how it is spent. And I think that may be true in a lot of other communities around the country. We have plenty of money to spend. And as I said earlier, I don't think that spending the money solves the problem. I think that a lot of it gets eaten up in the middle.

If you reduce, for example, the bureaucracy at the Department of Education, you could free up a lot more money to solve these problems. I don't have any difficulty with spending that kind of money to fix these inner city schools. But again, right here in the District, you have got fire code violations and the city administration has refused to move that money around to pay for those situations. And I think if you can't basically protect your kids, you've got a problem, not necessarily with the Federal spending, but how it gets done down at the local level.

Mr. TOWNS. Isn't that a State function? Wouldn't the State make that decision as to those priorities?

Mr. SCHATZ. Well, you've got 95 percent of the money being spent at the State and local level, more of it spent at the local level. And you've got communities that should also be making those kinds of decisions. If you block grant a number of these programs in the Department, and if Congress would agree to eliminate those that are no longer effective, you could free up money to solve those problems. Everybody should have that opportunity.

Promoting educational excellence, as the Department of Education is supposed to do, is a wonderful goal in promoting the equality, but you can't do that if the local communities don't spend the money wisely.

Mr. TOWNS. I agree with that. This is a hearing on waste, fraud, and abuse. Isn't it waste and abuse of our children who require adequate equipment and don't have it?

Mr. SCHATZ. I am not disagreeing with you, Mr. Towns. I'm saying that there is enough money in the budget to solve those problems. It is obviously not being spent in the proper way. But you spent $350 billion since 1980 and you've still got the ongoing problems that these communities had 20, 30 years ago. So money is not solving the problem. It's the way it is being spent.

Mr. TOWNS. Let me ask the question a different way. What do you see as an appropriate Federal and State partnership? Are you saying that the Federal Government should be out of it altogether? What are you really saying here?

Mr. SCHATZ. Well, I mean, I can speak for myself. I went to school in the 1960's mostly and there was no Department of Education and I think most of us, which is essentially the majority or almost all the baby boomers, seem to be doing pretty well and we did it without a Department of Education.

And I think that there's, again, the historic aspect of that, that before we had the Department and we had the Health Education and Welfare Department. But nonetheless it appears that as the bureaucracy has grown, the ability to spend this money wisely has greatly diminished or we wouldn't be having all those reports about what's wrong with the system. So I think that if you're going to really solve this problem, one of the ways to do it is to greatly reduce or eliminate the whole department.

Mr. TOWNS. The reason I'm having some problems with what you are saying is the State makes those decisions, which you agree on. Isn't a Federal presence necessary to ensure national priorities?

Mr. SCHATZ. Well, again, Mr. Towns, I am not sure those have solved the problems either. Setting national goals and overtaking local community operations and local community goals also does not seem to be working all that well. It seems the more the Federal Government steps in, the more strings are attached and the less gets done locally.

Mr. TOWNS. All right. I'm having some problems with you. Let me just move on to you, Mr. Gross.

Mr. GROSS. Can I give a very quick suggestion on education?

Mr. TOWNS. I would be delighted to hear it.

Mr. GROSS. I am a firm believer in the public school system. I'm a product of it. I went to a public grade school, and I went to City

College of New York. Public schools did a magnificent job in assimilating Americans. It is now doing a very poor job in the same area.

The black community, for example, are old Americans who have been here a lot longer than most white Americans and yet they had the unfortunate situation of coming to the inner cities, in the north particularly, at a time when public education was becoming poor in quality and discipline and performance was low.

When I went to school in the Bronx, we had perhaps 15 percent Afro-American children and they did fine during the 1940's and 1930's. This was when discipline was strong and the curriculum was strong. I am going to be very pessimistic about the public education system in America today, which works very well for middle-class people whose parents are pounding on them to do their home work and despite the schools' permissiveness, the parents are not permissive.

The Catholic schools, and I have some contact with the Catholic schools in Connecticut——

Mr. SHAYS. I'm going to really——

Mr. GROSS. I am as——

Mr. SHAYS. Let me just explain, we are going to go through a second cycle.

Mr. Towns, I am going to let him go beyond that. If you could make your points a little more precise.

Mr. TOWNS. Thank you, Mr. Chairman.

Mr. GROSS. The Catholic schools have done a better job than the public schools and the question of the inner cities who start to pay more attention to the parochial schools, Catholic, Lutheran, Jewish, et cetera, and less attention to the public schools because I don't think that within your lifetime or mine, the public schools are going to be redeemed in America.

Mr. TOWNS. You see, I have some real problems with that. I think the best schools in the United States of America should be the public schools.

Mr. GROSS. Should be, of course. I agree with you.

Mr. TOWNS. I think that's the way we should be moving.

Mr. GROSS. But we are not going to get there.

Mr. TOWNS. Let me just move my time back, take my time back.

Mr. Gross, you testified, for example, that the AFDC program has been the major stimulus for out-of-wedlock birth.

Mr. GROSS. Right.

Mr. TOWNS. Crime, drug addiction, and dependency.

Mr. GROSS. Right.

Mr. TOWNS. That is a pretty dramatic assertion.

Mr. GROSS. Right.

Mr. TOWNS. I am not aware of any study that produced that astounding finding. Could you give—under oath as you are, could you give me some supporting claims?

Mr. GROSS. Right. In my book, "The Call for Revolution," I have a chapter called "Welfare Slavery." And I cite two or three studies, mentioning the names of these studies and the universities that did the studies, that indicates that the children of AFDC single mothers, when compared with people of the same race, same socioeconomic, and same ethnic background, have twice to three times as much divorce when they grow up, illegitimacy when they grow

up, crime and drug addiction. And these are university studies comparing apples and apples, people in the same communities, those who are working and have two-parent homes and those who are on AFDC.

Mr. TOWNS. Mr. Gross, I challenge that.

Mr. GROSS. Well, I didn't write the studies.

Mr. TOWNS. Let me ask you another question. Do you believe then that the elimination of this program will end out-of-wedlock births, crime, and drug addiction? You really believe that?

Mr. GROSS. I not only believe it, I know it, because the universities who are Cornell, et cetera——

Mr. TOWNS. No further questions, Mr. Chairman.

I yield back. No further questions.

Mr. GROSS. Thank you.

Mr. SHAYS. Martin, if you would, would you cite the studies?

Mr. GROSS. I don't have it in front of me, but in my book, "A Call for Revolution" is the chapter——

Mr. SHAYS. Do you have your book with you?

Mr. GROSS. I haven't a copy. It cites the studies.

Mr. SHAYS. I haven't known you to travel without copies of your book.

Mr. GROSS. I don't have the copies. The reason is quite simple. The reason is quite simple, that the history of western civilization has shown that the nuclear family is the greatest discipline——

Mr. SHAYS. Let me——

Mr. GROSS [continuing]. Discipline in our society.

Mr. SHAYS. I would like the copy of the study, but I call on Mrs. Morella.

Mr. TOWNS. Mr. Chairman, could I just ask a question?

Mr. SHAYS. Sure.

Mr. TOWNS. This is a hearing where we actually have a witness under oath here. I think that for statements like this to be made, there must be some evidence submitted.

Mr. GROSS. I pointed out that there were university studies indicating it. I will get the studies for you.

Mr. TOWNS. But Mr. Gross, are you prepared to submit that at this hearing?

Mr. GROSS. Obviously not. I don't have a copy of my book.

Mr. SHAYS. OK. Let me just ask you which book is that?

Mr. GROSS. "A Call for Revolution."

Mr. SHAYS. Maybe we could get "A Call for Revolution" where it is cited and——

Mr. GROSS. In the subtitle, it says, "How Washington is Strangling America." AFDC is one case in point.

Mr. SHAYS. Mrs. Morella.

Mrs. MORELLA. Fine.

I will try to be brief in my questioning. I wanted to get back to the education bit. Seems to me that a democracy, particularly a democracy such as ours, relies totally on the education of its people and where you have suggested that it just isn't working, the programs in the Department of Education with the exception of maybe one program, it seems to me that we have on a Federal level a responsibility for establishing standards.

Would you agree that national standards should be established by the Federal Government to make sure that all of those States at least are adhering to certain levels? I am not saying we need a Department of Education. I am not arguing that point, but I am just saying this as a kind of a preface to looking at what programs should be abandoned.

Do you agree with that, Mr. Schatz?

Mr. SCHATZ. I'm not sure I agree. I think that in many cases the standards have become quite politicized as opposed to being something that is really examined on a truly bipartisan basis. It seems each year we come up with different standards. There was Goals 2000. Before that, there was President Bush's goals.

If we could find a way to come up with something that was done by an independent group where everybody did agree and everybody would agree that it wasn't because they were all Republicans or Democrats or vice-versa, then I think there should be a role.

Mrs. MORELLA. To make sure that children start school at a certain point, must go through certain——

Mr. SCHATZ. At that level, certainly. But I think if you are talking about establishing curriculums for the entire country, I'm not sure that is going to work.

Mrs. MORELLA. We are talking specifically basic standards that all children are educated, mandatorily educated, and that they will reach a certain level when they graduate. My point is that you are going to find that some States are going to fall through the cracks unless they get this kind of impetus from the Federal Government, and I think that we need to be doing that kind of thing. You would agree?

Mr. SCHATZ. As I said, at a certain level, a basic level, I think that is true, but I think if you go too far with that, then you run into the kinds of program problems we have.

Mrs. MORELLA. Was that done under HEW? Remember when we had HEW?

Mr. SCHATZ. I honestly don't recall.

Mr. GROSS. Yes, it was the Office of Education, 1977.

Mrs. MORELLA. Is that the kind of thing you envision occurring?

Mr. SCHATZ. I think it would be far more effective if you had less bureaucracy and more funds back to the States.

Mr. GROSS. But you face a grave danger in having the Federal intervention because you noticed we just spent $2 million for the Department of Education on a high school history curriculum and the history curriculum was so bad that 99 Senators voted against it just 2 weeks ago.

And the Federal Government—it isn't politics. Politics has no place in education. I think we should close the Department of Education, eliminate all Federal contact with the citizens and their communities, and start an enormous campaign to have each State raise their educational standards. But the Federal Government is poison for education because politics should not be part of the school system.

Mrs. MORELLA. Well, when you think of science and math standards that directly relate to our——

Mr. GROSS. Yes, but you can't restrict it to math and science. It is going over to social studies and history. You are going to have,

as New York City "Heather has Two Mommies," a little booklet they put out which was a promotion of lesbianism. So the Federal Government and government itself, the local community sets its own standards.

Mrs. MORELLA. That is a different issue, too.

I wanted to also pick up, Mr. Schatz, on a statement that you have in your testimony on page 3 where you talk about student loans, jumping now to the student loan program on a higher level, where you said you could see that they should be available and managed by the Department of Treasury.

Now, are you saying that this means direct student loans or would you have, as is partially done now and previously had been done completely, the loans coming via the banks? We have a question right now that we are looking at in terms of direct student loans. Do you see it directly from Treasury going out to those students that qualify?

Mr. SCHATZ. Well, it seems to me while there were certainly default problems and I think more of a problem of the way the system was set, I think having the private sector involved has worked better, although of course the new direct student loan program is in fact new.

Mrs. MORELLA. It saves money, too, doesn't it.

Mr. SCHATZ. Well, honestly, that remains to be seen at this point. Whether the additional bureaucracy at Education will really save money I think is unclear at this point. I think—I mean, the estimates are there, but I'm not sure that they are going to actually become true. So that's why I am simply asking that that be something that this subcommittee look at very closely as you obviously are.

Mrs. MORELLA. I see. OK. Great.

Mr. Gross, you—well, I guess really Mr. Schatz, the VA, discussing something I have cared very much about and that is their health care services, you mentioned that you would urge Congress to heed Senator Murkowski's advice on veterans' health care.

I have felt that there should be more of an opportunity in a direction that outpatient service be utilized and these people not be hospitalized for periods of time. Is this the kind of thing you are getting at?

Mr. SCHATZ. Absolutely. Of course, that is what the Appropriations Committee did last year. And for inpatient care, there is, of course, a lot of discussion about possibly vouchers or other ways to provide the care. We certainly don't want to take that away from veterans. But outpatient care is something that really that every health care operation is looking more toward HMO's and others and I think it makes a lot of sense and it is less costly.

Mrs. MORELLA. I think certainly it would be less costly and we should move in that direction. Do you see the empty beds in veterans hospitals utilized by the nonveteran constituency?

Mr. SCHATZ. Interestingly, one of the Grace Commission's recommendations was sharing between defense hospitals and veterans hospitals depending on what was in the community as opposed to overbuilding which is one of the things that seems to continue to occur. And certainly if the care is available, it doesn't make any sense to spend all that money and have empty beds.

Mrs. MORELLA. There are political problems attached to that.

Mr. SCHATZ. Oh, yes, absolutely.

Mrs. MORELLA. Congress has begun to look at it, but you would recommend that that is an appropriate thing to do. I know my time is going to begin to run out. I am just curious about——

Mr. SHAYS. That is a gentle way of putting it.

Mrs. MORELLA. You know, when the White House Conference on Aging was held, Mr. Gross, the President made a speech and I was on the steering committee and the policy committee and was there. He seemed to feel that the way he could handle the Medicare insolvency in 7 years is purely through waste, fraud, and abuse curtailment.

Do you see that as the solution?

Mr. GROSS. No, I do not. I do not because handling abuse from doctors where it is very common and from hospitals, where it is very common they cheat all the time, virtually all the time. You would need a giant FBI to do it. The FBI director, Mr. Freeh, recently stated in a press release that there is $40 billion of fraud, not just waste but fraud in the medical system. Until the medical profession cleans its own house, you are going to find difficult.

I think the only way is to reduce the amount of money that goes to providers by computer. Should doctors refuse to treat Medicare patients as a result of the lowered amount, they should have their licenses suspended by the States. And I don't think that is very difficult because I think the Governors of most States would agree.

Now, Medicaid is different problem because the Medicaid reimbursement is so low that doctors don't want the patients. Therefore, they go to Medicaid mills where the abuse is enormous. Many doctors go to jail each year as a result, but not enough. There the answer is HMO's—twofold. HMO's and well baby clinics, pediatric clinics. Half—I'm sorry, two-thirds of the nonaged on Medicare are children and the money is now being wasted in emergency rooms.

They don't go for an emergency. The hospital becomes the family doctor which makes no sense. Why? They don't have a doctor because the doctors won't take them. So you need reformation of the medical profession before you can reform the government system. But the government can circumvent that by having clinics for well babies, and cutting down the profits of nursing homes, which are abnormally high.

Nursing homes do very well in the stock market. But meanwhile, that is all public money—mostly public money. So the system is just rife with fraud. You are not going to solve it with the fraud. You have to change the reimbursement system for doctors and hospitals.

Mrs. MORELLA. So the AFDC, I am not going to ask a big question about AFDC. I just want to plant the concept of the woman——

Mr. SHAYS. But he can give you a big answer.

Mrs. MORELLA. No.

Mr. SHAYS. I'm going to ask——

Mrs. MORELLA. There should be something for the woman who has a child and no day care available.

Mr. GROSS. No, no. You must have day care. In a WPA system, you cannot have it without day care. You must have a day care system and then you have work for all the women.

Mr. SHAYS. On that note, Mr. Souder.

Mr. SOUDER. I wanted to follow up a little bit on the Medicare. Mr. Gross, you said that in the teaching hospitals, that the goal of the program isn't to be a medical subsidy. Are not the teaching hospitals, do they get the same rate as other doctors and are not those——

Mr. GROSS. That's not the point. This is special money allotted for the education of teachers, which is a very good goal but it should have nothing to do with hospital insurance for the aged. This is in addition to the money that the teaching hospitals get for Medicare reimbursement. This is over and above that. This is a grant. Now, that grant is fine if the government wants to do it, but why should it come out of the Medicare funds?

Mr. SOUDER. Do you know what the dollar total on that is? Do you have any idea.

Mr. GROSS. The last time I looked, which was 1992 or 1993, it was $2.5 billion.

Mr. SOUDER. In the medical labs providing services for the aged——

Mr. SHAYS. Would the gentleman—you are having a little having difficulty picking it up. Maybe you can move the other mike as well. Move that glass. Maybe you could just move on over.

Mr. SOUDER. This leads to another question that what I heard constantly from doctors is that they were cost shifting, in other words, from Medicare to others yet you seem to be implying that they are overcharging.

Mr. GROSS. Oh, yes, the General Accounting Office has issued a report which I have at home on the medical laboratory profit being double that, approximately double that, for the same services provided to private patients.

Mr. SOUDER. I——

Mr. GROSS. As you may know, I'm a Medicare patient. All of our laboratory costs, 100 percent, are borne by the Federal Government. There is no coinsurance or copayment.

Mr. SOUDER. Do you believe that that is universal or do we have pockets that are doing that?

Mr. GROSS. No, that is universal. The General Accounting Office said that, by and large, the profit margin is too high and the same thing is true in the State of Connecticut. Our new Governor, John Rowland, is trying to arrange, as is Mr. Pataki of New York, to cut the profit margins of the nursing homes which are mainly private. In Connecticut, it costs $35,000 a year per patient, and one of the reasons is that they have a virtual hospital environment which many of the aged don't need.

These are Federal regulations that force the cost up and the nursing homes are so successful that they do magnificently on Wall Street. And that was not the intent of the Medicaid plan, to support Wall Street.

Mr. SOUDER. Have you ever looked at the consistency of eligibility in Medicare for nursing homes?

Mr. GROSS. Medicaid.

Mr. SOUDER. I am speaking of Medicare here in the sense of, if somebody was looking at going to a nursing home, there are a certain number of days after a hospital release that wouldn't that be——

Mr. GROSS. It is a short period, but long-term nursing care is always Medicaid-funded or private. We have a racket going in America where people my age will shift their assets to their wife or wife to husband, which is done without taxation. They then become bankrupt and then go—the husband can have a million dollars—and then the wife goes to the nursing home free of charge as part of Medicaid.

Now, the reason is because even upper middle-class people cannot afford the $35,000 a year after taxes, which is like $60,000 a year, for a nursing home. So the whole nursing home system has to be changed from top to bottom.

I personally think we need a national catastrophic nursing care insurance plan, which they put in years ago and then repealed. I think we need it back begin. We are facing a nursing home explosion. People now are living to 85 and 87. I was told that I have a life expectancy of 86 now. Well, I won't if I continue to testify before Congress. But it is a whole situation which we are trying to put under the rug. And we can't do it.

Mr. SOUDER. You have an interesting mix of on the one hand critiquing Government waste and fraud and yet, when you come down to it, many of your solutions require tremendous intervention of Government——

Mr. GROSS. Yes.

Mr. SOUDER [continuing]. Whether it is a WPA program or——

Mr. GROSS. Right.

Mr. SOUDER. Why do you think——

Mr. GROSS. That's why the right-wing Republicans love me and Ralph Nader loves me, because I try to be a good American. And the last person whose mold I think I am in is Harry Truman. I wrote an article on the GI bill and Harry's friend, a V.F.W. lobbyist, wrote it for him—he claims on an envelope—and gave it to Harry the morning at the White House. The President looked at it and said, "Great" turned to an assistant and he said, "Put this in the legislation." And the assistant said, "Mr. President, you're making a mistake." And Truman said "What's that?" And the aide said, "You have no means test." And Harry said, "They are all veterans."

Well, they are all Americans. The problem we have in America today is this constant looking into everybody's pocketbook to find out what they can and can't afford. We should have absolutely no means test on anything except charity welfare.

Mr. SOUDER. Why would you feel the WPA program would work and yet other job training programs haven't——

Mr. GROSS. It wouldn't be a job training program. It would be work. They would start working the first hour that they showed up with no indoctrination. My father showed up at Tremont Avenue in the Bronx and was given a pick and an ax. He wasn't told anything.

Mr. SOUDER. I mean, part of the problem is that you are comparing a program from the 1940's with how you would implement it in the 1990's, and it in fact——

Mr. GROSS. Why not?

Mr. SOUDER [continuing]. In New York City when they did try to do some welfare-to-work programs where they did that——

Mr. GROSS. But that's a program. You see, programs involve bureaucracy, training, education, indoctrination. I am just saying, you say to a woman on welfare today in New York City or Boston or anywhere, you say, tomorrow morning at 8 o'clock, you show up at the hospital and you're going to work and then get a paycheck. Meanwhile, you leave your child at the day care center which was just built by WPA. France has day care for everybody in France. Maximum cost is $5 a day. Minimum cost is zero.

Mr. SOUDER. There is an unwillingness to acknowledge that a lot of what is happening at the grassroots level in the homeless area or in the welfare area becomes very closely related to mental handicaps, drug and alcohol abuse, and other things out there in addition. I am not going to——

Mr. GROSS. Obviously—obviously——

Mr. SOUDER. I will grant that a certain percentage could be addressed that way.

Mr. GROSS. Exactly. For example, we are trying to fight the narcotic war. It is an absolute failure and it will always be a failure. In Europe now, they are starting to medicalize, not privatize, drug treatment. You walk into a clinic, and you put yourself into treatment. You get your narcotics free of charge. You don't have to kill anybody to get the money to buy drugs because you get it free.

America is a backward Nation. We have this constant fight of private and public and we don't understand how the two can come together intelligently. That's why we have 154 job training programs. And I must say that I exposed that in 1992. And the 154 programs are just pure nonsense. The government itself announced that the program of jobs lost to Mexico is a total failure. Four out of five got no jobs and the one out of the five got a lousy job.

Mr. SOUDER. Well, there won't be 154 for very long.

Mr. GROSS. Good.

Mr. SHAYS. Mr. Chrysler.

Mr. CHRYSLER. Thank you.

This subject is right down my alley, I'll tell you. First of all, the veterans hospitals, how can we get the VA to come to the Congress with a proposal that says, yes, the people that went and served their country and risked their life put their life on the line, we have a contract with them to take care of their medical needs in their lifetime?

How can we get the Veterans Administration to come to us and say, OK, we will take care of—the Congress will take care of these medical needs and we will take care of every veteran, pay for their health care needs, but we don't need all this brick and mortar and all these hospitals and all this expansion of hospitals——

Mr. GROSS. The Veterans Administration is a disaster. As a young man, when I had no health insurance, and being a veteran I went to a VA hospital. Pure disaster. The answer is to close most of the VA hospitals, you know, blow them up, because I think they are of no great value. Have medical care for every service-connected disability until the day the person dies——

Mr. CHRYSLER. Any possible——

Mr. GROSS. And try to eliminate almost all of the nonservice-connected disabilities unless the veteran is a pauper, in which case you can put him on Medicaid. The Veterans Administration is a farce. I'm a veteran and I don't think that I need VA help if I can get a health insurance policy.

Those who can't get health insurance because of a disability, diabetes or whatever, maybe not even service-connected, those who are poor, you can provide vouchers for those people and eliminate most of the VA Hospital system.

Mr. CHRYSLER. But we need the veterans to come to the Congress. It is almost impossible for the Congress to go to them and——

Mr. GROSS. Some veterans believe they are patriotic just because they served in the Army. I served in the Army but I don't expect the VA to support me. But if I didn't have the money or I didn't have health insurance, I would expect that I could go to a VA Hospital.

Mr. CHRYSLER. Tom, you've got an answer.

Mr. SCHATZ. Yes. One of the things I would throw in here as we talk about it, unfortunately, far too often is the base closing are commissioned for veterans hospitals. It appears that is one of the only ways you can do this kind of thing, truly based on what is needed and what the future needs might be. The baby boom generation is not going to need many veterans hospitals, yet we are still building as if those things will be needed in the future.

Mr. CHRYSLER. On to a new subject. Job training, I think as Mark indicates, we are not going to have all those job training programs for long, we are going to consolidate that down into four programs. I believe that one of those programs needs to be there to train entrepreneurs and help entrepreneurs succeed, because with every entrepreneur you can get to become successful in this country you can create five, six, a dozen, maybe even 100 jobs by that type of a job training.

And we know that 80 percent of all new jobs that are created are created by people that have less than 100 employees and yet 95 percent of all new businesses that are created fail within the first 5 years so you only have a 5-percent chance of success.

What can we do to make that maybe a 10 percent or, heaven forbid, a 50–50 chance of success, which means we would create more jobs than we would have people to fill?

Mr. GROSS. I've never contemplated it, but it is a very interesting idea. I've never contemplated helping potential entrepreneurs but it is an interesting point, particularly since middle management is being kicked out on the street every day and those are the people who would make natural entrepreneurs.

Mr. CHRYSLER. Entrepreneurs will train every employee they have. I had 1,200 employees. I trained every single one of them. Never asked the government to train even one. Let me go find the people in the street and I will put them to work and train them.

Mr. GROSS. It would be particularly useful, I would think, for people on welfare in the inner city where business activity is not as large as it should be. Calvin Coolidge said the business of America is business. And even though I am not a Republican, I think that Calvin Coolidge was right.

Mr. CHRYSLER. You mentioned—I'm going to change subjects on you again. You mentioned $773 billion is spent on essentially HHS. How many people are on that program?

Mr. GROSS. How many Americans?

Mr. CHRYSLER. Americans, yes.

Mr. GROSS. Well, it is very hard to get a number because there is no correlation of computers, but about 35 million are on Medicaid. About 40 million are on Medicare and disability benefits. And 15 million are on AFDC and 30 million are on food stamps. But nobody knows the undifferentiated number.

And Ms. Vee Burke in her report says there is no cross-correlation as to how many specific individuals are involved. But if you add those numbers up, they talk about half of America. But I don't think it is half because so many people are both on AFDC and Medicaid, et cetera.

I would guess with Social Security, et cetera, we are probably talking about 60, 70 million Americans, perhaps more with spouses. Probably one in three Americans are involved in those programs.

Mr. CHRYSLER. OK. A little bit later on today, I am going to have a press conference and present a bill to eliminate the—dismantle, actually, the Department of Commerce. It will be the first time that a complete Cabinet level position has been eliminated. Have you got any suggestions?

Mr. SHAYS. The gentleman's time is expired, if you would keep the answer fairly brief.

Mr. GROSS. Yes. Well, when the Constitution was written, we had five Cabinet agencies. Under Harry Truman, we had eight, and we now have 14, going on 15 with the EPA. Now, I was alive and working at the time of Harry Truman. I don't think America needs twice as many Cabinet agencies as it did under Harry. So I would say close about six or seven.

Integrate Commerce and Labor, then add that part of Commerce that you keep. Maybe put that part of Education that's left in there. Have the Department of Natural Resources absorb Energy and Interior. And as a big reformation, I would give most of the land of the west back to the States. The Federal Government owns almost nothing in Connecticut. It owns 82 percent of Nevada and 62 percent of California. Why? We took it from the Indians and the government, Washington, kept it. Give it back to California. They could develop it much better.

Mr. SHAYS. Well, I am not sure I would be eager to see that happen. I'll ask Mr. Towns.

Mr. TOWNS. Mr. Shays.

Mr. SHAYS. Let me just say we will go to the next panel after Mr. Towns.

Mr. TOWNS. Mr. Chairman, I promise not to take the entire 5 minutes, but I do just want to make certain that I am clear on a couple of things.

Mr. Gross, you testified under oath that all doctors and hospitals are criminals.

Mr. GROSS. No. I don't really mean all.

Mr. GROSS. You said——

Mr. GROSS. If I said that, I retract it. Many. Many hospitals and doctors cheat.

Mr. TOWNS. Let me go over this again. You said the Federal Government has stolen Social Security funds.

Mr. GROSS. Oh, yes, that's for sure.

Mr. TOWNS. Are you making criminal charges?

Mr. GROSS. Oh, no. The Federal Government can't commit a crime. I mean, they passed legislation. It's not a crime. The Federal Government takes the surplus, every dollar of the surplus—last year, $58 billion; this year, $65 billion—and they put it into certificates——

Mr. TOWNS. According to you, you said stolen.

Mr. GROSS. Well, I think—why isn't it stolen? They can't pay it back. If you borrow money from the bank and you know——

Mr. TOWNS. I don't want to——

Mr. GROSS. If you can't pay it back, it is part of the $4.8 trillion debt.

Mr. TOWNS. You are saying according to your testimony, you are making a criminal charge——

Mr. GROSS. No, No. The Federal Government cannot commit a crime. It is legislation. We have legislation that permits the general fund to take every nickel of the surplus because the funds are intermixed, so there is no segregated——

Mr. TOWNS. You said stolen and——

Mr. GROSS. The word "stolen" means——

Mr. TOWNS. Do you want to take the word "stolen" back?

Mr. GROSS. Of course not. No, No. When we borrow the money, we know we can't pay it back because it is part of the $4.8 trillion debt which we can never pay back, maybe 100 years from now. We have no intention of paying it back. And how do we pay it back? We go to the market and borrow money and we pay the interest on the money you took from us.

Mr. TOWNS. Let me ask a question——

Mr. GROSS. It's—excuse me. It's bad motivation. May I say, the motivation of Federal Government in taking the Social Security surplus, my money, is very bad motivation.

Mr. TOWNS. Let me ask you this: You know, again, I just want to make sure the record is clear. What is the legal definition of steal?

Mr. GROSS. I just told you, the Federal Government cannot commit a crime.

Mr. TOWNS. No, no, no. You are not answering it. If you are not going to answer this, let me move on.

Mr. GROSS. It is ridiculous.

Mr. TOWNS. Let me ask you something else——

Mr. GROSS. The Federal Government is taking the money when it has no intention of paying. So, therefore, in common parlance, it is stolen.

Mr. TOWNS. Actually, you are making criminal charges.

Mr. GROSS. You can't. The government cannot commit a crime.

Mr. TOWNS. The other thing that would be your solution to the problem, you are saying blow up most VA hospitals. Is this your recommendation for improving the quality of services to America?

Mr. GROSS. Well, of course. You see, the VA hospitals now——

Mr. TOWNS. Blow up VA hospitals?

Mr. GROSS. The VA hospitals operate very poorly. The medical profession thinks they are the worst of the whole medical group and they provide services for veterans who don't need the VA hospitals for services.

Now, those who are indigent, those who are disabled, and I am a veteran, have to have service somewhere. Since we don't have the national health insurance plan, they go to the VA hospitals. We have too many. We have too many empty beds. We are blowing up the Greenwich Hospital in my little town because it has too many beds and they are empty and we are building a hospital half the size. We should do the same thing with the VA hospitals.

The Hill-Burton Act started the growth of hospitals because we needed the hospitals. Then about 1970, we had too many. Now, we have way too many, so now we have got to, just as we've got to do with government, start to retrench the hospital system in America, including the VA. The VA is expanding when it should be retrenching. And I'm a veteran.

Mr. TOWNS. There are a lot of reasons for that, Mr. Gross. I won't go into it. Let me just say to you, I must say to you that you have made some wild allegations here and that you really show nothing to back it up. The only thing you said is that "It is in my book and, I forgot, I left my book home."

And I think to make these kind of allegations without having——

Mr. GROSS. Excuse me. I want to ask you a question, Congressman. You don't think——

Mr. TOWNS. No, I'm asking the questions. I'm saying you haven't answered mine.

Mr. GROSS. Let me answer the question. If you provide a young woman with a check, if she has a child without a husband, human nature, whether the person is white, black, green, brown, French, or otherwise, human nature will tend, tend to produce the child in order to have sustenance.

People have to eat. They have to live. So someone says, "Here, I am going to give you a check. I'm going to give you an apartment. I am going to give you food stamps if you have a child out of wedlock." The rationale is that a person is going to have a child out of wedlock if they have no other source of income. And there is no other source of income for many people in the rural areas and inner cities.

Mr. TOWNS. Mr. Gross, I submit to you that there is no data saying that people are having babies for profit. I mean, you are——

Mr. GROSS. It is not profit. Sustenance. That is not profit.

Mr. TOWNS. What I am saying to you——

Mr. GROSS. That's survival. Excuse me.

Mr. TOWNS. There is nothing to back this up.

Mr. GROSS. Well, let me give you a figure.

Mr. TOWNS. They are using the money, first of all——

Mr. GROSS. It's for survival. You're saying profit, I'm saying survival.

Mr. TOWNS. It is survival.

Mr. GROSS. There is no other way to get money.

Mr. TOWNS. You have to understand, first of all, that you are leaving out a whole lot of other factors that you should take into consideration.

Mr. GROSS. Which are?

Mr. TOWNS. The people come from limited backgrounds, having no support system of any kind.

Mr. GROSS. Right.

Mr. TOWNS. Not a lot of information——

Mr. GROSS. That's what I said.

Mr. TOWNS [continuing]. As well as—my point is that——

Mr. GROSS. Survival.

Mr. TOWNS. They were not having the babies for additional resources.

Mr. GROSS. Not additional. Only resources. The only resource.

Mr. TOWNS. The point is—the point is that that money has to go for survival of that person.

Mr. GROSS. Can I ask, sir——

Mr. TOWNS. And it is her baby.

Mr. GROSS. Can I ask you, sir, about statistics?

Mr. TOWNS. No, I——

Mr. GROSS. Excuse me. The white community had only 2 percent illegitimacy when I was growing up. It now has as we talk 20 percent out-of-wedlock births. Why? Because the white woman in Kentucky or elsewhere knows that she doesn't have to go and chase her husband, that she can set up a household tomorrow by having a child out of wedlock. No intelligent government is going to provide that.

Mr. TOWNS. Let me just say this to you——

Mr. SHAYS. I would like to——

Mr. TOWNS [continuing]. Then I am going to leave you alone. You are here to provide evidence, Mr. Gross.

Mr. GROSS. Right.

Mr. TOWNS. Not conjecture and generalities and maybes. That is not what you are here for. You have not given anything to back up your statements and they are very wild. I want you to know that, I assume you forgot and left your book home. So I hope you find your book.

Thank you, Mr. Chairman I yield back.

Mr. GROSS. You are talking about two studies.

Mr. TOWNS. I yield back, Mr. Chairman.

Mr. GROSS. You are talking about two studies. If you have a copy of my book, I will just read the two studies to you.

Mr. SHAYS. What we are doing is we are faxing the chapter to our office and then we will insert that in for the record.

[The information referred to can be found in subcommittee files.]

Mr. SHAYS. And I thank both panelists and invite now our——

Mr. GROSS. And if I was a little inflammatory, I don't apologize.

Mr. TOWNS. I just think you made a lot of hasty generalizations.

Mr. SHAYS. Our next panel is James Bovard and Douglas Kennedy, and I invite you both to come to the witness table and raise your right hands.

[Witnesses sworn.]

Mr. SHAYS. Mr. Bovard, we will start with you and then we will go to you, Mr. Kennedy, and I thank you both for coming before this subcommittee.

STATEMENT OF JAMES BOVARD, JOURNALIST AND AUTHOR; AND DOUGLAS KENNEDY, JOURNALIST, THE NEW YORK POST

Mr. BOVARD. I'm Jim Bovard, journalist and author. I've written several books on numerous areas of Federal boondoggles. Most recently called The Lost Rights: The Destruction of American Liberty, as well as The Fair Trade Fraud and The Farm Fiasco. I write for a number of places including Wall Street Journal, Playboy, The American Spectator, and other publications.

I would like to make one quick comment about Martin Gross' proposal for the United States to adopt a German style of licensing, the German style of job creating. There are some good benefits to that, but one defect of German citizen is they have strict licensing for almost all professions. There are only two professions in Germany that you can practice without a license: That is being a prostitute or being a journalist.

Mr. SHAYS. What about being a legislator?

Mr. BOVARD. I am not sure on that.

I'm going to confine my comments today on two programs that illustrate the waste and fraud in Federal programs and those are housing subsidies and job training programs. These are both programs that we have had that the Congress has recognized a lot of problems in over the years and that Congress has tried again and again and again to solve the problems and yet the programs are widely perceived to be fundamental failures.

The Section 8 housing program is costing taxpayers about $7 billion a year to subsidize the rent of roughly 2 million households. HUD Secretary Henry Cisneros is calling for more income mixing in American cities and suburbs. And there has been a major drive by the Clinton administration to expand the Section 8 program and allow more people to move into nicer areas. But people have lost track of the Section 8 subsidy levels, are often paid at levels far higher than what another Americans can afford.

For instance, HUD is offering to pay $1,700 a month for an apartment on the Island of Nantucket for welfare recipients. In Westchester County, NY, HUD authorizes subsidies of over $1,500 a month. Here, this area, HUD is offering to pay up to $1,385 per month in rental subsidies for an apartment in DC or in Prince George's, Frederick, Calvert, Charles County in Maryland and Spotsylvania, Stafford, or Arlington Counties in Virginia.

But according to a lot of local real estate agents in some of these counties, there are almost no apartments that rent for that high a price. It is difficult to find an apartment for $1,385 in Frederick or in Prince George's. Yet these are the levels that HUD has pegged this at. HUD has in some areas sought to end the stigma of being on welfare by treating some welfare recipients like a privileged class.

Pamela Price, a Section 8 recipient, told The Los Angeles Times in March that "This is like Christmas" after she used her new Section 8 voucher to move into a luxury apartment complex with heated swimming pool, four spas, six tennis courts, and two air-condi-

tioned racquetball courts. This is Section 8 housing. This is a program that was designed to help people—to help people avoid being homeless but, instead, it is financing areas that are much more lavish than what most Americans can afford.

The Clinton administration sees Section 8 as symbol of social justice, but it is important to realize that the American government forces working Americans to pay taxes to support luxury housing for welfare recipients, that is much nicer that Americans can pay for their own housing.

HUD has vigorously pushed local housing authorities to include various disabled renters in their subsidized housing programs. There have been a lot of expansions of definition of mentally ill renters recently that qualify. There was a case in Massachusetts last summer of which a court ruled that a person who was a pyromaniac had a right to subsidized housing. A person doesn't need really tight guidelines for public housing to realize that you don't want pyromaniacs to be put into a program like this. Yet with the expansive concepts of mental disability and with the interpretation of the Fair Housing Act by the Clinton administration and by some courts, these kinds of disasters have happened.

There have been a lot of proposals, a lot of the efforts to try to solve the program problems with Section 8 over the years. There have been a—it really hasn't worked. We've had the program for over 20 years. I think there is a higher level of discontent with the program now than there ever has been and it is important, too, to look at how local governments administer this program.

It would be easy for Congress to sit down and come up with some new rules, some new guidelines and say, well, the answer is for local HUD—local housing authorities to do A, B, C, and it is going to work out fine. Well, the local housing authorities in some areas are quite competent; in other areas, they absolutely boggle one's mind. For instance, drugs have been a terrible problem for public housing, especially in many inner city areas.

The Washington papers last month carried the story of what would have been the biggest Federal local police raid at a drug-infested local public project housing project here in a long time. Federal agents spent hundreds of thousands of dollars and invested massive amounts of manpower to go and get search warrants to line up a big drug raid.

The raid was planned for Wednesday morning. I think the FBI notified the United States—notified the Washington DC Department of Public Housing on the evening before the raid just so they would be informed of what was coming down the following morning.

What did the DC Department of Public Housing do? What they did was send out a press release announcing the raid on the following morning. You know, where do they find these kind of managers? What kind of faith can you vest in someone who would make a decision like that? I just—this is not something which can be fine-tuned.

The other subject I want to look at briefly here is the job programs. There has been a lot of controversy. There have been a lot of proposals to try to fix these programs. However, going back to the 1960's, early 1960's we see the Federal Government has had

over 100 different job training programs. The programs get changed about every 5 years. The names get changed and people—a lot of people hope they forget their problems.

But Congress and the Labor Department have tried almost everything and the problems are still there. Look briefly at the summer jobs program. The General Accounting Office did a study in 1969 that noted that some people hired for the government summer programs lost ground in their conception of what should be—what people should have to do for wages paid and, in other words, the programs as early as 25 years ago were undermining work ethics.

Vice President Mondale had a 1980 task force on youth unemployment and Mondale concluded that the experience in government summer jobs program can actually, consequently handicap young people in the job market since private employers strongly prefer youth who have private work experience.

The National Academy of Science concluded in 1985 that government make-work programs isolate advantaged youth, thus possibly making it harder for them to fit into the real job market.

Here again, it is important to look at how these programs work on a local basis. A few years ago, I went around and looked at some of the programs being done here in DC, tried to figure out how the District of Columbia, which has one of the largest programs in the country, was spending its money.

One thing that the DC government was doing was giving paychecks to kids who went to the Marion Barry Youth Leadership Institute. This was very much of an operation that helped Marion Barry in his various reelection campaigns. There were a lot of political elements to the institute, yet the Labor Department had no trouble in financing this kind of activity as a summer job.

The Labor Department put out a list earlier this year talking about some of the things that people were learning in summer jobs programs. Right now, there was a big stress on education, on things like that, but way up there, the top three or four items I think was sex education. A few years ago when I went to the programs, I saw a fair amount of this. It has now apparently become even more prominent and the Labor Department is talking about this openly.

I am puzzled why we need a summer jobs program for teenagers who could be up to age 20 or 21 to educate them about sex education. This is one more example of how the program is constantly looking for justification as a way to try to distract attention from its fundamental failure to give good job skills and good training to the individuals there.

I will make one quick comment. Congressman Towns in his opening statement had said that he was looking for ideas, a way to make these programs work better. You know, having looked at these programs and followed them for many years, I just don't think there is a way to square these circles. There are many different solutions that have been tried. Many of the people that are running these programs have the best of intentions, but I just don't think the government has the competence especially for job training.

And the thing that is really tragic here, there are few things sadder than the government making a false promise to help a young person, promising that person that that person will have a job skill after the training program and then the person gets in their program and he is worse off before than he was without the training. Studies for both CETA and JTPA have shown for young males, many of them have been worse off because of training. And that is a kind of tragedy that we have to avoid in this country.

Mr. SHAYS. I thank you, Mr. Bovard.

[The prepared statement of Mr. Bovard follows:]

PREPARED STATEMENT OF JAMES BOVARD, JOURNALIST AND AUTHOR

I am James Bovard, a journalist and author. I have written on numerous areas of federal boondoggles, and have written three books on federal government policy: Lost Rights: The Destruction of American Liberty (St. Martin's Press, 1994), The Fair Trade Fraud (St. Martin's Press, 1991), and The Farm Fiasco (ICS Press, 1989). I am a frequent contributor to the editorial page of the Wall Street Journal, Playboy, the American Spectator, and other publications.

I will confine my comments today to two programs that illustrate the pervasiveness of waste, fraud, and abuse in federal programs—housing subsidies and summer job training programs.

The Section 8 program is costing taxpayers over $7 billion a year to subsidize the rent of over 2 million households. HUD Secretary Henry Cisneros is calling for more "income integration" in American cities and suburbs. Roberta Achtenberg, HUD's Assistant Secretary for Fair Housing, declared on National Public Radio last year, "We are compelled by statutory prescription as well as constitutional mandate, to see to it that every American has open and free housing choice." But the only people today who have "free housing choice" are those who have HUD Section 8 vouchers and certificates that force other taxpayers to cover all or most of their rent.

In a June 23, 1994, Federal Register notice, HUD declared that Section 8 subsidy levels were set at levels needed to pay for "rental housing of a modest (non-luxury) nature." But this is a farce. On Nantucket Island in Massachusetts, HUD is offering to pay over $1700 a month for apartments for lucky subsidized families. In Westchester County, New York, HUD authorizes subsidizes of over $1500 a month.

Locally, HUD will pay up to $1385 in rental subsidies per apartment in Washington, DC, in Prince George's, Frederick, Calvert, and Charles counties, Maryland, and in Loudoun, Prince William, Spotsylvania, Stafford, Fairfax, Arlington, Fauquier counties in Virginia. But, according to local realtors, there is only one problem with such rental subsidies: many of these counties have few, if any, apartments renting for such high prices. And $1385 a month is far above average rents in this area.

Section 8 seeks to end the stigma of being on welfare by treating welfare recipients like a privileged class. Section 8 certificates are entitling welfare families to move into an apartment complex in Silver Spring, Maryland, that includes a heated pool with water jets, microwave ovens, and "deluxe modem kitchens with convenient breakfast bars." Pamela Price told the Los Angeles Times in March that "this is like Christmas" after she used her new Section 8 certificate to move into a luxurious apartment complex with a heated swimming pool, four spas, six tennis courts, and two air-conditioned racquetball courts.

When newspapers in Ventura, California and Davenport, Iowa published articles last year on the level of HUD Section 8 subsidies, HUD was bombarded by complaints from outraged private citizens. Patty Jenkins of Ventura wrote HUD: "What kind of incentive is it for us to see the government shell out more of our tax dollars to 'assist' people to live in a higher price residence than we can afford? Has this country gone totally nuts?"

Not only do Section 8 recipients receive a large financial windfall—but HUD forces landlords to treat Section 8 renters better than renters who pay their own bills. Cleveland landlord Susie Rivers observed: "Every time you say, Section 8, the first thing a person will think is 'bad tenant.' They say, 'Here is somebody that will destroy my property.'" HUD decreed that landlords can require only a $50 security deposit from Section 8 renters—instead of the usual full month's rent deposit required for unsubsidized renters. It would be difficult to concoct a rule better designed to maximize the irresponsibility of a privileged class of renters.

Cisneros claims that redistributing poor people from public housing projects will make a better society. HUD's own studies show that crime rates in public housing

projects are up to 20 times higher than the national average. Cisneros apparently assumes that public housing residents will be less likely to rob and steal if they are surrounded by more affluent neighbors.

The Clinton administration sees Section 8 as a symbol of social justice. But, the more the government forces working Americans to pay in taxes to support luxury housing for welfare recipients, the lower quality of housing taxpayers themselves will be able to afford. .

HUD has vigorously pushed local housing authorities to include mentally ill renters in subsidized housing across the country. Some of the mentally ill renters are violent; one mentally ill renter in Massachusetts recently won a court victory last summer (1994) on his right to subsidized housing even though he was judged to be a pyromaniac. Maybe that is HUD's idea of a politically correct neighbor.

HUD is bending over backwards to portray Section 8 as noncontroversial. HUD Secretary Henry Cisneros declared last year (1994), "There are almost cases in America where people resist Section 8." But when plans were announced in Chicago in April for an expanded program to export public housing residents out of the city limits, dozens of mayors of surrounding suburban towns and villages staunchly opposed the proposal. The image of violence around Section 8 has become so accepted in some areas that a Washington DC rap band even named itself Section 8 Mob.

Section 8 recipients can pull down a neighborhood because of the paralyzing red tape that HUD imposes on private landlords who want to evict recipients who are trouble-makers, hooligans, or deadbeats. A Boston Globe editorial complained, "Among the roughly 8,000 families receiving federally subsidized Section 8 rent certificates in Boston, most are concentrated in Roxbury and Dorchester. The majority occupy homes owned by absentee landlords who are reluctant to evict tenants, even for the most egregious lease violations. For landlords, the guaranteed subsidy payment proves a stronger incentive than the desire to maintain a safe building." The Boston Globe noted in April 1993 the disruption caused by Section 8 renters living across the street from Mayor Raymond Flynn: "The subsidized tenants living in the house across the street were nuisances, allegedly using drugs and making loud and threatening noises, but little could be done about it. The landlord had paid no attention. The housing organization that provided the subsidy had thrown up its hands; federal rules forbade it from removing the family from the program."

In other cities, Section 8's links to crime and declining property values have become political hot potatoes. Last August, the adverse impact of subsidized housing in eastern New Orleans became a major issue in a race for the Louisiana legislature. Candidate Louis Ivon called for a moratorium on additional Section 8 housing until the program was reformed to better protect surrounding homeowners and the tenants themselves.

In many cities, crime and declining property values caused by Section 8 clients have become a major political issue. The St. Louis Post Dispatch, in a March 18 article entitled, "Housing Subsidies Set Off Exodus" (of middle-class homeowners), reported that, as a result of Section 8 subsidies, "crime has soared" and "a growing number of homeowners say Section 8 is undermining their neighborhoods. From the Shaw neighborhood to the Hi-Pointe neighborhood to the Dutchtown South area, people want the government to keep a closer eye on Section 8 landlords and tenants." The Post Dispatch also reported that "the rules for the Section 8 subsidized housing program make it difficult to get rid of troublesome tenants. Section 8 recipients can't be punished—by losing their eligibility for rent subsidies, for example—for bad behavior." Both white and black middle-class residents staunchly oppose dumping Section 8 housing in their neighborhoods.

In Haledon, New Jersey last fall, a public meeting on Section 8 exploded. As The Record, a local newspaper, reported, "The meetings were as rancorous as any ever held in the borough. Residents denounced their neighbors in federally-subsidized housing, accusing them of ruining property values and bringing a bad element to the borough. The two meetings held to protest the 'problem' were standing room only."

HUD announced a special program last year to fight crime in and around Section 8 housing complexes. Unfortunately, the initiative consists largely of recommendations that local HUD officials, residents, and politicians form task forces to meet and discuss the problem.

In considering any HUD program, we have to keep in mind the caliber of people who will be administering it. The Washington papers last week carried the story of what would have been the biggest federal-local police raid at a drug-infested local public housing complex in a long time. Federal agents had spent hundreds of thousands of dollars and invested massive manpower to collect search warrants and to line up the raid. The raid was planned for Wednesday morning. The Washington, DC department of public housing was told about the plans for the raid on Tuesday.

What did they do? Immediately put out a press release announcing the forthcoming raid. As a result, the raid had to be called off.

Let's give the D.C. government employees the benefit of the doubt and assume that their action was the result solely of mind-boggling stupidity. The kind of managers that would put out a press release like that—sabotaging the hopes of public housing residents to live in safety—should not be trusted with any responsibility. I would not even trust them to work at McDonald's without burning all the hamburgers.

* * * * * * *

The issue of summer jobs programs has been a hot controversy in recent weeks. Unfortunately, few people have stopped to examine the dire effects of these programs on generations of young Americans.

Government summer jobs programs have crippled many young people's work ethics and job prospects. The General Accounting Office noted as early as 1969 that some people hired in the government summer programs "regressed in their conception of what should reasonably be required in return for wages paid." Vice President Mondale's 1980 task force on youth unemployment concluded that experience in government summer jobs programs could actually subsequently handicap young people in the job market, since private employers strongly prefer youth who have private work experience. The National Academy of Science concluded in 1985 that government make-work programs isolate disadvantaged youth, thus possibly making it harder for them to fit into the real job market.

Summer jobs programs tend to be slush funds for big city political machines. The District of Columbia in past years spent some of the federal jobs money it received to give paychecks to kids who went to the Marion Barry Youth Leadership Institute. (There is no truth to the rumor that the Marion Barry Institute offered a special class to teach kids how to plead entrapment if they were caught with drugs).

Washington, D.C. has one of the largest summer job programs, doling out checks to over 16,000 youth. Larry Brown, the public affairs director of the D.C. Department of Employment Services, explained in 1989: "We don't fire any of the kids—it just doesn't do anything to help a 14 or 15 year old." Youth who refuse to exert themselves at one job site are simply transferred to another job site. This is not untypical for how jobs programs run nationwide.

The summer programs often reveal a genius for divorcing jobs from work. The Washington, D.C. government, rushing to expand the rolls last summer, sent 2500 youths (instead of the 1000 contracted for) to D.C. Artworks, a non-profit group that supervised young people playing drums, dancing, etc. Many youth were sent to the wrong arts job sites; one disillusioned 21-year old, after waiting five hours for his paycheck, "They tell kids not to sell drugs, that this is the alternative . . . this is ridiculous."

One of the favorite activities of the summer programs is "job shadowing"—having a teenager follow a government worker around and watch as he goes through the motions of his jobs. Can anyone imagine a worse place for a young person to learn about work than from a group of people that are widely reputed to be America's most lethargic laborers? Young people would receive far more discipline from working a few shifts at McDonald's than from spending a summer watching government employees shuffle between their tasks.

Secretary Reich, touting the need for an "aggressive campaign of academic enrichment," stresses that summer jobs programs are educating young people. But, a major 1992 federally-funded report by Public/Private Ventures, a Philadelphia-based nonprofit corporation, concluded that the remedial education provided by summer jobs programs had little or no long-lasting impact since temporary benefits "dissipated" after the program ended. Clinton's proposed expansion of the jobs program will provide a federal windfall to local public schools—rewarding them for their dismal failure to educate students during the normal school year.

Reich, in an interview with this journalist in 1993, declared that the summer jobs program is an "investment in the good work practices" of young people. But, Gary Burtless, a training expert at Brookings Institution, observed, "There is too much social work mentality in these programs—the administrators don't want to give a bad mark to anyone." Robert Woodson of the National Center for Neighborhood Enterprise observes, "The programs instill a false sense of work in kids and make it more difficult for them when they go out and try to get a real job."

Federal training programs have a long record of blighting young Americans' economic prospects. The liberal Urban Institute concluded that CETA (the Comprehensive Employment and Training Act), which consumed over $35 billion between 1974–1983, produced "significant earnings losses for young men of all races and no significant effects for young women." A damning six-year DOL-financed study re-

vealed that young males enrolled in JTPA programs had significantly lower earnings than a control group who did not participate in JTPA; the report bluntly concluded that federal training "actually reduced the earnings of male out-of-school youths." Employment and Training Reporter newsletter reported in 1993 that Jon Weintraub, the staff director of the House Education and Labor Subcommittee on Labor-Management Relations, asked the Labor Department "to isolate positive lessons that can be gleaned from the report . . . but that the department has not yet done so."

Money-laundering tax dollars through the Treasury and into camouflaged welfare checks for teenagers will not make the nation rich. In the long run, every make-work program destroys more jobs than it creates, because it squanders the capital that is necessary to support all jobs. If the sale of basketball shoes was the safe determinant of the nation's economic destiny, it might make sense to stimulate the economy by giving paychecks to teenagers to play basketball.

CONCLUSION

For both housing subsidies and job training programs, government officials have promised again and again to fix the program's problems. Yet the boondoggles continue without end. The lesson is that the only way to fix such programs is to abolish them. There are some things that government has competence for, and many things for which government is totally incompetent. Unfortunately, housing subsidies and job training are two of those areas.

Reform is the opiate of the welfare state. Neither housing nor job training programs will never be much better run than they are today. It is not a question of fine-tuning but of conceding that the inherent limits of government competence have long since been surpassed by today's federal government.

Mr. SHAYS. Mr. Kennedy, we welcome your testimony and we will note for the record that we have been joined by our distinguished colleague, Joe Kennedy. You want to introduce your brother or just want to hear him talk?

Mr. KENNEDY of Massachusetts. I don't know if he would like me to introduce him.

Mr. DOUGLAS KENNEDY. Were you supposed to be up there, Joe?

Mr. SHAYS. I will leave it up to you, Doug. Would you like your brother to introduce you?

Mr. DOUGLAS KENNEDY. I would like him to sit back there.

Mr. SHAYS. We are going to allow him to ask questions afterward and, for the record, he can be a pretty tough questioner.

Mr. DOUGLAS KENNEDY. I am so honored to be here. My name is Douglas Kennedy and I am an investigative reporter for The New York Post and thank you so much for asking me, Chairman Shays, to testify here.

It has been really enlightening to listen to the people that have spoken so far and you know basically talking about sort of broader forms of abuse. My experience, which I will discuss in a few minutes, is much more focused on specific—specific fraud and specific abuse that is happening.

About 8 months ago, I had heard that on the streets of New York, that some Medicaid recipients, unscrupulous Medicaid recipients were renting out their cards and that it created sort of a culture of ripping off Medicaid for drugs and so on and so forth.

I wind up, I—last month, I was arguing with one of these card renters on the streets of the Upper West Side of Manhattan and he was trying to rent me a card that was for a 42-year-old Hispanic man named Jose. Obviously, I look nothing like that. He said, you know, you will have no problem. I ended up using that card for a person that was born in 1952—1955 at over 15 clinics in New York. Never was I turned away. I always left the clinics with three or four prescriptions. I obtained a number of goods and services. I got

a back brace, $140 nebulizer, all charged to Medicaid. I even got a massage at a lower Manhattan health care clinic on my Medicaid card.

But this—you know, a lot of what people have been talking about here is, you know, cutting, cutting the system. This is not a matter of cutting the system. This is a matter of the system inviting abuse. New York, like other—most States in the country on the Medicaid card, there is no picture ID. There is no height or weight, no description of eye color, hair color. Anything like that. There is just the recipient's name and the date of birth.

So when I walked into these clinics, there was—there is no reason for them to even look at the card. And time and again, I would walk in, they would take the card unexamined and swipe it through the machine like Mr. Gross was talking about. I experienced these Medicaid mills which are usually filthy dirty, the drug addicts who are playing this scam.

They call it playing the doctors where they—where they go into these clinics, amongst the women with the children, these extremely filthy clinics and they go in and they pretend to have ailments, hay fever, asthma, depression, all types of things and they obtain these expensive prescription drugs.

And it is—it has basically developed into a huge scam called drug diversion which the Medicaid office in New York says costs taxpayers up to $150 million a year. There is a recent FBI report that says it costs the government between $300 and $600 million a year. I found these—and it basically involves these Medicaid recipients obtaining these glamour drugs, very expensive drugs and selling them to black marketeers.

I was on the street for about 2 weeks when I found a very organized group of black marketeers operating out of a phony store front in Brooklyn a video store and they operate two blocks near a clinic, very "skeevie" clinic and they distribute these lists which I have with me of about 80 prescription drugs which they will buy at a tenth of the cost.

Now, I went with two Medicaid recipients, I got my—went and played the doctors at the clinic, got my prescription drugs and brought it in. They, you know, give me $5 or $10 for the drugs. People who have been playing this, investigators say, can make up to $300 a day. Again, it's really on the backs of the system itself.

After 30 years of existence, there are no photos on the cards. They have no—you know, they have very sophisticated equipment that all these places have computers but they have nothing—and they have a yearly limit, but they have nothing to guard against what these recipients refer to as burning the card which is going to many different clinics in a short period of time. I went to three different clinics in 1 day and obtained the same prescription from all three clinics and, you know, I can fill them at any pharmacy with my Medicaid card.

These black marketeers are really the most—to me, the most outrageous form of abuse. They are absolutely taking money directly from the most disadvantaged. I went into one of these stores, I also found another one that was operating out of a phony grocery store in Manhattan and I went in there and they take my—they say we are open 7 days a week, come back, bring your friends, and

still the problem with these people is there are no laws governing the resale of Medicaid drugs.

One of the investigators said, what are we going to do, arrest a guy for having a trunk full of ulcer medicine? But they are ripping off the system for millions of dollars and, you know, it is very simple solutions to this particular issue that I'm talking about.

Putting photos on the cards is the most obvious one. Making the resale of Medicaid drugs or Medicaid supplies a felony. This would cover not only this $300 million scam that I uncovered, but also, you know, the scams that Mr. Gross was talking about where doctors overbill, or the one you are probably familiar with, with the Russian mafia paying for the Medicaid card numbers and then charging millions of dollars in Medicaid medical equipment. You know, those are very simple solutions to this problem.

You know, putting—in New York, it is incredibly, they replace these lost or stolen cards with the same number so you can go back, you can rent your card out and then have somebody else—and then, you know—and get the card with the exact same number so you have two or three people using the same card, the same number at once.

It's just obvious potential for abuse, obvious potential for fraud and, you know, very simple solutions to it. So that's—that was basically my experience and I really appreciate being here to be able to tell it.

Thank you.

[The prepared statement of Mr. Kennedy follows:]

PREPARED STATEMENT OF DOUGLAS KENNEDY, JOURNALIST, THE NEW YORK POST

Mr. Chairman, members of the committee, I am honored to have been asked to testify today.

Earlier this year I spent two months as an undercover reporter in the world of Medicaid fraud.

I found a system in complete disarray. With few if any safeguards against fraud and abuse, the program has all but invited unethical doctors, pharmacists and even drug addicts to pilfer its funds.

I, for instance, participated in a widely practiced scam called "card renting," where I easily rented two Medicaid cards and used them to obtain thousands of dollars in unneeded tests, exams and services. All at taxpayer expense.

After 30 years in existence, Medicaid has failed to require ID photos or any other basic descriptive information on its cards, allowing thousands of unscrupulous recipients to barter their cards for quick cash or drugs.

One of the cards I used was initially issued to a 42-year-old Hispanic man named Jose. I, being white and only 27 years old, obviously look nothing like the intended Medicaid recipient.

Still, I spent weeks visiting more than a dozen health care clinics in Manhattan and Brooklyn. I saw at least two dozen doctors and visited as many pharmacies. Nobody ever questioned my age, race, or the authenticity of either of the cards.

I also discovered a growing and organized black market, where merchants buy Medicaid drugs from recipients and, with little or no fear of prosecution, resell the drugs for profit.

The name of the game is drug diversion, and fraud experts say it costs New York State alone up to $150 million a year.

Other government officials have put the tally between $300 million and $600 million.

This booming business has spawned a scam street people refer to as "playing the doctors," in which card holders concoct fake ailments to obtain prescriptions for expensive drugs such as Prozac, Zantac, and Seldene.

Selling these so-called "glamour drugs" at a fraction of their real costs to the black marketeers, the card holders can make up to $300 a day, according to New York investigators.

The black marketeers, or "non-men" (i.e., dealers of non-controlled substances) also make a hefty profit off the taxpayer by reselling the drugs to pharmacies or drug suppliers.

"Everyone involved in the scam makes money," one investigator told me. "Only the taxpayer loses."

Some investigators say the fraudulent game is being fueled by the ease with which street scammers can use a card belonging to someone else.

Like most states, New York's Medicaid card has no pertinent information aside from the card holder's name and date of birth.

It has no photo, no description of hair color or eye color and no height or weight.

With little information to go on and motivated to handle as many patients as possible, most clinics are unconcerned with anything about the card except the magnetic strip on the back.

Time and again I would walk into a clinic, hand over my card and watch as the clinic worker would swipe the cards unexamined, through the Medicaid card machine.

There is a yearly limit of visits, but there is no safeguard against what card renters refer to as "burning the card," going to many clinics in a short period of time.

I often "hit" three different clinics in one day, obtaining the same prescriptions from all three with not so much as a peep from the machine.

And the yearly limit does nothing to discourage scammers who can easily obtain another card.

After I lost one card, I was back on the street within hours with a new one. I was also twice offered rented cards at clinics by other patients, "just in case you've reached the limit," one card seller told me.

Usually unscrupulous recipients rent their own cards directly. Other times, street scammers obtain stolen or borrowed cards (with or without the knowledge of the legal card holder) and then rent them to underworld figures, who want to "play the doctors."

I rented mine for $200 for three weeks, which worked out to a little under $10 a day.

"Find the right doctors, and you can get anything you want with this card," said the man who rented me the card.

By using a method he taught me I ended up with more than 30 prescription drugs for ailments ranging from asthma to hay fever to back aches, ulcers and head colds.

In just a few weeks, my take included:

- One back brace. Cost to Medicaid: $80.
- One nebulizer machine for asthma. Cost to Medicaid: $140.
- Three prescriptions for the antihistamine Claratin for allergies. Cost to Medicaid: $157.20.
- Four asthma inhaler pumps. Cost to Medicaid: $93.40.
- One bottle of pepcid for ulcers. Cost to Medicaid: $42.69.
- One Beconase-AQ, a spray for sinuses. Cost to Medicaid: $31.76.
- Two prescriptions for the antihistamine Seldene for allergies. Cost to Medicaid: $38.38.
- Dozens of cough medicines, antibiotics, and antacids.

I had none of the symptoms for which these drugs are supposed to be prescribed. In fact my regular physician had checked me out weeks before and pronounced me in perfect health.

Still I never left a doctor's office empty-handed.

I even found some clinics encouraging the practice by accepting multiple cards from one recipient until one of them was accepted by the computerized card machine.

"You'll have to go back and get another one," a receptionist at a Marcy Avenue clinic in Brooklyn told one patient, who did not have any extra cards and who had reached her yearly limit.

A few times doctors were skeptical about my so-called ailments, but they always wrote prescriptions for me.

One doctor asked where my ulcer was and when I pointed to the wrong part of my stomach he refused to give me the Zantac I was requesting.

"I won't give you that. I will only give you something else," he said.

He ended up writing three prescriptions—for stomach pains and asthma.

Some doctors required that I submit to tests before giving me scripts.

A doctor at the Interfaith Clinic on Throop Avenue in Brooklyn refused to give me ulcer and hay fever medicine when I refused to undergo chest X-rays and blood tests.

I thought he was simply being cautious, wanting to see test results before handing out the medicine.

But I was wrong. After I agreed to the Medicaid-covered tests, he wrote out the prescriptions.

One investigator told me some doctors insist on tests because they often receive kickbacks from the labs. Laws, he said, are very lax concerning kickbacks.

For some of my clinic visits, I just answered "I'm tired" when I was asked what my ailment was.

"You don't have a sore throat?" asked a Washington Heights doctor.

"No, I don't," I replied.

"Here, let me see," he said.

"It looks sore to me. I'll give you some medicine."

After five minutes, he handed me prescriptions for vitamins, cough syrup, and an asthma pump inhaler, which crack cocaine users employ to open up their lungs for a better high.

"Come back in a month," he said, "I will see how you are doing then."

I found that the treatment offered for my "tiredness" varied from clinic to clinic—generally depending on the services available and whether they were covered by Medicaid.

One doctor at Cabrini Hospital's Stuyvesant Polyclinic sent me to the in-house psychiatrist, Forty visits a year are available through Medicaid.

The doctor at the Betances Family Clinic on the Lower East Side recommended nutritional and ended up sending me to the clinic's physical therapist for a full body massage, $59 a session—again with Medicaid footing the bill.

Most of the doctors in poor neighborhoods seemed to act more like prescription givers than caregivers, seeing patients for only a few minutes and writing on average three or four prescriptions each time.

"They'll pretty much give you anything you want," said Archie, a Medicaid recipient who was "playing the doctors" in Brooklyn.

"They don't care. They just want us to keep coming back."

The waiting rooms themselves were usually overcrowded and dirty.

The scene at a Washington Heights clinic was typical. About two dozen women with children were crammed into the small waiting room with street scammers and addicts.

The floor was caked with dirt and food and looked like it hadn't been cleaned for quite a while.

"Don't eat that," one mother yelled after her three-year-old son picked up something from the floor and placed it in his mouth.

After I became familiar with "the game," a Medicaid patient I met at a clinic suggested I pretend to have asthma and try to get "the machine," which he said he could sell me for $40.

I went back to a doctor I had visited earlier in Washington Heights and told him I had been wheezing at night.

He lifted my shirt and asked me to inhale.

I took three breaths, making a slight moaning sound each time.

"Oh, you do sound bad," he said.

I told him I wanted a machine, and he wrote me a prescription for a $140 pulmonary aide.

Although Medicaid usually requires a month's wait for the asthma machine—known as a nebulizer—my doctor was nice enough to call the Medicaid office and tell them I needed it that day.

Within a couple of hours, I walked out of an Upper East Side pharmacy with the machine in hand. It was as easy as that.

Getting an $80 back brace was even easier. The doctor in the Chinatown clinic wrote me a prescription for it after examining me for less than five minutes.

I had been on the street for a couple of weeks when I discovered an organized group of black marketeers operating out of a phony video store in Brooklyn.

I was introduced by two Medicaid recipients who were playing the doctors at a particularly suspect clinic on Marcy Avenue in Bedford-Stuyvesant.

The moment I set eyes on the clinic I knew it was bad.

The waiting room was dark. The floor was ripped up and only male patients were there.

A few sat in the middle of the room watching "All My Children" on a small black-and-white TV.

Two men sat in a corner near the window. One was bunched up with his right hand tucked between his crossed thighs. The other, in a daze, rocked his torso up and down. Both looked like drug addicts.

That's when I noticed Archie. He was sitting with another guy whispering. They walked out before the doctor called their names, so after a little while, I followed them.

Archie then told me about the store.

"They gave me $40 for my Zantac yesterday," he said.

"Yeah," said Wayne, a Colombian immigrant who said he just recently received his second Medicaid card. "They gave me $30 for my Prozac."

The merchants inside the store had distributed a list, in soup kitchens and Medicaid clinics around the city, of more then 80 Medicaid drugs they were willing to buy, and what they would pay for them.

Archie showed the list to me.

The prices included:

$5 for a 10-mg bottle of the allergy medicine Claratin, $10 for the antibiotic Cipro, and $12 for Prozac, all just one-tenth of their actual cost.

Archie and Wayne later brought me to the video store/black market drug store at 327 Nostrand Ave., less than three blocks from the clinic.

We walked past racks of videos to the rear of the store, where three men stood behind a glass partition.

I handed one of them a $30 asthma pump I had bought on my Medicaid card. He gave me $5.

After the transaction, one of the employees directed me to another location, on Essex Street in Manhattan.

Unlike the video store, the Essex Street "grocery store" was completely bare, with not even a pretension of being a legitimate place of business.

I ended up visiting the location three different times, selling hundreds of dollars of my Medicaid drugs.

On my final visit I brought in a video camera hidden in a gym bag.

The tape captures the merchants taking the drugs and handing over money.

One of the black marketeers explains he will "take any drug on the list," as long as the bottle's expiration date has not been reached.

He even admits to distributing the lists at a particular soup kitchen in Brooklyn.

"Tell your friends to come in," he told me. "We are open every day but Sunday, 10 to 6. Tell your friends."

But even with a videotaped transaction it is difficult to prosecute drug diverters.

In New York State for instance, prosecutors say the laws are so lax that only three people have ever served jail time for the crime.

Federal laws are a bit stronger but they are rarely enforced.

Prosecutors say crack dealers and old-time drug felons are now attracted to Medicaid drug diversion to avoid tougher narcotics laws.

Despite the growth of the drug diversion scam Medicaid has done little to discourage it. Although there have been some busts on the federal level, the program doesn't even have routine safeguards in place to stem the tide of fraud.

For example:

- Lost and stolen cards are often replaced with cards carrying the same account number, thus enabling unscrupulous recipients to rent their cards.
- Medicaid patients sometimes are not asked to show their cards at clinics they've visited previously, allowing Medicaid scammers to rent a card for one day and continue receiving services long afterward.
- There's no centralized information center to alert clinics when a patient is "burning the card," or when his reported symptoms are inconsistent with his medical history.

The most obvious way to stem card renting, drug diversion and the playing-the-doctors scam is to put photos on the Medicaid cards.

Investigators agree it would be much more difficult for a clinic to accept a card with another person's picture on it.

Other possible solutions include:

- Making the resale of Medicaid supplies a felony.

Some investigators have given up pursuing drug diverters because the laws are "too weak." Tougher laws and tougher enforcement would obviously do a great deal to discourage drug diverters.

- Limiting the number of clinic visits a patient can make in a short period of time.
- Putting different account numbers on replacement cards.
- Forcing states to adopt Medicaid clearinghouses where doctors can check patient histories.
- Holding doctors responsible when they knowingly write bogus prescriptions.
- Implementing felony statutes for doctors who receive kickbacks for ordering unnecessary tests and writing unnecessary prescriptions.
- Increasing financing for Medicaid fraud control.

Currently, New York has the largest Medicaid fraud office in the country, and prosecutors there say forgo many cases because of lack of funds.

• Sending Medicaid recipients copies of their bills.

If recipients had invoices they would know if a doctor was charging for treatments not made.

Mr. SHAYS. I thank both gentlemen for their testimony. You have, Mr. Kennedy, exhibited a talent that I find in your family of being able to speak extemporaneously and get your story through in a very fine way.

Mr. Towns, I will start with you. I will go with you, Mr. Kennedy, and then I will conclude.

Mr. TOWNS. Thank you very much, both of you.

Let me begin with you, Mr. Kennedy. Unlike most of the witnesses appearing before us today, you actually participated in an underground criminal system that thrived on problems in the administration of the Medicaid system, in terms of actual fraud and abuse in the system.

Did you see any evidence that this program provides meaningful access to care for the poor at all?

Mr. DOUGLAS KENNEDY. I'm sorry, I didn't hear the last part of your question.

Mr. TOWNS. Did you see any evidence that this program provides meaningful access to care for the poor at all?

Mr. DOUGLAS KENNEDY. I did see evidence of that. I also saw evidence of what Mr. Gross was describing as these doctors bringing in, 10, 15 patients per half-hour. I think most of the doctors knew what I was doing. The guy that gave me the asthma machine examined me for 3 minutes. You can tell if a person has asthma.

Mr. SHAYS. If the gentleman would suspend. The doctor, just for the record, knew what you were doing, knew that you were trying to rip off the system?

Mr. DOUGLAS KENNEDY. Yes, exactly. I specifically asked for the machines. That's what these people who play the doctors do. They ask for specific prescription drugs. All I did was basically moan when I breathed in which is what you hear if somebody really has asthma. He gave me the machine. The back brace was the exact same thing.

There are definite ways to tell if people have chest colds, asthma, and ulcers. And these doctors would give them these prescriptions. It was very unfortunate because most of the doctors that I saw seemed to be operating as prescription givers rather than caregivers. I suppose that if somebody came in with a real problem, they would treat them, but most of the time you are going in there, you are seeing the doctor for a few minutes and they are giving you three or four prescriptions. That was my experience throughout this ordeal.

Also, I saw many of these clinics encouraging this practice. They would accept multiple cards from some patients. They would, you know, I saw one woman who took a card. It had reached its yearly limit and she said, you will have to go get another card because this one's not working.

Now, to me, that I was—there is some sort of logic to it, some safety net for people who can't go through the bureaucracy of getting the—getting a Medicaid card, but there's also incredible potential for abuse.

Mr. TOWNS. Right. Thank you very much.

First of all, I think I would like to say to you sort of, I think it is very courageous to put yourself at risk to get this information. I think that's the reason why I value what you are saying. You actually went out and you have firsthand experience and can back it up with documentation and we appreciate that.

You also testified that waste of another sort is created through the haste of the downsizing. Can you give some examples of that? I'm sorry. No, it was not you. That was not your testimony. I'm getting a little mixed up. It was not your testimony. That was somebody else's testimony.

Mr. DOUGLAS KENNEDY. I can answer that.

Mr. TOWNS. You want to answer it?

Mr. DOUGLAS KENNEDY. No, no.

Mr. TOWNS. Let me ask you this, though. I do want to ask, you've heard the testimony of Mr. Gross which basically said, and I want to quote him because I think it is so important to say what he said accurately. Do you agree with Mr. Gross that the program should be dismantled because of the fraudulent activities you undercovered?

Do you agree with the fact that it should be dismantled?

Mr. DOUGLAS KENNEDY. Did he testify that the Medicaid——

Mr. GROSS. I didn't testify to that at all, Mr. Congressman. I never said—I said that the Medicaid program should have clinics for the children. And I never said——

Mr. TOWNS. I am not asking you.

Mr. SHAYS. I'm in a quandary here. I have someone speaking from the audience, Mr. Gross.

Mr. GROSS. He said I said something. He invented that conversation.

Mr. DOUGLAS KENNEDY. I can answer——

Mr. SHAYS. Just suspend 1 second. I'm very happy to have you come up again if you want to make a note and correct something on the record. It's just we have someone that transcribes and it is important that they get it on the record.

Mr. GROSS. But I never said that——

Mr. SHAYS. Mr. Gross, you have to suspend.

Mr. GROSS. I said put them into HMO's.

Mr. SHAYS. Mr. Gross, you have to suspend.

Mr. GROSS. This isn't the first time——

Mr. SHAYS. You have to stop, Mr. Gross.

Mr. GROSS. I have testified many times. I never have somebody——

Mr. SHAYS. Mr. Gross, I need to make this very clear to you. I can't give you a privilege that someone else doesn't have. I have said to you this: You don't like anything you have heard. If someone has said something you don't agree with, I am very happy at the end for you to come back at this table and put it on the record. When you shout from the audience we get—we get no——

Mr. GROSS. I didn't know I had that privilege.

Mr. SHAYS. You need to suspend.

Mr. GROSS. I will accept that privilege.

Mr. SHAYS. You didn't listen. I said it earlier and you kept jumping.

Mr. TOWNS. Let me say something, then, Mr. Chairman. I want—I don't want to say anything. Let me just—this way, I know I got you——

Mr. SHAYS. Rather than quoting him, why don't you just ask the question.

Mr. TOWNS. Do you agree with Mr. Gross? I don't think I could be much more generic than that.

Mr. DOUGLAS KENNEDY. I saw a lot of people who obviously needed care. These doctors who operate in these clinics, you know, this doctor that gave me in some of the clinics I went in and I said I was only tired. They are so used to giving out prescriptions for people that they—the doctors said you don't have a sore throat? I said, no, I don't have a sore throat. He said, let me see your sore—your throat. It looks sore to me. He gave me a prescription for a sore throat.

This doctor is making $185,000 a year off Medicaid. And he is just handing out, you know—he's handing out terrible medicine. He is giving terrible medicine to the people who need it most and there is no—the investigators in New York say there is absolutely no way to prosecute these doctors for simply giving out bad prescriptions. They have to wait until they start dealing narcotics.

These—all these people want, all the investigators want is some tougher laws from you and from the Federal Government to be able to prosecute the doctors, to be able to prosecute the drug investigators and to make it—you know, to put some photos on the cards. It's very simple, as I said before.

Mr. TOWNS. Thank you very much for your testimony. I think you have been extremely helpful because you are giving us information from your practical experience and saying that, yes, the situation is bad, it needs to be strengthened, and you made some specific recommendations as to what we might do.

Thank you very much for your testimony.

Mr. SHAYS. Mr. Bovard, I am going to make a point. I'm going to ask Mr. Kennedy to go next. I will have questions for both of you and I appreciate your testimony as well. When you get an individual who has actually gone through the system in the way that Mr. Kennedy has, it invites a lot of questions. I hope you understand.

Mr. BOVARD. Sure.

Mr. SHAYS. Mr. Kennedy.

Mr. KENNEDY of Massachusetts. Thank you very much, Mr. Chairman.

First of all, I just want to reiterate what Mr. Towns talked about, Douglas, had the sense that I think there is, you deserve a lot of credit for having put yourself at risk and getting yourself into this circumstance all for trying to expose some of the problems that exist in the Medicare-Medicaid system.

When you went through these scams, it seems to me that there were a number of people who were participants. You've got doctors that are participating, you've got addicts and recipients that are participating. Sounds to me as though you might have pharmacists that are also participating.

Are those basically the three culprits that are trying to scam the system?

Mr. DOUGLAS KENNEDY. Yes. That is basically it. You've also got the black marketeers who really are making the profit. Most of the scams in the 1980's involved doctor fraud and I saw incredible potential for abuse there.

They—the doctors—when I went into the Medicaid clinics, nobody ever asked me or nobody ever told me how much the visit would cost. I had no idea. And Medicaid recipients do not get their bills sent so you have no idea how much these doctors are actually charging.

They take this card. The machine is just like any machine you would see in a clothing store and they swipe it through the machine. I have no idea what they are writing. I wouldn't even—after I've given them my card, they can be charging me for weeks later on this and so you have the incredible potential for abuse with the doctors, you have the doctors writing false prescriptions, you have the recipients and you have the black marketeers.

Mr. KENNEDY of Massachusetts. So just so I get this, when the doctors as you've just explained can scam this by recognizing that they are going to get to bill the Medicaid system for fraudulent claims and they can do—they can provide you with several doctor visits and get paid for those doctor visits by the Medicaid system for visits that were bogus to begin with. No. 1.

No. 2, the addict would then get this prescription that they don't need which they could maybe get, as you mentioned, a stomach ulcer medicine which then they can go down the street and sell it to some guy who is going to buy it for 10 cents on the dollar and they are going to pocket the difference. I was a little confused.

Does the pharmacist, when you say you took the same prescription around to the pharmacist three separate times, doesn't the pharmacist keep the prescription?

Mr. DOUGLAS KENNEDY. Well, that's if I get—I said I could get three different prescriptions for the same drug in 1 day from the doctors.

Mr. KENNEDY of Massachusetts. From three different doctors?

Mr. DOUGLAS KENNEDY. From three different doctors. The pharmacist——

Mr. KENNEDY of Massachusetts. So you would have the same sore throat three different times to three different doctors?

Mr. DOUGLAS KENNEDY. Now, the interesting thing——

Mr. KENNEDY of Massachusetts. Which you could do anyway. That is not just a Medicaid scam. That would be true with John Hancock or anybody else, right?

Mr. DOUGLAS KENNEDY. Right. But the—the difference between Medicaid recipients and John Hancock is that the—there is a computer that tells you, that has—you know, that tells when the card is being swiped through, but there is—it doesn't centralize it and it would be—you know, they have the technology to centralize it to know when somebody is burning a card but for some reason they haven't implemented that.

Mr. KENNEDY of Massachusetts. OK. Well, I think that as I mentioned, you deserve a tremendous amount of credit for the courage that you have shown and for the knowledge that you have provided and shared with not only the people of New York, but the people of the country by coming forward and testifying about this.

I think the question that Mr. Towns was trying to get at is that there are attempts these days in Washington to use circumstances such as you've described to then suggest that the whole Medicaid system should be thrown out.

Now, it sounded like that was an overstatement of what Mr. Gross was trying to suggest.

Mr. GROSS. That is a distortion, a distortion.

Mr. KENNEDY of Massachusetts. OK. In any event, the point is that there are people, as I think you know, particularly, we see a tax on the Medicaid system with cuts off literally $160 billion coming out of the Medicaid system.

These kinds of abuses could end up contributing to the sense that Medicaid is just a system full of fraud, that is, does not in fact take care of the poor in a way that was originally hoped and designed to do.

Do you feel that with some of the solutions such as the photo card, which you are suggesting, that in fact the Medicaid system could, at least this aspect of it, could be cleaned up in such a fashion as to largely reduce this kind of fraud and yet end up providing the poor with the kinds of services that it needs?

Mr. DOUGLAS KENNEDY. Absolutely. I don't think that——

Mr. KENNEDY of Massachusetts. That they need.

Mr. DOUGLAS KENNEDY. Being against fraud I don't think is ideological. Anybody should be outraged by somebody stealing money and the recipients can make a little bit of money off of this and it is one of the few scams that they can actually make some money off of it.

But I think anybody should be outraged by people stealing money. They are taking money from people who need it and my experience was that there were people out there who really needed it.

Mr. KENNEDY of Massachusetts. And you are answering half of the question which is that, yes, there are these ripoffs and we want those ripoffs to stop. The other half of the question was whether or not you think the Medicaid system is providing a useful function and in fact can—should continue to get support.

Mr. DOUGLAS KENNEDY. Well I don't know if I am qualified to be the one making that decision. In my experience, as I say, there were people who seem to very much need medical care who had to sit in the dirty waiting rooms with the drug addicts who are pulling these scams. That was my—that was just my experience from being out on the street. And that's probably what I'm qualified to say.

Mr. KENNEDY of Massachusetts. OK. Well, in any event, let me just finish up here. As somebody——

Mr. DOUGLAS KENNEDY. Aren't your 5 minutes up, Joe?

Mr. KENNEDY of Massachusetts [continuing]. Who may not be any more qualified than you are, the fact of the matter—my hand is kind of stuck here, Chris, that there are still a lot of people, poor people in particular that very much depend on this system and need it. And we should clean it up but we should not forget the needs that those people have.

Mr. SHAYS. One of the things that Mr. Joe Kennedy has learned is that he can't always get the witness to say what he wants him to, especially a younger brother.

Mr. DOUGLAS KENNEDY. Was I not saying what Joe wanted me to say?

Mr. SHAYS. I like the independence. It is a good characteristic.

Mr. Bovard, you raised some very interesting testimony and I have to say that this is something that Members of Congress wrestle with. And as Republicans, we wrestle with it because we are not for—we are not for—we would like to see the private sector be in housing and we would like to see the private sector meet the needs of poor in public housing.

When we create public housing projects, that is something that we feel has to be for some people but, ideally, we intuitively like the Section 8 concept. Then what we find is that we have Section 8 project based and the curiosity is that, quite often, it is higher than the market rate. And when we go back to examine what happened, we found out that when the government got involved, those who started the developments were able to take out a lot of tax credits and so on. They were able in the beginning of the project to take out a lot and then, from that point on, there was very little to support continuing to provide quality housing at those particular developments.

So I acknowledge that and I am troubled as well by the fact that we also have vouchers where you are literally paying $12 and $13 and $1,400. There's one case in my own community where you had someone who was kicked out because they couldn't pay their mortgage and a family on public housing certificate moved into that house and actually had a boat where the gentleman went out fishing. It may be an unusual story, but it was frustrating for the neighbors to lose their neighbor and see somebody come in on government housing.

We definitely need housing for people who can't afford it and we don't have a lot of different options. We can have the public housing that exists run by the government, owned by the government or we can have it owned by the private sector, and the government contributing.

So are you suggesting that we just abolish our housing programs or tell me how we can make it work?

Mr. BOVARD. If someone could show me a way that HUD would become efficient and responsible, I would love to see it. But——

Mr. SHAYS. So you discount HUD. But tell me how we meet the needs of people who are poor who can't have housing?

Mr. BOVARD. I think it would be far more effective instead of having house subsidies. I think the Charles Murray solution——

Mr. SHAYS. What solution?

Mr. BOVARD. I think the Charles Murray solution, which is getting rid of welfare programs in general, would result very quickly in a far better living environment in low-income American neighborhoods. You know something that is not mentioned about public housing is the crime rates in those areas are often 20 times higher than they are in other parts of the United States, 20 times higher than national average, so the government comes in and puts a public housing project in there——

Mr. SHAYS. You've got to listen to my question.

Mr. BOVARD. Yes, I'm listening.

Mr. SHAYS. One option is a government-owned facility, whether it is State or Federal, large or small, preferably small. That is one way. The other way is private sector ownership with the government providing some kind of assistance to enable a poor person to live in that housing. Those are the two options that I see. I discount the first as I would like to move away from that and go to the second, but you are really trashing the second so I need to know what the third option is.

Mr. BOVARD. Well, the third option is to get rid of housing programs.

Mr. SHAYS. Once we have done that, then the people who are living in the public housing or in the Section 8 housing, where would they live?

Mr. BOVARD. Well, the public housing, it would be easy to try to model a solution after what they have done in England and give the title to the property to the residents. There may need to be some kind of transitional aid, but instead of giving housing subsidies, per se, they would be far better, something I would not be in favor of but it would be far less damage to go give some kind of general income supplement as opposed to housing, because since we have got the Section 8 program now.

HUD has put on layer after layer after layer of rules that prevent private landlords from throwing out tenants who become troublemakers, hooligans, drug dealers who do violence.

Mr. SHAYS. My trouble with your comments are that I need to know—as bad as I think and abusive as I think some Section 8 housing has become—what replaces it. And your testimony will carry a little more weight with me when I know what replaces it. And it may be just something we can talk about afterwards because you have given a lot of thought to it. You have pointed out the abuses and I'm wrestling with this. What is the solution to it?

Mr. BOVARD. Well, I think it is important to realize, it is probably very unpopular to realize on Capitol Hill, but many times nothing is better than a bad program. It is better to have nothing than a program that drags down neighborhoods and helps ruin people's lives.

Mr. SHAYS. If you went to Bridgeport, CT now, you would find that we have made major reforms in public housing. We have taken down the 1,213-unit facilities, we have done scattered site, and people are living in decent housing. The impact public housing is in better condition than some of housing that is next to it. We have actually upgraded housing with public housing in small doses, so I would like to talk to you a bit more about it and get your reaction to it.

Mr. Kennedy, I am intrigued by a number of things. One is you have a clean face. You have a youthful manner about you. When you went to these clinics and doctors' offices, if you had been caught, would you have been arrested? Did you take the chance of being caught?

Mr. DOUGLAS KENNEDY. That's a good question. It's a great question.

Mr. SHAYS. You basically broke the law.

Mr. DOUGLAS KENNEDY. The investigators in New York, they just recently started an office of——

Mr. SHAYS. Let me get to the question because I'm going to have a number of questions, so the question is, though, you basically broke the law. I'm just curious, did you think about what could happen if someone said, hey, you are a Kennedy or you work for the newspaper, and report you to the police?

Mr. DOUGLAS KENNEDY. Well, I wasn't dressed as I am now, obviously.

Mr. SHAYS. That's important to know.

Mr. DOUGLAS KENNEDY. No. My hair was much longer and I had a beard and I, you know—I——

Mr. SHAYS. So you didn't go in with a suit.

Mr. DOUGLAS KENNEDY. No, I did not go in with a suit. The investigators know that thousands of people do this probably every day. Nobody had ever been arrested for a card renting. There have been three people that have been arrested for drug diversion in New York. They served 30 days.

Mr. SHAYS. So when the story came out, did government officials come and want to get your information? Did anybody want to follow up on what you made public?

Mr. DOUGLAS KENNEDY. The day after my story came out in Albany, they passed similar laws to the ones I was——

Mr. SHAYS. The day after.

Mr. DOUGLAS KENNEDY. The day after, they were in session.

Mr. SHAYS. So it is a State offense to sell prescriptions. It is a felony. It is a State offense to do what else?

Mr. DOUGLAS KENNEDY. Sell Medicaid supplies, it is a felony now. To rent a card now is a crime. And they voted to put photos on the ID's, which Governor Pataki said they would do by the end of year.

Mr. SHAYS. The 15 Medicaid mills that you went to, I think it was——

Mr. DOUGLAS KENNEDY. Yes.

Mr. SHAYS [continuing]. Have they all been shut down?

Mr. DOUGLAS KENNEDY. No, they have not.

Mr. SHAYS. Have any of them been shut down?

Mr. DOUGLAS KENNEDY. You know, I have a videotape of much of what I did. I have a videotape of the doctors.

Mr. SHAYS. Let me just be clear on this. When you went through and were able to get the prescriptions and the other paraphernalia, you went back later and confronted them?

Mr. DOUGLAS KENNEDY. No, no. I actually took an undercover video in with me to the doctors'. I had an undercover video when I went into the store and I have them on tape pointing to this drug list saying, I'll take this, I'll take that. I've been handing out this list in this particular soup kitchen. The investigators can't do anything with it. They have not broken any laws in New York.

Mr. SHAYS. You mean, your testimony before this committee is that basically it is not illegal, that doesn't jibe with me.

Mr. DOUGLAS KENNEDY. It is a misdemeanor to sell Medicaid supplies, but the investigators don't want to spend money on misdemeanors.

Mr. SHAYS. I understand you are not going to go after a misdemeanor.

Mr. DOUGLAS KENNEDY. Also, it is very—you know, the doctors say they know are giving me phony prescriptions, but they protect themselves by doing cursory exams.

Mr. SHAYS. What I am having a hard time understanding is that these places are cheating the government significantly. I understand that some of it is millions of dollars. I have to believe that there is more to the story here and it is just troubling to me that there are these facilities.

Mr. DOUGLAS KENNEDY. You are talking about doctors themselves?

Mr. SHAYS. The doctors, the facilities.

Mr. DOUGLAS KENNEDY. The doctors themselves are protected because nobody would ever just give me a prescription without me saying, I have an ulcer, I have hay fever, you know. They make me say those words. They know what's going on, obviously, but if somebody is investigating, they will say, well, they got them on the stand. Well, he said he had this, this is—you know, you look in the book and this is the drug.

Mr. SHAYS. This is something we are going to follow up. That is a real life example of people ripping off the system. You shouldn't have been able to buy any of them. You bought a lot.

Mr. SHAYS. Mr. Towns, do you have any other questions of these witnesses?

Mr. TOWNS. No, I don't.

Mr. SHAYS. Mr. Kennedy?

Mr. KENNEDY of Massachusetts. No.

Mr. SHAYS. I think I want you to know you did extraordinarily well in having your brother see the light.

Mr. KENNEDY of Massachusetts. Don't get too carried away.

Mr. SHAYS. Well, I am Chairman. Maybe only for 2 years, but I am Chairman. Thank you both.

Mr. DOUGLAS KENNEDY. Thank you.

Mr. SHAYS. We will call on our next witness. Mr. Walters, we thank you for coming. We thank you for your patience. And if you would remain standing, I would like to swear you in and we will hear from you your testimony.

[Witness sworn.]

Mr. SHAYS. Excuse me, I said Mr. Walters. I apologize. You are Dr. Walter and, Doctor, it is a privilege to have you here and I look forward to your testimony.

You may give your testimony and then we have questions we would like to ask you.

STATEMENT OF RONALD WALTERS, CHAIRMAN, POLITICAL SCIENCE DEPARTMENT, HOWARD UNIVERSITY

Mr. WALTERS. Thank you very much, Mr. Chairman. I have listened with great interest to the discussion this morning, and I am pleased that you will tolerate an academic who has spent the last 15 years teaching graduate courses in leadership and organization. I have some acquaintance with the theory of a lot of what I think has been talked about this morning.

And so, I would like to begin simply by saying that I've heard a lot about what hasn't worked this morning. I was struck, however, by the fact that there were very few criteria given as to what people expected to work. I think in the absence of these criteria, we can get a couple of things confused. One is the question of cost-benefit, which is to say, when you look at the budget, you must analyze it in tandem with the national need and make a rational calculation as to what you are doing with respect to expenditures meeting the expectation of what sort of benefit you expect to get. And the second, of course, is cost-effectiveness, the question of what are you spending and if you stop spending, would you get as much for the buck as you get if you have a stable program. So, the question of cost-effectiveness, when it is weighted on cost, is very important.

And in the discussion about programming, policy, and cutbacks, these two are constantly confused as they were, I think, this morning. I'm here to say that I think we live in an atmosphere where there has been a lot of cutbacks and I think that simply to talk about downsizing all of these programs amounts, in my humble opinion, to an ideology rather than a rational calculation of what it is one ought to do. And that is not just my feeling.

Paul Peterson at the Brookings Institution has written a book on federalism entitled "When Federalism Works." He says that a policy based essentially on budget reductions ignores the cost-benefit equation which is at the heart of calculations of efficiency. He said where there is waste, and there is a cost-benefit analysis to determine whether the elimination of these resources is outweighed, there you have a rational calculation.

So, I take Paul Peterson at his word, that there is something which is sorely missing from the discussion and I think that what we've been hearing, is what people feel rather than any sort of analysis.

I would, therefore, like to think that a lot of what I heard falls into the category of what the administration is already doing with the National Performance Review and I won't review that. I simply say that it is in my prepared testimony. I allude to it in some brief general ways and then, with respect to some of the specific things that I think they are doing, to downsize programs, to merge various programs, to cut costs, to make a rational cost-benefit analysis, to make a rational cost-effective analysis and, therefore, to ask final questions about efficiency.

I won't pretend, however, having said that, that the National Performance Review escapes the point I made about ideology because, to some extent, there is no rational reason why we ought to enter into an operation of downsizing all of the Cabinet level agencies of Government simply because we feel like it. There is a question of, well, what causes this, and I think that you cannot separate that from public opinion polling and other kinds of things, election results, the so-called mandate philosophy.

Not a question of administrative efficiency.

Serving the poor, let's understand that all of these human service programs, and I think that all of these are human service program and I think that we will not be able to separate very easily the fact

that we are serving predominantly a poor population and, therefore, poverty.

I went on at some length in my prepared testimony about the question of poverty because you will not be able to separate it out from waste, fraud, and abuse, because you have to look not just at the administrative side of the policy spectrum, but you also have to look at the client side, the people that are being served. That's important because these people are the ones who are putting the demands and placing the pressures on the system.

We just had a discussion about fraud and abuse in the Medicare program but we didn't really talk in that discussion, for example, Mr. Doug Kennedy's presentation about the fact that one of the things that created this fraud was the system. What's placing pressure on the system is the fact that there are 40 million people in this country without health insurance and the fact that, for many of these people, the only way they could get these pills and other health services is to do it on the black market.

So, as much as we would like to cut funding for Medicaid and Medicare and think that that would eliminate the problem, there are other factors to be considered, which is to say, who are we serving, what is their condition, and what sort of demands are they placing on the system. It's not just a question of tinkering with the system.

I would say the same thing with the Pell grants. We've had some discussion this morning about Pell grants. I think that if you cut out Medicaid, Medicare, and you cut down on Pell grants and I could use any one of a number of other different kinds of examples, the fact of the matter is that you begin to add to the people who are already poor in this country.

I'm pointing out that there are people right now who are going without services. You can put that on top of at least three decades of resource withdrawal, especially in the inner cities of this country. What I mean by resource withdrawal is the fact that there has been a pattern of people leaving the inner city, migration out, taking away the tax base, creating difficulties for urban governments to do very much in the way of human services and that's what we are talking about. You've had a pattern of employment displacement. Hundreds of thousands of jobs are taken out of the cities and placed in the suburbs or in the Asian Rim or wherever. And of course you've had the direct defunding of many cities. Congresswoman Maxine Waters has indicated that $261 billion has been taken out of the city's direct funding in the last two decades alone. So, there has been a pattern of massive resource withdrawal, and if you put that on top of the substantial cuts in human service programs being proposed, you can't help, Mr. Chairman, as far as I'm concerned, but to exacerbate the question of poverty.

The last thing I would say is that if efficiency is the goal, then rather than the cutting, what we ought to be talking about is adding to these programs. I know that I'm here sort of whistling in the wind because, again, the ideology that we are facing is not to add to the programs but if it is efficiency that we are talking about, then it is not just a question of cutting, it is also a question of making these programs work. And to make programs work, sometimes you have to add to management capability of these programs.

Let me just use one example from Prof. Lawrence Mead, who, in his recent book, The New Paternalism, discusses welfare reform, analyzing the program of Gov. Tommy Thompson of Wisconsin. Gov. Thompson's views have been very important in this welfare debate, and his State has been used as a model. Yet Prof. Mead, who is now at Princeton, looked at JOBS data from Wisconsin for several counties and decided what would really make this program work. Let me quote him: "The way to effect such change is not by cutting welfare bureaucracies but by beefing them up substantially. At bottom, reform is an administrative problem," unquote.

I think, therefore, that we have to look in this sense at the question of administrative reform and add to the capacity of the administrators who administer the welfare bureaucracy to do a lot of things. One thing that we discussed this morning was the question of the connection between welfare reform and jobs. How do you get jobs out of the welfare system?

Last year I testified on the question of welfare. And one of the women who testified with me was the head of the National Welfare Rights organization from Detroit. She says something like this. "I've gone through a lot of job training programs, and I could paper these walls with certificates. But what I lack, and what many of the people who are in my organization lack, is a sufficient connection to the labor force."

So I think that we ought to talk about the connection between welfare and the labor market, as an important issue. If you do a good job of bringing welfare recipients into the labor force, you are making the bureaucracy work more efficiently, and I think in many cases you are talking about adding resources to that.

I will stop there, Mr. Chairman, and prepare myself for any questions that I may be able to answer.

[The prepared statement of Mr. Walters follows:]

PREPARED STATEMENT OF RONALD WALTERS, CHAIRMAN, POLITICAL SCIENCE DEPARTMENT, HOWARD UNIVERSITY

The reduction of waste, fraud and abuse are important objectives of congressional oversight in that their elimination may remove impediments to the proper functioning of governmental programs and create additional resources to place at their disposal. I will address this issue in the framework of my own understanding of this problem, which is that:

Waste—is a symptom of administrative inefficiency;
Fraud—is reflective of program maladministration and client abuse;
Abuse—is practiced essentially by clients of programs;

1. WASTE, FRAUD AND EFFICIENCY

The objective of perfecting the operations of the programs through their administration is consistent with the practices of public administration and good government. However, approaches to this problem that only counsel a strategy of reflexive reductions in program budgets and functions is inconsistent with either the objectives of good government or efficiency in administration. It amounts in the final analysis to changes determined by ideology rather than good judgement.

While some waste and fraud may be eliminated by program reductions, much more is required and may be illustrated by the program of this Administration in its "National Performance Review" which has among its objectives, the two goals of achieving administrative efficiency and the elimination of waste.

A. General Achievements

1. Federal agencies are already cutting red tape, streamlining management operations and re-engineering program functions;

2. Cumulatively, 34 bills have been passed containing NPR recommendations in the last two years. It has created $63 billion in savings, while eliminating 150,000 employees.

Goal: 252,000 by 1999

Target: over-control and micro-management

However, "waste" of another sort is also occurring in that because of the haste with which government is being downsized, there is evidence that in some agencies, civil rights are being eroded. The result is that often, minorities, especially blacks are being "downsized" at a far greater rate than other ethnic or racial groups." Blacks Prone to dismissal By U.S.," New York Times, April 20, 195, p. A19)

3. In general in the Human Resource management field: "The Administration is preparing a human resource management (HRM) reform legislative proposal largely drawn from the recommendations in NPR and National Partnership Council (NPC) reports and from comments by the various stakeholders regarding the NPC report. The legislation will directly contribute to reinventing government by making changes in HRM law that give agencies the authority they need to achieve improvements in their HRM systems." ("Creating a Government That works Better and Costs Less:" Report of the National Performance Review, Vice President Al Gore, September 1994, p. 112.)

B. Specific Achievements

1. GSA—Purchase Cards for procurement—saving $250 m per year.
2. Education—Direct student Loans—saving $4.3 b in 5 yrs.
3. HUD—Reduce Section 8 vouchers and Certificates; and reduce Contract Rent Payments; Reduce operating subsidies for vacant housing units.
4. Labor—Tougher penalties in Federal employees disability compensation program. Creation of "one-stop" career management center for labor employment and training; (requires program consolidation)
5. HHS—pending legislation would give SSA the authority to use federal debt collection tools; provide for competitive contracting for Health Care Financing Administration Contracting Authority;

These and a host of other measures, some sweeping in scope, will no doubt result in better management in Federal financial and other resources such that waste, fraud and abuse will be prohibited to a substantial degree in the management of Federal programs.

2. SOME FRAUD AND ABUSE CREATED BY POVERTY

Some analysts, while attempting to increase the efficiency of programs recommend severe reductions in their budgets or wholesale elimination of programs altogether. In they deny that poverty of resources is implicated in the proper functioning of some government programs. Nevertheless, one of the major reasons why fraud is so difficult to combat is that some programs do not have enough resources for proper administrations. With respect to the clients, in various programs they are the poor and their need creates a demand which often leads them to resort to either legal or illegal means to obtain satisfaction of their human condition. Even the racist and sexist stereotype of the "Welfare Queen" omits the fact that she was a woman who started out on welfare and was creative enough to gain what one might call "upward mobility" within the system. But it should not be forgotten that she was essentially a product of poverty. Those who profit from the deprivation of others, however, have only the motivation of greed, criminal personality and other flaws in their character. Thus, fraud and abuse of programs must be conceived in the wider environment of the growth of poverty.

A. Poverty Growth

"Personal Responsibility" and the Behavior of the economy?

Because poverty is at the root cause of much abuse of program designed to cure it. And so the growth of such programs is not generally a function of waste, fraud and abuse, but the growth of poverty and the lagging performance of the economy. Here, some of the following factors are relevant:

1. Decline: Percentage of all Americans in poverty declined from 23 to 11 percent between 1959 and 1973—the same period as the expansion of government programs

. . .

2. Elderly: most pronounced among the elderly
   a. 1965—29% in poverty;
   b. 1992—13% in poverty.

B. Recent Growth

More recently, however, there has been a renewed growth in poverty, since between 1979 and 1989 4 million people slid into poverty. The Census Bureau now indicates that between 31–33 million are officially classified as poor.

Why? A powerful reason is the nature of the private economy and the changes in the nature of the labor force. Between 1979 and 1989: There was:

A. Depression in the industrial mfg. belt states
B. Drought plagued mid-western states
C. economic recession of 1991 hist Eastern states
D. jobs left
E. government de-funded
F. demographic change—continuing suburban migration.

At the same time, there was no correlation between welfare benefit levels and these the economic performance in wage levels and poverty these states.

C. Consequences

Therefore, reductions in some resource supports as a strategy to fight waste, fraud and abuse contributes to the impediments to successful policy implementation. Likewise, reduction in resources creates impediments to the achievement of program goals. Funding reductions: Ideology as administrative strategy. If the issue if efficiency not ideology, then funding reductions as an across-the-board strategy will not work as an answer to "waste, fraud and abuse."

THE WORKING POOR

Cutting human resource spending will deepen poverty, especially without spending on child care and job training, will simply add to the poor, shifting the bodies from the idle poor to the working poor. Many mothers will not attend job training or become employed without adequate child care, they many will become ineligible for welfare Manpower Research Demonstration Project studies have found. (Thomas Corbett, "Child Poverty and Welfare Reform," Focus no. 15, Spring '93, Institute on Research and Poverty, University of Wisconsin.)

What are the estimates for adding to the working Poor: How many are we talking about? The number growing and now constitutes about 9 million—over 40% of the poor. Thus, even with an increase in the minimum wage, without adequate job training to upgrade skills, they are just added to the working poor.

TABLE 9.—WORKERS AS A PROPORTION OF POOR PERSONS: 1978–1990

Year	Number of poor 15 years and over (thousands)	Worked full-time or part-time (thousands)	Percent
1990	21,783	8,770	40.3
1989	20,474	8,419	41.1
1988	20,857	8,415	40.3
1987	21,316	8,440	39.6
1986	21,352	8,864	41.5
1985	21,954	9,112	41.5
1984	22,246	9,104	40.9
1983	23,465	9,440	40.2
1982	22,812	9,119	40.0
1981	21,260	8,631	40.6
1980	19,517	7,792	39.9
1979	16,907	6,545	38.8
1978	16,194	6,599	39.0

SOURCE: U.S. Bureau of the Census, Current Population Reports, "Poverty in the United States: 1990," Series P–60, No. 175 (Washington, DC, 1991).

Factors such as the globalization of the economy, increasing use of technology and other factors, have placed wages on a path of divergence and falling wages for the lowest quintiles in the wage structure mean that the working poor have been expanding.

INCREASING CHILD POVERTY

As a consequence, we have been adding to child poverty: Poverty against children—"which is now twice that in any other industrial country in the world" (Steven Greenhouse, "The coming Crisis of the American Workforce," The New York Times, June 7, 1994, p. 14F) 1985 Report of the Select Committee on Children,

Youth and Families listed eight programs that work and produce cost-effective results. (Setting Domestic Priorities, Brookings).

TABLE 5–4.—SELECTED COST-EFFECTIVE PROGRAMS FOR CHILDREN

Program or intervention	Budget authority, fiscal 1992 (billions of dollars)	Savings in future expenditures per dollar invested	Percent of target population served
Special supplemental food program for women, infants and children (WIC)	2.6	3.00	50–60
Prenatal care	n.a.	3.38	75
Childhood immunization	0.3	10.00	[1] 80–88
Preschool education (Head Start)	2.2	6.00	30
Compensatory education	6.7	4.90	50

SOURCE: House Select Committee on Children, Youth, and Families, Opportunities for Success: Cost Effective Programs for Children Update, 1900, 101 Cong. 2 sess. (GPO, 1990).
n.a. Not Available.
[1] Ages 1–4, 80 percent; age 5–14, 88 percent.

CONCLUSION

As indicated, some waste, fraud and abuse can be attached by changes in the internal management culture of agencies which administer programs. However, when it comes to clients of these programs, who create the demand and participate in their fraud and abuse, their behavior may be immoral, but it is also related to their quality of life and the deficiencies in the support systems that affect it.

For example, fraud and abuse in the Medicaid and Medicare programs such as prescription drug diversion will not be solved until the 40 million people who now do not have health care are covered with some reasonable expectation that they do not have to go on the open market to get the drugs they need. In addition, because the Federal, State and Local governments and both Democrat and Republican administrations have relied on largely on moral persuasion rather than a tough, substantive program to combat drugs, the diversion of prescription drugs will not be abated until substantial funding for programs to treat drug abusers are is place.

These problems are interrelated and complex and simple solutions such as funding reduction, the elimination of agencies, or the scattering of functions because of theorized duplication, will bring about the desired result without great care and study of the function of programs, basic causes of the problems posed and the consequences of hasty or ill-conceived changes.

Mr. SHAYS. Dr. Walter, I thank you.

We are not going to eliminate Medicare or Medicaid. The question is, are we going to change it? We are not going to eliminate welfare. The question is, can we and should we change it? And I can tell you where I come down on this.

Speaking as a moderate Republican who has voted for a number of these programs in the State House and here in Washington, I have to recognize that we have helped create many of the very problems that we are trying to eliminate. I go with some basic economic tenets that have never been proved wrong to me. Whatever you subsidize, you get more demand.

If a service is free, the service gets overutilized. People are survivalists and if they think that the way to survive is to be on welfare as opposed to the alternative, they are going to take welfare as opposed to the alternative.

I will tell you two stories and you can respond to them. It illustrates the quandary. The most memorable encounter I have ever had with any constituent was a woman who was about 38 years old, and was an M.D. She said, that all of her brothers and sisters, of whom there are six, have their advanced degrees, and she was the oldest.

When her dad died at age 12, she became almost like a parent at age 12 to her six brothers and sister. Her mother was a school

teacher, and didn't make a lot of money, but insisted that the kids all get not only college degrees but advanced degrees. When I grew up, my dad didn't have to insist, it was assumed I would get a college degree. He never insisted I get a graduate degree but this woman said to her kids, to get a graduate degree. All of her kids are successful.

Now, that is one kind of experience for me. And I am thinking that the other countless times when I have been talking to people who are new to the country, for example, a taxicab driver from Baltimore. He bought a taxicab for $3,000, and the medallion for $19,000. He was saving money. He was renting, and putting his wife through nursing school. And the bottom line is, he worked 18 hours a day.

He said, this is a land of opportunity. For too many indigenous poor people, it is not the land of opportunity. With so many who come from other countries, it is land of opportunity and they approach their life differently. Admittedly, you can't live on a minimum wage if you work 40 hours, but you can if you work 70 hours a week.

I feel like I've met the enemy and part of the enemy is me, candidly, because I've voted for these programs and I've taken away a lot of the initiative that people have had to work harder.

How would you respond to that?

Mr. WALTERS. Mr. Chairman, there is no credible research that I know that people on welfare, for example, are on welfare because they lack initiative and that the program has created that condition.

Mr. SHAYS. You are missing my point. Initiative is different. I think welfare recipients are geniuses at surviving because they survive on very little by working the system as hard as they can work. Try to find public housing, try to get food stamps, and they have gone all around and they live with a friend. You are sort of breaking the rule. Have someone stay in but, in other words, they are surviving just like everyone else.

I am not saying they are not surviving. They are surviving in a system in a paradigm that has been established for them. But wouldn't you agree that when you look at some of the immigrants that come to this country, Vietnamese in particular, the others, Koreans, they have really viewed the world differently than some of the people, black and white, who live here and grew up here and are indigenous to the United States now.

Mr. WALTERS. Mr. Chairman, they wouldn't be here if they didn't view the world differently. The research on that indicates that people who generally come to this country are, by and large, motivated or they wouldn't be here. And you can't compare immigrants who come here to the general population.

Mr. SHAYS. But I am comparing them. When I came back from the Peace Corps, a friend of mine came back with two individuals and they ended up working at Howard Johnson's. One was a bus boy, one was a waitress, but they ended up making $600 a week because they worked real hard and bought a car and so on.

Mr. WALTERS. That's a real fine anecdote, Mr. Chairman.

Mr. SHAYS. But it goes on and on.

Mr. WALTERS. No, it doesn't.

Mr. SHAYS. It does.

Mr. WALTERS. What you have to do is compare those people who are very highly motivated, where they came from, and if you do that, that's a fair comparison because then you will be comparing——

Mr. SHAYS. Motivation to motivation. I buy that argument. Get me through the next one. They are more motivated.

Mr. WALTERS. That's right.

Mr. SHAYS. Does our present system instill motivation or discourage motivation?

Mr. WALTERS. I think when you say our system, you have to talk about the entire system. My problem is that what we have done is we have looked to programs like welfare and JTPA and some of these programs to alleviate poverty. What we really ought to be doing is looking at the economic system because it is the job of the economic system to alleviate poverty and yet we place all of that burden on these programs.

And I think that we ought to turn this around a little bit and we ought to begin to ask ourselves, well, if a person can't get a job, what is it about the private market for jobs that discourages people from doing that. And when you begin to look at that, you will find several things—at least in the minority community. One thing you will find is racial discrimination.

Mr. SHAYS. True.

Mr. WALTERS. One thing you will find is poor schooling, the lack of skills. There is a skill gap. Another thing you will find is ignorance of information about jobs and their availability. There are a number of things that you will find. It's not just a question of these programs. You have to look at the entire system.

Mr. SHAYS. If the gentleman would tolerate me.

Mr. TOWNS. Sure, I would be glad to.

Mr. SHAYS. I rebel when I hear a public official say, or an individual, this is a dead-end job. I don't use the word "hate" much, but I come close to hating that mentality. And the reason is, if I had said to my dad, "dad, I don't want to do this, it's a dead end job," my dad would say, "son, how many hours are you working, 10 hours? Well it just increased to 15." Because he knows that in that job, I learned to get up in the morning.

I learned that at McDonald's, everybody criticizes McDonald's. It has got one of the best training programs around. It teaches people how to be of service and how to contribute. Also, if you are motivated, it will teach you how to go up the ladder. So maybe the connection you would make is that it is not connected to welfare. Maybe, but I am hearing from many proponents in the communities where I see welfare constantly talk to me about dead-end jobs.

Mr. WALTERS. That is right.

Mr. SHAYS. And I think that is a very destructive way to think.

Mr. WALTERS. Mr. Chairman, I think what you have to do is put yourself in the shoes—and maybe it is impossible for you to do—of a welfare recipient. Someone who in the 1930's, for example, had a family, as a matter of fact, whose entire community was 90 percent of the labor force, that was labor force participation in the black community, then.

Since then, we've grown up in a society where we see around us tremendous affluence. Now, we are not talking about somebody out on an island in Pago Pago someplace where you can sell them on the question of working hard because there is no other model out there. It is very different, the quality of poverty in the midst of affluence is totally different.

One of the reasons it is different is because you have a popular culture which works against you which tells young people you can get it quick. There's a lot of it and you don't have to work for it. So it may be, I think, the right thing to do to say there are no dead-end jobs but you can't turn off the context within which people live, and you can't turn off the examples that young people see around them every day.

They get one kind of education from their families and their communities and their schools. They get another from society. So being poor in America is qualitatively different than it is anyplace else in the world almost.

Mr. SHAYS. OK. I have enjoyed and I've learned from your testimony. I don't know in the end if it should be qualitatively different.

Mr. WALTERS. That's another question. But it is. I mean, that's what we have to work with.

Mr. SHAYS. Well, I tell you when Jesse Jackson was going around the country telling—kicking kids in the rear end and saying, nobody else is going to do it for you, you are going to have to do it on your own, I think he made a greater contribution to make everybody feel they were victims because. When you feel like a victim, it seems to me you've given up.

Mr. WALTERS. I agree with you, Mr. Chairman, but it doesn't solve the problem.

Mr. SHAYS. I thank the gentleman.

Mr. Towns, thank you for your patience.

Mr. TOWNS. Thank you. I must admit that I was enjoying it in terms of questioning because I think that it is just so important that we really get to the heart of the problem. I think that one thing that I found is that a lot of people don't take those jobs because they will lose their health care, so I think that there is a lot of things that we really must take into consideration because health care is still very, very important.

So I think that we have to really examine why people don't move out, aside from the fact that I agree with you in terms of motivation. I think that's very, very important and when someone picks up and comes from another country all the way over here, I think there is no question about it, that that person is highly motivated.

But health care is a big issue because some of these jobs that people refer to as dead-end jobs, but I think it is not in terms that it is a dead-end job. They look at it, in fact, if I take that job, I lose my health care and what would I do if something happens.

Let me sort of move on, Dr. Walter. Do you support the goal of the administration to reinvent the Federal Government?

Mr. WALTERS. I do. I think that it's interesting to me that we are asking questions about what to do at a time when it looks as though the administration has made considerable progress in doing many of the things that people would like to do.

In general, I think some of the savings that we see proposed right now as a result of Reinventing Government at $63 billion, I think that's substantial. When you look at Department of Housing and Urban Development taking one dozen of the Section 8 programs and rolling them up into one, I think that's substantial.

I think it remains to be seen whether or not some of these innovations will actually work, but I think the tendency to try to eliminate, for example, 29 programs that are not functioning in HUD and cut another 37 that conceded to be not functioning, this is the way I think anyone who is interested in waste, fraud, and abuse would be going.

So I think the administration has a head of steam in that direction and I may not agree certainly with what they are doing. But if you ask what sort of solution also are there, I think you have to take seriously what some of the Cabinet Secretaries are doing right now.

Mr. TOWNS. You testified that some approaches to ending waste, fraud, and abuse in Federal programs are determined by ideology rather than good judgment. Can you give us some examples of current policy changes or recommendations that sort of highlight that concern?

Mr. WALTERS. I am nearly shell-shocked because I listened to a lot of them this morning and that is a perfect example of what I was talking about, recommendations to eliminate entire agencies. Why is that it we should be talking about eliminating the Department of Commerce at a time when we are entering a century of global economic competition? To me, it makes very little sense.

I just came back from Paris. I had meetings with members of the parliament, European parliament. They are asking me, why are you people weakening your social safety net when you are suffering from the same forces of the globalization of the economy that we are, except we are strengthening ours. I just don't get it, Mr. Chairman.

It seems to me that we are going in the wrong direction on a lot of this and it's not driven by good judgment. At least the Europeans can't understand it. Maybe we can sell it to them, but they don't understand how it is that many of their workers are also exposed to the flight of capital and to decisions made in the capital market which produce pockets of poverty for which the government has to subsidize. That's something that all of the industrial nations are suffering from, and their good judgment tells me that they need a strong social safety net in order to deal with that global economic competition because that's going to be the lay of the land, and yet we here are weakening our social safety net and talking about destroying the Department of Commerce. I just don't get it.

It seems to me that Secretary Brown, in the last few years he has been in office, promoted 28 billion dollars' worth of contracts for American companies. Now, I don't know if that would have happened if we didn't have the Department of Commerce. Maybe it would be. But I don't think so, because I saw Secretary Brown in South Africa. I also saw the people in OPIC put $100 million to try to help facilitate contracts by American companies. I saw the deals that he was able to sign. I saw the support that he had from his agency.

So that if you didn't have the Department of Commerce, the question is, how would we keep up with the Europe that is consolidating its economic strength in Europe since 1992. With the Asians, and I was in Taiwan 2 years ago, that's the fastest growing market in the world. How can we compete if we are not led by a Federal Government which is able to consolidate our resources.

So some these things don't make such sense to me and I would love to be educated as to how it is you are going to make America better to make us more competitive economically in the future.

Mr. TOWNS. I am happy to hear you say that, sir, I must admit that I share your concerns. The other thing that I noticed that you mentioned in your testimony, you said, haste sometimes makes waste. In other words, to move to do these things very quickly, you know, we might be creating an additional problem for ourselves or we might be involving some fraud and abuse by doing it so quickly. You mentioned that in your testimony.

Could you sort of further elaborate on that?

Mr. WALTERS. Yes, I did, Mr. Chairman. I mentioned that I cited an article in the New York Times, April 20, page A–19, about blacks being prone to dismissal by the U.S. Government. This was an article which said that in the downsizing, that it looked as though African-Americans were being downsized disproportionately. I was also visited a couple of weeks ago by a group from Walter Reed Hospital who were also, and this was the fiscal meeting with the group sitting on that side of the table, they were representatives of an organization called Blacks in Government.

They told me that the local—the regional NAACP has so many complaints of discrimination now all of a sudden that they can't process them. They can't handle them and these are coming out of a lot of these agencies that are now downsizing. So these are some things that I think indicate that in this atmosphere of downsizing government, that the human rights of some people may be violated.

Mr. TOWNS. Thank you very much for your testimony. I think you have been extremely helpful.

So, Mr. Chairman, I yield back.

Mr. SHAYS. I thank the gentleman.

Doctor, it has been a pleasure to have your thoughtful testimony and I thank you very much for coming before the committee.

Mr. WALTERS. My pleasure, Mr. Chairman.

Mr. SHAYS. I know you were the witness recommendation of Mr. Towns and I'm happy he made that recommendation.

Before we conclude, Mr. Gross, I'm happy to have you come and set the record straight on one issue as it related to Medicaid. And so you are welcome to come back here.

I have to be at another meeting, as does Mr. Towns, but also for the record, it fits into the whole issue of really what studies you were making reference to. I'm going to make two points. One is, I'm going to make the point that your written testimony on Medicaid was not that we should scrap it and I didn't hear you say that.

Mr. GROSS. Absolutely.

Mr. SHAYS. On that issue, I think you have some reason to be concerned. But on the other issue of the documenting the studies, I have the chapter that you made reference to and it doesn't footnote any studies, it doesn't say what those studies are. The only

thing that I am reading here says, studies show that AFDC children are three times as likely to bear children out of wedlock and then to go on welfare themselves, to continue the cycle of poverty. They are also more likely to give birth as teenagers. If they do marry, they are 92 percent more likely——

Mr. GROSS. And in the next paragraph.

Mr. SHAYS. Antisocial behavior is another uninvited guest in the AFDC. Welfare children are also two to three times—so on and so forth. I don't see anything.

Mr. GROSS. I don't give the name of studies. I have the studies at home. I will submit them to you.

Mr. SHAYS. I will just say to you, just for the record, I have rarely ever had somebody make a statement as you know who testifies who is not able to give the studies. I just want to make this point. You said it was in your book.

Mr. GROSS. I thought the names of the studies were there. Obviously, they are not. These are the details of the studies I will provide, but the actual studies, I think one is Cornell, and I think the other is the University of Washington. I have the studies at home, I will send them to you. You know, I'm known as a good reporter. I have written three books on the government with no refutation on any fact that I've ever had.

Mr. SHAYS. You and I have talked about the fact that your books aren't footnoted. It would make a lot easier.

Mr. GROSS. That's my publisher.

Mr. TOWNS. Furthermore, let the record reflect that that is a commentary.

Mr. SHAYS. But the record is corrected on both issues.

Mr. GROSS. On Medicaid, Mr. Kennedy, did a wonderful job of discussing the actual abuse and fraud, and what I did was a policy discussion on how to make it work for the patient, No. 1.

I never said it should be closed. Quite the opposite, I want to make it work. It doesn't work because the remuneration from the government to the provider is very low.

Mr. SHAYS. I'm going to say for the record, your statement is very clear on specific questions and solutions on Medicaid and we will include that.

Mr. GROSS. Including HMO, and the point raised by several people about people losing their health insurance if they go off welfare, it's very true. That's why I advocated eliminating welfare, providing jobs for everybody with the health insurance policy.

Mr. SHAYS. If you don't mind, I truly would like to go.

Mr. GROSS. Mr. Towns, my desire was the opposite of what you said, it was to make Medicaid work so that the hospitals and the providers couldn't abuse it.

Mr. SHAYS. The record will note on that point and the record will also note we are still waiting on the studies.

Mr. GROSS. These details of studies, I will send you the studies themselves.

Mr. SHAYS. All right. This hearing is adjourned. Thank you, gentlemen.

[Whereupon, at 12:49 p.m., the subcommittee was adjourned.]

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