

The Government Is Wasting Your Tax Dollars!

How Uncle Sam spends nearly \$1 trillion of your money each year.

By Ryan Grim with Joseph K. Vetter



Almost a decade ago, the federal government dropped \$100 million for an Earth-monitoring satellite that never made it into space. Today it sits in a closet in Maryland. Cost to taxpayers for storing it: \$1 million a year. And that's just what's hiding in one closet. Who knows what's in the rest of them? *Reader's Digest* decided to find out.

Because we think the government should be held to at least the same standards as a publicly traded company, and because as taxpayers, we're America's shareholders, we performed an audit of sorts of the federal books. We're not economists, but we do have common sense. We tried to be apolitical and got help from Congressional staffers from both parties, as well as various watchdog groups and agencies (see list*). In the end, we found that the federal government wastes nearly \$1 trillion every year.

That's roughly equal to the amount collected annually by the Internal Revenue Service in personal income taxes. Put another way, it's also equal to about one-third of the country's \$2.9 trillion total annual budget. And reclaiming that lost trillion could help wipe out the country's annual budget deficit, improve education, and provide health insurance for those who don't have it.

So how do you define "waste"? David Walker of the Government Accountability Office (GAO), a federal watchdog agency, calls it "the government's failure to give taxpayers the most for their money." For our part, we used the kind of household test you would use on a piece of meat sitting in your refrigerator: If it smells rotten, it's waste. And there is plenty to sniff out. Our government regularly pays for products and services it never gets, wildly overpays companies to do things it could do more cheaply itself, loses money outright due to lax accounting and oversight, fails to collect what it's owed, and antes up for unnecessary programs.

How Does It Happen?

How exactly does the federal government fritter away your hard-earned tax dollars? We've identified what we consider ten of the worst ways. Now, we're not naive. We know that not everyone will agree on every ripoff we've flagged. And we know that even with excellent discipline and management, it's unlikely we could recover more than half of this waste. But hey, it's a start.

1. Taxes: Cheating Shows. The Internal Revenue Service estimates that the annual net tax gap—the difference between what's owed and what's collected—is \$290 billion, more than double the average yearly sum spent on the wars in Iraq and Afghanistan.

About \$59 billion of that figure results from the underreporting and underpayment of employment taxes. Our broken system of immigration is another concern, with nearly eight million undocumented workers having a less-than-stellar relationship with the IRS. Getting more of them on the books could certainly help narrow that tax gap.

Going after the deadbeats would seem like an obvious move. Unfortunately, the IRS doesn't have the resources to adequately pursue big offenders and their high-powered tax attorneys. "The IRS is

<u><i>The Tab</i></u>
Tax Shortfall:
\$290 billion (uncollected taxes)
\$2.5 billion (undertaxed high rollers)
\$60 billion (unwarranted tax breaks)
Starting Tab:
<i>\$352.5 billion</i>

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outgunned," says Walker, "especially when dealing with multinational corporations with offshore headquarters."

Another group that costs taxpayers billions: hedge fund and private equity managers. Many of these moguls make vast "incomes" yet pay taxes on a portion of those earnings at the paltry 15 percent capital gains rate, instead of the higher income tax rate. By some estimates, this loophole costs taxpayers more than \$2.5 billion a year.

Oil companies are getting a nice deal too. The country hands them more than \$2 billion a year in tax breaks. Says Walker, "Some of the sweetheart deals that were negotiated for drilling rights on public lands don't pass the straight-face test, especially given current crude oil prices." And Big Oil isn't alone. Citizens for Tax Justice estimates that corporations reap more than \$123 billion a year in special tax breaks. Cut this in half and we could save about \$60 billion.

2. Healthy Fixes. Medicare and Medicaid, which cover elderly and low-income patients respectively, eat up a growing portion of the federal budget. Investigations by Sen. Tom Coburn (R-OK) point to as much as \$60 billion a year in fraud, waste and overpayments between the two programs. And Coburn is likely underestimating the problem.

That's because a 2003 Dartmouth Medical School study found that up to 30 percent of the \$2 trillion spent in this country on medical care each year—including what's spent on Medicare and Medicaid—is wasted. And with the combined tab for those programs rising to some \$665 billion this year, cutting costs by a conservative 15 percent could save taxpayers about \$100 billion. Yet, rather than moving to trim fat, the government continues such questionable practices as paying private insurance companies that offer Medicare Advantage plans an average of 12 percent more per patient than traditional Medicare fee-for-service. Congress is trying to close this loophole, and doing so could save \$15 billion per year, on average, according to the Congressional Budget Office.

Another money-wasting bright idea was to create a giant class of middlemen: Private bureaucrats who administer the Medicare drug program are monitored by federal bureaucrats—and the public pays for both. An October report by the House Committee on Oversight and Government Reform estimated that this setup costs the government \$10 billion per year in unnecessary administrative expenses and higher drug prices.

The Tab

Wasteful Health Spending:
\$60 billion
(fraud, waste, overpayments)
\$100 billion
(modest 15 % cost reduction)
\$15 billion
(closing the 12 percent loophole)
\$10 billion
(unnecessary Medicare
administrative and drug costs)
Total \$185 billion
Running Tab:
\$352.5 billion + \$185 billion =
\$537.5 billion

The U.S. spends more than \$400 per person on health care administration costs and insurance -- six times more than other industrialized nations.

Running Up Tabs

3. Military Mad Money. You'd think it would be hard to simply lose massive amounts of money, but given the lack of transparency and accountability, it's no wonder that eight of the Department of Defense's functions, including weapons procurement, have been deemed high risk by the GAO. That

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means there's a high probability that money—"tens of billions," according to Walker—will go missing or be otherwise wasted.

The DOD routinely hands out no-bid and cost-plus contracts, under which contractors get reimbursed for their costs plus a certain percentage of the contract figure. Such deals don't help hold down spending in the annual military budget of about \$500 billion. That sum is roughly equal to the combined defense spending of the rest of the world's countries. It's also comparable, adjusted for inflation, with our largest Cold War-era defense budget. Maybe that's why billions of dollars are still being spent on high-cost weapons designed to counter Cold War-era threats, even though today's enemy is armed with cell phones and IEDs. (And that \$500 billion doesn't include the billions to be spent this year in Iraq and Afghanistan. Those funds demand scrutiny, too, according to Sen. Amy Klobuchar, D-MN, who says, "One in six federal tax dollars sent to rebuild Iraq has been wasted.")

The Tab
Wasteful military spending: \$100 billion (waste, fraud, unnecessary weapons)
Running Tab: \$537.5 billion + \$100 billion = **\$637.5 billion**

Meanwhile, the Pentagon admits it simply can't account for more than \$1 trillion. Little wonder, since the DOD hasn't been fully audited in years. Hoping to change that, Brian Riedl of the Heritage Foundation is pushing Congress to add audit provisions to the next defense budget.

If wasteful spending equaling 10 percent of all spending were rooted out, that would free up some \$50 billion. And if Congress cut spending on unnecessary weapons and cracked down harder on fraud, we could save tens of billions more.

The Tab
Wasteful farm subsidies: \$20 billion
Running Tab: \$637.5 billion + \$20 billion = **\$657.5 billion**

4. Bad Seeds. The controversial U.S. farm subsidy program, part of which pays farmers not to grow crops, has become a giant welfare program for the rich, one that cost taxpayers nearly \$20 billion last year.

Two of the best-known offenders: Kenneth Lay, the now-deceased Enron CEO, who got \$23,326 for conservation land in Missouri from 1995 to 2005, and mogul Ted Turner, who got \$590,823 for farms in four states during the same period. A Cato Institute study found that in 2005, two-thirds of the subsidies went to the richest 10 percent of recipients, many of whom live in New York City. Not only do these "farmers" get money straight from the government, they also often get local tax breaks, since their property is zoned as agricultural land. The subsidies raise prices for consumers, hurt

third world farmers who can't compete, and are attacked in international courts as unfair trade.

Spend, Spend, Spend

5. Capital Waste. While there's plenty of ongoing annual operating waste, there's also a special kind of profligacy—call it capital waste—that pops up year after year. This is shoddy spending on big-ticket items that don't pan out. While what's being bought changes from year to year, you can be sure there will always be some costly items that aren't worth what the government pays for them.

The Tab
Wasteful Capital Spending: \$30 billion
Running Tab: \$657.5 billion + \$30 billion = **\$687.5 billion**

Take this recent example: Since September 11, 2001, Congress has spent more than \$4 billion to upgrade the Coast Guard's fleet. Today the service has fewer ships than it did before that money was spent, what *60 Minutes* called "a fiasco that has set new standards for incompetence." Then there's the Future Imagery Architecture spy satellite program. As *The New York Times*

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recently reported, the technology flopped and the program was killed—but not before costing \$4 billion. Or consider the FBI's infamous Trilogy computer upgrade: Its final stage was scrapped after a \$170 million investment. Or the almost \$1 billion the Federal Emergency Management Agency has wasted on unusable housing. The list goes on.

The Tab

General Fraud and Stupidity:
\$2 billion
(disability and food
stamp overpayment)
Running Tab:
\$687.5 billion + \$2 billion =
\$689.5 billion

6. Fraud and Stupidity. Sen. Chuck Grassley (R-IA) wants the Social Security Administration to better monitor the veracity of people drawing disability payments from its \$100 billion pot. By one estimate, roughly \$1 billion is wasted each year in overpayments to people who work and earn more than the program's rules allow.

The federal Food Stamp Program gets ripped off too. Studies have shown that almost 5 percent, or more than \$1 billion, of the payments made to people in the \$30 billion program are in excess of what they should receive.

There are plenty of other examples. Senator Coburn estimates that the feds own unused properties worth \$18 billion and pay out billions more annually to maintain them. Guess it's simpler for bureaucrats to keep paying for the property than to go to the trouble of selling it.

One person received \$105,000 in excess disability payments over seven years.

7. Pork Sausage. Congress doled out \$29 billion in so-called earmarks—aka funds for legislators' pet projects—in 2006, according to Citizens Against Government Waste. That's three times the amount spent in 1999. Congress loves to deride this kind of spending, but lawmakers won't hesitate to turn around and drop \$500,000 on a ballpark in Billings, Montana.

The most infamous earmark is surely the "bridge to nowhere" - a span that would have connected Ketchikan, Alaska, to nearby Gravina Island - at a cost of more than \$220 million. After Hurricane Katrina struck New Orleans, Senator Coburn tried to redirect that money to repair the city's Twin Span Bridge. He failed when lawmakers on both sides of the aisle got behind the Alaska pork. (That money is now going to other projects in Alaska.) Meanwhile, this kind of spending continues at a time when our country's crumbling infrastructure - the bursting dams, exploding water pipes and collapsing bridges - could really use some investment. Cutting two-thirds of the \$29 billion would be a good start.

The Tab

Pork Barrel Spending:
\$20 billion
Running Tab:
\$689.5 billion + \$20 billion =
\$709.5 billion

The Tab

Corporate Welfare:
\$50 billion
Running Tab:
\$709.5 billion +
\$50 billion =
\$759.5 billion

8. Welfare Kings. Corporate welfare is an easy thing for politicians to bark at, but it seems it's hard to bite the hand that feeds you. How else to explain why corporate welfare is on the rise? A Cato Institute report found that in 2006, corporations received \$92 billion (including some in the form of those farm subsidies) to do what they do anyway - research, market and develop products. The recipients included plenty of names from the Fortune 500, among them IBM, GE, Xerox, Dow Chemical, Ford Motor Company, DuPont and Johnson & Johnson.

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9. Been There, Done That. The Rural Electrification Administration, created during the New Deal, was an example of government at its finest - stepping in to do something the private sector couldn't. Today, renamed the Rural Utilities Service, it's an example of a government that doesn't know how to end a program. "We established an entity to electrify rural America. Mission accomplished. But the entity's still there," says Walker. "We ought to celebrate success and get out of the business."

In a 2007 analysis, the Heritage Foundation found that hundreds of programs overlap to accomplish just a few goals. Ending programs that have met their goals and eliminating redundant programs could comfortably save taxpayers \$30 billion a year.

<p><i>The Tab</i> Obsolete, Redundant Programs: \$30 billion Running Tab: \$759.5 billion + \$30 billion = \$789.5 billion</p>

<p><i>The Tab</i> Interest on National Debt: \$194 billion Final Tab: \$789.5 billion + \$194 billion = \$983.5 billion</p>
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10. Living on Credit. Here's the capper: Years of wasteful spending have put us in such a deep hole, we must squander even more to pay the interest on that debt. In 2007, the federal government carried a debt of \$9 trillion and blew \$252 billion in interest. Yes, we understand the federal government needs to carry a small debt for the Federal Reserve Bank to operate. But "small" isn't how we would describe three times the nation's annual budget.

We need to stop paying so much in interest (and we think cutting \$194 billion is a good target). Instead we're digging ourselves deeper: Congress had to raise the federal debt limit last September from \$8.965 trillion to almost \$10 trillion or the country would have been at legal risk of default. If that's not a wake-up call to get spending under control, we don't know what is.

What YOU Can Do

Many believe our system is inherently broken. We think it can be fixed. As citizens and voters, we have to set a new agenda before the Presidential election. There are three things we need in order to prevent wasteful spending, according to the GAO's David Walker:

- Incentives for people to do the right thing.
- Transparency so we can tell if they've done the right thing.
- Accountability if they do the wrong thing.

Two out of three won't solve our problems.

So how do we make it happen? Demand it of our elected officials. If they fail to listen, then we turn them out of office. With its approval rating hovering around 11 percent in some polls, Congress might just start paying attention.

Start by writing to your Representatives. Talk to your family, friends and neighbors, and share this article. It's in everybody's interest.

Source: Reader's Digest, January 2008; pp 86-95

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Economics
Government II - Halterman

Name:

Briefly explain the following ways that tax money is being “wasted.”

1. Taxes: Cheating Shows

2. Healthy Fixes

3. Military Mad Money

4. Bad Seeds

5. Capital Waste

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Economics

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6. Fraud and Stupidity

7. Pork Sausage

8. Welfare Kings

9. Been there, Done that

10. Living on Credit