

Testimony

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“Wasteful Spending in the Federal Government:
An Outside Perspective”

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

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

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

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

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

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

Government Programs That Work Well

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

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

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

What To Do About Programs that Don't

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

**Table 1
GAO High-Risk List (2015)**

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

Source: GAO. | GAO-15-290

^aLegislation is likely to be necessary to effectively address this high-risk area.

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

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

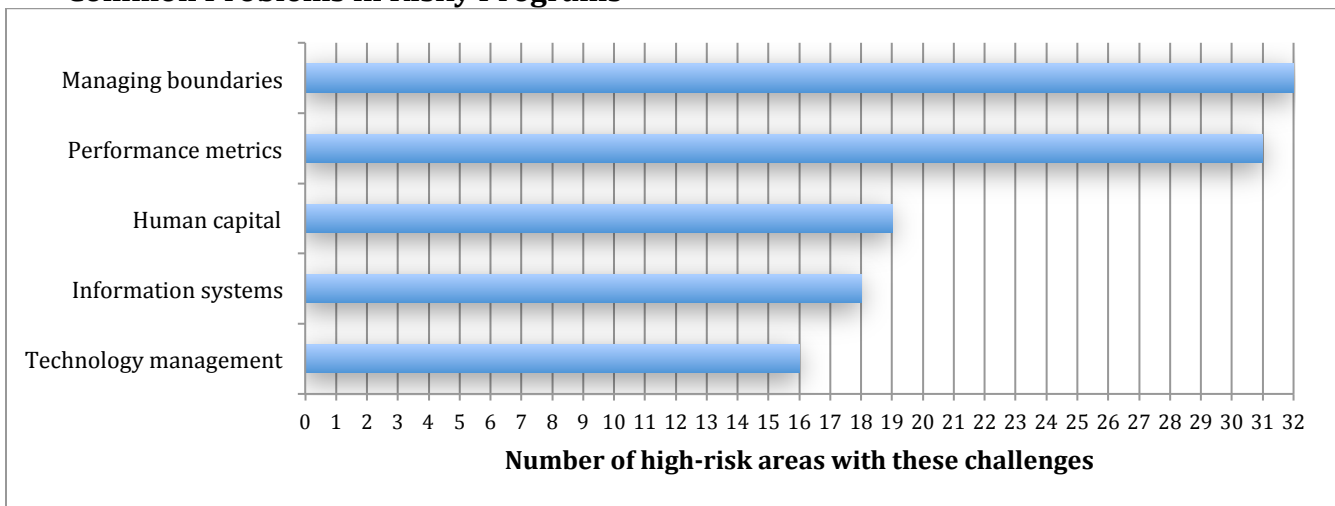
- *Managing boundaries.* No problem that matters can fit within a single organization. Reducing waste requires that we build strong bridges among those who share responsibility for managing a program. Medicare and Medicaid are only as good as the bridges they build among those who deliver care. Defense spending depends on good partnerships between government’s procurement officials and the army of private contractors who supply most of the goods and services. Food safety requires a strong chain that stretches from food producers to processors and distributors, often across international borders. Boundary-management is increasingly essential in ensuring effective management—and reducing government waste.
- *Performance metrics.* Measuring progress in reducing wasteful spending requires a yardstick. The government-wide effort prompted by the Government Performance and Results Modernization Act, along with the initiatives of the Bush and Obama administration. NASA, for example, reduced cost increases and missed schedules by enhancing its performance management system.
- *Information systems.* Delivering the services that citizens want—and making sure we don’t pay for costs that are illegal—is a keystone to reducing wasteful spending. Doing so requires good information systems. For example, improving the systems for payment of benefits due to veterans not only demands a robust information system. It requires close integration of the information systems in the Department of Defense (which track the hazards to which members of the armed services were exposed and the injuries they suffered) and in the Department of Veterans Affairs (which track the post-service health care they receive). When that doesn’t work well, costs go up and service goes down.
- *Technology management.* Big improvements in government services depend on technological advancements. But government has often struggled with the development and deployment of new technological systems. For example, the Federal Aviation Administration will be spending as much as \$22 billion by 2025 to install the new NextGen air traffic control system. The FAA, however, has struggled with the system’s development. The government’s technological systems—an \$80 billion a year investment—has often been plagued by cost overruns and schedule

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

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

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

Figure 1
Common Problems in Risky Programs



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

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

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

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

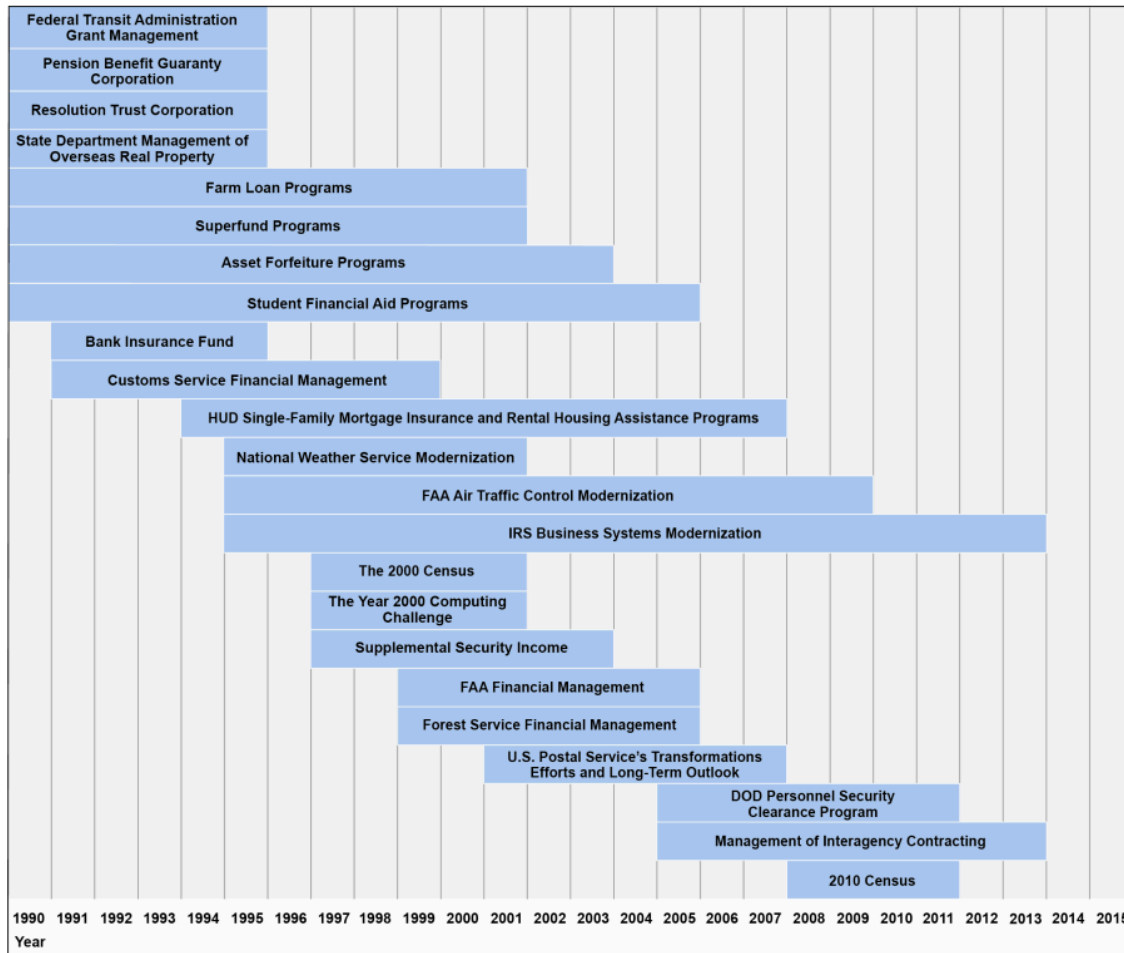
- Managing boundaries
- Performance metrics
- Human capital
- Information systems
- Technology management

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

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

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

Figure 2
Programs Removed from High-Risk List



Source: GAO. | GAO-15-290

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

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

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