
Waste, Fraud, and Abuse in the Federal Budget

George H. Blackford © 8/27/2013

www.rwEconomics.com

There are widespread complaints about waste, fraud, and abuse in the federal budget, and there is always reason to strive for improvement in this area. At the same time, many people believe it is possible to make substantial cuts in the federal budget, say, by as much as 10%, without having to cut Social Security, Medicare, or our social safety net, simply by eliminating waste, fraud, and abuse. There is, in fact, no reason to believe this is the case.

Specific Instances of Waste, Fraud, and Abuse

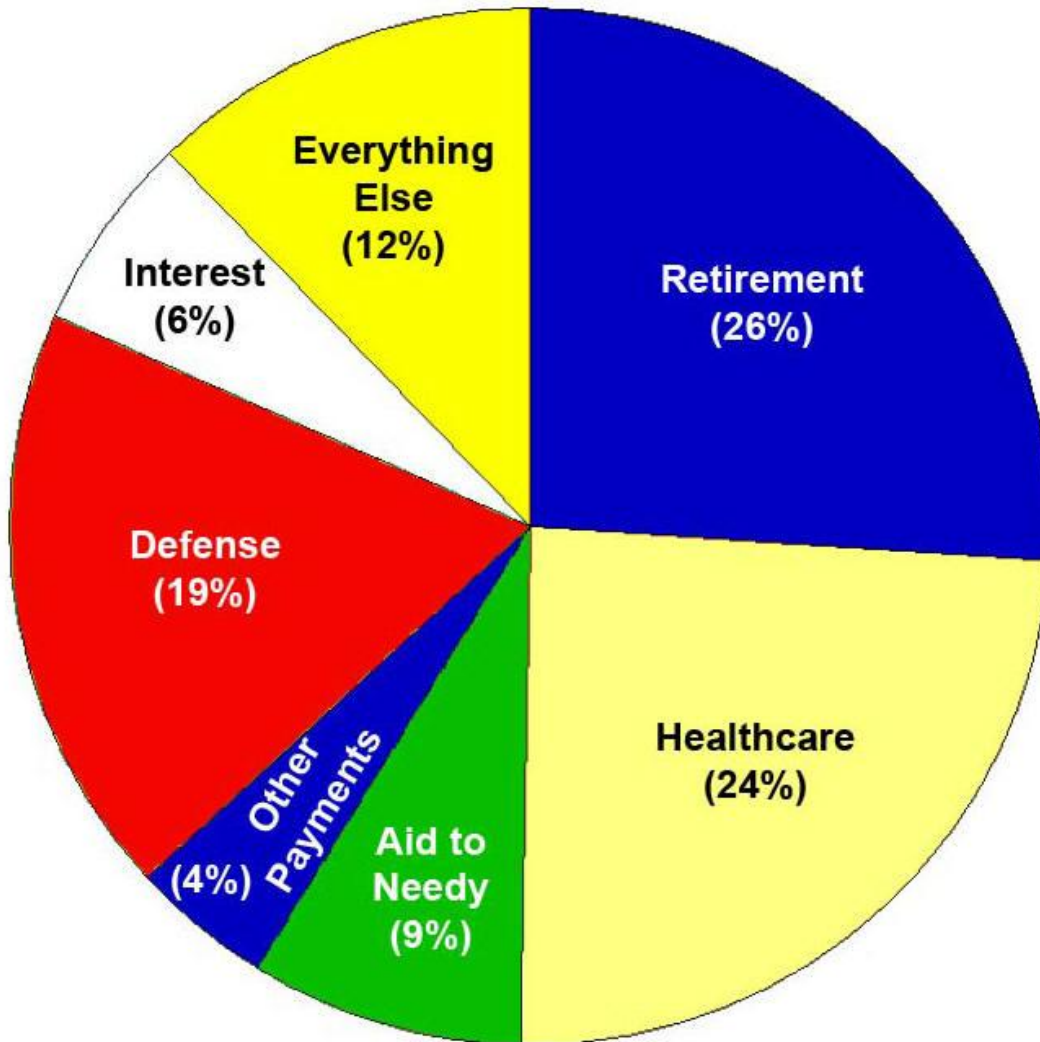
This is particularly so when we are talking about specific instances of waste, fraud, and abuse in the federal budget such as [\\$200 hammers or \\$7,000 coffee pots](#). This sort of thing just isn't important in the grand scheme of things.

The federal budget was \$3,603 billion in 2011. Ten percent of \$3,603 billion is \$360.3 billion. That's 360,300 millions! This means that in order to reduce the budget by 10% one million dollars at a time we would have to find 360,300 instances in which one million dollars worth of waste, fraud, or abuse occurs. We can't even count to 360,300 let alone find 360,300 ways in which the federal government squanders one million dollars on an annual basis. Even if we could find a new way to save a million dollars a year every day it would take 986 years to save \$360.3 billion in this way. ($360,300 / 365.25 = 986.4$) It would take almost 100 years to save this amount if we were to save \$10 million a day. And even when there are specific instances of waste, fraud, and abuse that run in the hundreds of millions or even billions of dollars the numbers just don't add up to \$360.3 billion. ([Coburn Sanders MFCU NYT StLuisFed](#))

When we look at **Figure 1** which shows how the federal budget is ac-

tually spent in the real world the numbers become even more problematic.

Figure 1: Breakdown of Federal Expenditures in 2012.



Source: Office of Management and Budget's (11.3 3.2 10.1).

[Payments For Individuals](#) made up 63% of the budget in 2012, the bulk of which are to be found in the **Retirement** (Social Security, 21% of the budget, and military and other federal employee retirement benefits, 5%), **Healthcare** (Medicare 14%; Medicaid, 7%; and Military and veterans' health programs, 1.4%), and **Aid to Needy** (programs that aid the working poor, poor children, and indigent elderly or disabled adults such as the Food Stamps, School Lunch, and other nutrition programs, 2.9%; Earned Income and Child Tax Credits, 2.1%; Supplemental Security Income,

1.2%; Housing Assistance, 1.1%; Temporary Assistance to Needy Families, 0.6%; and Daycare and Foster Care/Adoption Assistance, 0.3%) slices of the budget in **Figure 1**.

While there may be some inefficiencies in the administration of the programs in this 63% of the budget, administrative costs are relatively insignificant compared to the benefits paid out. Medicare's administrative costs, for example, are as little as [2%](#) of the benefits it pays out and Social Security's as little as [1%](#). These two programs alone took up 35% of the total budget in 2012, and even if we were to eliminate all of their administrative costs, which we can't do and still make these programs work, it would reduce the total budget by less than 1% ($0.02 \times 0.35 = 0.007 = 0.7\%$).

This means that in order to find significant amounts of waste, fraud, and abuse in this 63% of the budget we have to look at the tens of millions of beneficiaries whose benefits average in the thousands of dollars. Now we are talking about the need to find millions of instances of waste, fraud, and abuse in the thousands of dollars range, not just hundreds of thousands in the millions of dollars range.

There is no way we can expect to do this without expanding the size of the federal bureaucracy, and since it costs money to expand the federal bureaucracy, there is no guarantee we will be able to reduce the budget at all by doing this even if by doing this we are able to eliminate all of the waste, fraud, and abuse that may exist among the tens of millions of beneficiaries these programs serve. It may even cost more to expand the bureaucracy than can be saved. ([Lindert](#)) This is especially so in light of the fact that there doesn't seem to be any reason to believe that waste, fraud, and abuse is very widespread among these beneficiaries in the first place.

The nature of this problem can be seen by examining a report published by the [Federal Reserve Bank of St. Louis](#) in which it estimated that some \$3.3 billion worth of fraudulent unemployment compensation claims were paid in 2011. That works out to 3.06% of the total \$108 billion worth of claims that were paid out in 2011 in a program that had 3.7 million beneficiaries in that year. The point is that we can't simply eliminate this \$3.3

billion worth of fraudulent unemployment compensation claims by waving a wand or by increasing the amount of money we spend to investigate those few who are actually committing this fraud, 88,000 of which were collecting benefits while working part time and being paid under the table. We have to investigate all of the 3.7 million beneficiaries in order to find those few, and this can't be done without paying people to do it.

Since the \$108 billion in unemployment compensation claims amounted to only 3% of the \$3,603 billion federal budget in 2011, and only 3.06% of this 3% was wasted in specific instances of fraud, that works out to 0.09% of the entire federal budget that was wasted in fraudulently collected unemployment claims ($.0306 \times .03 = .000917 = 0.09\%$).

This means that even if we are successful in eliminating all of the \$3.3 billion in fraudulent unemployment compensation claims in the system, the most we can save by doing this is less than 0.09% of the total budget, and if it costs us more than \$3.3 billion to expand the bureaucracy in order to eliminate this 0.09% of the total budget it will actually cost us more to eliminate this fraud than we can save. It also means that if we were to find similar rates of fraud (3.06%) in the rest of the 63% of the budget taken up by payments to individuals the most we can save by eliminating this fraud is 1.9% of the total budget ($.0306 \times .63 = .019215 = 1.9\%$), and if it costs us more than \$69 billion ($.0306 \times .63 \times 3,603 = 69.4586$) to expand the bureaucracy in order to do this, it will cost us more than we can save.

This doesn't mean we shouldn't try to eliminate waste, fraud, and abuse in this portion of the budget wherever and whenever we can. It only means *we should not expect to be able to save \$69 billion or reduce the federal budget by as much as 1.9% as a result of our efforts to do so.*

Defense

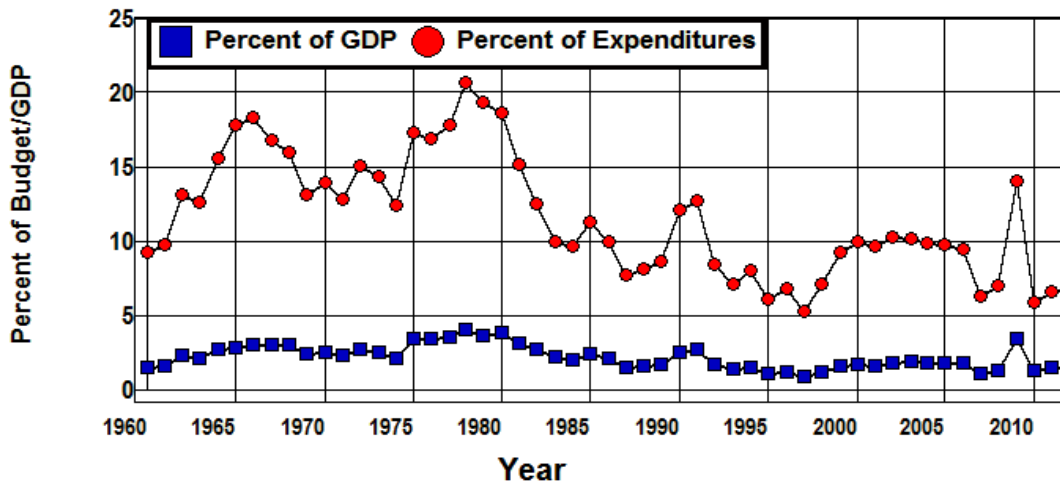
As for the rest of the budget, there is no reason to believe that significant savings can be found there either. It is apparent from **Figure 1** that there may be room to make additional cuts in the 19% of the budget that goes to **Defense**. After all, **Defense** today is barely below where it stood in 1980 relative to the size of our economy when we were still waging the Cold War against the Soviet Union, and with the end of the wars in Iraq

and Afghanistan there should be room to maneuver. Just the same, there is no reason to think we can cut our total tax bill by as much as 10% simply by cutting **Defense**. Even if we were to cut the defense budget in half—[which few people would be willing to do](#)—it would only reduce the total federal budget by about 10%. Waste, fraud, and abuse or not, [virtually no one is willing to cut defense by a sufficient amount to make a significant difference in the size of the total budget](#).

Interest and Everything Else

Since **Interest** on the national debt must be paid when it comes due there is nothing can be saved there. That leaves only the 12% of the budget in the **Everything Else** slice of the pie in **Figure 1**. Here we are talking about the 2.6% of the budget spent on Transportation, the 2.5% spent on Education, the 1.3% spent on International Affairs, the 1.1% spent on Environmental Protection, 0.8% spent on Science and Technology, 0.8% spent on General Government, 0.7% spent on Community Development, 0.5% spent on Agriculture, and 0.4% spent on Energy.

Figure 2: Everything Else Since 1960.



Source: [Office of Management and Budget's \(3.2 10.1 11.3\)](#).

As is shown in **Figure 2**, the **Everything Else** slice of the budget has been cut from 21% of the budget and 4% of the economy in 1970s to just 7% of the budget and 2% of the economy in 2012. The programs in this portion of the budget have been cut dramatically as a fraction of the budget and relative to the economy since the 1970s and are below where they

were back in 1960. Virtually all of the programs in the **Everything Else** slice have been cut to the bone since the 1970s, and there is little reason to believe that substantial savings can be realized by reducing whatever waste, fraud, and abuse that may still exist in whatever is left in this portion of the budget today.

Summary and Conclusion

In searching for ways to cut the federal budget it is important to understand that cutting a small amount from a large portion of the budget or a large amount from a small portion of the budget may yield a lot of money in absolute terms, but it doesn't yield a lot of money relative to the size of the total budget. It only reduces the total budget by a small amount. To reduce the total budget by a large amount we have to cut a large amount from a large portion of the budget. That's just grade school arithmetic.

When we look at the actual expenditures in the federal budget we find that it is not possible to cut a large amount from a large portion of the budget without cutting defense, Social Security, Medicare, or the programs that make up our social safety net because that's where the money is. The rest of the budget has already been cut to the bone since 1980, and there simply isn't enough money in the rest of the budget to make a difference even if we cut a large amount from this small portion of the budget.

When we look at the way the money is actually spent by the federal government we find that there is no reason to believe we can reduce the size of the federal budget by increasing our efforts to target specific instances of waste, fraud, and abuse. Even though we could undoubtedly save billions of dollars by targeting waste, fraud, and abuse among [military equipment suppliers](#) and [Medicare providers](#), there simply aren't enough specific instances of waste, fraud, and abuse in the budget that are of sufficient magnitude to make a difference in this regard. At best, all we can hope to do by expanding our efforts in this area is cut a small amount from a large portion of the budget, and doing this could actually cost us more to do than we can save by doing it. ([Lindert](#)) As was noted above, this does not mean we should ignore this problem. It only means that we should not expect to see a substantial reduction in the size of the budget as a result of our efforts to solve it. Those who think otherwise have a problem with

arithmetic. Their numbers just don't add up. ([Coburn](#) [Sanders](#) [MFCU](#) [NYT](#) [StLuisFed](#) [CBS](#))

It is also important to understand that attempting to address deficit problems by simply cutting the budget—which is what we have been trying to do over the past thirty years—[is a recipe for disaster](#). When we target specific instances of waste, fraud, and abuse we affect the lives of relatively well off or undeserving individuals who can, more or less, take care of themselves. As a result, we don't have to worry about increasing malnutrition and [death rates among poor children or indigent disabled/elderly adults](#) or about forcing people who can't find work—for whatever reason—to become desperate which is what we can expect when we simply cut the funds to those programs that make up our social safety net. We also don't have to worry about impairing the government's ability to protect the public from [poisonous food](#), [dangerous drugs](#), [harmful consumer products](#), [fraud and predatory practices in our financial system](#), [unsafe work environments](#), [potential environmental catastrophes](#) or to maintain our [transportation systems](#) and [educate our population](#) which is what happens when we arbitrarily cut funds to those programs contained in the **Everything Else** slice of the pie-chart in **Figure 1**. ([Amy](#))

The simple fact is that we cannot cut the federal budget by as much as 10% without cutting Social Security, Medicare, or our social safety net, simply by eliminating waste, fraud, and abuse. Another simple fact is that we cannot have [the essential services that only government can provide](#) without paying the taxes needed to fund those services. If we want to maintain Social Security, Medicare, our social safety net, and all of the other services the government provides, we have to pay for them, and the way we pay for them is by paying taxes. It's just that simple.