

## Why is the federal government so wasteful?

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I've followed federal budget issues for two decades, and there has been a never-ending stream of scandals regarding wasteful spending. Programs do not work, officials get caught frittering away taxpayer money, and many unscrupulous people are ripping off federal benefits. The Obamacare website disaster and the recent (and huge) disability fraud bust in New York City are just the latest scandals.

Federal waste is not a modern phenomenon. As far back as the 19th century, the Bureau of Indian Affairs was rife with corruption and the Army Corps of Engineers was already known for pork-barrel spending and chronic cost overruns on projects.

Wasteful spending is a fundamental problem with the way the government works. Private businesses can also make bad decisions, have cost overruns, and misallocate investments. But private markets have built-in mechanisms to minimize those problems, whereas the government does not.

Here are 15 reasons for federal government wastefulness:

1. The government has become so huge that federal auditors, private watchdogs, and congressional oversight committees cannot even begin to review all the spending. The federal government funds more than 2,200 subsidy and benefit programs, and they are all susceptible to waste, fraud, and abuse.
2. People tend not to spend other people's money as carefully as they spend their own. For federal decision makers, the source of funding for their favored programs can seem to be distant or abstract, but private-sector decision makers must weigh the costs and benefits of spending their own money.
3. Unlike in the private sector, poorly performing federal agencies are not subject to takeover bids, nor do they go bankrupt, and thus there is no built-in system to eliminate failed activities. In the private sector, roughly 10 percent of U.S. companies go out of business each year, and corporate executives get ousted all the time. In the private sector, poor performance gets punished.
4. There are more political rewards for federal policymakers to add new programs and expand existing ones than to weed out low-priority programs and waste. By contrast, private-sector decisionmakers are forced by bottom-line pressures to make tough decisions.

5. Federal managers face no profit incentive, giving them little reason to proactively reduce waste and cut costs. Indeed, without profits to worry about, federal managers often favor budget increases without any idea about whether expansion will add net value to society above the taxpayer costs.
6. Without the profit motive, there is little incentive for government workers and managers to innovate. There is less motivation than in the private sector to try and produce better services of higher quality.
7. To policymakers, costs are benefits, and that creates bad incentives. If a Pentagon project has a cost overrun, members with related jobs in their districts may not be worried because an overrun means more spending on their constituents. Academic research has shown that cost overruns are more frequent on government projects than on private-sector projects.
8. Even if a federal agency wanted to adopt business-style efficiencies, the output of much government work is hard to measure, which would make it difficult to set performance goals for managers and workers.
9. Even if federal performance could be easily measured, federal worker pay is generally tied to longevity, not performance. Federal workers receive rising salaries even if they perform poorly.
10. Disciplining federal workers is difficult and they are rarely fired, which can result in agencies carrying heavy loads of poor performers.
11. The government needs complex regulations and extensive paperwork to carry out routine functions such as procurement. One reason is that in the public sector there are no clear goals such as maximizing profits. Another reason is the need to prevent public corruption. The plethora of rules adds to federal inefficiency and sluggishness.
12. Because of the frequent turnover of political appointees in federal agencies, many agencies experience continual changes in their missions driven by transitory and political factors.
13. Congress imposes extra costs on federal agencies in carrying out their duties, such as resisting closure of low-value facilities or cutting projects that affect the states or districts of important members.
14. Federal agencies can get influenced or “captured” by special interest groups that steer policies toward narrow goals, rather than broad public-interest goals.
15. The sheer size of the federal government makes coordination and decisionmaking for many activities very difficult. The multiplicity of congressional committees and executive branch agencies — each with an interest in expansion or mission creep — has led to a great deal of overlap and duplication in federal activities.

What is the solution to these problems? There is no straightforward, technocratic way to “reinvent” the federal government to make it work with a decent amount of efficiency. Some of

these problems can be reduced to an extent, but as long as the federal government is as large as it is, it will sadly continue wasting hundreds of billions of dollars from misallocation, mismanagement, and other problems.

The only real solution to the ongoing waste in the federal government is to downsize it. To improve the performance of American government, we should begin decentralizing funding and decision making for programs and activities out of Washington. We should revive federalism and hand more responsibilities back to state governments, while privatizing federal activities where we can.