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Medicare's Large Size A Big-Government Invitation For Fraud

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Big Government: A recent Washington Post expose on a power-wheelchair scam ripping off Medicare for billions shows how rife that program is with fraud. But it's only a small part of a depressing, bigger picture.

We have operated for years under the assumption that Medicare pays out roughly $50 billion a year in "improper" claims, and that might not be far off the mark.

The Government Accountability Office believes fraud was involved in 8% of all Medicare spending in 2012, or $44 billion. It calls Medicare a sieve, a high-risk program vulnerable to "fraud, waste, abuse and mismanagement."

The fraud, waste and abuse is probably worse. Nicole Kaeding at the Cato Institute pointed out Tuesday that Malcolm Sparrow, a Harvard public management professor, estimates that closer to 20% of annual Medicare claims are improper.

That means that of the $600 billion the program spends in a year, as much as $120 billion is frittered away in scams, deceptions and swindles. Some analysts believe Medicaid fraud is about as bad.

You'd think Washington would have taken action to shut down such mischief by now. But, as Kaeding says, Medicare's oversight system is too easy to circumvent. "Scammers," she says, "know that Medicare payments will not be scrutinized" and are confident that "the chance of getting caught is quite low."

It's not that we're lacking investigations. There have been many. Medicare even has a Fraud Strike Force, which was set up in 2007.

But the opportunity for fraud still exists, and it won't go away because Medicare is such a colossal enterprise. "Millions of claims come in daily and are paid without review or analysis," Kaeding notes.

Clearly, Medicare's fraud problem cannot be separated from the swollen condition of the federal government itself. That should be no surprise. More than 30 years ago, Erwin

Chemerinsky, now dean of the University of California, Irvine, law school and back then an assistant professor at the DePaul University College of Law, noted that "fraud against governments is as old as government itself." And "given the size of the United States government, it is hardly surprising that it, too, would be plagued by fraud."

A small bureaucracy is hard enough to manage; getting a handle on a mammoth bureaucracy is impossible. And Medicare plainly falls into the latter category.

It covers 51 million elderly Americans, employs 6,000 (including Medicaid workers), hands out $600 billion a year in benefits (only Social Security and the Defense Department spend more), processes in excess of 1 billion claims a year and is interwoven with countless doctors and hospitals.

No wonder the GAO said in a 2012 report that "for more than 20 years, we have designated Medicare as a high-risk program, in part because its complexity makes it particularly vulnerable to fraud." The GAO has also blamed Medicare's exposure to fraud on its size.

Perhaps Medicare's greatest problem is how it shovels out mountains of money without determining if the claims made on those dollars are legitimate.

A private health insurance company, meanwhile, has a strong interest in being certain that any benefits it pays out are made on proper claims.

It knows it has to be vigilant to make a profit and stay in business. But Medicare has no such self-interest.

It is, as Chris Edwards and Michael Cannon of the Cato Institute pointed out a few years back, "a centrally planned economic system" that "has many of the failings of centrally planned economies in communist and socialist countries."

In other words, it's a big government program whose left hand doesn't know what the right is doing, and whose many blind spots leave it open to thievery.

It is such a bureaucratic wreck that it doesn't even know how much it has lost in a power wheelchair scam in which even those who don't need the expensive four-wheeled chairs get them for little or no money.

It's a good lesson in big government that hasn't been learned by many.