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Designed to fail

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We are used to the spectacle of corporate executives being led off in handcuffs for failure to present proper financial statements or other misrepresentations. But have you noticed how rare it is to see government officials being led off in handcuffs for similar failures in financial management and other misrepresentations, even though their actions affect far more people — every taxpayer — and do more aggregate economic damage than the corporate wrongdoers?

If you own stock in a company, and if management fails to accomplish its business plan even for very legitimate reasons, you can sell the stock or attempt to replace the directors. If company executives have engaged in illegal activity, you can bring suit against them. Executives and other employees in corporate America are accustomed to job dismissals, even when the reasons for poor performance were out of their control.

Now contrast this with government. It is rare to see government employees fired at any level, despite continued failures in financial and program management.

Every day one can find articles in the newspapers about government mismanagement. It goes on and on and on, despite claims from self-righteous politicians that they are going to "clean the mess up and make sure that it does not happen again." It always happens again.

Congress is now considering a "prescription drug benefit" to Medicare recipients. One plan they are contemplating is said to cost \$300 billion. How reliable do you think that number? To help you answer, consider the following facts. In 1987, we were told Medicaid's new special hospitals subsidy would cost \$100 million in 1992. The actual cost turned out to be more than \$11 billion, or more than 110 times what was projected. In 1988, we were told Medicare's home-care program would cost \$4 billion in 1993, but the actual cost was \$10 billion, or 2 1/2 times projections. Finally, when Medicare started in 1965, we were told the hospitalization insurance part would cost \$9 billion in 1990. The actual cost was \$66 billion, or more than sevenfold what was projected.

These cost overruns took thousands of dollars from every taxpayer's pocket, but no one went to jail or was fired. Now the same politicians — Sen. Edward Kennedy, Massachusetts Democrat, and others — and many of the same bureaucrats who gave us

the original fraudulent numbers are at it again. They get away with it because people have short memories and too few in the news business are willing to remind the public of the previous faulty projections and misstatements.

It is not only transfer programs that suffer from gross fiscal mismanagement, but almost every government project. If you plan to build a house or a commercial structure, you can get a fixed-price contract, because builders have been constructing structures forever, and good contractors know what things cost, even if there is some uncertainty about material prices — and for those they often put in "fudge factors."

We, as a nation, have also been building roads and bridges for more than a century, so there is considerable knowledge about what things cost. But look what happens to government-sponsored highway projects. Boston's Central Artery Project, "The Big Dig," now under construction, was supposed to cost \$3.2 billion dollars, and it is now expected to cost \$14.6 billion or more than 4 times as much as projected. There is a highway interchange being rebuilt in Virginia, where two interstates come together, whose cost has skyrocketed from \$241 million to \$677 million at last count — for one interchange.

Thousands of similar examples can be found for almost every government activity. Remember, when politicians are selling us on some new pet scheme, they argue the benefits from the program will exceed the costs, but when there are massive cost overruns the costs most often exceed the benefits, making us all worse off.

The system does not work because politicians have a vested interest in underestimating the costs of their favorite schemes, and because government managers are rarely fired or otherwise penalized for misspending the taxpayers' money. Last month, 46 percent of the officials of AmeriCorp were given bonuses, even though some of the officials receiving the bonuses were responsible for illegally overspending the agency's budget by \$64 million. What kind of message does that send?

Congress endlessly fails in its oversight responsibilities to protect the taxpayers. As an example, there is a multinational organization called the OECD (Organization for Economic Cooperation and Development). It is based in Paris and supposed to promote global economic development and provide economic data. In recent years, part of it has been "captured" by the French bureaucracy which has resulted in the OECD fighting tax competition and promoting higher taxes on capital. Hence it is now doing the opposite of what it was set up to do, yet the U.S. still pays a quarter of its \$200 million a year budget. Neither senior administration officials nor the Congress has paid attention to what is going on with the OECD, while the government bureaucrats love being wine and dined at the meetings in Paris.

The Congress set up the General Accounting Office (GAO) that is supposed to report on financial compliance by government agencies. The GAO reports that year after year many government agencies have inadequate financial controls (even the Internal Revenue Service for many years failed its audit), but little is done and few are fired. Inspectors general (IG) were created for many government departments to make sure the money was

wisely spent and program goals were met. But again, massive waste, fraud and abuse continue because the IGs have little power, and Congress fails its oversight responsibilities.

What is to be done? After the recent corporate scandals, the SEC started requiring corporate CEOs and chief financial officers to personally sign and attest to the accuracy of the financial statements under penalty of fine or jail. This program should be extended to government officials, with the same penalties for improper financial or program results' reporting. In addition, Congress should put a freeze on the budget for any government agency or grantee that fails to provide proper financial and program audits.

Of course, as students of "public choice" economics have long known, the only lasting solution is to keep the size of government to the minimum, which has the benefit of protecting both our pocketbooks and liberties.

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