

Waste, Fraud, and Abuse

By John Mauldin | November 23, 2024



Old Waste, New Waste
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Dallas, Las Vegas, New York, Austin, and Newport Beach

Politicians and think-tank wonks of all stripes love to condemn government “waste, fraud, and abuse.” But saying it isn’t hard. Who is the opposition? No one says we need *more* waste, fraud, and abuse. We’re all 100% agreed all three are bad.

It’s when you get specific—saying this agency or that program isn’t accomplishing what it should—that disagreement arises. Sometimes it’s pure self-interest. As I said last week, one man’s waste is another man’s revenue. But more often, people just have different objectives.

We use those three words together—waste, fraud, abuse—but they’re actually three distinct problems requiring three different approaches.

Waste happens when the government spends money but receives no corresponding benefit. It can be well-intentioned. Congress authorizes some kind of program expecting a certain result, but it doesn’t work that way in practice. Or it can come from poor planning or inadequate research into whatever problem the money was supposed to address.

Fraud is the use of deception to get something you aren't authorized to receive. A classic example would be someone falsely claiming injury so they can get disability benefits. Or maybe a business exaggerates its expenses and/or hides income to reduce its tax liability. These things happen all the time and they're *very* hard to stop without draconian enforcement measures, which are themselves quite expensive.

Abuse is when people apply a legitimate privilege selfishly. It can be subtle and hard to prove. Maybe Congress directs an agency head to award grants to worthy recipients, but the agency simply hands them to anyone who applies. Or a healthcare provider bills Medicare for treating "problems" that, while real, aren't actually harming the patient.

I could write a 50-page letter listing examples. Most are small potatoes in dollar terms, but over hundreds of agencies, they add up. To name just one, a recent [inspector general audit](#) of the Nuclear Regulatory Commission's travel expenses found a slew of waste and potential fraud, including nearly \$50,000 in unallowed first-class flights between 2020 and 2023. They spent a total of \$27 million on travel in the last four years, most of it in the last year. This is a small agency.

Stopping all this is so hard in part because government is inefficient by nature. We rely on it to provide important but unprofitable services. Agencies don't have the market incentives that help private businesses reduce costs. Similarly, the government's "customers" don't have the choice of taking their business elsewhere. This means some amount of waste is probably inevitable. But we can certainly reduce it, and I'm hopeful the new administration and Congress will try.

Old Waste, New Waste

The stories you hear about the government spending money in useless and sometimes sadly hilarious ways aren't new. Sen. William Proxmire began his famous "Golden Fleece" awards in 1975. By the time he left office in 1989, he had named 168 instances of public officials squandering taxpayer money.

In 1982, President Reagan asked businessman J. Peter Grace to lead a commission focused on government waste and inefficiency. Its report identified \$424 billion in potential savings over three years, with much larger long-term effects. Congress agreed on a few items but simply ignored most of the recommendations.

Then in 1993, Bill Clinton said he wanted to "reinvent government" and appointed VP Al Gore to lead a reform initiative. This one was somewhat more successful, perhaps because that era had the rare combination of a Democratic president and Republican Congress who were willing to work together. There were tangible results: Agencies reduced their headcounts, many programs were eliminated or consolidated, and regulatory processes were streamlined. It didn't wreck the nation as some predicted. Clinton proudly announced, "We have ended welfare as we know it." Helped by a booming economy and higher tax rates, they even managed to (briefly) balance the budget a few years later. But the government remained large, unwieldy, and often inefficient.

Now we have the DOGE, a “Department of Government Efficiency” led by modern-day business leaders Elon Musk and Vivek Ramaswamy. I support their work and feel sure they will quickly identify a lot of obvious waste. Groups like [Citizens Against Government Waste](#) have already identified plenty of low-hanging fruit. (CAGW, by the way, grew out of the 1980s Grace Commission and is a great nonpartisan source. I hope the DOGE draws on their expertise.)

One longstanding problem is the “earmarks” inserted into spending bills. These order spending on particular projects requested by senators and representatives. The justification for these earmarks is they don’t change overall spending; they simply direct it in certain ways. Earmarks let the members “bring home the bacon” to their states and districts. At one time, they were the currency House and Senate leaders used to keep their caucuses in line.

Yet nothing in the Constitution says elected officials should be able to use the public purse to get themselves reelected, which is the real reason earmarks exist. These projects wouldn’t have to be earmarked if they had some clear federal purpose. The need would be obvious.

CAGW maintains a very interesting “[Earmark Database](#)” which you can search by various criteria. For example, you can look for ABR spending, which means “above budget request.” This is spending above the amounts requested in the president’s budget proposal—a clue that the spending isn’t really necessary. It shows hundreds of such items just in 2023–2024. Here are a few of the larger ones:

- An additional \$430 million for the Army’s “Abrams Upgrade Program”
- \$1.7 billion for the Air Force to buy 16 C-130 planes it didn’t request
- \$413 million for two E-2D aircraft the Navy didn’t ask for
- \$675 million in V-22 tilt-rotor aircraft the Marines didn’t want

(To be fair, I picked one from each service. There are others. Continuing...)

Sidebar: The Defense Department and members of Congress constantly suggest we need more money for the Defense Department. And we do. Reportedly, 71% of US fighter planes are not fully mission-capable, 40% of the Navy’s ships need repair, the US only has two repair ports, nearly half of its submarines are non-operational, recruitment is down, and munitions production is so low it will take years to replace what we have sent to Ukraine and Israel. In response, we cut the defense budget, proposed retiring several ships and warplanes, and cut submarine production in half. (h/t Charles A. Kohlhaas) But we did find the money to spend on items the military did not ask for so that some military contractor in a congressperson’s district could “save jobs.” Or whatever. Moving on...

- \$150 million for the Defense Department to research breast cancer
- \$22.9 million for “aquatic nuisance control research”

- \$6 million for “arts in education”
- \$7.5 million for an “underwater cut and capture demonstration”
- \$40 million for “South Florida Ecosystem Restoration”

Again, all this is spending *above* what the relevant agencies requested. One or more people on Capitol Hill wanted to force it on them anyway.

It gets even worse in the “NBR” category: No Budget Request at all. This is Congress essentially forcing money on agencies that don’t want it. Things like...

- \$226 million for “water conservation and delivery”
- \$20 million in “Historic Preservation Fund” projects
- A \$13 million “tribal partnership program”
- \$20.5 million for “aquatic plant control”

What are all these? I have no idea. All we know is they’re not accidents. Various members of the House and Senate asked for these line items, often anonymously, for reasons they prefer to keep off the record. The \$460 billion budget passed on November 15 included \$12 billion in earmarks—none of which went through a committee.

The Defense Department failed its sixth annual audit in a row. They could account for 61% of their budget. The DOD budget is only slightly larger than Amazon’s revenue. If Amazon can track their revenue to the penny and get through a tax audit? Seems a good starting point for DOGE...

The House and Senate both suspended the earmark practice in 2011. Barack Obama actually got Democrats to agree by threatening to veto any bill containing them. But that was temporary and now under Biden they’re back.

Aside from the obvious potential for corruption, this is just a poor way to legislate. Congress constitutionally holds “power of the purse.” If the president wants to spend too much on some things and not enough on others, Congress can and should order adjustments. But it should do so openly, explaining to the public why it sees things differently. Voters deserve to know.

Irritatingly Ridiculous Act

One reason earmarks stay off the radar is they're usually hidden inside gargantuan spending or budget reconciliation bills no one actually reads. Often, they're assembled and then voted on within days, making it practically impossible for any member to fully understand what they're voting on.

Worse still, these votes tend to happen under pressure—just ahead of a holiday, or combined with the debt ceiling, government shutdown, or some other urgent situation. This has somehow gone from being an occasional exception to the normal way Congress does business. It is not conducive to good fiscal decisions, to say the least. They pass legislation and then find out later what it actually does.

To cite one example (of many), the \$891 billion Inflation Reduction Act exemplifies everything wrong with this process. Aside from being woefully misnamed, it was a total surprise built on the bones of a long-dead climate bill Joe Manchin had refused to support in the then-evenly divided Senate. Manchin and Chuck Schumer kept talking and wrote a new bill, which they announced on July 27, 2022. Everyone was shocked, but within two weeks the Senate and House had approved it, both on party-line votes.

The IRA was a sweeping piece of legislation covering everything from prescription drug price reform, a tax on stock buybacks, a variety of clean energy programs, Affordable Care Act subsidy extensions, increased IRS funding, and more. All this should have been preceded by months of study and committee hearings. It was not. Schumer, Manchin, and a few others made their deal and that was pretty much it.

But before the Senate voted, it held a 16-hour marathon session to vote on amendments, of which there were many. They then handed the House a behemoth bill that even the senators didn't fully understand. But five days later it was a done deal.

When legislation gets jammed through like this (and Republicans have done similar things, I should note), it almost certainly has flaws people will find and exploit. You think the Inflation Reduction Act was \$891 billion? Think again. My friend Mark Mills has [a fascinating article](#) describing how it is already being twisted in unintended ways. At least, we hope they are unintended; there's no way to know. Quoting:

“The misnamed IRA is, in the words of its advocates, the ‘largest *climate* policy in US history.’... By various estimates, the IRA will lead to some \$3 trillion in direct spending on grants, subsidies, and the like, plus another \$3 trillion in related spending induced by mandates and rules. For perspective, that's far more than the cost of Obamacare, and even more than the \$4 trillion the US spent (inflation adjusted) to fight World War II.”

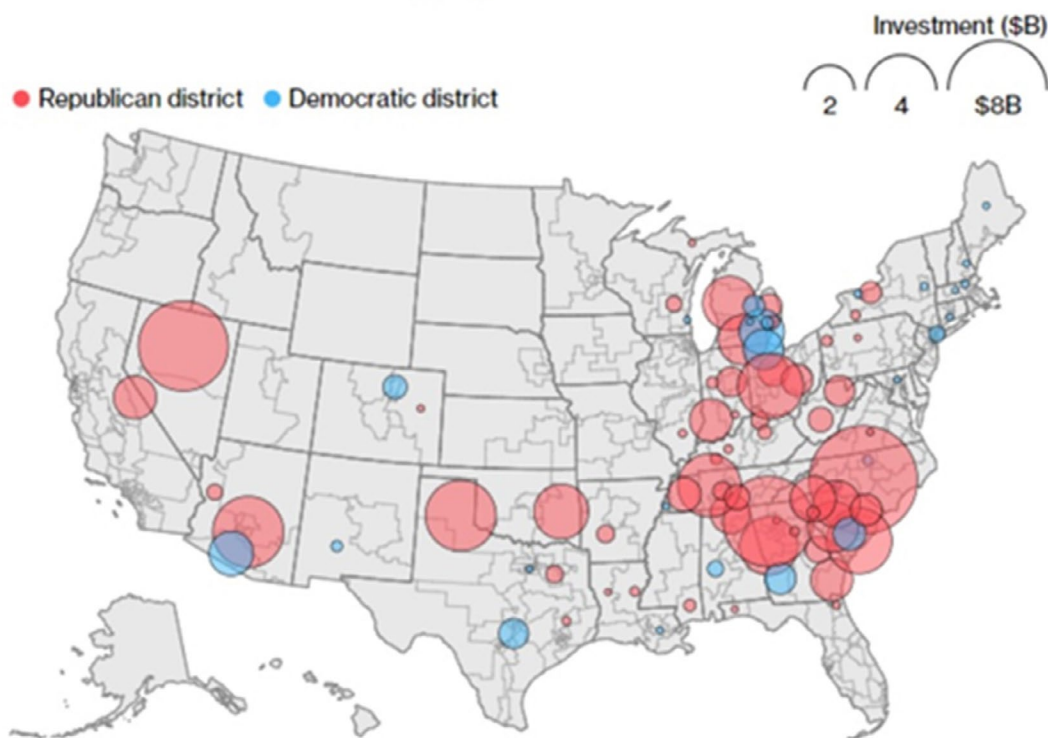
The national debt went up far beyond the originally stated cost of the bill. Mark's essay is worth reading.

You might think the new Republican Congress will move to reverse this legislative monstrosity. Many have said they will, from Trump himself on down. But it won't be easy. The IRA is a giant money-spraying machine. Those receiving its benefits won't be eager to give them up, and many of them are Republicans.

This map shows where the IRA's clean energy money has gone so far. The red circles are Republican-held House districts.

GOP Districts Get Almost 90% of Clean Energy Investments

Location of 154 climate-friendly projects announced since IRA enacted



Source: E2

Note: For each House district, pop-up text shows value of projects announced since the Inflation Reduction Act's clean energy incentives became law; excludes 50 projects with unspecified investments or undetermined locations.

Source: E2 New England

Some of those circles represent job-generating factories. Are they poor investments? Maybe. Terrible use of tax dollars? Possibly so. But will those representatives really vote to close them down? We'll see.

Moreover, the IRA isn't just the "green" kind of energy. It passed only because Joe Manchin agreed, and the price of getting his vote was a bunch of provisions benefiting the oil, gas, and coal industries. A lot of government cash is going to biofuels, low-emission hydrogen, and carbon capture and storage technologies.

The latter is especially lucrative. The IRA provides a tax credit of \$85 per ton of CO² captured from the air and permanently stored underground. Companies including [ExxonMobil](#), [BP](#), and [Occidental](#) are making big investments so they can get a piece of that money.

Not to wade into the climate change debate, but carbon in the atmosphere is either harmful or not. If it's not, then there is no reason to pay companies for capturing a substance that isn't hurting anyone.

See the quandary? This is not a coincidence. The IRA was designed to ensure its own survival. A lot of legislation is like that. Spread the spending such that enough people have a stake in its survival, and it becomes practically impossible to kill. This is pretty common in defense programs, too.

Worse, the spending can actually grow. The IRA was presented as an \$891 billion bill. But as we saw, it's actually going to be a lot more. And that happens more than we would like to think. Mandates and subsidies have a way of multiplying.

Process Crimes

See the problem? We can and should do something about waste, fraud, and abuse, but the real problem is structural. The *process* by which we make these choices has been twisted in ways that make spending reductions extremely difficult—and spending increases practically automatic.

We will never get a handle on spending until we fix this broken process. I don't know how that will happen. The people who could make it happen—senators and representatives—have all the wrong incentives. They get to use other people's money to achieve their own goals, whatever those goals are. That's not something anyone would give up easily.

Maybe Trump can break this logjam. I truly hope so. But even if he does, and gets Congress to cut spending, he'll then have to deal with the people and businesses who would have benefitted from that spending. It won't be fun, to say the least.

Retired US Army Lt. General Marvin L. Covault, author of *Vision to Execution* and *Fix the Systems, Transform America*, did a detailed analysis of the process by which Congress passes bills. In theory, they're supposed to pass 12 budget bills each year in a well-defined process. In practice it rarely happens. That is why we get these huge, ridiculous, budget-busting omnibus bills whose contents no one really knows.

Covault lays out a [detailed plan](#) Congress could pass, essentially requiring itself to follow its own theoretical process. While it may sound unrealistic to expect the House and Senate to handcuff themselves, they've done it before with the 2011 earmark moratorium. I am neither a lawyer nor the son of a lawyer, but Covault's plan had me nodding my head as I read it. Something like it needs to be done.

If this process were followed for a few budget cycles, it might just stick. That would be a true game changer. But if we don't fix the system? Annual budget deficits could approach \$4 trillion within a decade.

I recommend these [fascinating charts](#) from the Manhattan Institute's Brian Riedl on the nature of the debt problem. It is ugly. Among other things, Brian calculates the debt will rise over \$115 trillion within 30 years. Of course, that can't happen, but hitting the wall won't be fun.

This is why I keep saying crisis is inevitable. Only when Republicans and Democrats find themselves on a metaphorical lifeboat, with the only choice being to cooperate or die, will we get any kind of real solution. Meanwhile, all we can do is buy some time.

But time is important. We should buy all we can.

Engine of Prosperity

We seem to reach Thanksgiving faster every year. As always, I'm thankful for readers like you. I hope you'll be enjoying time with your family and friends this coming week.

Gratefulness is coming to me easily this year. That's mostly a reflection on how lucky I am to have the family and friends I do. My gratefulness extends to my country as well. As this American holiday approaches, I'm reminded that our founding fathers were the ultimate optimists. Thanks largely to the foundation they laid almost 250 years ago, America remains a country of entrepreneurs and innovators like no other—despite the many setbacks we've faced along the way.

As you know, I have grave concerns about US (and global) overindebtedness and addiction to borrowing. Debt accumulates until it can't. Then we face a reckoning.

Yet I'm still very much a long-term optimist, about life in general and our future in particular. The economic storm won't be pleasant, and you'll want quality people you trust by your side as we go through it. But as long as our engine of prosperity keeps humming, the future is bright.

That's the core idea behind our new initiative, the Rational Optimist Society. We only launched in October, and already have over 11,000 members. We've attracted support from the likes of esteemed Harvard professor Stephen Pinker, economist Tyler Cowen, and the original rational optimist himself, Matt Ridley.

Our aim at this stage is to attract a groundswell of support from people who share our values—namely that innovation, entrepreneurship, and meritocracy are sacred and must not only be protected, but celebrated.

Are you a rational optimist too? If so, [join us here](#). You can join anytime, but if you'd like the distinction of being a Founding Member alongside me and many of my business partners and close friends, now's the time. I should note it's free.

As a member, you'll receive a weekly letter and access to a podcast about the exciting breakthroughs transforming our world. In time, our goal is to spread and build a strong voice to influence the world for the better.

[Go here to join me in the Rational Optimist Society.](#)

Dallas, Las Vegas, New York, Austin, and Newport Beach

I will be in Dallas next for both business reasons and my favorite holiday, Thanksgiving, which we always celebrate with a large family feast. I will be at the rather large Longevity Fest in Las Vegas from December 13–15 before heading to New York for a few days of dinners and meetings. If you are attending that longevity conference, drop me a note and let's meet. I will be in Austin the first week of January and then later that month in Newport Beach.

I got spoiled living in Dallas because almost any city in the US was a nonstop flight away, three hours at most. One of the few downsides to living in Puerto Rico is that direct flights are typically 4–5 hours and then connections. It feels like next year will involve a lot of time waiting on planes and sitting in planes. It will be worthwhile but does take a toll. I see a lot more hotel gyms in my future, if for nothing else just to keep loose.

And with that, I will hit the send button. I am truly thankful as I am every year for the great gift you give me of your attention. I miss the personal interaction of being on the road, so we are going to try to see about having more places to connect with you in the coming year. And don't forget to [follow me on X!](#)

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