Testimony of
Thomas A. Schatz
President
Citizens Against Government Waste
Before the House Committee on Oversight and Government Reform
February 17, 2011

My name is Thomas A. Schatz and I am president of Citizens Against Government Waste (CAGW). CAGW was founded in 1984 by the late industrialist J. Peter Grace and nationally-syndicated columnist Jack Anderson to build support for implementation of President Ronald Reagan's Grace Commission recommendations and other waste-cutting proposals. Since its inception, CAGW has been at the forefront of the fight for efficiency, economy, and accountability in government. CAGW has more than one million members and supporters nationwide, and, over the past 27 years, has helped save taxpayers $1.08 trillion through the implementation of Grace Commission findings and other recommendations.

CAGW's mission reflects the interests of taxpayers. All citizens benefit when government programs work cost-effectively, when deficit spending is reduced and government is held accountable. Not only will representative government benefit from the pursuit of these interests, but the country will prosper economically because government mismanagement, fiscal profligacy, and chronic deficits soak up private savings and crowd out the private investment necessary for long-term growth.

The Government Accountability Office (GAO) releases its *High-Risk Series* every two years. The report highlights the areas in the federal government that are especially vulnerable to fraud, waste, abuse, and mismanagement and need extensive reform. In the 2009 *High-Risk* report, GAO identified 31 such areas, including program areas in NASA, the Department of Defense (DOD), Homeland Security, the Internal Revenue Service, Medicare, and Medicaid.

Naturally, the *High-Risk Series* provides citizens and taxpayer groups alike with prime fodder for the struggle against government waste, fraud, and abuse. CAGW has long recognized the importance of the *High-Risk Series*, and first promoted the report in 1993 in *Risky Business*.

That was the same year that CAGW first published *Prime Cuts*, a compilation of recommendations from the Congressional Budget Office (CBO), GAO, members of Congress, the President, and nongovernment sources. The most recent *Prime Cuts* report identified 763 recommendations that would save taxpayers $350 billion in the first year and $2.2 trillion over five years.

House Republicans are set to offer legislation that would fund the government through September after the expiration of the current continuing resolution (CR) on March 4. The budget will include $100 billion in cuts. This amount serves as a good jumping off point and is the least our elected officials could do to slow down the growth of the nation's $14.3 trillion debt.

Given the renewed focus on cutting government spending embodied in the November elections, many plans have been proposed to reduce the budget. However, some of them unfortunately eschew reductions in the DOD. This is short-sighted. Security spending, defined as money spent on wars, non-war defense, veterans, and homeland security, constitutes nearly two-thirds of all discretionary spending. Since the initiation of America's wars in Afghanistan and Iraq, the budget for the DOD has grown exponentially. Defense Secretary Robert Gates has adamantly stated that the Pentagon can safely eliminate non-essential programs, and has proposed $78 billion in savings through fiscal year 2016. This serves as a good starting point for further cuts in the DOD. In fact, *Prime Cuts 2010* identified 94 related to the DOD, which would save $24.1 billion in one year and $220.1 billion over five years.

Of course, wasteful spending at the DOD has a long and notorious history, including the $436 hammer, the $640 toilet seat, and 15 pages of instructions on how to bake chocolate chip cookies, which both the Grace Commission and CAGW publicized extensively in the 1980s. We encourage every representative to examine all areas of spending, including DOD. This is especially important for Republicans, who have not voted for amendments aimed at cutting defense spending with the same frequency as non-defense-related amendments. CAGW's lobbying arm, the Council for Citizens Against Government Waste, rated 120 House votes in 2009, and 67 were related to earmarks. There were 56 votes on non-defense earmarks and to their credit, a majority of Republicans voted to eliminate 48 of the 56, or 86 percent. On the 11 defense-related earmarks, however, a majority of Republicans voted to cut the earmark only twice, or 18.2 percent.

Any discussion of cutting defense spending should begin with the F136 alternate engine for the F-35 Joint Strike Fighter. The wall-to-wall criticism of the alternate engine is well chronicled. The project has been condemned as wasteful and unnecessary by both the Bush and Obama administrations and numerous top military officials. As recently as January 6, 2011, Secretary Gates stated that spending limited resources on the alternate engine constitutes excessive overhead and that the program is unneeded. The project barely escaped the cutting board for this fiscal year when an 11th hour letter from Office of Management and Budget Director Jack Lew included funding for the F136 in CR. Congress must now decide whether the project will receive funding in the full-year CR. Since 2004, Congress has earmarked more than $1.2 billion for the alternate engine, including a $465 million anonymous earmark in the fiscal year (FY) 2010 Defense Appropriations Act.

There are of course many other areas of wasteful spending in the federal budget. Created in the 1970s after airline deregulation, the Essential Air Service (EAS) has provided exorbitant subsidies to continue service to communities that would otherwise not be profitable. According to a September 19, 2009 article in *The Los Angeles Times*, "The Essential Air Service spends as much as thousands per passenger in remote areas. . . opponents call the program wasteful spending, noting that much of the money provides service to areas with fewer than 30 passengers a day." Among the most absurd recipients of EAS subsidies is the John Murtha Johnstown-Cambria County Airport, tirelessly defended by the late Congressman John Murtha (D-Pa.), but from which just 18 flights leave each week. Johnstown is only two hours east of Pittsburgh International Airport by car. Ironically, the EAS is anything but essential, as 99.95 percent of Americans live within 120 miles of a public airport that accommodates more than 10,000 take-offs and landings each year. Eliminating EAS would save $99 million in the first year and $599 million over five years.

A long-standing symbol of waste is the Market Access Program (MAP), managed by the Department of Agriculture. MAP aims to help agricultural producers promote U.S. products overseas; however, this corporate welfare program simply funnels millions of dollars to large corporations. President Obama's Terminations, Reductions and Savings for the Fiscal Year 2011 federal budget identified MAP as a potential spending cut. In addition, the House Republican Study Committee Sunset Caucus criticized the program as wasteful, citing the $2.1 million provided by the program for Sunkist Growers, Inc., which reported $860.5 million in revenues in 2009.

According to a February 12, 2010 article in *The New York Times*, MAP has supplied nearly $2 billion to agriculture trade associations and farmer cooperatives in the past ten years, while trade associations that benefit from the program spent almost $100 million on lobbying and contributed $84 million to candidates during that time. If MAP were eliminated, taxpayers would enjoy $200 million in savings in the first year and $1 billion over five years.

The Export-Import Bank was created during the Great Depression by President Franklin Roosevelt in 1934 in order to aid foreign exchange. The renewal of its charter in 2011 should be denied. Today, the bank uses taxpayer money to subsidize borrowing by firms both in America and abroad, most of which are profitable and would have no trouble borrowing without the subsidy.

According to the Cato Institute's Aaron Lukas and Ian Vásquez, the Export-Import Bank "merely displaces private investment by funding ventures that would otherwise have taken place. Moreover, the vast bulk of the Bank's financing goes to very large corporations that do not need handouts from taxpayers." Companies that receive low-cost loans from the Export-Import Bank include Boeing, Halliburton, Chevron, Caterpillar, and Dell. Critics have called it the "Reverse Robin Hood" because it takes money from taxpayers and distributes it to rich corporations. Yet, despite opposition from advocacy groups on both the left and right, the bank still exists. Eliminating the Export-Import Bank and Overseas Private Investment Corporation would result in $13 million in savings over one year, and $264 million over five years.

The Davis-Bacon Act should also be a target of this Congress. Davis-Bacon requires that contractors pay their employees the "prevailing wage" on federal projects costing more than $2,000. The mandate raises the cost of government projects by 15 percent and costs taxpayers more than $1 billion annually, not including $100 million in administrative costs.

Since its passage in 1931, Davis-Bacon has been touted by labor unions and politicians as essential to ensuring fair compensation on government jobs. In reality, the "prevailing wage" tends to correspond to union wages, especially in urban areas. This effect is no accident. Davis-Bacon was passed as part of an effort by high-skilled, high-wage, mostly white workers to keep out lower-paid, non-union, minority competition. Backers of Davis-Bacon have argued that hiring low-wage workers on federal jobs would result in shoddy work. But the federal government is aware of Davis-Bacon's inefficiencies. The law was suspended in the aftermath of Hurricanes Andrew and Katrina to facilitate reconstruction, and the Government Accountability Office stated that many stimulus projects were delayed for months because of onerous Davis-Bacon requirements. A 2010 Heritage Foundation study found that suspension of

Davis-Bacon under the stimulus "would allow the government to build more and hire 160,000 new workers without increasing the deficit." Repealing Davis-Bacon would save taxpayers $250 million in the first year and $3.9 billion over five years.

Another clear target for elimination is the Department of Energy's Weatherization Assistance Program (WAP), meant to subsidize weatherization of homes in order to increase energy efficiency. The annual WAP budget had been $225 million, but the program, which has not been subject to oversight and review for many years, received $5 billion in the stimulus bill to be spent over a three-year period. Most analysts view the program as yet another giveaway program to appease the environmental lobby. It is also a way to throw a bone to the nation's construction industry (which has lost millions of jobs since 2006, according to the Bureau of Labor Statistics), manufacturers of costly energy-efficient appliances, and energy accrediting organizations, which could be tapped to provide training for energy auditors. The House Republicans' proposal to cut $100 billion in the next CR appropriately calls for the elimination of the program.

Most states reported difficulties in implementation of WAP because of the requirement in the stimulus bill that all contractors involved in weatherization be paid Davis-Bacon, or union, wages, including fringe benefits. States and the hundreds of community action agencies which will act as conduits for the billions in weatherization funds almost uniformly reported concerns about the huge fiscal burden and onerous paperwork requirements with which they now must comply. The WAP is so exposed to waste, fraud and mismanagement that the Department of Energy has begun hiring one program officer for each state, the District of Columbia, and all of the recipient Indian tribes, just to help monitor the expenditure of funds.

Congress could also shift to a dollar coin in order to achieve savings. Fourteen years ago, Congress passed the U.S. $1 Coin Act of 1997, giving the U.S. Treasury the authority to get $1 coins into circulation. The advantages of using a $1 coin are substantial. According to an April 7, 2000 GAO report, replacing the $1 bill with a coin would save taxpayers $522.2 million per year. The savings would likely be even higher today.

Most of the cost savings associated with coins comes from their comparative durability. The Bureau of Engraving and Printing produces approximately 3.4 billion $1 bills each year, each of which costs 4.2 cents to manufacture. Each bill has a lifespan of approximately 21 months. By comparison, the $1 coin costs slightly more to produce – 12 to 20 cents – but has a lifespan of 30 years or more. The $1 coin saves money because it is cheaper to handle and process. Mass transit agencies have found that processing $1 coins costs 83 percent less than processing $1 bills. Other benefits include savings on the processing of money by banks and businesses. Coins cost 30 cents per thousand pieces to process at Federal Reserve Banks, compared to 75 cents per thousand for $1 notes. Large-scale private-sector users reap even more savings. Processing bills costs them more than 500 percent above processing coins. Coins are also much more difficult to counterfeit and are recyclable, unlike their paper counterparts.

The Federal Reserve and the U.S. Mint are required by law to remove barriers to the $1 coin's circulation. However, the Federal Reserve issues the United States' paper currency and doesn't like the competition from the $1 coin, which is issued by the Mint. The Fed's leaders have instituted regulations and red tape that make it difficult for banks, businesses, and individual Americans to access $1 coins.

Taxpayers have been fleeced by agricultural subsidies for years. Subsidies for ethanol include a tax credit for ethanol blenders, a protectionist tariff against foreign ethanol imports, and a Renewable Fuel Standard which creates an artificial market for the additive. Studies show that increased ethanol production does not improve energy independence or help the environment. A July, 2009 CBO report confirmed that taxpayers lose $6 billion each year on the ethanol program. In 2009, the U.S. produced and sold about 11 billion gallons of biofuels, most of it made from corn. Fuel blenders receive a 45 cents per gallon tax credit, most of which flows back to domestic corn growers in the form of higher prices for their product. Even though the tax credit and the tariff were set to expire on December 31, 2010, Congress extended both the ethanol tax credits and tariff at the end of the lame duck session in 2010.

The federal sugar subsidy program wastes money in a similar fashion. The program is ostensibly aimed at ensuring that there is an adequate supply of sugar for the U.S. market. Unfortunately, it has harmful effects, giving generous handouts to wealthy farmers and driving jobs overseas. The sugar program has done the opposite of what it was intended to do, while costing taxpayers hundreds of millions of dollars. Instead of helping out small U.S. sugar farmers, this program has instead concentrated a vast amount of wealth in the hands of a few large farms and conglomerates. The wealthiest one percent of sugar farmers receives 60 percent of the subsidies. The sugar program inflates the price of sugar to at least twice the world price of the commodity, which has the effect of decreasing domestic sugar refining jobs as well as secondary jobs in industries that use sugar, such as candy, cereal, and baked goods manufacturers. These subsidies should be on the chopping block as Congress and the administration seek to cut wasteful federal spending and reduce the deficit. Eliminating the sugar subsidy would result in savings of $1.2 billion over one year and $6 billion over five years.

NASA's Constellation Program has come under frequent criticism, for good reason. Despite having spent more than $10 billion on the program to date, NASA is no closer to sending an astronaut to space than it was when the program began. According to a letter from NASA Inspector General Paul K. Martin to Sens. John Rockefeller (D-W.Va.) and Kay Bailey Hutchison (R-Texas) on January 13, 2011, "due to restrictive language in NASA's fiscal year (FY) 2010 appropriation, coupled with the fact that NASA and the rest of the Federal Government are currently being funded by a continuing resolution (CR) that carries over these restrictions and prohibits initiation of new projects, NASA is continuing to spend approximately $200 million each month on the Constellation Program, aspects of which both NASA and Congress have agreed not to build."

Furthermore, the NASA Authorization Act of 2010 requires NASA to spend more than $10 billion in the next three years to continue Constellation, now referred to as the Space Launch System and Multi-purpose Crew Vehicle. Unfortunately, NASA delivered a report to Congress on January 12, 2011 concluding that it simply can't build a rocket that "fits the projected budget profiles nor schedule goals outlined in the Authorization Act." Even so, some members of Congress are insisting that NASA move forward with the program. The private sector can spend money more effectively than government bureaucrats. As a result, the government's role in space exploration should be minimized.

Congress should also work to suspend federal land purchases and sell off existing land. FY 2011 land purchases are budgeted to increase 94 percent from FY 2009, reaching $310 million and $75 million at the Department of the Interior (DOI) and the Department of Agriculture (USDA), respectively. The federal government currently owns roughly one-third of all U.S. land, including more than half of Idaho, Utah, and Oregon, and more than 80 percent of Nevada and Alaska. As a result, the USDA's Forest Service and the DOI's Bureau of Land Management, which make nearly all federal land procurements, have been running deficits since 1994.

A 1999 CBO report stated that the National Park Service, the Forest Service, and the Bureau of Land Management might better meet "environmental objectives such as habitat protection and access to recreation … by improving management in currently held areas rather than providing minimal management over a larger domain." In 2003, the GAO reported that the National Park Service's maintenance backlog was more than $5 billion. Since then, federal land acquisitions have accelerated, placing even greater burdens on an obviously inefficient and overstrained system. Shelving federal land purchases at DOI and USDA would save taxpayers $385 million this year and $1.9 billion over five years.

Congress should also target the Community Development Block Grant (CDBG) program. Created in 1974, the programmatic flexibility of the CDBG program has resulted in numerous instances of waste. A March 2, 2010, article in *The Star-Ledger* reported that the Essex County, N.J., Economic Development Corporation grossly misused CDBG grant money. According to the article, "Economic Development Corp. — or EDC — spent $1.67 million in administrative costs to deliver 19 loans totaling $770,942. The federal government allows municipalities no more than 30 percent of the grant amount for administrative costs. In this case, CDBG officials estimated the EDC should have spent no more than $232,000 to loan out the grant money, according to county documents." The $1.4 million of misused funds will have to be repaid; unfortunately, this type of incident is not the exception, it's the rule. Aside from the instances of waste and fraud, the Office of Management and Budget's Program Assessment Rating Tool (which is used to measure the effectiveness of federal programs) gave the CDBG an overall rating of "ineffective" in FY 2008. Eliminating the CDBG program would result in savings of $4.9 billion in one year and $24.7 billion over five years.

One subject that gets short shrift in the media, but which is nonetheless critical to the economy, is telecommunications. There are four major areas of concern that should be addressed sooner rather than later. The notion of equality on the Internet may sound reasonable, but net neutrality is instead an attack on private-sector business models. Proponents of net neutrality want the online world to be forced "open" at the expense of successful Internet providers, but fail to recognize the many tradeoffs to "openness" such as increased spam, fewer privacy controls, slower service and, perhaps most importantly, decreased incentives for investment and innovation. The Internet has flourished thus far largely due to the lack of government interference.

A second area is broadband. A November 8, 2010 report by the Department of Commerce's Office of the Inspector General criticized the stimulus broadband program managed by the National Telecommunications and Information Administration (NTIA). The report found chronic oversight and management flaws. The NTIA is responsible for managing the Broadband

Technology Opportunities Program (BTOP), a multi-billion dollar stimulus program for broadband expansion. According to a November 8, 2010, article in *Politico*, "A government report released Monday found flaws in the stimulus program that's putting roughly $4 billion towards rolling out broadband networks across the country."

Some have complained that broadband stimulus money was earmarked for areas where broadband already exists. Eagle Communication President Gary Shorman testified before the House Energy and Commerce Subcommittee on Communications and Technology on February 10, 2011 that BTOP awarded $101 million to build broadband service in an area where Eagle Communications and AT&T already provide service. The elimination of BTOP would save taxpayers $40 million in the first year and $4.7 billion over a five-year period.

Next, Congress must resolve retransmission issues. In 1992, Congress amended the Communications Act of 1934 to give broadcasters the upper hand in negotiations with monopoly cable providers, granting broadcasters the right to choose between guaranteed carriage or insisting that multichannel video programming distributors (MVPD) obtain and pay for a station's consent to retransmit the station to local subscribers. The law allows broadcasters to make a new election between these two options every three years. However, the marketplace has greatly evolved since 1992. Broadcasters no longer deal with a cable monopoly; on the contrary, broadcasters can often choose among multiple providers, ranging from cable to satellite to new fiber optic networks. As a result, broadcasters now brandish enormous negotiating power under old retransmission consent rules.

This power has led to service disruptions and increases in the cost of service for consumers. Government rules and regulations should drive businesses into the 21st century, not hold them back. Lawmakers should work toward a solution that revises old retransmission consent rules and the entire framework of broadcaster regulatory benefits in order to reflect the modern marketplace and limit government involvement in private negotiations.

Finally, CAGW has concerns with the Universal Service Fund (USF). The federal Universal Service fee is a hidden tax that subscribers to telephone services find in their monthly bill. This fee collects approximately $7.7 billion annually for the USF, which contributes to infrastructure for communications services links for low-income residents in areas that are considered underserved. As is usually the case with such programs, peculiarities exist within the distribution of funds. Although 96.2 percent of Americans have the ability to access phone service, companies that provide "high-cost" wire-line service receive in excess of $4 billion annually. This subsidy exists despite the fact that wireless service could more efficiently provide service.

Even in the most remote regions, satellite phones can provide cheaper coverage to anyone with a clear view of the sky. Further, the E-Rate program, designed to equip the nation's classrooms with the Internet, receives $2 billion annually through the USF. However, the private sector is more than capable of this function, and wireless Internet service would be a better call.

Many of these topics were among the 10 waste-cutting proposals featured prominently in CAGW's *Critical Waste Issues*, which I submitted for the record to the committee. Since this committee will be responsible for a great deal of the oversight conducted in the 112th Congress, I urge members to consider how such hearings can be most effective.

The committee should eliminate or severely limit politically motivated investigations on both sides of the aisle. I was encouraged by Chairman Issa's remarks in an October 10, 2010 *USA Today* op-ed, where he said that "Oversight is not and should not be used as a political weapon."

The following suggestions were made in a November 13, 2010, *New York Times* article: review the performance and efficiency of government workers and federal contractors; evaluate agency performance by examining reports that are required under the Government Performance and Results Act, and do a better job of reviewing defense spending. The article appropriately called for a review of how Congress itself is structured, as "more than 100 committees and subcommittees oversee the Department of Homeland Security." Hearings should be coordinated among committees and between the House and Senate so that agency officials do not go to dozens of hearings on the same subject matter. The article also suggested adopting the bipartisan proposal to provide agency inspectors general with more subpoena power.

Most importantly, members of Congress should make it clear why a particular program is or is not effective before they propose that it should be reformed or eliminated. Taxpayers deserve to see more than a list of programs; they want to see the justification for either continuing or cutting. Since the House will not be considering earmarks or commemorative legislation, there should be more than enough time to provide this information before legislation is considered on the floor of the House. CAGW will be glad to work with this committee and others to help convey to taxpayers the explanation for or against any program in the federal government.

The progress made recently on the issue of earmark reform can be applied to wide programmatic reform in the federal government. Never before have the American people so clearly voiced their desire for government reform. This has resulted in a clear mandate and historic opportunity to eliminate wasteful government spending. Congress must seize this opportunity and take steps to review every program in the federal budget. Thank you for the opportunity to appear before you today.

Thomas A. Schatz is president of Citizens Against Government Waste (CAGW) and its lobbying affiliate, the Council for Citizens Against Government Waste (CCAGW).

CAGW was founded by the late businessman J. Peter Grace and late Pulitzer Prize-winning columnist Jack Anderson in 1984 following the completion of President Ronald Reagan's Private Sector Survey on Cost Control (the Grace Commission). A 501(c)(3) nonprofit, nonpartisan educational organization, CAGW works to eliminate waste, fraud, abuse, and mismanagement in government and has more than one million members and supporters nationwide. According to official Office of Management and Budget and CAGW estimates, implementation of Grace Commission and other CAGW waste-cutting recommendations has helped save taxpayers $1.08 trillion.

Mr. Schatz is a nationally-recognized spokesperson on government waste and has been interviewed on hundreds of radio talk shows from coast to coast. He is a regularly featured guest on national television news programs and local news broadcasts. His appearances include ABC's "Good Morning America," CBS's "60 Minutes," FOX News Channel's "The O'Reilly Factor," NBC's "Nightly News," and PBS's "The News Hour." He was a regularly featured guest on the "Pork Watch" segment of CNBC's "Squawk Box." His editorials on fiscal policy have appeared in publications nationwide, including *The New York Times* and *The Wall Street Journal*.

Mr. Schatz has testified numerous times on government waste issues before committees of the United States Senate and House of Representatives, as well as before state and local legislative and regulatory bodies.

During his 25 years with CAGW, Mr. Schatz has helped make CAGW a "leading government watchdog on fiscally conservative issues, like taxes and earmarks," according to *National Journal*. In his role as president of CCAGW, *The Hill* named him one of the "top 10 public interest lobbyists."

Prior to joining CAGW in 1986, Mr. Schatz spent six years as legislative director for Congressman Hamilton Fish Jr. and two years practicing law and lobbying.

Mr. Schatz holds a law degree from George Washington University and graduated With Honors from the State University of New York at Binghamton with a bachelor's degree in political science. He is married to Leslee Behar and has two daughters, Samantha and Alexandra.

Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name:

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

None

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

Citizens Against Government Waste –
President

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

None

I certify that the above information is true and correct.
Signature: Thomas Schatz

Date: 2/14/11