Testimony of

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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 28 years, it has helped save taxpayers $1.2 trillion through the implementation of Grace Commission findings and other recommendations.

CAGW does not accept government funds. The organization's mission reflects the interests of taxpayers. All citizens benefit when government programs work cost-effectively, when deficit spending is eliminated, and when 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.

It is no secret that wasteful spending is present throughout the federal government and that every agency could perform its functions more effectively and efficiently. Recommendations to eliminate waste, fraud, abuse, and mismanagement are regularly provided by the Government Accountability Office (GAO), the Congressional Budget Office (CBO), the President's Budget, and congressional authorizing and appropriations committees. Outside of the government, think tanks, advocacy groups, and private-sector companies also provide ongoing analysis of government expenditures. For example, since 1993, CAGW has released *Prime Cuts*, a compendium of recommendations that emanate from both public and private sources; some still date back to the Grace Commission. The most recent edition of *Prime Cuts* identified 691 recommendations that would save taxpayers $391.9 billion in the first year and $1.8 trillion over five years. *Prime Cuts* can serve as a blueprint to cut government spending and put the nation on a path toward fiscal stability.

The first modern comprehensive effort to reform government and/or eliminate wasteful spending occurred through the Commission on Reorganization of the Federal Government, which was established by Congress in 1947 under President Harry Truman and became known as the Hoover Commission, as it was led by former President Herbert Hoover. The commission met from 1947-1949 and again from 1953-1955. More than 70 percent of the recommendations were implemented by executive and legislation action, including the establishment of the Department of Health, Education and Welfare as well as the General Services Administration.

The next comprehensive study of the federal government occurred under President Reagan, who created the President's Private Sector on Cost Control in the Federal Government in 1982, which became better known as the Grace Commission. The commission issued its final report in 1984, and made 2,478 recommendations that would have saved $424.4 billion in the first three years after full implementation of the recommendations. Through executive orders, President Reagan helped saved $100 billion. The administration's annual reports on management of the federal government tracked the implementation of Grace Commission recommendations as well as provided a list of initiatives that were included in the budget submission.

The Hoover Commission inspired many states to establish similar entities. California created the Little Hoover Commission on State Government Organization and Economy in 1962, and that operation continues today. In turn, President Reagan referred to the Little Hoover Commission as one of the reasons for his desire to establish a similar entity at the federal level.

According to the Little Hoover Commission's website, its mission is to provide reports, recommendations and legislative proposals to promote efficiency and economy in government. The commission is composed of five citizen members appointed by the governor, and four citizen members appointed by the legislature, two senators, and two assembly members. The website states that the commission's "role differs in three distinct ways from other state and private-sector bodies that analyze state programs." First, the commission examines how programs "could and should function in today's world" rather than just determining whether programs "comply with existing requirements." Second, the commission produces reports that "serve as a factual basis for crafting effective reform legislation." Third, the commission follows through with legislative proposals to "implement its recommendations, build coalitions, testifying at hearings and providing technical support to policy makers."

There is no comprehensive list of state-based, permanent entities that function like the Little Hoover Commission. Some states have more specific operations such as the Sunset

Advisory Commission in Texas, which was established in 1977 and is charged with reviewing all state programs every 12 years on a rotating basis.

The commission's mandate covers approximately 150 state government agencies. Since its inception, 78 agencies have been abolished or consolidated; 37 agencies were completely abolished and 41 had some functions transferred to existing or newly created agencies. The Texas Sunset Commission's website notes that every dollar spent on the sunset process earns the state of Texas $29 in return.

There have never been permanent operations similar to the Little Hoover Commission or the Texas Sunset Commission at the federal level.

While the Hoover and Grace Commissions reviewed operations at virtually every federal agency, there have been both legislative and executive branch efforts to review specific agencies or programs, including task forces, boards, and formal reviews. For example, the Packard Commission in 1981 and the Clinger-Cohen Act of 1996 focused primarily on management functionality at the Department of Defense (DOD). The National Performance Review under Vice President Al Gore was an interagency task force intended to reform and streamline government to be more efficient and less expensive.

The Office of Management and Budget (OMB) under President George W. Bush created the Performance Assessment Rating Tool, which disappeared at the end of the Bush administration. President Obama has initiated numerous efforts to eliminate wasteful spending, including a June 2011 executive order entitled, "Delivering an Efficient, Effective, and Accountable Government," which created the Government Accountability and Transparency

Board, and a presidential memorandum sent to the heads of all executive departments and agencies instructing them to dispose of all unneeded federal real estate.

Congressional attempts to improve the management of the federal government included enacting the Grace Commission's recommendation to establish chief financial officers, which occurred in 1989 (begging the question as to why it took 215 years to provide a financial officer in federal agencies). The Office of Federal Financial Management was created at OMB in 1990 (begging the same question). The Government Performance and Results Act was passed in 1993, and the Government Performance and Results Modernization Act was signed into law in 2010.

While these initiatives were long overdue and helped improve the management of federal agencies, the next step would be to adopt the Grace Commission recommendation to reorganize OMB into the Office of Federal Management, which would help change the focus of both OMB and Congress from spending to managing.

Despite the best intentions of presidents and legislators to address wasteful spending and improve government efficiency, the size and scope of government continues to grow. The president's budget includes a list of program terminations and consolidations, and, as a result, a few programs are eliminated or consolidated every year, usually saving less than $15 billion. On the other hand, the creation of new programs and the expansion of existing programs overwhelm those efforts.

An underlying reason for this consistent failure to improve government efficiency and eliminate waste, fraud, and abuse is Congress's tendency to create a program to solve a problem. Rather than spending the time to examine an issue in depth, including whether or not an existing program can address the subject matter, members are usually more likely to move forward with a new program.

In an effort to help prevent the creation of new, duplicative programs, Sen. Tom Coburn (R-Okla.) introduced S. Res. 427 in the 112th Congress, the Preventing Duplicative and Overlapping Government Programs Resolution. The resolution would require the report accompanying any bill reported by a congressional committee to contain analysis by the Congressional Research Service (CRS) on whether the bill created a new federal program that would duplicate or overlap any existing federal entity, program, or initiative. S. Res. 427 would also require the reporting committee of a bill to explain why the creation of each new program or office would be necessary if a similar program, office, or initiative already existed.

A companion measure, H. Res. 623, was introduced in the House. Both resolutions would amend the rules of each body of Congress. As such, the Coburn resolution required 67 votes. On June 29, 2011, the Senate voted 63-34 in favor of Sen. Coburn's amendment, which contained the language of his preventing duplication and overlap resolution. That was four votes short of the 67 needed to amend Senate rules.

Despite other efforts to restrain government spending in the House, there has never been a vote on a similar rules change.

The failure of both the House and Senate to agree on this reasonable rules change to prevent the creation of duplicative and overlapping programs makes it clear that without such restrictions, the size and scope of government will continue to expand. Even the most obvious duplication has not been addressed.

For example, Congress would be well-served to act on its own watchdog's voluminous reports. The GAO has issued two annual reports, in 2011 and 2012, with a third on the way in the next two months, regarding duplicative and wasteful federal programs. The 2012 report, "Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue," identifies 51 areas of government "where programs may be able to achieve greater efficiencies or become more effective in providing government services."

Among those programs are hundreds of agencies, offices, and initiatives that provide similar or identical services to the same populations, including 53 programs across four departments that focus on supporting entrepreneurs and 14 programs across three departments for the administration of grants and loans to reduce diesel emissions.

GAO also recommended 18 cost-saving measures that could save taxpayers billions, including consolidating federal offices, selling excess uranium at the Department of Energy, replacing the $1 bill with a $1 coin, and cutting improper payments by Medicare and Medicaid, which totaled an estimated $65 billion in fiscal year 2011.

The 2012 report also cited 209 STEM programs costing $3.1 billion spread across 13 agencies in fiscal year (FY) 2010. More than one-third of these programs were first funded between FYs 2005 and 2010, yet the U.S. still does not have enough future workers in STEM fields and U.S. students "continue to lag behind students in other highly technological nations in mathematics and science achievement."

GAO stated that 173 or 83 percent of the 209 programs "overlapped … with at least 1 other program in that they offered similar services to similar target groups in similar STEM fields to achieve similar objectives." This complicated and fragmented system was a result of efforts to “both create and expand programs across many agencies in an effort to improve STEM education and increase the number of students going into STEM fields.” The proliferation of new programs in a short period of time “contributed to overlap and, ultimately, to inefficiencies in how STEM programs across the federal government are focused and delivered.”

GAO reported that there are 82 teacher quality programs in 10 agencies that cost $10 billion in FY 2009. “The proliferation of programs” and “fragmentation” has limited “the ability to determine which programs are most cost-effective, and ultimately increase program costs.”

There are 47 job training programs in nine agencies that cost $18 billion in FY 2009. Program analysis is virtually non-existent. Only five had an impact study completed since 2004 to determine whether or not participants secured a job as a result of the program itself rather than a separate cause, and about half have not had a single performance review since 2004. Therefore, “little is known about the effectiveness of most programs.”

Finally, and most absurdly, there 56 programs across 20 agencies to promote financial literacy, which are intended to improve the fiscal acumen of the American people. While it would be funny if it wasn’t so sad, there is no reliable financial data on the total cost of the financial literacy programs, and a government that itself is going broke is trying to teach others how to balance their checkbooks.

Congress cannot claim ignorance of these duplicative, bloated programs. The GAO has long published annual accounts of improvident spending, and many of its most recent recommendations were part of both the original Grace Commission report, which led to CAGW’s founding 28 years ago, and GAO’s two annual reports on duplication and overlap. Obviously, despite reminders from all sides that wasteful spending is rampant and endemic to government, many of these glaringly wasteful programs have been allowed to continue and even grow. While the GAO's 2012 duplication report acknowledged that Congress has "taken actions to address" some of its 2011 recommendations, many of those steps amount to little more than empty rhetoric.

In 1994, long before he became a U.S. Senator and now Governor of Kansas, Sam Brownback began the process of proposing an effort to reform government operations, much like the Base Realignment and Closure Commission (BRAC). Sen. Brownback called BRAC "one process that has been successful in the realm of program-elimination and prioritization of spending."

In 2003, Sen. Brownback pointed out that the base closing process "originated in the 1960s under President Kennedy as the DOD had to realign its base structure after World War II and the Korean War. At that time the DOD was able to close bases without congressional interference, and 60 bases were closed in the 1960s. Naturally, Congress was upset with the political and economic ramifications back home, but their efforts to kill BRAC failed until 1977 when President Carter signed legislation allowing the Congress to micro-manage base closings. As a result no major military bases were closed in the 1980s. In the late 1980s, under Congressman Dick Armey's leadership, BRAC was revived in its present form, with the BRAC commission submitting its recommendations to Congress for the realignment and closure of military bases, with the Congress taking an up-or-down vote to accept or reject the plan as a whole."

Senator Brownback further observed that, "BRAC has been our one successful model for eliminating government programs—in this case military bases—and with this in mind, I specifically modeled the Commission on the Accountability and Review of Federal Agencies (CARFA) Act (S. 1668) after BRAC. Whereas the BRAC Commission examined military bases and the Department of Defense, CARFA would review federal agencies and programs within agencies."

CARFA was envisioned to use a narrow set of criteria, designed to produce significant results. The three areas of review are:

> Duplicative. Where two or more agencies or programs are performing the same essential function and the function can be consolidated or streamlined into a single agency or program, the commission would recommend that the agency or program be realigned.
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> Wasteful or Inefficient. Where the commission finds an agency or program to have wasted federal funds by egregious spending, mismanagement of resources or personnel, or use of federal funds for personal benefit or for the benefit of a special interest group, it would recommend that such agency or program be realigned or eliminated.
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> Outdated, Irrelevant, or Failed. Where the commission finds that an agency or program has completed its intended purpose, become irrelevant, or failed to meet its objectives, it would recommend the elimination of such agency or program.

After completing its evaluation, the commission would submit to Congress both a plan with recommendations of the agencies and programs that should be realigned or eliminated and proposed legislation to implement this plan. As with the successful BRAC model, the Congress would consider this legislation on an expedited basis with a comment period from the committees of jurisdiction. Within the expedited time frame, the Congress would take an up-or-down vote on the legislation as a whole without amendment. If CARFA's recommendations are enacted, significant savings would likely result. If CARFA's recommendations are rejected, congressional authorizers would still have a useful guide for identifying areas in need of scrutiny.

In 2004, then-Rep. Todd Tiahrt (R-Kan.) introduced a House version of CARFA. He asserted that "a first step toward a stable financial future for this country currently can be found in H.R. 3213, which is also known as the Commission on the Accountability and Review of Federal Agencies Act (CARFA)… H.R. 3213 will 'establish a commission to conduct a comprehensive review of federal agencies and programs and to recommend the elimination or realignment of duplicative, wasteful, or outdated functions…' Congress will have to simply vote up-or-down on the commission's recommendations in their entirety. The congressional log-rolling that normally bogs down the process will be short-circuited. In this way, real reform can emerge, and the deficit and debt problems can be brought under control. H.R.3213 offers Congress and the Administration a unique opportunity: rather than simply re-fund and increase funding for every federal program, CARFA will eliminate unproductive, duplicative and outdated programs.

"CARFA's main focus would be to make our government smarter and more efficient, and also to ensure that taxpayer dollars are not used to support programs such as the 'Federal Tea-taster,' who until 1995 headed the 'Board of Tea Experts' which was created by the Imported Tea Act of 1897. Until this program's elimination just 8 short years ago, the federal government was spending $120,000 in salary and operating expenses per year to taste tea. Obviously this is only one example of the type of programs that CARFA would target, but I am convinced that our federal government is replete with programs such as this that make a mockery out of the hard-earned tax dollars that Congress provides. ... The examples of inefficient and wasteful government practices that CARFA could target are far too numerous to cite in this short amount of time. However, it is clear to me that the need for CARFA is very real.

"The strict time limits governing the Commission, which would expire shortly after submitting its findings, would ensure that its costs are kept to a minimum. I believe that the savings that would occur as a result of the Commission's findings will more than justify the minimal expenses that the study might incur. In addition, it is worth noting that CARFA requires that ALL funds saved by the implementation of this plan can ONLY be used for supporting other domestic programs or paying down the national debt."

Needless to say, nothing was done about CARFA by the House or the Senate, and no similar legislation has been introduced since Sen. Brownback and Rep. Tiarht left Congress.

Of course, given CAGW's own origins, emanating from the Grace Commission, the organization has long supported another idea whose time has come (again); the establishment of a "New Grace Commission." President Obama should call for a comprehensive bi-partisan examination of government waste, fraud, abuse and mismanagement: in effect, a private sector survey on cost control or Grace Commission by a new name. The new commission could do the following: conduct in-depth reviews of the operations of federal agencies and evaluate improvements in agency operations; look for increased efficiency and reduced costs that can be realized by executive action or legislation; provide additional information and data relating to government expenditures, indebtedness and personnel management; and seek opportunities for increased managerial accountability and improvements.

Robert Freer, Jr., chairman of the Free Enterprise Foundation and a member of the original Grace Commission, wrote in 2010 that, "More than two decades have passed with only partial adoption of its suggestions, and we are in even deeper soup just as it suggested we would be if we did not follow through. In fact, we are several leagues beyond anything the Commission even conceived of in fiscal jeopardy due to our own profligacy. Any rational society would have long ago reigned in its appetites, re-examined its approach to social services, and sharpened its management pencils. It is unclear whether the more than 100 new agencies of government to be created to carry out the new health care initiative will ever be funded, but even the existing governmental structures are woefully in need of a sharp management knife to prune waste, inefficiency, and fraud from their administration. While lamenting the total irresponsibility in growth of government, in calling for a new Grace Commission, we can still hope that government does what it can to carry out its ill conceived programs in a manner as devoid of waste, inefficiency and fraud as possible. A new Grace Commission would help."

In September 2010, shortly before he was elected to the United States Senate to the seat once held by President Obama, then-Congressman Mark Kirk wrote in *The Hill*, "Congress and the president should establish a new Grace Commission, ... After a two-year study at no taxpayer expense, the panel made 2,478 recommendations, which it estimated would save $1.9 trillion by the year 2000. A 21st century Grace Commission should also be given the powers of the Base Realignment and Closure Commission, with its recommendations facing certain up or down votes in both chambers."

In a June 15, 2011 editorial, the *Las Vegas Review-Journal* opined on President Obama's contemporaneous announcement of a new effort to eliminate government waste – the "Campaign to Cut Waste," with Vice President Biden to chair the oversight board of federal departments and agencies. The op-ed concluded as follows: "If Vice President Biden's new commission is really interested in eliminating waste and redundancy, the first thing they do should also be the last thing they do: Order new copies of the Grace Commission report printed up and handed out to the president and each member of Congress, and then set a good example by voting themselves out of existence."

In addition to the foregoing recommendations, there are several other areas of high priority for CAGW in its mission to eliminate wasteful spending.

Although it is viewed by many as sacrosanct, the DOD is rife with waste, fraud, and abuse. I will focus on just one example here today. The Medium Extended Air Defense System (MEADS) – the intended replacement of the Patriot missile defense system – is one area, in particular, where taxpayer money is being spent recklessly.

For several years, DOD officials have stated that cancelling MEADS would be cost-prohibitive without agreement from the United States' partners, Germany and Italy, because of high unilateral termination costs. In their view, MEADS, despite glaring cost overruns and extensive delays, must be continued because of the cost of cancellation.

However, a confidential DOD report to the Senate Armed Services Committee (SASC), dated April 2012 and obtained by CAGW, concluded that the U.S. can withdraw from the contract without committing additional money or paying termination fees. Undeterred by this finding, still others have argued that discontinuing funding for MEADS would irrevocably alter defense procurement cooperation between the U.S. and Europe. But this seems unlikely given the skepticism with which Germany and Italy view MEADS, coupled with the close partnership that we enjoy with European nations on other defense projects. Indeed, even the Obama Administration has advocated for the program's cancellation.

MEADS' troubles have been well-documented by CAGW. The program has been plagued with cost overruns of nearly $2 billion, and it is ten years behind schedule. A *Washington Post* report (March 9, 2010) quoted an internal U.S. Army memo asserting that the program "will not meet U.S. requirements or address the current and emerging threat without extensive and costly modifications." Then, in March 2011, a CBO report recommended terminating MEADS in favor of continuing production of the Patriot missile defense system. Eliminating MEADS would serve as a fine example of a judicious approach to trimming DOD waste.

Taxpayers – and many members of Congress – have been surprised to learn that the federal government pays the cost of certain federal post-retirement benefits, including pensions and healthcare. In April 2011, the GAO issued a report recommending that the Department of Energy (DOE) comprehensively review how it manages contractor post-retirement benefit costs. The GAO report noted that "DOE's costs for reimbursing contractor pension and other post-retirement benefits have grown since 2000 and are projected to increase in coming years." Over the past 10 years, DOE's annual costs have ranged from $43 million in 2001 to $750 million in 2009. They have increased by an average of 8 percent annually and are on track to increase by 9 percent annually over the next five years.

Another major area of waste is identity theft, particularly through tax return fraud. The typical scheme involves a fraudster who acquires someone else's social security number and address, files early for a return, and has the return direct deposited to a bank account or debit card or sent to a mailbox belonging to the thief. In the vast majority of cases, IRS issues the return, only to refuse the legitimate, would-be recipient when he or she later attempts to collect his or her rightful refund.

For taxpayers, the costs are diffuse but growing at an alarming rate. A November 2012 GAO report stated that, as of September 30, 2012, the IRS had identified 641,690 known cases of tax fraud identity theft in 2012 alone. That represents a rise of 165 percent from 2011, when there were just 242,142 such cases, and it is more than 13 times the amount reported in 2008.

Another area of concern is information technology (IT). Federal IT spending has grown by 76 percent, from $46 billion in 2001 to $81 billion in 2012. Unfortunately, according to Chairman Darrell Issa's (R-Calif.) opening statement at a January 22, 2013 Oversight and Government Reform Committee hearing on wasteful IT spending, federal managers estimate as much as $20 billion of taxpayer money is squandered on IT every year.

Taxpayer dollars are spent to maintain obsolete and deficient IT resources and support failing projects, such as a one-billion-dollar Air Force logistics system that was shut down last month with nothing to show for it. At the United States Department of Agriculture, $94 million has been spent on a project to develop supply-chain management systems for food distribution, with no measurable results after four years.

Another area of IT spending where the federal government can save money is by reducing the number of unnecessary or excessive IT software licenses, bought in part because the government is unable to keep track of what agencies currently own or use. On July 19, 2011, the GAO issued a report criticizing government agencies' inventory management of data centers, noting that 15 federal agencies did not list all of their software assets in their reports.

This is an area where the federal government can learn from the private sector. The procurement and utilization of software licenses is routinely and systematically managed by the private sector through the use of software asset management (SAM) tools. There are several

SAM auditing systems available that offer software licensing auditing tools. These same tools could be applied to government systems to ensure that chief information officers (CIOs) and purchasing agents are aware of existing software licenses and can document actual usage in order to make smarter purchasing decisions.

A proactive federal IT initiative that could produce billions of savings is increasing the usage of cloud computing tools. According to a survey (dated April 25, 2012) by MeriTalk Cloud Computing Exchange, approximately $5.5 billion has already been saved annually from the adoption of cloud computing tools. However, had federal agencies more broadly adopted cloud services, the government could have saved some $12 billion per year. In September 2012, MeriTalk followed with a second survey targeting federal IT managers: those managers anticipated savings of up to $16 billion annually through the use of cloud computing tools. These figures are far greater than the $5 billion in annual savings estimated by former federal CIO Vivek Kundra when he first discussed the administration's cloud-first initiative.

For those who are serious about eliminating waste and inefficiency from one of the most visible entitlement programs, Medicare, Recovery Audit Contractors (RAC) have been very effective. The Tax Relief and Health Care Act of 2006 directed the Centers for Medicare and Medicaid Services (CMS) to implement a national recovery audit program for the Medicare Fee for Service (Parts A & B) program. Under the program, CMS competitively contracted four RACs – one in each of four regions, with each region covering about a quarter of the United States. The RACs are responsible for identifying overpayments and underpayments in Parts A and B and bringing those improper payments to the attention of the Medicare program for correction.

Improper payments occur as a result of incorrect coding for medical procedures or claims for services that are medically unnecessary. When providers submit claims for reimbursement of Part A and B services, those claims are processed by the fiscal intermediaries that work for CMS: the Medicare Administrative Contractors (MACs). A MAC will typically review claims for basic accuracy and sufficiency; however, because they have a legal obligation to process and pay claims under relatively short deadlines, they have neither the time nor the resources to ensure payment accuracy. RACs then conduct post-payment review of a small subset of claims to identify improper payments and bring those improper payments to the attention of the MACs for corrective action.

Moreover, RACs are paid on a commission basis for all underpayments and overpayments that they identify. The federal government bears none of the risk of investing in the systems and personnel to conduct the program.

As of December 31, 2012, RACs had corrected more than $4.2 billion in improper payments, approximately 93 percent ($3.9 billion) of which were overpayments collected from providers, over the four-year period beginning with FY 2010 (October 2009) through the first quarter of FY 2013 (December 2012). In short, the program works well and should be continued.

Since its inception, CAGW has been closely following spending at the United States Department of Agriculture (USDA), particularly during consideration of the Farm Bill by Congress. That legislation is a rare situation in which the headwinds to eliminating waste are more regional in nature than partisan. This should offer some hope for bipartisan collaboration in the 113th Congress.

Among the areas in dire need of reform, the USDA's Direct Payments program delivers $5 billion annually to farms based on historical production totals. From this distribution, $1.3 billion, over a quarter of the subsidies allotted under this program, goes to recipients living on what once was farmland, but who no longer farm. That massive giveaway has rightly come under fire in recent years from lawmakers and policy groups on both ends of the political spectrum, and, as a result, it was eliminated in both the House and Senate versions of the Farm Bill during the 112th Congress. The permanent termination of direct payments should be a mutually agreeable starting point when negotiations on the Farm Bill resume in 2013.

In a January 6, 2013 op-ed, titled "If we can't kill farm subsidies, what can we kill?" the renowned economics reporter and columnist Robert J. Samuelson wrote that direct subsidies to farmers cannot be justified, while government support for agricultural research and safety would be appropriate. He noted that if "subsidies ended tomorrow, wheat would still be grown in Kansas. Subsidies qualify as 'low hanging fruit' in cutting federal spending. What's instructive is that no one is doing it."

Samuelson added, "Farm subsidies are a metaphor for our larger predicament. We no longer have the luxury – as we did for decades – of carrying marginal, ineffectual or wasteful programs. We can no longer afford subsidies for those who don't need them… If we can't eliminate the least valuable spending, then we will be condemned to perpetually large deficits, huge tax increases or indiscriminate cuts in many federal programs, the good as well as the bad… Even with a full economic recovery, current policies imply annual deficits over the next decade averaging 5 percent of the economy (gross domestic product); by 2022, federal debt to GDP would hit 90 percent (the 2007 figure: 36 percent). Balancing the budget in 2020 would require $1 trillion of spending cuts or tax increases. Government needs reappraisal. Programs shouldn't be immortal in the face of changing economic and social conditions. What's no longer justified should be discarded."

In particular, the sugar and dairy programs distort the free market and keep prices much higher than necessary for consumers and taxpayers. The U.S. sugar program could accurately be described as an outdated, Soviet-style command-and-control program that uses price supports, tariffs, import quotas, loans, and marketing allotments to artificially inflate the price of sugar. This federal intervention has led to American consumers paying nearly twice the world price of sugar for the better part of the last 30 years. The program is often justified as providing assistance to small farmers; however, 60 percent of all sugar program benefits go to the wealthiest one percent of farmers.

A new and supposedly "improved" dairy program lurks in the House and Senate versions of the Farm Bill. The Dairy Market Stabilization Program (DMSP), despite being called "reform" by supporters, continues the failed command-and-control policies for milk that have existed for decades. DMSP will limit the supply of milk and, as a result, increase the price Americans pay at the grocery counter for milk and other dairy products, like cheese, yogurt, and ice cream. DMSP will also impose a new layer of job-killing regulations on American companies that manufacture dairy products.

As the CRS reported on September 18, 2012, "DMSP is described most commonly as a supply management program; however, it is perhaps more accurately described as a production disincentive program." DMSP is contrary to the goals of limited government and economic growth. A new federal program that will directly intervene in markets and increase milk prices for everyone is unnecessary. CRS, while more neutral on the subject, nonetheless concluded the "concept behind the DMSP program is that payment reductions are intended to have one or both of two basic effects, *either of which is expected to result in a higher future farm price for milk* (emphasis added)." DMSP attempts to both limit the supply of milk and increase the demand for dairy products. Moreover, low-income families, who spend a larger percentage of their income on food than other consumers, will be hit hardest.

Another USDA program that should eliminated, not just reformed, is the indefensible Market Access Program (MAP), a corporate-welfare stalwart that delivers advertising subsidies to successful agricultural firms, like Butterball, Tyson, and Sunkist Growers, Inc. to market their goods abroad. Over the past decade, MAP has provided nearly $2 billion in taxpayer money to agriculture trade associations and farmer cooperatives. According to *Prime Cuts,* the elimination of MAP would save taxpayers $200 million in the first year and $1 billion over 5 years.

While CAGW opposes the USDA's MAP, there is another MAP that should be read by this committee: Rep. Kevin Brady's (R-Texas) "Maximizing America's Prosperity" (MAP) Act. One of the key provisions of Rep. Brady's bill is a "sunset" process, to provide periodic, systematic review of needlessly duplicative programs or agencies that have outlived their usefulness.

This bill would establish a bipartisan Federal Agency Sunset Commission, inspired by the Texas Sunset Commission, with which Rep. Brady was familiar when he served in the Texas State Legislature prior to being elected to Congress. Each federal agency must justify its existence or face elimination. The commission will consider, among other criteria: the agencies' efficiency of operations; purpose of the agency; whether the agency has operated outside its scope of authority; whether there are better alternatives for achieving the agency's mission;

promptness in processing complaints; extent of the inclusion and encouragement of public participation; and the effects of abolishment on the state and local levels. The commission will submit to Congress each year a report containing an analysis for each agency up for sunset review that year consisting of recommendations as to whether the agency should be abolished, reorganized or substantively changed, recommendations for funding the agency as well as legislative action with respect to each agency. Congress will then draft legislation to carry out the recommendations.

Another painless way to save billions of dollars is to phase out the $1 note and transition to the $1 coin. The GAO has issued six separate reports over 22 years stating that billions could be saved from eliminating the $1 note. In its most recent report released in February 2012, the GAO estimated that switching to the $1 coin would save at least $4.4 billion over 30 years, or $146 million per year.

The Currency Optimization, Innovation, and National Savings (COINS) Act, introduced during the 112th Congress as H.R. 2977 in the House by Rep. David Schweikert (R-Ariz.) and as S. 2049 in the Senate by Sens. Tom Harkin (R-Iowa) and John McCain (R-Ariz.), would require Federal Reserve Banks to stop issuing the $1 note four years after enactment of the legislation or when circulation of $1 coins exceeds 600 million annually, whichever comes first.

Another long-standing are of concern for CAGW has been the financially-beleaguered U.S. Postal Service. The time has never been better to enact bold, forward-looking structural reform of Postal Service. These improvements should permit the postal service to meet its universal obligations, right-size its workforce to meet the demands of an evolving postal industry, and most importantly avoid a taxpayer bailout.

While specific programs can be reformed, consolidated, or terminated by Congress at any time, such actions have been few and far between.  Even when the president suggests spending cuts, an average of approximately $15 billion annually has been agreed to by Congress, which represents less than one-half of one percent of federal spending.

While some may disagree that a commission is needed to force Congress to do cut spending sufficiently to slow the rate of growth in government spending and reduce the record debt, the evidence proves otherwise.  A new Grace Commission, CARFA, a sunset commission, or some other action is needed to prod Congress and energize taxpayers to reform and reorganize government to serve taxpayers more efficiently and effectively.

I appreciate the opportunity to testify before the committee today, and would be glad to answer any questions.

Thomas A. Schatz

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.