

LEGALIZED FRAUD: HOW THE SWAMP ROBS TAXPAYERS BLIND

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There has been a steady drumbeat of revelations regarding the defrauding of government social programs. From [fake daycares](#) and deliberate [autism misdiagnoses](#) in Minnesota to widespread abuse of Medicaid “personal services” payments [in Ohio](#), the scale of these schemes is astounding.

With the federal government spending more than \$7 trillion per year through dozens of agencies and [thousands of programs](#), many fraudsters view Uncle Sam as an easy mark. Fortunately, there has been some progress in the fight against illegal fraud.

The One Big Beautiful Bill Act (OBBA) included a variety of [welfare reforms](#) that should significantly reduce the volume of illicit payments in the Medicaid and Food Stamp programs. Congressional [oversight efforts](#), the Trump Administration’s [Task Force to Eliminate Fraud](#), and ongoing investigations by media and nonprofit groups should continue to uncover fraud rings. Congress should pass [additional reforms](#) as soon as possible to prevent and disincentivize illegal fraud in benefit programs.

However, the battle against illegal fraud does not address another insidious problem that has become endemic across the federal government.

Legalized Fraud

While fraud is typically synonymous with illegal activity, government actions can be considered fraudulent based on being deceptive or unfair towards the public despite operating within the letter of the law. “Legalized fraud” broadly takes two forms:

- Fraudulent design, where the intent of a program or policy is to benefit a particular group or cause while obscuring the purpose to the public; and
- Fraudulent operation, where administration officials or legislators abuse a program’s rules and go far outside the originally intended boundaries.

Addressing the deceptive consumption of tax dollars ought to be an easy target for legislative action. Unfortunately, groups who benefit from legalized fraud have a strong incentive to lobby against reform, while only a handful of public policy organizations work to protect the interests of taxpayers.

This [collective action problem](#) is especially pernicious in America due to its size. There are thousands of ways to divert \$1 million or more from the federal budget with few people noticing, because the cost is spread across [342 million](#) people and buried in a government that is incomprehensibly vast. Accordingly, it is crucial for leaders to be vigilant about guarding against abuse of public resources.

The following are just some examples of legalized fraud.

Payment Padding

Ideally, government officials are careful to restrain the cost of public services and benefits to avoid increasing the burden of taxation. In practice, officials often find ways to inflate costs as a form of political patronage.

Federal health programs pay more for procedures done on hospital grounds rather than at an outpatient facility regardless of whether there is a difference for the patient, violating the concept of site-neutrality. This not only increases costs for taxpayers but has also incentivized hospital systems to buy out non-hospital providers, [artificially reducing competition](#). There is also the “[provider tax](#)” scheme in Medicaid, where states and medical providers collude to increase how much Washington spends. Although the OBBB reined in the latter, it is still explicitly tolerated in statute.

Several policies inflate federal labor costs. Work done on behalf of government employee unions is often taxpayer-funded through the practice known as “[official time](#),” even though the work regularly involves negotiating against the government. On federally funded infrastructure projects, the [Davis-Bacon Act](#) is a de facto mandate for unionization that ignores state right-to-work laws and adds billions of dollars in costs per year. Project Labor Agreement mandates have a similar effect for work rules, reducing efficiency and increasing project costs further. All these practices put union demands ahead of the public good.

Even scientific research is subject to padding. Payments for “[indirect costs](#)” (overhead) can add more than 60% to the base value of a research grant, a practice that is far removed from how nonprofit organizations fund research. These payments cost tens of billions per year.

None of these policies have a defined expenditure amount that representatives can fine-tune during appropriations or reauthorization negotiations. Instead, they are bundled into larger activities with broad public approval such as medical care, infrastructure, and research, obscuring the costs involved and violating the public’s trust in the process.

Ideological Hijacking

While there have always been arguments about the proper role of the federal government, every federal agency was founded for a stated purpose that can be easily understood by the public. However, large swaths of the federal government have ignored or been moved from their intended goals in favor of narrow ideological pursuits, sometimes to the degree that ideological crusades become a priority.

Ideally, public support for the arts should edify rather than indoctrinate. However, the National Endowment for the Arts and the National Endowment for the Humanities have been criticized for [decades](#) due to funding “art” that is functionally agitprop, such as a [\\$304,885 grant](#) for a podcast series exclusively focused on leftist themes. The [Corporation for Public Broadcasting](#) is a rare example of ideological drift leading to defunding, as federal subsidies for programming that too often came with clear bias ended in the [2025 rescissions package](#).

Ideological hijacking was especially prevalent during the [Biden Administration](#). An already left-leaning federal bureaucracy was directed by administration officials to weave leftist concepts about race, gender, culture, the environment, economics, and more into rulemaking and grant activity. “Whole of government” dictates drafted every federal agency into action. Examples include:

- Science-focused agencies abandoned scientific integrity in pursuit of leftism. The Centers for Disease Control (CDC) [colluded with teachers’ unions](#) on school re-opening guidance as part of a union push for increased federal spending. The National Science Foundation spent [billions to support activists](#) in a variety of academic fields. The National Institutes of Health (NIH) fixated on identity groups, heavily funding a “[racial justice competency model](#)” along with “[microgrants](#)” to people identifying as transgender. NASA funded “[urban tree equity](#)” research and “[environmental justice](#)” community organizing, far removed from anything related to aeronautics or space.
- Departments such as Homeland Security, State, and Health & Human Services provided billions of dollars in services and benefits to illegal immigrants, including to those still in foreign countries on their way to the southern border. This was not merely a failure to enforce duly enacted laws but actively working to undermine them using taxpayer resources.
- The foreign policy apparatus was deployed on behalf of “[gender scholars](#),” the fight against supposed “[disinformation](#),” [climate activism](#), and more, betraying the understanding that foreign policy is meant to support widely held American values and goals.

- The Federal Bureau of Investigation was used to target law-abiding political opponents and promote racial and environmental activism.

While the Trump Administration has gone to great lengths to stop these activities, the fact remains that large numbers of career employees were comfortable with the Biden Administration's large-scale misuse of the federal leviathan. This was not merely wasteful but also eroded public trust in agencies that were previously well regarded. The American people deserve better.

Mission & Eligibility Creep

The federal government already suffers from widespread duplication and fragmentation due to the excessive number of bureaus and programs. What makes this problem even worse is when a bureau or program strays from its original purpose, either because of bureaucratic drift or flawed legislation. This makes proper oversight and accountability nearly impossible for Congress and the public. To the extent that the public is even aware of a particular program (given the number of them), evaluating the program's effectiveness becomes nearly impossible when it lacks clear boundaries.

In medicine, health research for the military – which began to address problems specifically experienced by those in active service – was eventually steered towards types of research already in the purview of the NIH and CDC. Meanwhile, the CDC drifted from a focus on communicable disease and into societal concerns such as violence.

Often, programs and trust funds are diluted to the point of becoming slush funds as Congress expands the number of eligible activities and who qualifies for benefits.

Congress created the Highway Trust Fund to promote the development of the interstate highway system, yet 30% of its spending is now devoted to mass transit, hyper-local infrastructure, and environmental projects. The Community Development Fund was created as a welfare program to benefit high-poverty neighborhoods but is now primarily used to fund pork earmarks and local government responsibilities with little regard to a locality's economic health.

Benefit programs also suffer from this trend. Categorical eligibility can allow households with substantial assets to qualify for handouts. Medicare and Medicaid increasingly pay for non-medical expenses such as food, recreation, and household labor, which not only leads to excessive spending but also makes the programs more vulnerable to fraud and improper payments.

Discrimination

The federal government not only provides a wide range of services but is also the largest consumer of many goods and services. Accordingly, federal rules on procurement and contracting are incredibly important for businesses.

This makes federal preferences for doing business with “disadvantaged” firms – almost entirely based on innate identity characteristics – extremely problematic. [Minority contracting](#) rules not only leads to discrimination in government purchases but also has downstream effects as the government pushes prime contractors to establish [identity-based quotas](#) for subcontractors.

Even if one were to claim that discrimination is tolerable so long as it helps groups with below-average wealth and income, identity-focused discrimination often benefits already-prosperous individuals. For example, food service provider Sodexo partners with wealthy basketball legend Magic Johnson so that its [SodexoMagic](#) arm can qualify for minority contracting set-asides.

The federal government directly or indirectly practicing discrimination in contracting and procurement is not only a violation of the public trust but also means that in many cases government purchases are some combination of higher cost and lower quality than if bidding was based on merit. This almost certainly costs taxpayers billions of dollars per year, once again in ways that do not show up in the budget, making it deceptive.

Fighting Legal Fraud

Congress should not tolerate the current fraud-riddled state of affairs, especially in the context of [rising debt](#). Instead, it should:

- Eliminate favoritism and mandates on behalf of businesses, organizations, and individuals;
- Create and strengthen limitations on what federal bureaus and programs are allowed to do;
- Reduce or eliminate funding for agencies that have demonstrated the prioritization of ideology over their public charge; and,
- Streamline bureaus and programs to better focus on a limited set of clear responsibilities while eliminating wasteful duplication.

These changes would make the federal government more accountable, efficient, and fair, all of which Americans deserve to receive for their hard-earned tax dollars.