“Fraud by Design”

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By Jim Cardoza

EL CERRITO, Calif.—One of the most persistent illusions in modern politics is that good intentions are a substitute for sound incentives. Nowhere is this illusion more costly than in America’s vast entitlement programs.

Each year, hundreds of billions of dollars are distributed through programs such as Social Security, Medicare, Medicaid, unemployment insurance, disability insurance, food assistance, housing subsidies and pandemic-era relief funds. And, each year, tens of billions—by even conservative official estimates—are lost to fraud, improper payments and abuse.

The question is not whether fraud exists. It plainly does. The more-serious question is why it persists at such scale—and why the scale of fraud so often approaches the scale of opportunity itself.

Fraud is not merely the result of individual moral failure. It is, more fundamentally, the predictable outcome of incentives embedded within the structure of entitlement systems. Whenever large sums of money are distributed based on eligibility criteria that are difficult to verify, fraud becomes not an aberration but an expectation.The potential for fraud in any program is determined by three factors.

- The amount of money available.
- The ease with which claims can be made.
- The weakness of verification mechanisms.

When programs are expanded rapidly—as occurred during the Covid-19 pandemic—the potential for fraud increases exponentially. In many states, unemployment-insurance systems were overwhelmed. Billions were paid out before verification could be completed.

Fraudsters—both domestic and international—quickly recognized that identity checks were lax and documentation requirements minimal. The result was predictable.

But, even outside emergency expansions, entitlement systems are structurally vulnerable. Programs such as disability insurance require evaluative judgments that are inherently subjective. Means-tested programs depend on income reporting that can be concealed, misreported or manipulated. Health-care reimbursement systems create billing complexities that even experts struggle to decipher—complexities that dishonest actors exploit with remarkable sophistication.

In many cases, the amount of fraud is roughly proportional to the opportunity for fraud. When oversight is weak, fraud grows. When verification is delayed, fraud multiplies. When agencies are discouraged from aggressive enforcement for fear of appearing insensitive, fraud flourishes.

Why, then, do politicians routinely fail to install adequate guardrails?

The first explanation is political asymmetry.

The political benefits of expanding entitlements are immediate and visible. The political benefits of enforcing fraud controls are diffuse and often invisible. A legislator who announces new benefits gains praise from constituents and advocacy groups. A legislator who announces stricter verification requirements risks being accused of cruelty, bureaucratic harassment or insensitivity to the vulnerable.

Guardrails create friction. Friction creates complaints. And complaints create headlines.

Moreover, many safeguards—such as in-person verification, cross-agency data matching, stricter documentation requirements, and periodic eligibility reviews—slow down the delivery of benefits. Politicians are rewarded for speed and generosity, not for caution and prudence. In electoral politics, the appearance of compassion often outweighs the reality of fiscal responsibility.

There is also a deeper incentive problem. Entitlement programs create constituencies. Administrators seek larger budgets. Advocacy groups seek expanded eligibility. Politicians seek reliable voting blocs. Tightening oversight risks alienating all three.

In this environment, lax oversight is not accidental. It is rational.

Consider how fraud investigations are typically funded. Antifraud enforcement is often treated as an administrative cost rather than an investment. Yet every dollar spent on effective oversight can save many more dollars in improper payments. Still, enforcement budgets are frequently among the first to be trimmed during political negotiations. Enforcement does not generate visible benefits; it prevents invisible losses.

Furthermore, bureaucracies face their own incentives.

Agencies are often evaluated based on how efficiently they distribute funds, not on how rigorously they screen applicants. If performance metrics emphasize throughput rather than integrity, fraud becomes an externality—someone else's problem.There is also a moral hazard embedded in public perception.

Because entitlement programs are framed as social safety nets, criticism of fraud prevention measures can easily be portrayed as hostility toward the needy. Yet the largest victims of fraud are often the genuinely eligible beneficiaries. When resources are siphoned off through fraudulent claims, less remains for those in legitimate need. When programs become financially strained, policymakers respond with across-the-board cuts, higher taxes or increased borrowing—burdens borne by the public at large.

Another factor is the diffusion of responsibility.

When fraud losses are spread across millions of taxpayers, no individual feels the immediate impact strongly enough to demand reform. A private company losing billions to fraud would collapse or radically overhaul its controls. Government agencies, by contrast, can rely on mandatory taxation to replenish losses. The absence of competitive pressure weakens any urgency of reform.

Some defenders argue that fraud is the unavoidable price of generosity. But this framing ignores the cumulative scale. When improper payments reach into the tens or hundreds of billions annually, they are not marginal leakages. They represent systemic failure.

It is important to distinguish between honest administrative errors and deliberate fraud. Both exist. But the persistence of large-scale fraud, especially after repeated warnings from inspectors-general and auditors, suggests that the problem is not ignorance. It is incentives.

Politicians often operate under a short time horizon—the next election cycle. Structural reform, by contrast, requires long-term thinking. Installing robust verification systems, integrating databases across agencies, investing in fraud-detection analytics and prosecuting high-profile offenders all require sustained effort. The political payoff is uncertain and distant. The political risk is immediate.

High reported fraud rates can undermine public support for entitlement programs themselves. A politician committed to expanding such programs may prefer not to highlight weaknesses that could fuel calls for reform or reduction. Silence, or minimal acknowledgment, becomes politically convenient.

The deeper issue is not compassion versus indifference. It is whether policies are designed with an understanding of human behavior as it is, rather than as we wish it to be. Systems that assume universal honesty will inevitably attract dishonesty. Systems that distribute large sums with minimal verification will inevitably invite abuse.

The amount of fraud in entitlement programs often mirrors the potential for fraud. When guardrails are weak, losses grow to the limits of opportunity. When enforcement is credible and visible, behavior changes.

In the end, entitlement fraud is not merely a budgetary issue. It is a test of whether policymakers are willing to align incentives with reality. Good intentions do not override economic principles. And unless the incentives embedded in these programs are fundamentally reconsidered, the gap between public promise and fiscal sustainability will continue to widen.