

## Ralph Nader Radio Hour Episode 119 Transcript

Steve Skrovan: Welcome to the Ralph Nader Radio Hour. My name is Steve Skrovan along with the man of the hour Ralph Nader. Hello, Ralph, how are you doing?

Ralph Nader: Very good, what a program we got today.

Steve Skrovan: We do have a great program. But before we get to that I want to welcome back our producer, engineer, editor and Webmaster, Jimmy Lee Wirt, who was laid up last week with a medical emergency, but ever the trooper is back with us today. And coincidentally, medical issues are what we're going to be talking about in the second half of the show. We're going to be doing that with Professor Malcolm Sparrow from Harvard's Kennedy School of Government. He's an expert on medical fraud and how that affects the price of healthcare. We will also be finding out what is going on in the darker corners in the business world with the Corporate Crime Reporter Russell Mokhiber, the Clark Kent of the corporate crime beat. And if we have time we'll try to knockout a listener a question or two. But first, we're going to talk about small business. Now, it's been my observation that whenever a politician pushes for some sort of economic deregulation, it's always in the name of small business. "It will be good for small business," they say. Remember Dick Cheney, "It will be good for small business, yes." And I had a hard time believing that he cared about small business at all, because they take campaign funding from big business that creates tax breaks and loopholes for their big business benefactors. Well, our first guest truly knows and cares a lot about small business and how small, local businesses can be the key to reviving our national economy. Michael Shuman is an economist, attorney, author, and entrepreneur and a globally recognized expert on community economics. He is one of the architects of the crowd funding reforms that became the JOBS Act, signed into law by President Obama in April 2012. Mr. Shuman is currently Director of Community Portals for Mission Markets and a Fellow at Cutting Edge Capital and Post-Carbon Institute. He's also a founding board member of the Business Alliance for Local Living Economies and an adjunct instructor in community economic development for Simon Fraser University in Vancouver. He's the author of many books on the subject of localization, including the one we're going to talk about today, *The Local Economy Solution*. So, welcome to the Ralph Nader Radio Hour, Michael Shuman.

Michael Shuman: Nice to be with you.

Ralph Nader: Indeed, welcome Michael Shuman. Let's get started with the premise here and that is that local businesses have a really superior advantage in terms of providing better livelihoods in their community than giant chain stores or multinational global corporations, which often are given all kinds of unfair tax breaks that are not available to small businesses. Can you give a thumbnail sketch of the kind of flow that comes from community-owned businesses compared to outside businesses operating in the community?

Michael Shuman: Yeah, and what this really stands for is that ownership of a business really matters. Having local ownership, where the owners live in proximity of the business really influences its behavior and how it influences economic development. And there's been a lot of different studies done on this, but I think one of the most of the interesting ones was done in British Columbia 2013; and it compared what happens with a dollar spent in a locally owned restaurant or retailer with a dollar spent in a chain restaurant or retailer. And a dollar spent in the local restaurant or retailer recycled forty-six, forty-seven cents in the British Columbian economy, whereas for the chain restaurant and retailer was only about seventeen, eighteen cents. So roughly speaking, every time a British Columbian resident mindfully spends a dollar at the locally owned restaurant or retailer the Province enjoys two and a half times the jobs, two and a half times the income and wealth effects, two and a half times the tax collections, two and a half times the charitable contributions. And if you look at the broader number of these studies - and there's been about two dozen of them done - they show that when you compared two businesses; one locally owned, one not, you're typically going to get two to four times the economic development impacts from the locally owned business. And there's a simple reason: locally owned businesses spend more of their money locally. And that stimulates the economy.

Ralph Nader: Not only that but the charitable contributions are different, the accountability is different. If you have a complaint against the small business you can go down and face the small business, but if you have a complaint with the big corporation they often refer you to a 1-800 number, good luck.

Michael Shuman: Right. And one of the places there's an interesting study that the EPA did a few years back looking at smokestack emissions from industrial companies. And it turns out that if you look at locally owned smokestack businesses they're emitting just a small fraction of what the absentee owned smokestack businesses are emitting. And I think the reason is shame. You know, if you have a locally owned company. It's behaving badly. You can encounter them in the church, or the school, or PTA meeting and guilt them into behaving better. And it really does make a difference.

Ralph Nader: It's really interesting. And, you know, all of us who studied - most of us - economics 101 with it's supply/demand curves and it's authorships of Nobel Prize Winners like Paul Samuelson at MIT we never got a glimmer of this. It was all A: very abstract and B: the attention always was to the needs for capital, which required big business, the need for innovation, which required big business. But we know from history don't we Michael Shuman that the greatest ideas by far come from small businesses?

Michael Shuman: Well, we know that small businesses on a per dollar revenue basis are generating, you know, something between ten and twenty times as many patents as bigger businesses. And it sort of just intuitively makes sense that it's, you know, small business people have a great idea. They're nurturing it. And once they've proven that idea, that's when a bigger company with more capital tends to absorb it and take the idea and run and implement it. So we definitely need small businesses in our economy for innovation. It's also a source of

entrepreneurship and, you know, I think one way of thinking about entrepreneurship is that it's an investment of the next iteration of our economy. So a community with lot of entrepreneurship is in a way taking out an insurance policy that it is going to be ready for the next big things that are happening in the economy that you cannot possibly predict.

Ralph Nader: In one of your writings, Michael Shuman, you pointed out that Amazon has driven out of business Borders, the big bookstore chain and are eating away at Barnes and Noble. But the smaller, independent bookstores are doing a rebound. In fact, one of the key independent bookstore owners in Coral Gables, Mitch Kaplan, said the other day that there's a 25% increase in smaller bookstores is spreading around the country. So there's a good example, isn't it of locally breeding a much more resilient response by becoming the community center, by doing more than just selling books, but integrating itself more than a chain store run by absentee owners can in the local community.

Michael Shuman: Right. I mean I think that example highlights a couple of important points for local businesses. I mean, one is that to remain competitive sometimes you need to slightly redefine your mission. And so, you know, as long as local bookstores were just in the business of selling cheap books, they were going to lose out to both the bigger chain stores like Barnes and Noble and to the Amazons of the world. But once they defined their business model as bringing together the community, being a good restaurant point, being a good coffee house point, being a good book club point that started bringing people back to the local bookstores. And I think the message there for other local businesses is you've got to think creatively about how to compete against the big guys. I mean, another interesting example is hardware stores. So despite the presence of Lowe's and Home Depots, many hardware stores are members of producer cooperatives like ACE, or True Value. And that gives them the market power as locally owned businesses in a consortium, in a producer coop consortium to go out and have the same market power to produce goods, or rather get goods at the same discounts as the Home Depots. And that's how they have remained competitive against them.

Ralph Nader: What's interesting is that in my hometown in Winsted, Connecticut, Michael Shuman, we have a small business called Mediabids. And what they do is get discount ads at the last minute for advertisement - advertisers at are very cheap price. Because the newspapers often have a holes they say it's called "remnant advertising." And they have clients all over the country, because they're using a new technology. Obviously, they're using the Internet. Well, about five years ago Google started moving on their business. And, you know, Google is a giant and Mediabids is a small company. And I said to the owner Jedd Gould, I said, "Jedd, you know, this is a real peril to you." And he said, "Yeah, I agree. But I'm really hustling." And I just talked to him the other day. And he said, "Google dropped the business line. They're no longer competing." He beat 'em.

Michael Shuman: Right. Yeah. And I think there are some great lessons in that that. Another lesson I think we'll see in that is direct delivery. I mean, now you have Google and Amazon talking about this ridiculous notion of having drones that will deliver products to people

instantaneously. I seriously doubt if that's going to happen anytime in the next fifty years. And what is more likely to happen is we're going to have local delivery companies representing consortiums of local businesses so that for example - again going back to our local bookstore - Amazon says, "We'll get you a book in 24 hours through the mail. And the local the delivery system representing the consortium of local business including the local bookstore will bring you that book in about 15 minutes."

Ralph Nader: Yeah, and you can already see that emerging. And Mediabids beat Google just being more nimble and knowing its market better. Because these giant corporations with their tentacles have so many businesses, they really can't manage each one of them with the precision. But just to broaden out what the local economies are all about - and YES Magazine out of Washington State is really one of the best chroniclers of what's going on at the local business. Let's say our listeners are talking about their consumer dollar. And so the question is: how much of their consumer dollar for the necessities of life can be met by local businesses? And how much still rely on outside corporations in terms of certain refined technologies? So if you start with the major areas for local business; one is food - not only retail but growing food locally, the farmer, for example, for consumer market being one aspect of it. The second is credit, consumer credit - that's credit unions and community banks and other ways of providing local credit. The third is renewable energy and new technologies now are bringing closer to your home the possibility of renewable energy, not just energy efficiency in your buildings, homes but also solar panels, wind power. The fourth is community health clinics with emphasis on prevention. So when you add it up, you see each one of these local businesses absorb more and more of that consumer dollar before you basically have to spend some of that consumer dollar for a products from away.

Michael Shuman: Absolutely. Yeah. And I think there's two--there's two ways to look at this; one way to look at it is from the consumer side. And you're absolutely right. If you go to Consumer Expenditure Survey the single largest expenditure that the American family is making is on its house. And if you can get your mortgage out of the local bank or credit union and also get assurance that that local financial institution is not going resell that mortgage on the secondary market, which many are willing to make to you, then you have assurance that that money is going to continue to recycle in your local economy. Second biggest expenditure is on your car. And it's true that car itself is not local. But much of what you're spending on your car is the financing. So again if you get that financing from a local financial institution that's going to keep your money local. You know, there's another way to look at this too though that's interesting and that's on the supply side. And, you know, when you look at the structure of our economy, about two thirds of what we are producing is services. And services happens to be an area where local businesses and the local service provider really does have a competitive advantage, because people want a lawyer, a doctor, an accountant that they know and they trust, and they're just going to want to get very many of these services online. So the other third is goods. And it turns out the three quarters of the goods that we're consuming fall into a category, which is called non-durable goods: things we consumed a lot of overtime. And those are things like paper and food, building materials. And the characteristic of most of these non-durable goods is

they tend to weigh a lot and they tend to have a relatively low dollar value per unit weight. So an example of that is food. Food is mostly water. And it doesn't make sense to ship water all around the world, especially in the form of say soybeans. It might in a way if you're talking about single malt whiskey. And so what I think this means is that if you can localize most of services and you can localize pretty easily three quarters of the goods because they're non-durables and they weigh a lot, these are going to be the basis of a new local economy.

Ralph Nader: That's right. And it all spells self-reliance I mean, I don't think there's a conservative local divide on self-reliance. Community self-reliance has a huge appeal economically and politically and morally and historically. But to take another part of this sub-economy, which I like to call it local economy: repair and remodeling. And of course that is quintessentially local up to recently; your plumber, your carpenter, your electrician, your repair person, your roofer. But now you have the gig economy, you have analogs to Uber which are moving in and basically saying, "Oh, you want a plumbing? Just call us and we will get a plumber from around the corner that we've certified or we think is good." How do you think that's going to collide? The Uber, the Air BnB and then the proliferation into actually the core of local economies repair, innovation, remodeling, et cetera?

Michael Shuman: Well, I think there is definitely a space where the big economy and the small economy are coming together. Another example of where you see that happening is Etsy, which is a platform where people can buy sort of handcraft goods from, you know, clearly local producers but from all over the world. And many local producers have found this a very useful, additional source of income. But I think what one is seeing with the Ubers of the world is, you know, when these companies get particularly big and they have too much power, competitors begin to show themselves. And competitors to Uber that are more linked to a community, more linked, you know - what is the San Francisco Uber going to look like? What is a Seattle suited Uber going to look like? And I think those companies could become independent, local companies that give their providers better deals than Uber would. And so I think, you know, Uber is sort of a short term success that's going to ultimately give way to these regional alternatives.

Ralph Nader: One of the aspects of our discussion, listeners, is, who pulls the strings on the local economy? One of the, I think disadvantages of giant business to the local people is absentee control. And so in New York, London, Tokyo, I mean, decisions are made to empty out factories, decisions are made on new financial instruments that have deceptive practices. Talk a little bit, Michael Shuman, about online purchases, which are often considered a drain on the local small business. And tell us what's happening there in terms of a trend.

Michael Shuman: Well, I think that people have found online purchasing more and more convenient. But we forget that one of the reasons that's happened is that we have created these sort of tax breaks or policy advantages for many of the online distributors. So I mean, to take Amazon - Amazon has been a beneficiary of government largesse in two ways: one is that, you know, we have not assessed state taxes on Amazon purchases. And that definitely gives them

an advantage over the local store, which has to assess the sales tax. And this some of the tax that...

Ralph Nader: Now how did they get away with that? How did they get away with that over the years? I understand they're starting to pay more local sales taxes or state's taxes. How did they get away with it for almost eighteen years or so?

Michael Shuman: Because they have been - it's like all other bigger companies - they have had the lobbying forces, the donations, the taking advantage of the inequalities in our political system to rig it to their advantage. And another way that they rig it is through economic development subsidies that you see all around the country, state and local governments bending over backwards to give Amazon or Walmart these various subsidies that it make their business model cheaper. And what we forget with, you know - The New York Times estimates that the total amount of business subsidies that state and local governments are giving is at least \$80 billion per year. And what...

Ralph Nader: Eighty billion?

Michael Shuman: Eighty billion. And it's--I believe it is significantly larger, because it doesn't include a lot of tax credits which we don't have good data on. But that--all of that money is not only being done in the perverted name of economic development. But what it really does, is it makes local businesses to compete against these companies less competitive. And since we know that local business is the heart of economic development much of what we are doing now in the name of economic development is doing just the opposite, it's destroying economic development at the local level.

Ralph Nader: That's one of the great scandals. And in your book *The Local Economy Solution* on the page 44, 45, you list what a small percentage the local businesses get from these economic development funds. And in some states in Arkansas like it's 1%, in Louisiana it's 2% in terms of multiyear averages. Some of the states it's higher. But it's just another example of the unfair competition that is thrown against local businesses by giant corporations who have heavy influence in State and Washington capitals.

Michael Shuman: The term that one most often hear is in a conversation with an economic developer is that our mission is to attract and retain the business, "attract and retain." And what's odd about that formulation is that it kind of reveals that they have no place for local business, because you cannot "attract" a local business. That's an oxymoron. And if the only way you "retain" it is by paying it some kind of bribe how deep are its roots anyway? So we have economic development establishments all over the country that are basically the servants of global corporations. And we've got to fundamentally overhaul that.

Ralph Nader: Before our time is concluded - we've been talking with Michael Shuman, prolific author, lecturer, teacher on local economies. In your book, you have a number of myths of

economic development and one of them is called the Competitive Myth. You want to elaborate that?

Michael Shuman: Yeah, so there is a belief that bigger businesses are more competitive than smaller businesses. And I point out that if that were true we would have seen jobs move from smaller businesses to bigger businesses. And in point of fact, there has been almost no movement whatsoever in the overall economy. Also, when you look at profitability, we know that sole-proprietorships, which most small businesses either are or start out as, are about eleven times as profitable as C corporations - with partnerships falling in between. And we have some really good profit data from Canada that shows that businesses with ten to twenty employees have the highest profit rates in the Canadian economy. And the lowest profit rates are those that are created on the Canadian Stock Exchange. So in my view, we have--you know, we are overlooking the best investment opportunities by putting our money into big companies right now.

Ralph Nader: And a proliferation of ideas that only come from lots of people, not conglomerates run by a few bosses at the top.

Michael Shuman: Yes.

Ralph Nader: Another myth that I find fascinating for those of you who are now listening to this program and saying, "What about poor areas in the cities and elsewhere?" You call it the White Knight Myth.

Michael Shuman: Right, because there's a belief that especially in a low income, low wealth community the only way to save that community is to bring in some big business, some big factory, some big chain store like a Walmart. And the truth...

Ralph Nader: And a stadium. Or a stadium.

Michael Shuman: Or right. Yeah. And what we know from data that have been put together by the Federal Reserve of Atlanta - and this is from 2013 - that when you look at communities across the United States, those communities with the highest density of locally owned small business have the highest per capita income growth rates. And what that tells us is that if you have a healthy local business community, that is the best ticket for reducing poverty and growing incomes in your community.

Ralph Nader: Well, that's what deals with hollowing out communities. The only way you're going to reduce the impact of big business or Amazon type businesses or Walmarts that shut down or open up at a whim in communities or shutting a hundred and sixty-nine stores as we speak now in the United States, they've hollowed out Main Street. And all kinds of boarded stores and empty stores. And it's only small business - I think that you're arguing - that's going to fill the community with activity.

Michael Shuman: That has always been the case. And I would argue it always will be the case, because these smaller businesses represent the dreams and the aspirations with the people living in that community.

Ralph Nader: And what do you think about the other myth in your book: the Traded Sectors Myth? Listen to this one, listeners.

Michael Shuman: So the Traded Sector Myth basically says, "Gee, the only way that we can improve ourselves economically is if we make things for other people." In other words, manufacturing is the only thing that generates new income for the community. And manufacturing can be very important for the economy. But one of the things that happens with that is people deny the importance of all the other parts of economy. And it turns out--I mean, to pull out one example we talked earlier about financial services - if you localize financial services and that as a service that can actually do an enormous amount of economic good in pulling up your economy. And that, you know, doesn't fit into the traditional category of traded sector. So really you have to look very precisely at, you know, what is the sector doing for the local economy? Food is clearly important. Energy is clearly important. And you have to look at the wages. And, you know, while we think that, "Oh, the farmer and the grocery store attendant, they don't make a lot of wages. The food is not good for wages," that's true. But food manufacturing actually is excellent for wages. And the multiplier effects food manufacturing generate lots of other well-paying jobs, say in the financial sector. So we can't be too facile and just say, "We must have manufacturing and nothing else."

Ralph Nader: Michael, what's going on around the country now? I mean, what's burgeoning what's--in terms of local economies? Can you give us a few examples and some quantitative data? Because we're talking tens and tens of billions of dollars of new local economies here in energy, in food, in transportation, et cetera.

Michael Shuman: Well, I'll tell you. There's two things that I would point out that I'm very excited about. One is that I think there is the beginning of a movement away from these big subsidies for outside non-local global businesses and a renewed focus on nurturing entrepreneurship, on business incubators, on accelerators, on trying to create networks of local businesses that are more competitive, say by having purchasing clubs. And - and this is the second thing: I think there is a local investment revolution that's underway around the country. Part of this has been unleashed by the changes we put into federal law in the so-called JOBS Act that finally got implemented in mid-May of this year. But then there's been thirty-one states that have also reformed their securities laws to make it easier for small businesses to get investment capital from grassroots investors. And I think that is going to be a game changer. Because at the end of the day the single, biggest subsidy that big business gets from the government is through securities laws that convinces us to put all of our savings, all of our pension money into global corporations. And once we start moving that money from Wall Street to Main Street, it will have a profound difference on the prosperity of local business and the prosperity of communities.

Ralph Nader: Now, a lot of that credit goes to your work, Michael Shuman. Say a few words about cooperatives and the food co-ops are growing around the country and especially in areas like Minneapolis, St. Paul.

Michael Shuman: Well, co-ops are, you know, one of the numbers of tools that people are using in order to be more competitive with limited means, consumer co-ops especially where people pull together their membership capital. But as we talked about earlier, producer cooperatives also I think are very important institutions for helping small businesses as a team work together and compete against bigger companies. Co-ops are about 5% of the economy right now. But if we look to Canada we can see, you know, the possibilities of growing that sector significantly. And if you go to a country like Italy, the co-op sector approaches 20, 25% of the economy. So I see enormous potential growth in co-ops coming in the years ahead.

Ralph Nader: Now, for listeners who are living in devastated areas, local economies are pretty devastated, whether they're small towns or other cities that have indeed industrialized. What do you recommend that they do to--when they go to City Hall and they go to the Economic Development Unit and say, "Look we really have some great ideas here. We just started a program interviewing Michael Shuman. And we're going to give you all kinds of useful information. And people could come to your areas and advise you." So, how do you answer that very practical question, because we always like to give our listeners things to do?

Michael Shuman: Well, if people go to my website, which is [www.michaelshuman.com](http://www.michaelshuman.com), they can download some tool sheets. One is a whole bunch of tools for local investment, another is a whole bunch of tools for local economic development. And those tool sheets can begin to give you a sense of how to move your economic development strategy in another direction. But in my view, it basically comes down to some very simple activities. You want to measure all of the ways in which current consumers or investors are putting their money in non-local business and that it represents financial leakage that you want to plug. You want to develop entrepreneurial programs to launch businesses that plug those leaks. You want to create teams of local businesses that are more competitive as a group than they would be on their own. You want to promote local purchasing and local investing. And you want to clear out all of the advantages in public policy, including subsidies for non-local business that currently make local businesses less competitive. You know, I truly believe that if we create a very competitive marketplace, local businesses will do fabulously.

Ralph Nader: Well, I always recommend people every time they spend money on farmer to consumer markets or credit unions, or community banks or renewable energy, they're draining money away from the agro-business, from the big New York banks. They're draining money away from ExxonMobil. And that's what I call the displacement sub-economy. That's what local economies are. So we're very grateful to you, Michael, for coming on. The book is *The Local Economy Solution* by Michael Shuman, Chelsea Green Publishers. And it's got a lot of detail. It's very, very useful. Give that website once again, before we conclude.

Michael Shuman: Sure. It's [www.michaelshuman.com](http://www.michaelshuman.com).

Ralph Nader: Thank you very much, Michael Shuman.

Michael Shuman: Thank you.

Ralph Nader: And get in touch with him.

Michael Shuman: All right. I appreciate it.

Ralph Nader: You're welcome. Thank you, Michael.

Steve Skrovan: We've been speaking with author and entrepreneur Michael Shuman, author of *The Local Economy Solution*. We will link to that, as well as Mr. Shuman's own webpage where you can get more information about the work he's doing at [ralphnaderradiohour.com](http://ralphnaderradiohour.com). Now let's take a short break and check in with the Corporate Crime Reporter, Russell Mokhiber.

Russell Mokhiber: From the National Press Building in the Washington DC this is your Corporate Crime Reporter Morning Minute for Friday, June 24th, 2016. I'm Russell Mokhiber. Top Democratic donors in the financial industry are threatening revolt after news broke that top Wall Street critic and progressive darling, Senator Elizabeth Warren, is one of the leading candidates for vice-president under Hillary Clinton. A report published by Politico on Monday cites a dozen interviews with Clinton's Wall Street backers, of which there are many, warning that the coffers will dry up if Warren is chosen. "If Clinton picked Warren, her whole base on Wall Street would leave her," one top Democratic donor told Politico. "They would literally just say, 'We have no qualms with you moving left. We understand all the things you've had to do because of Bernie Sanders, but if you are going there with Warren, we just can't trust you. You've killed it.'" For the Corporate Crime Reporter, I'm Russell Mokhiber.

Steve Skrovan: The work of our next guest is something Ralph has referenced a number of times on this program in the two years we've been doing the show as we've talked about the state of healthcare in this country, which we do a lot. So I'm so glad we're finally going to get a chance to meet and speak with him. His name is Malcolm Sparrow; and he's a professor of the Practice of Public Management at Harvard's John F. Kennedy School of Government. Professor Sparrow served ten years with the British Police Service rising to the rank of Detective Chief Inspector. He has conducted internal affairs investigations, commanded a tactical firearms unit and has extensive experience with criminal investigation. His research interests include regulatory and enforcement strategy, fraud control, corruption control and operational risk management. He is also a patent-holding inventor in the area of computerized fingerprint analysis. He holds an MA in mathematics from Cambridge University, an MPA from the Kennedy School and a PhD in Applied Mathematics from Kent University at Canterbury. Among

his many publications is the book License to Steal: How Fraud Bleeds America's Health Care System. Welcome to the Ralph Nader Radio Hour, Professor Malcolm Sparrow.

Malcolm Sparrow: Thank you. Nice to be with you.

Ralph Nader: Yes, indeed. Welcome to Professor Malcolm Sparrow, the hands down expert on healthcare fraud, not just fraud on Medicare and Medicaid but billing fraud. And before we get to the most recent news of a fraud ring that has been broken, Professor Sparrow, just give us an estimate of - the most conservative estimate in terms of billions of dollars of computerized billing fraud and abuse in both the private and the public healthcare industries.

Malcolm Sparrow: Well, this is something that we absolutely don't know. The government has published annual estimates of the--what they call the "improper payment rate" for the Medicare program. The latest estimate is 12.1% for Medicare and 9.8% for Medicaid. So we're in a region of 10% across both of these programs. And the two of them together have now just gone above \$1 trillion this fiscal year. So, if you imagine that the same level of problems are pervasive for these public programs, you're looking at a hundred billion dollars in that domain. And if the same were to apply across the entire healthcare industry, which now costs us all two point five trillion, then you'd be at some 250 billion. But I have reason to believe that the estimates that we get from the government are really quite conservative and a little bit comforting, because they're based on audit methods. So they're really not sufficient to detect fraud and everyone associated with those measurement programs knows that, and that has been admitted by government officials in public. So the real number is higher than 12%. But I can't say what it is.

Ralph Nader: Well, as you know over twenty years ago, the Government Accounting Office of the US Congress estimated about 10% of all that people spend on healthcare and the taxpayers spend on healthcare goes down to drain because of computerized billing fraud and abuse. Is it fair to say as a conservative rock bottom level--and we'll get to how they figure all these things out in Washington - that at least \$300 billion - billion dollars - a year goes down to drain?

Malcolm Sparrow: I think that would be reasonable. 10%, if it was 10% would be \$250 billion, so it's very close to the mark.

Ralph Nader: You just mentioned to me a fraud ring that was broken in terms of fraud on Medicare by government investigators. Can you elaborate that?

Malcolm Sparrow: Well, I just got the email about ten minutes before you called from federal officials announcing today a takedown of 301 medical professionals, who have allegedly stolen from Medicare more than \$900 million. So they are claiming in the announcement today that this is the biggest Medicare fraud takedown ever.

Ralph Nader: Just consider that, listeners. Compare that with bank robberies - apart from the violence involved with bank robberies - but this is a \$900 million takedown. This is one

conglomerate fraud. So crime in the streets in terms of money robbing banks is tiny compared to crime in the suites in terms of ripping off the taxpayer, representing Medicare and Medicaid as well as private insurance companies. Let me ask you this question. How much is dedicated to enforcement here? You once wrote that the best way to have an adequate prosecution capability is to estimate the amount of fraud and donate 1% of that amount to investigations and prosecutions. Can you elaborate that?

Malcolm Sparrow: Yes, I can. And I think I might even recommend 2% or 3%. At the moment the proportion of the funds paid out in the Medicare program if you look at the level of spending on program integrity, on all of the lawyers, on all of the FBI agents a total budget dedicated to integrity as currently sitting just down to 0.3%. I think the last time I did calculations turns out to be twenty-nine cents being spent for every \$100 that's paid out. And if you are an ordinary person going shopping the question is, well, if you're going to spend a hundred dollars, how much would be prepared to spend to actually see what you got and to check whether it was a genuine article and if its medical services - that is the diagnosis - is correct and it's appropriate care? I can imagine that I'd be happy to spend maybe two or three dollars per one hundred dollars just to make sure that the other \$97 was getting value for money. So they are at one tenth of the level that I would recommend, which means I think it's the wrong scale.

Ralph Nader: Yes, because Congress of course holds a tight rein on the prosecution budgets of these economic criminals and fraud specialist,s. But tell our listeners how much the taxpayer will get in return for every dollar of law enforcement.

Malcolm Sparrow: Well, they actually quote these numbers to them every time they do the budgeting. And I think the current, or the most recent, claimed returned ratio is 10 to 1. So for every dollar you spend at the margin on checking and on auditing and on investigation then they say you're getting \$10 back. And then economists could say, "Well, in that case, why aren't you spending more?" One of the peculiar reasons why it's not easy to suddenly beef up the level of controls in the Medicare program is that the funds being spent from the Medicare Trust Fund are legally separate from the administrative budgets. So they sort of go through different committees, which means, you know, if you want to spend an extra dollar in the discretionary budget on controls but you'll save \$10 from the Trust Fund, they're actually isn't anybody legally in a position to do the return on investment calculation.

Ralph Nader: Well, you've testified before Congress and consulted the various government agencies over the years, Professor Malcolm Sparrow from Harvard University, the author of License to Steal. Are there any champions in Congress, consumer advocate types that are really bringing to bear some pressure to get the appropriations committees in Congress to give more law enforcement money to the federal agencies? And are there any politicians who are making this an issue in campaigns that have come to your ear?

Malcolm Sparrow: I think there have been from time to time. But what I don't hear is the concerted and sustained pressure that people that really understand the structure of this problem. Can I just tell you a little bit about my reaction to this massive takedown today?

Ralph Nader: Yes.

Malcolm Sparrow: When we hear these things, you know, three hundred medical professionals arrested, \$900 million or \$300 million or however many it is, the government's message always seems to be "Well, this demonstrates a zero tolerance for fraud." But if you, you know, for those of us that sort of watch the program and the way it operates, there's a rhythm to these things. So we get these big takedowns now like clockwork about once every three months. And the image I have is, you know, the fishing boat goes out into the Seas of Medicare Fraud. Then it comes back once every three months and dumps out on the quay-side a bucket load of big, fat criminal fish. And when they dump them out like that, it's really quite a public spectacle and makes you appreciate how hard the fishermen are working. And then it takes them awhile to process those cases. They head off out to sea. They start doing new investigations. And three months later they come home and do it all again. And when you watch this rhythm, you get the sense that the only constraint on the number of fish being caught is the number of fishermen out there and the size of their nets, that it's clearly a sea teeming with big, fat criminal fish. And there's no shortage of them at all, though the only issue is how fast they can reel 'em in.

Ralph Nader: Well, what is a private insurance companies who are paying out more than they should when they are defrauded, what are they doing about it?

Malcolm Sparrow: This is fascinating piece to me and my original field research, because when I went to examine all of the control systems and operation, the people funding my research sent me to public programs and to private insurers and to not-for-profits that is the Blue Cross/Blue Shield plans. I was expecting the private companies would do very substantially better, because they're driven by their bottom line. And I was very surprised to discover they all used basically the same sets of controls. They're all vulnerable in precisely the same way. And you wonder, "Well, why isn't the private sector bottom line imperative driving much better controls?" And I think the answer is: private companies are very worried about the shareholder confidence. And bad news about levels of fraud or integrity problems in their--in their own payment programs are very bad news for them. So they're reluctant to alarm the shareholders. And they count their medical clinics and doctors and hospitals as the precious business resource and available to them to deliver care. And they don't want it tarnished in any way publicly. So there's a lot of secrecy when they do find problems. There's a lot of inadequate exit controls as they usher some people out. And there's a lot of reputational protection. And all of that really mitigates against being open and honest about the nature of the problems they've had.

Ralph Nader: And you've written that this same disincentive to come clean with the massive significance and quantity of medical fraud operates with government officials too, right?

Malcolm Sparrow: I think it does. The Pathology of Fraud which is the name of the first chapter in my book says that there's never any good news about fraud. If you don't detect it of course that's bad news, and if you do detect it that's bad news too because it suggest you've got real problems in your program. I think it takes an enormous amount of political courage to really want to know the truth and to be prepared to express it publicly. And I'm always hopeful. This is the time when we might again revive our optimism, because we will soon have a new administration. And one of the things that I noticed is that in the very first year of a new political administration you sometimes can get a dose of honesty about how bad things are, the reason being they're not responsible yet for the way things are. By the second year, of course, they become responsible and then all of a sudden...

Ralph Nader: And they become overly sensitive you're saying, too. They often say how much they've recovered in Medicare fraud through their prosecutions and investigations. What's your figure on out of the \$100 billion that are estimated to be defrauded from Medicare and Medicaid. How much did they get back every year?

Malcolm Sparrow: It's varied over the last few years. It's normally in the range \$2 billion to \$4 billion. Last fiscal year 2015, the figures are \$1.9 billion recovered and with some work coming to fruition from the previous year \$2.4 billion altogether. But you--but that sounds like an awful lot of hard work. And yes it is. It's successful prosecutions and successful investigations. To put that in context, the government itself is reporting \$44 billion and in proper payments in the Medicare program, \$29 billion in the Medicaid program. So the two, three billion recovered is actually a very small piece of the overall loss rate.

Ralph Nader: And if the Congress gave them \$8 billion in enforcement, they could recover \$80 billion.

Malcolm Sparrow: Yes. I think to make a serious dent in this problem. If you're going to try and do that through investigation and prosecution, you'd need to have at least ten times as much effort going into that.

Ralph Nader: Let's go across the border to Canada for just a minute. They have a single-payer system, full Medicare for all, everybody in, nobody out, free choice of doctor and hospital. Do they have billing fraud abuses at our scale - and if not, why not?

Malcolm Sparrow: They don't have the American scale. I have spent time with the Canadian Health Care Anti-Fraud Association. Yes, they've had one of those for more than a decade, because they've got a number of problems like the British system, which is also a single payer. There's private insurance that grows up around the edge. And quite a lot of the Canadian system, even though it's government funded, the financial structure of the program is that the government is paying bills from hospitals and clinics just like the fee-for-service part of the Medicare program here. So yes, it's a single-payer, but the financial structure and the nature of the fraud opportunities is not that different. They have some rather peculiar things of their own,

too. The Canadian system has a lot of problems with Americans crossing the border and pretending to be Canadians and getting their medical treatment for free on the government. And that's a very peculiar Canadian-close-to-the-border phenomenon.

Ralph Nader: Would you say their percent is as high of - medical fraud billings - is as high as the US, where it's at least 10%?

Malcolm Sparrow: No, I don't think so. I'm not aware of any systematic measurement that they're required to do. But, you know, they have this problem to some extent. So does the Australian Medicare program to some extent. So does the British system in the private pieces of healthcare and delivery there. But, I don't think I've got the sense in these other countries that they have anything like the same degree of a criminal entrepreneurship that we are seeing here in America.

Ralph Nader: You've made your mark in this area, Professor Malcolm Sparrow, by talking about systemic changes in the way billing practices are rendered. And I just want to read a short quote from your article in the LA Times a few years ago. "What makes these healthcare programs so vulnerable to fake billings and at such a scale?" he asked. "It's not so much the healthcare policy itself, nor the program design. The vulnerability stems from the payment mechanism the government has chosen to use. Most Medicare and Medicaid funds are paid out electronically and automatically in response to electronic claims received from a vast spectrum of providers. Most claims are adjudicated by computers, using rule-based systems with no human intervention at all. Fraud perpetrators have only to learn the rules; then they can submit thousands of claims electronically and with relative impunity. If they get things wrong, they'll receive helpful computer-generated messages explaining their mistake. Fraudsters are free to fabricate claims, or entire medical episodes, because the government's systems check for billing correctness, not for truthfulness. The simple rule for get-rich-quick attackers, is, 'bill your lies correctly.'" How would you comment on that in the light of recent years?

Malcolm Sparrow: It's becoming more and more painful truth and that this applies across a vast range of other federal programs and not just healthcare most particularly evident at the moment in tax fraud, which is a similar situation. All of these programs share the characteristic that you can send an electronic claim into a government program - whether it's a fake tax return or a fake healthcare claim or a fake claim for a welfare benefit. And there are rules in the federal government that is Treasury rules that all federal payment programs must be automated. And of course the reason for that is that they're focusing very much on the processing efficiencies that you get by removing people and replacing them with rule-based systems. There's a very curious development just being announced. One of the areas of a healthcare industry that has been riddled with fraud we know for a long time is home healthcare. And CMS has just announced that five states starting in December aren't any longer going to allow this, you know, pay on trust with the fully automated system, that home healthcare agencies if they want to get paid again they have to submit their claims and they're going to be scrutinized in advance before Medicare pays for them. Now, this is a very odd thing to happen in a sense, because it's turning back the

technological clock something like twenty-five years. That's the way it used to be: that somebody would look at the claims and figure out whether they would justify it. And if they had an inquiries, call them up. And all of that would happen before the payment was made. And, of course, the industry now is objecting like crazy that this is unfair and that they're being targeted and this will slow everything down and make it all impossible.

Ralph Nader: Steve Skrovan, this must be blowing your mind. We're talking about a business crime wave day after day...

Steve Skrovan: Yes.

Ralph Nader: ...there's hundreds of billions of dollars. How do you react to this? And like everybody you've gotten this computerized inscrutable healthcare bills from doctors or hospitals. How do you react as a consumer and listening to this interview?

Steve Skrovan: Well, I want to know who's doing it? Is it grandma and grandpa? Is this organized crime? Is this just bad doctors or secretaries and the administrators in the offices? Who are--who are the perpetrators? Who did they tend to be?

Malcolm Sparrow: We know that it's an extraordinary array of people. Sometimes it's a bad doctor who's greedy. Sometimes it's hospital billing operations with very aggressive MBAs running them, pushing the profit margins. Some of them more recently have been serious organized crime rings, occasionally operated from abroad. We've seen connections with terrorism and human trafficking. The FBI has reported that a lot of traditional drug smuggling gangs sort of switching their profession to healthcare fraud, because it's more lucrative, and it's much safer. And you're much less likely to be shot by your competitors. So it really is an extraordinary array. And there's quite a lot of major settlements being made with big corporations and pharmaceutical companies and...

Ralph Nader: Hospital chains--hospital chains and all.

Malcolm Sparrow: Right. There's that for slightly more sophisticated types of corporate malfeasance. And so it is really, you know, the whole range. And the second chapter in my book I think is called, Who Steals? And the answer is: "You wouldn't believe how many different types of individuals have discovered the vulnerabilities of these programs."

Ralph Nader: And that book is License to Steal by Professor Malcolm Sparrow. If people want to go in deeper of this before they contact their members of Congress and say, "Hey, get going here. This is a corporate crime wave. And you've got to be tough on business crime, not just street crime." Who did they contact? Do you have a website? And is there someone in the federal government that they can contact?

Malcolm Sparrow: You might call your local FBI office. But I think the most central port of call is the Office of Inspector General fraud hotline. It's called the fraud hotline sort of to be good for this and the telephone number is 1-800-HHS; that's for Health and Human Services, TIPS, T-I-P-S. And if you want that numerically its 1-800-447-8477. And they are setup to take complaints about fraud. But, as you say, lots of patients, it's a common place experienced to get an explanation of medical benefits and to see all kinds of things described there that even if you understand them, you're pretty sure that they didn't happen. And it's also quite common place for people to try and report that to the government one way or another or to their insurance company. I mean, a lot of people come away with the impression that they don't really think to care very much, or at least they don't have much capacity to look into it. And so they walk away from that experience even more frustrated.

Ralph Nader: Before we conclude - and we're talking to Professor Malcolm Sparrow, Harvard University expert on healthcare fraud billing practices, and author of the book License to Steal - One more time that hotline for the Federal Inspector General.

Malcolm Sparrow: One eight hundred, four four seven, eight four seven seven.

Ralph Nader: Thank you very much, Professor Sparrow. This is only the beginning of what this country should pay attention to here, if they not just want to save taxpayer dollars, but they want to streamline the process systematically in terms of payment mechanisms, whether to Medicare or Medicaid or to private insurance companies. Thank you.

Malcolm Sparrow: You're very welcome. And I really appreciate your attention over many, many years to this important question.

Steve Skrovan: And that's our show. And thanks again to our guests today; Michael Shuman, author of The Local Economy Solution and Professor Malcolm Sparrow healthcare fraud expert. Go to the Ralph Nader Radio Hour website for the links to their work. One more from Russell Mokhiber, go to [corporatecrimereporter.com](http://corporatecrimereporter.com). Join us next week. Talk to you then, Ralph.

Ralph Nader: Thank you, listeners. I hope you feedback to Michael Shuman and Professor Malcolm Sparrow and that Inspector General hotline.