

Introduction

Alex was taken into foster care at age twelve after his mother's death. Over a six-year period, he was moved at least twenty times between temporary placements and group homes. Soon after losing his mother, Alex learned his older brother might be able to care for him, but then his brother died. There were also hopes that Alex could go to live with his father, but then his father died as well.

Unknown to Alex, he was eligible to receive Social Security survivor benefits after his father died. These funds could have provided an invaluable benefit to Alex, supplying an emotional connection to his deceased father and financial resources to help with his difficult transition out of foster care.

But without telling Alex, the Maryland foster care agency applied for the survivor benefits on his behalf and to become his representative payee. Then, although obligated to only use the benefits for the child's best interests, the agency took every payment from Alex. The agency didn't tell Alex it was applying for the funds, and didn't tell him when the agency took the money for itself. Alex struggled during his years in foster care, left foster care penniless, and continued to struggle on his own. And after taking Alex's funds, the agency hired a private revenue contractor to learn how to obtain more resources from foster children.

This book will tell the story of how states and their human service agencies are partnering with private companies to form a vast poverty industry, turning America's most vulnerable populations into a source of revenue. My intention is to reveal how the resulting industry is strip-mining billions in federal aid and other funds from impoverished families, abused and neglected children, and the disabled and elderly poor. As the vulnerable struggle, as advocates strive to assist in their struggle, and as policy experts across the political spectrum debate the best structure for governmental aid programs, a massive siphoning of the safety net is occurring behind the scenes.

An industry is usually defined as a category of private companies providing similar goods or services, such as the coal mining industry. The poverty industry, however, includes both companies and government entities: the private sector is partnering with state and local governments to use the vulnerable as a resource for extracting funds. Similar to how the coal mining industry mines rock for coal ore that can be converted into profit, the poverty industry mines children and the poor for aid funds and resources that are converted into private profit and government revenue.

For example, “revenue maximization” contractors help foster care agencies take over a quarter of a billion dollars each year from abused and neglected children. The agencies and contractors seek to increase the number of foster children who are designated as disabled in order to obtain their disability benefits. They also search for children with deceased parents and take their survivor benefits.

Following the story of Alex, the Maryland agency planned to expand this strategy, contracting with MAXIMUS, Inc. to develop recommendations about how to maximize the claiming of children’s disability and survivor benefits as government revenue. In a section titled “Current and Potential Revenue Acquisition,” the MAXIMUS report describes foster children as a “revenue generating mechanism.”¹

The practice Alex encountered is an example of how states and their contractors often look to the vulnerable less in terms of how to best serve their needs but rather in terms of how to best use them in strategies to bolster state coffers. Then, after diverting their aid funds and resources, the poverty industry often leaves the poor with inadequate care and services. The poverty industry profits from poverty as the needy are left with unmet needs.

The revenue strategies begin with state human service agencies. Facing shrinking budgets, the agencies subvert their service missions to their own fiscal interests and turn their intended beneficiaries into revenue tools. This effort by cash-strapped agencies—even taking assets from abused and neglected children—is asserted to be for the greater good because increased agency funds will lead to improved agency services. Agencies created to serve the vulnerable are using their power to extract revenue from the vulnerable, under the guise of adding fiscal capacity to serve the vulnerable.

But the rationale fails. The notion that human service agencies should fund themselves by taking resources from populations they exist to serve is counterintuitive at best. Also, the revenue strategies often do not provide the agencies with additional fiscal capacity. While the agencies are searching for funds, their parent states are as well. Funds extracted from children and the poor are often rerouted into general state coffers rather than used to increase agency funding. Human service agencies extract funds from their own impoverished beneficiaries, states take aid funds from their agencies, and the private contractors in turn take their cut.

The revenue tactics are vast in scope but largely unknown to the public. Therefore, it is my intent in this book to make plain how this money is disappearing, who it winds up benefiting, and who is ultimately hurt.

In part 1, two chapters lay out the background and conflict leading to the emergence of the poverty industry. Chapter 1 introduces the vulnerable populations discussed in this book, provides the historical foundations of the purpose of human service agencies that exist to serve those populations, and explains how the agencies have often prioritized their own finances over the interests of their beneficiaries. The purpose of human service agencies has come into conflict with the fiscal self-interests of the agencies, a theme that continues throughout the book.

Chapter 2 exposes the scope and impact of the poverty industry, which has grown as a result of the conflict discussed in chapter 1. The chapter explains fiscal federalism, the economic structure in which the federal government provides aid funds to help states operate programs for the poor. However, the intended collaboration has turned to tension and distrust as the states hire contractors to help maximize and divert the federal aid through illusory revenue strategies. And while contracting with states to increase the federal funds, private companies often contract with the federal government to reduce payout of those same federal dollars.

The poverty industry is thus undermining the structure of America's largest aid programs. The result is akin to an "iron triangle," a political science model that describes the self-serving interrelationships between government and private interests. Warned against by President Eisenhower in his farewell address, the military-industrial complex is an example of such an iron triangle, with public funds diverted to benefit defense contractors and agency self-interests. Similarly, the iron triangle

caused by the poverty industry—or the poverty-industrial complex—is diverting public funds intended to help children and the poor.

Moreover, poverty industry companies do much more than maximize revenue. Private contractors now provide services in virtually every aspect of government aid programs. Much like its military-based predecessor, the poverty-industrial complex is rife with potential conflicts of interest, pay-to-play tactics, and a revolving door of personnel.

Part 2 of the book includes three chapters that describe specific revenue strategies. These examples differ in details but are linked by common threads: human service agencies are using the impoverished as a revenue tool; a growing private sector is aiding and profiting from the practices; and defenseless populations are harmed as a result.

Chapter 3 describes the first example, in which foster care agencies are hiring private companies to help obtain disability and survivor benefits from abused and neglected children. Rather than using the funds to help the children, the money is diverted to agency revenue or to state general coffers. Some foster care agencies take even more, such as taking Veteran's Assistance benefits belonging to a child after a parent serves and dies in the military. The Maryland foster care agency drafted a regulation allowing it to take *all* resources from foster children: "the child's own benefits, insurance, cash assets, trust accounts" and even the child's own earnings—everything. And a Nebraska regulation allows the agency to even take a foster child's burial space.

Public records detailing the practices were obtained from state freedom of information act requests, and are summarized in chapter 3. The records show foster children being used almost as minerals on a revenue maximization conveyor belt: describing the children as "units"; plugging the children into "data match algorithms," "predictive analytics," and "data mining"; and prioritizing and "dissecting" the population of foster children in terms of which children will bring in the most money.

Chapter 4 sets out the second example revenue strategy, where the poverty industry has turned its sights on federal healthcare funds. Often with assistance of revenue maximization consultants, states develop illusory budget maneuvers to claim billions in increased federal Medicaid funds. The federal aid is then often diverted to bolster state general coffers rather than to the intended Medicaid related services for chil-

dren and the poor. For example, while governor of New Hampshire, Judd Gregg initiated a shell game that became known in the state as “Mediscam”—a scheme also used by his successors and by many other states—in which the state’s public hospitals serving the poor have been used to claim more than \$2 billion in increased federal Medicaid funds that were converted into state revenue.

In the third poverty industry strategy, explained in chapter 5, child support agencies are teaming up with private contractors to convert child support into government revenue. In addition to diverting Social Security benefits, state agencies also take child support payments from foster children. Also, poor mothers applying for public assistance are forced to sue the poor fathers for child support obligations that are re-routed to the government coffers. Already fragile families are further weakened, as impoverished parents are pit against each other. Children lose out as their child support payments are diverted to the government, and private companies profit from the harm.

Part 3 is comprised of two chapters, first addressing how the poverty industry practices are expanding and then considering how to reel the industry in. Chapter 6 illustrates how the practices in the earlier chapters just scratch the surface of the growing web of revenue strategies that take advantage of the vulnerable. For example, a scheme using nursing homes was developed in Indiana where the state’s largest public hospital system has bought up for-profit nursing homes, used them to increase federal Medicaid payments, and then diverted the aid for other purposes rather than improving care to the nursing homes’ residents.

Further, in another strategy discussed in chapter 6, for-profit nursing homes are sedating the elderly with psychotropic drugs in order to reduce staffing needs and maximize profit. And similar fiscal motives have led to alarming growth in the use of psychotropic drugs for children in foster care and juvenile detention facilities. Simultaneously, pharmacies have profited by illegally promoting the use of their psychotropic drugs to these nursing home residents and institutionalized children for off-label uses, including illegal incentives to doctors.

Also discussed in chapter 6, states and counties are working with private companies to turn courts serving the poor into revenue generators. Low-income defendants are first saddled with unmanageable court fines and fees, then the courts partner with private collections agencies, pro-

bation companies, and companies that manufacture electronic monitoring devices—all tacking on more and more fees to the debts owed by the poor. Collections can provide funding for the courts or are often routed to the general funds of the state or local governments. If the poor don't pay, they go to jail, like the old debtors' prisons that were abolished long ago. An Alabama judge told poor litigants they must sell their blood to pay court fines, or face jail time.² Poor debtors in Mississippi have been forced into penal farms to work off court fines at a rate of \$58 a day.³

And the poverty industry keeps growing. Non-profit hospitals contract with private companies to use a discount drug program intended to increase access to medications for the poor as hospital revenue. Companies that provide hospice care, services intended to aid the dying, are targeting patients who may not actually be dying in order to maximize profits from government aid.

This book seeks to spur public focus and scrutiny that has long been lacking. The details, scope, and impact of the poverty industry are exposed, and understanding of the industry's revenue tactics is provided. The book explains where laws are possibly being broken, and where laws are inadequately crafted or implemented to halt the harmful practices. The concluding chapter provides a road map for reforms necessary to realign the practices of human service agencies with their intended missions, and to help ensure that any involvement of the private sector is consistent with those aims. These reforms will help strengthen the social fabric, prevent misuse of public funds, and lead to improved services for America's most vulnerable individuals and families.

Use of the term "vulnerable" in this book to describe the populations who are used in revenue strategies is not intended to imply weakness. To the contrary, I continue to be amazed by the strength and determination of the families, children, and individuals struggling to overcome their difficult life circumstances. To quote Martha Albertson Fineman, "[v]ulnerability is the characteristic that positions us in relation to each other as human beings and also suggests a relationship of responsibility between the state and its institutions and the individual."⁴ We are all vulnerable, and we are all interdependent—both with each other and with the government systems that support us. Some of us, however, face greater disadvantage, trauma, and difficulty than others. These are the vulnerable populations considered in this book.

When our interdependence with each other and with our government institutions is recognized in a positive way, the opportunity and support from that interdependence can provide a tremendous benefit. But when the vulnerability of those who are struggling the most is instead used for the gain of others, we are all ultimately harmed. This, unfortunately, is what has been occurring through the practices of the poverty industry—a partnership of government and private companies that is using the vulnerable to serve itself.

To be clear, I do not support arguments to cut aid programs. To the contrary, the analysis and exposed practices call out for policy reform in order to strengthen aid programs and increase targeted funding so that needed assistance truly gets to those in need. States and their human service agencies are cash-strapped and need more revenue, but diverting resources intended to help children and the poor is not the answer.