Remaking Federalism | Renewing the Economy:

Resetting Federal Policy to Recharge the Economy, Stabilize the Budget, and Unleash State and Metropolitan Innovation

Bruce Katz and Mark Muro

Summary

With the 2012 election completed, Washington faces a daunting overhang of substantial economic, fiscal, and governance problems. Steps toward reform will have to be taken. A housecleaning of major proportions must commence even amid the politics of gridlock and deficits and at a moment of deep pessimism about federal problem-solving on all fronts.

Where will the impetus for progress come from? In a different era, the federal government might have launched decisive initiatives on its own to restructure the economy, address the budget, and renew governance. Today, however, gridlock in Washington precludes such intervention.

And yet, there is hope in another quarter. As befits a federal republic, cities, metropolitan areas, and their states are stepping up to develop new solutions and point the way to renewal. Increasingly, metropolitan areas and their states are acting like the engines of prosperity and change they are and—through their own initiative—leading. Together with their states, metro areas are stepping up as never before and pursuing game-changing initiatives to create jobs in the near term and restructure their economies for the long haul.

Attuned to the localism of the economy, these centers of economic dynamism are working hard to develop a new growth model focused on advancing innovation and advanced industries, providing crucial infrastructure, and improving education and skills training.

In so doing they are suggesting a needed direction for Washington and for the agenda of the second Obama administration.

All of which suggests why President Obama should look beyond Washington as he shapes his governing agenda and adopt a set of focused, astute initiatives that would at once lead the nation toward economic renewal while supporting regional and state empowerment.

To that end, the next administration and Congress should work to have the federal government do less, better through a limited set of initiatives in which the federal government would:

- ***Cut to invest,*** meaning that it should—while moving to reduce the national debt—channel some of the savings from cuts of unnecessary or counter-productive programs into strategic investments that will establish a platform for metropolitan growth

- ***Invest but reform,*** meaning that it should reform its activities to make them not only more efficient and effective but more catalytic and encouraging of local and state problem-solving

- ***Strengthen federalism,*** meaning that it should maximize the power of its dynamic partnership with the nation's localities and states to solve problems

In terms of specifics, the new stance in Washington can be illustrated with a wide array of specific proposals that are mentioned in this paper and advanced in greater detail in an accompanying series of policy briefs.

If states are the nation's laboratories of democracy, metropolitan areas are its centers of innovation—Washington should put itself in their service.

Introduction

With the 2012 election completed, the coming year in Washington will be defined by the need to resolve a series of accumulated structural problems.

The economy needs major retooling, with its competitiveness slipping, inequality rising, and the unemployment rate remaining near 8 percent 40 months after the official end of the Great Recession.

The federal budget deficit requires attention, after the fourth fiscal year in a row in which the deficit exceeded $1 trillion.[1]

And overarching these structural problems is the nation's dysfunctional governance.

Partisan rancor convulses an increasingly outmoded federal enterprise. As a result, a combination of sprawling, obsolescent institutions and political division has rendered the nation seemingly incapable of taking bold steps to reinvigorate the economy.

That paralysis has led to a tortuous style of decisionmaking on the budget that has led to a series of impending automatic spending cuts and tax triggers. Those delays, and associated "cliffhanger" dramas such as the debt-ceiling face-off last year, have in turn led to an increase in policy uncertainty that has slowed business investment and impeded economic recovery. In the case of the debt-ceiling clash, the U.S. Government Accountability Office (GAO) recently calculated that the showdown increased the nation's borrowing costs by $1.3 billion in 2011 alone while *Washington Post* columnist Ezra Klein has shown that the face-off coincided with a halving of U.S. job creation between May and August of 2011.[2] Likewise, the 2012 standoff over whether to renew the production tax credit (PTC) for wind power has had a similarly disruptive effect on that industry.[3]

Yet steps toward reform will now have to be taken. A way forward must be located. A housecleaning of major proportions must commence even amid the politics of gridlock and deficits and at a moment of deep pessimism about federal problem-solving on all fronts.

Where will the impetus for progress come from?

In a different era, the federal government might have launched decisive, large-scale initiatives on its own to restructure the economy, address the budget, and renew governance. However, not only will continued gridlock preclude such intervention but the scale of the needed restructuring is massive and exceeds the federal capacity.

Which is why it is fortunate the United States is a federal republic.

When the federal government cannot or will not lead cities, metropolitan areas, and their states have the power to develop new solutions and point the way to federal reform.

And that is what is happening now.

Already, metropolitan areas and their states are increasingly acting like the engines of prosperity and change they are and—through their own initiative—leading. Faced with the nation's deep structural employment crisis and polarized national leadership, U.S. metros are stepping up and pursuing game-changing initiatives to create jobs in the near term and restructure their economies for the long haul. Moreover, their actions suggest a new and needed direction for Washington and the needed economic policy agenda for the next presidency.

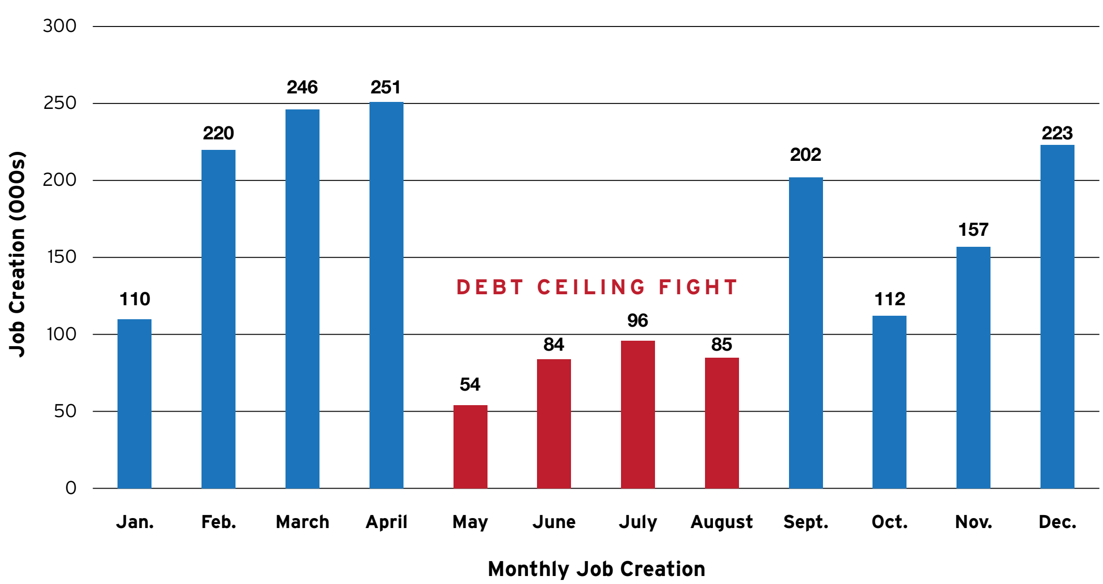
Attuned to the localism of the economy, regions and states are laboring to work out the outline of a new growth model focused on shaping a "next economy" in which regional industry clusters drive innovation; production and exports move to the fore; and the economy actually works for working families. At the same time, the new wave of local self-help is demonstrating that 21st-century problem-solving depends on collaboration—both "vertically" between states, regions, and municipalities; and "horizontally" across sectors, silos, and jurisdictions.

All of which suggests why President Obama should look beyond Washington as he moves to shape his governing agenda.

With the immense tasks ahead and the shrinking scope of federal power amid gridlock and budget constraint, the Obama administration will have no alternative but to move beyond isolated federal initiatives to adopt policies that support and maximize the impact of regional and state action.

Such a stance would take into account both the importance of unlocking the potential of metropolitan economies and the need for more effective, albeit limited, federal governance. Such a stance would begin the work of groping toward a more realistic, focused, and collaborative federalism—call it "bottom-up" federalism.

Figure 1. The debt-ceiling face off depressed job creation in 2011



Source: BLS, Ezra Klein, "14 Reasons Why This is the Worst Congress Ever," Washington Post, *July 13, 2012.*

And so an enormous opportunity exists for President Obama to get the nation moving again by adopting a set of focused initiatives that would move the nation toward economic renewal while supporting regional and state empowerment.

To that end, the Obama administration and Congress should work to have the federal government *do less, better* through a limited set of initiatives in which the federal government would:

- ***Cut to invest,*** meaning that it should—while moving to reduce the national debt—channel some of the savings from cuts of unnecessary or counter-productive programs into strategic investments in the fundamentals of growth so as to set a stable platform for "bottom up" renewal

- ***Invest but reform,*** meaning that it should reform its activities to make them not only more efficient and effective but more catalytic and encouraging of local and state problem-solving

- ***Strengthen federalism,*** meaning that it should maximize the power of its dynamic partnership with the nation's localities and states

Along these lines, this policy overview—along with the series of actionable proposals that accompanies it—advances a fresh approach for extracting progress out of a moment of federal gridlock and fiscal constraint.

The brief first reviews the challenging conditions that now confront Congress and the president and explores the changing locus of power and accomplishment in U.S. federalism. The report then presents a distinctive vision of how the federal government could respond to these conditions in ways that would be at once targeted, cost-effective, catalytic, and strategic—"doing less, better"—and it suggests the need for major changes in how Washington conducts its business. Finally, the paper discusses a number of specific federal policy proposals—all of which are explored further in an accompanying series of transition briefs being advanced by the Metropolitan Policy Program at Brookings. While hardly a comprehensive agenda, these policy recommendations indicate the kind of action the nation needs to unleash the nation's federalist and private-sector capacities for stronger growth.

In sum, President Obama and Congress are going to face an extremely somber set of economic, fiscal, and governance challenges when they get down to work in 2013. Rethinking what the federal government does and how it relates to the nation's metro-based economy is going to be vital and to do it Congress and the president will need to consider ideas such as those offered here.

The Current Moment: Challenging Conditions and the New Locus of Power in Federalism

The challenges facing the second term Obama administration and Congress are daunting. Most immediately, the nation's current problems stem from the fact that the worst recession since the Great Depression threw 8.6 million people out of work between the end of 2007 and the beginning of 2010—a blow that plunged the nation into a prolonged period of anemic growth that has worsened the country's fiscal problems and exacerbated political gridlock.[4]

Presently, the economy is growing, but at a discouraging pace. Real gross domestic product has been increasing at tepid rates below 2 percent a year, while new job growth has averaged little more than 100,000 positions per month since April. So far, less than half of the jobs lost in the recession have been recovered. All told, the current "jobs gap"—the number of jobs the economy needs to create in order to return to pre-recession employment levels while providing for the growth of the labor force over time—stands at 11.2 million positions.[5]

Looking forward, the economy is not expected to return to its full use of labor and capital until 2018, according to the Congressional Budget Office.[6]

No wonder that the numbers of the poor and near-poor over the last decade increased from 81 million in 2000 to 107 million in 2011.[7]

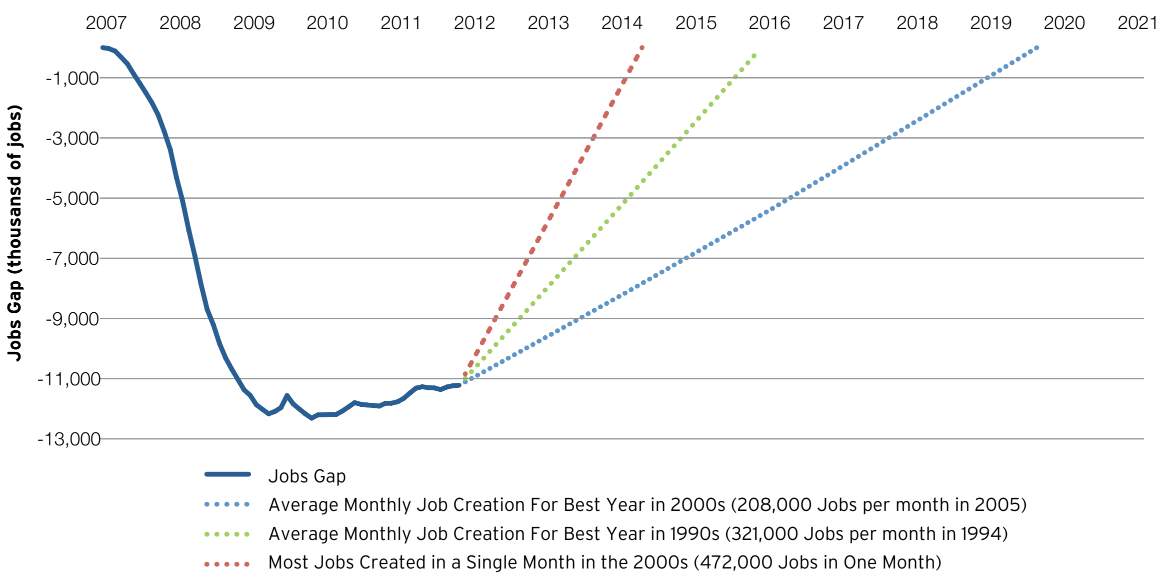
Yet these dynamics are not just economic or social. They have also contributed to the nation's serious fiscal and political problems. With tax revenue well below projected levels because of slow economic growth and mandatory spending on unemployment insurance and other programs well above forecasts, preexisting deficits have grown during the recession.[8] As a result federal debt held by the public will reach 73 percent of GDP by the end of the current fiscal year—the highest level since 1950 and about twice the level measured before the onset of the financial crisis.[9] In view of that, it is now certain—as made clear by the targets set by both the Simpson-Bowles and Domenici-Rivlin deficit commissions—that the federal government will be required to scale back the scope of its expenditures by restraining rising healthcare costs, cutting unaffordable subsidies and tax breaks, and freezing discretionary and defense spending even as it seeks necessary added revenue.[10]

At the same time, the federal governance crisis has seemed to deepen. Amid partisan battles over economic affairs, social issues, and the budget, divided government has led to policy paralysis—on economic stimulus, on energy policy, on infrastructure investment, on the budget and taxes.

With polarization and use of the filibuster at historic highs, for example, the 112th Congress distinguished itself as by far the least productive Congress in history by managing to pass only 196 pieces of legislation (down from 460 and 383 bills in the 110th and 111th Congresses, respectively). Meanwhile, the appropriations process has continued to achieve less and less timely bill delivery while employing more and more automatic triggers and budget gimmicks.[11]

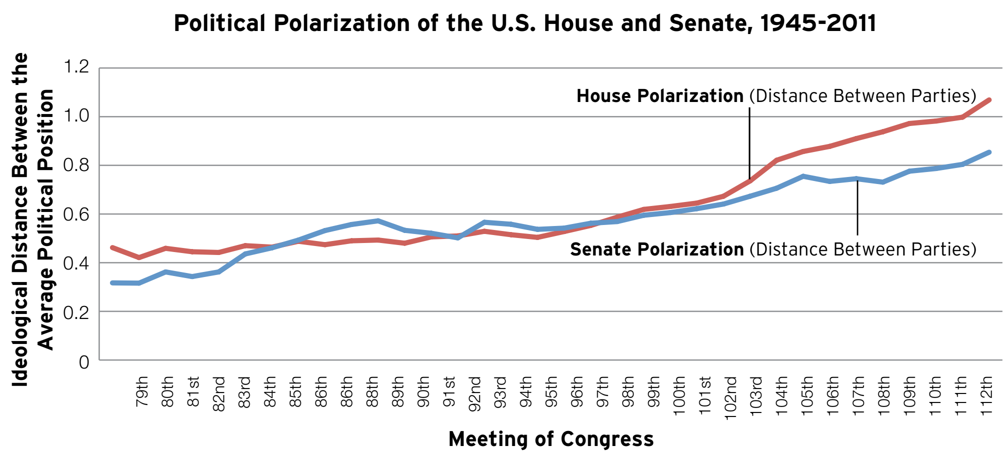
As a result, the post-election period will be dominated by a looming deadline to negotiate the handling of a long list of automatic tax and spending "triggers" at the crux of the next administration's first budget. These provisions, dubbed "Taxmaggeddon" and the "fiscal cliff," include the expiration on Dec. 31 of the Bush tax cuts; the sunsetting of President Obama's 2 percent payroll tax cut; and the imposition of the across-the-board "sequestration" of some $109 billion in sharp spending cuts that were negotiated during last year's showdown over the nation's debt limit. Other large issues requiring attention will include figuring out how to pay for limiting the reach of the alternative minimum tax (AMT); dealing with other expiring tax provisions; addressing the expiration of federal emergency unemployment insurance (UI); and handling scheduled reductions in Medicare reimbursement rates for physicians.[12] Altogether, the CBO estimates that the "fiscal cliff" entails some $607 billion in scheduled tax increases and spending reductions.

Figure 2. The current job gap—the number of jobs the economy needs to create in order to return to pre-recession employment levels while providing for the growth of the labor force—now stands at 11.2 million positions

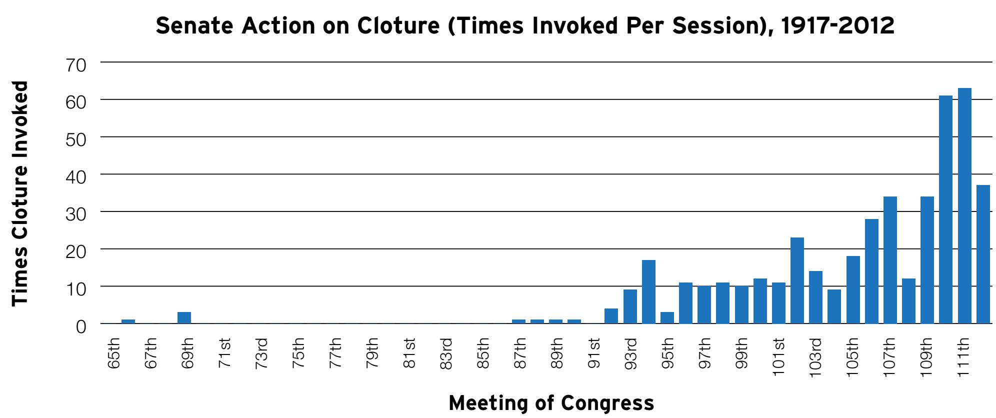


Source: Adam Looney and Michael Greenstone, "Closing the Jobs Gap," The Hamilton Project at the Brookings Institution, 2012.

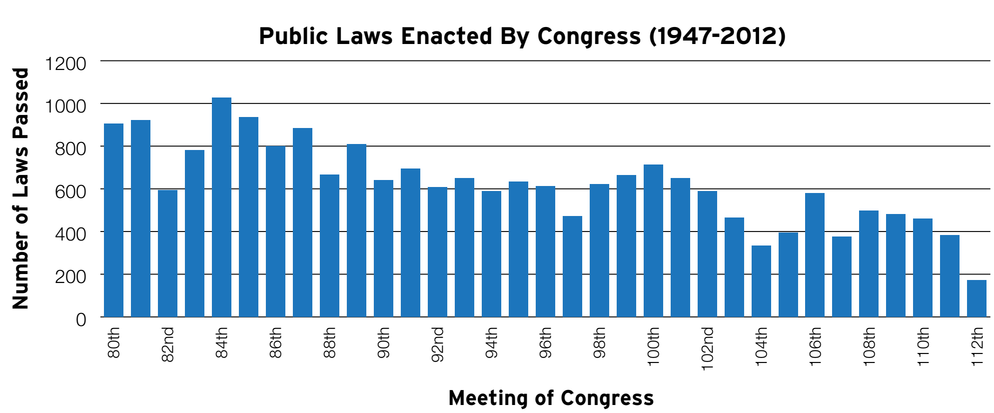
Figure 3. Congress' effectiveness has declined as political dysfunction has risen



Source: Keith Poole and Howard Rosenthal, "DW-Nominate Scores," 1945-2011.



Source: U.S. Senate, "Senate Action on Cloture Motions," 1917-2012.



Source: U.S. Senate, "Résumé of Congressional Activity," 1917-2012.

Nor is that all: Sometime in mid-February—even before the Obama administration proposes its budget—the government will reach the limit of its authority to raise money. Hitting the debt ceiling could throw Washington into another fiscal drama if no agreement on taxes and spending has been reached.

And yet, the current tepid economic recovery and bleak fiscal and political juncture in Washington are in reality only symptoms of a deeper breakdown.

The Great Recession has created a new American zeitgeist, in this respect, because it exposed the deeper failure of a flawed U.S. growth model.

For too long, that fraying model had exalted consumption over export-oriented production, speculation over investment, and heedlessness over sustainability. However, since the 2008 financial crash a growing chorus of business leaders and mainstream economists has called for a new model, a post-recession "next economy," oriented more toward innovation and engineering and less toward financial game-playing; more toward production and exports and less toward consumption; and more toward ensuring that the economy actually works for America's working families.[13]

Thus far, this ambitious macro vision has only fitfully informed Washington, outside of portions of the gargantuan investments of the 2009 Recovery Act. [14] And so the competitiveness of the nation's innovation system and critical traded sectors has continued to decline, posing the most fundamental sort of challenges to U.S. prosperity.[15]

And yet, now the vision of a "next economy" renewal will have to be acknowledged. Given the confluence and severity of the nation's economic and fiscal crises, the question has become acute: Will the nation scale back intelligently, choosing to set priorities and make investments in the nation's economic future while trimming the budget elsewhere? Or will it engage in a mindless mathematical exercise determined by deficit targets, budget tricks, and across-the-board cuts?

The outcome of the choice remains to be seen.

However, there is one thing that can be said for certain, and that is hopeful: Outside of Washington, out in the rest of the nation, America's larger metropolitan areas and their states—which reside on the front lines of change—are moving already to construct the next economy in their regions.

In part, this activism reflects the growing centrality and assertiveness of sub-national actors—cities, regions, and states—all around the world.[16] In part, too, it reflects the traditional on-the-ground immersion of U.S. metropolitan areas in the risk-taking, deal-making, problem-solving, and common-cause that goes on in the nation's urban concentrations of innovative firms, talented workers, and supportive institutions like universities, community colleges, and business associations.

But it also reflects a new mood of urgent self help. Metropolitan and city leaders are in this respect taking control of their destinies and becoming much more deliberate and intentional about their economic and job-creation strategies.

In any event, work on Main Street and in the nation's city-states points the way forward. As one of us recently summarized: "While Washington dithers and delays, metros and their states are embracing the next-economy model and innovating in ways that build on their distinctive competitive assets and advantages."[17]

What are metropolitan areas and their states doing? Their initiatives are varied and impressive:

- With federal innovation funding at risk, metros like New York City and states like Ohio and Tennessee are making sizable commitments to attract innovative research institutions, commercialize research, and grow innovative firms[18]

- With a forceful federal push on advanced industries not yet visible, metros like Northeast Ohio and Louisville and Lexington and states like Massachusetts are bearing down on agendas to expand growth in strategic traded sectors[19]

- With the future of federal trade policy unclear, metros like Los Angeles and Portland and states like Minnesota are reorienting their economic development efforts toward export promotion, foreign direct investment, and skilled immigration[20]

- With federal energy policy in shambles, metros like Seattle and Philadelphia are cementing their niches in energy-efficient technologies while states like Connecticut are experimenting with "green" banks to help deploy clean technologies at scale[21]

- With federal transportation policy insufficient, metros like Chicago and Miami and states like Michigan and Florida are modernizing their air, rail, and sea freight hubs to position themselves for an expansion in global trade[22]

What is more, states such as Colorado, Nevada, New York, and Tennessee are all supporting the creativity of their own metropolitan areas by aiding and abetting those efforts and making "bottom up" regional initiatives the new norm for economic development.[23]

In working this way, dozens of regions and states are moving ahead right now to construct the next economy, the next industries, and the next jobs. They are attending to the fundamentals of growth while deliberately building on their special assets, attributes, and advantages using business planning techniques honed in the private sector.[24] They are working to build effective structures, institutions, intermediaries, and related platforms to give clusters of firms what they need: talent, capital, market intelligence, and strategic advice. And in all of this they are practicing the arts of collaboration across sectors, disciplines, jurisdictions, and even political parties.

In short, the combination of federal gridlock and sub-national self-help is rearranging the locus of power and accomplishment in federalism. Power is devolving to places and people closer to the ground and oriented towards collaborative action. Washington needs to take heed.

Metro Federalism: Toward a Federal Stance for the Next Economy

So where do these developments leave federal policymaking? The new ferment among regions and states holds out a tremendous opportunity for President Obama to transcend Washington's paralysis and mobilize new federalist partners in a focused campaign for American economic renewal.

Typically, the president's economic agenda is conceived of as a series of largely unilateral "macro" policy initiatives. Mostly, these initiatives aim at improving the business environment for all firms through macroeconomic stabilization and broad tax measures, although a few "micro" programs aimed at addressing narrower issues such as workforce training for individual firms are usually tossed in as well.[25] Rarely do these initiatives much consider the existence of and priorities embedded within local, regional, and state economy-shaping, although to its credit the Obama administration has made important nods in that direction with a series of regional innovation initiatives.[26]

Yet today the combination of federal paralysis and sub-national purpose obliges the Obama administration to look beyond Washington and pursue national revival with a recognition that progress now depends on its co-development with states and metros.

And there may actually be openings for such progress. To be sure, the politics of deficit reduction and polarization will limit the passage of expansive Washington-centric initiatives. However, the likely contours of the policy debate within the Capitol this winter combined with the needs of the next administration's potential federalist partners outside Washington point to the outlines of a limited catalytic agenda for starting on national economic renewal.

In terms of principle, three priorities should inform the next administration's economic agenda:[27]

First, the new metro-focused federalism requires that Washington establish—even in fiscally strapped times—a stable, adequate national platform for metropolitan and state achievement. Neither metropolitan areas nor states can as yet "go it alone" when it comes to establishing the rules of the game on such basics as the budget, trade, taxes, interstate commerce, or immigration. And rarely can states or cities act at large enough scale to offset fundamental market problems in the provision of R&D, large-scale infrastructure finance, or education and skills-building. Consequently, the national government must lead. On a limited number of foundational matters Washington must provide the right inputs and frameworks to support local and private-sector enterprise. And to do that Washington must simultaneously manage its own affairs prudently while providing adequately for the nation's fundamental economic and social health.

Second, the federal government should manage its affairs in a manner that is efficient and modern in its own right but also catalytic and empowering in its interface with its sub-national partners in federalism. Currently, federal economic agencies remain siloed and rule-bound—both hyper-fragmented and overly prescriptive—in ways that impede programs' creative use by their metropolitan and state customers. Given that, greater flexibility and ease of programs' use should be diffused throughout the nation's agencies. Redundant, compartmentalized structures should be simplified. Likewise, top-down planning and control systems should continue to give way to decentralized, "federated" ones that build in greater space for front-line responsiveness, experimentation, and learning. In short, facilitating smart action out in the country's cities, metros, and states should become a core priority of Washington.

And finally the federal government will need to optimize the workings of the emerging federal-state-metro order. With Washington unable to take decisive action and metros and states stepping up, the nation is moving toward a new, more decentralized and more metropolitan mode of governance—and that is to be celebrated. It is the direction of history. However, the urgency and complexity of the challenges facing the nation today suggest the need to devise new ways to increase the impact of the solutions the emerging new system arrives at. At every turn, then, the nation's federal agencies should consider how to enhance the performance of the coming wave of co-developed, bottom-up problem-solving and then how to scale it up.

In more operational terms, a start at renewing federal governance to accelerate the emergence of the next America economy requires that the federal government *do less, better* on three fronts. Along these lines the second term Obama administration should embark on concerted strategies to:

- ***Cut to invest.*** In order to lead where it must, the national government will need at once to get its finances in order but also to implement a specific series of strategic growth-driving investments—in R&D, in advanced industry innovation hubs, in infrastructure, in education and training. Without such investments, the economy's capacity to create new value, wealth, and broadly shared prosperity will continue to fade. Yet where, in a fiscally constrained environment, will the resources come from? The answer: Washington will need to "cut to invest," as has been suggested for more than 20 years by smart, centrist voices in Washington.[28] In other words, it will need to shift hundreds of billions of dollars from existing spending and tax subsidies to a specified series of strategic, higher-priority investments (along with deficit reduction). This is the crux of "doing less, better." And so the work should begin: A robust program of strategic new investments should be paired, in the context of deficit reduction, with a program of systematic cuts of unnecessary, wasteful, or counter-productive federal tax expenditures and discretionary programs. Nor should Congress and the president have a hard time identifying potential savings. Recently the U.S. Government Accountability Office (GAO) identified some $400 billion in annual spending on some 1,500 wasteful, duplicative, or inefficient programs and others have other lists.[29] And so it should be possible to free up as much as $100 billion over 10 years for the sort of investments that will be necessary to transform America's economy—even while pursuing substantial deficit reduction

- ***Invest but reform.*** "Doing less, better" also requires that the federal government—besides cutting to invest—reform *how* it work. Above all, Washington—with its own capabilities and resources increasingly limited—needs to proceed in ways that unleash the capabilities of its state and local partners in both the public and private sectors. Direct action by the federal government will need to give way increasingly to catalytic government: government by incentive, government through partnership, government by alignment. In this connection, doing less—by reducing intrusive rules, pruning processes, and consolidating efforts—would in many areas actually empower metropolitan-area partners, their states, and the private sector and so unleash new creativity and problem-solving. Too many federal programs remain rigidly prescriptive, siloed, or redundant. Too many employ outdated approaches. Therefore, the likely scale-back of federal programs in the next few years should be managed in ways that seek to make limited investment go farther by seeking greater focus or building in more space and flexibility for local and private-sector problem-solving. And here it should be noted that plenty of room exists for efficiencies. According to the GAO analysis, 66 areas of duplication encompass over 1,500 individual programs. Economic development activities spread across four agencies and 80 programs, a fragmented and increasingly problem-ridden food safety system, and administrative overlap on domestic food assistance programs are just a few of the duplicative efforts that could be reformed to improve both effectiveness and efficiency of federal action.[30] In addition, numerous federal expenditures that have proven to be counterproductive—including the mortgage interest deduction, farm subsidy payments, and subsidies for fossil fuels—could be eliminated to further reduce the debt and free up funds for transformative economy-shaping investments

- ***Strengthen federalism.*** Finally, the goal of "doing less, better" requires that the nation develop new ways to get the most out of federalism—the nation's dynamic shared partnership in governance. Starting now states and especially metropolitan areas will be relatively more important in American life. Going forward, moreover, U.S. economic policy and implementation will be increasingly "co-developed" with cities, counties, metropolitan economic organizations, state governments, and the private sector. That means that execution on the economy will now become more complex, increasingly networked, and experimental, which means that new mechanisms will be needed to advance and steward the new federalist order and maximize its performance. Ensuring that such mechanisms emerge should become an important federal priority in the coming four years. Note that such mechanisms once existed and are occasionally emerging in an ad hoc way. The Advisory Commission on Intergovernmental Relations (ACIR), for example, was before its termination in 1996 a hugely important center of work aimed at strengthening the U.S. federal system and improving the ability of federal, state, and local governments to work together efficiently and effectively. More recently, President Obama expanded membership of the President's Export Council—co-chaired by the CEOs of Boeing and Xerox—to include designees from the National Governors Association and the U.S. Conference of Mayors

In short, President Obama—who will need to propose a credible stance for promoting economic renewal at a moment of fiscal constraint—could do much worse than seize on the new ferment among regions and states to transcend paralysis and mobilize new partners.

Remaking Federalism: A Federal Agenda for Renewing America

In terms of specifics, the new stance in Washington needs to commence now, with credible initial actions that begin to move toward deeper reform. For that reason, the Metropolitan Policy Program has begun to assemble an illustrative series of implementable recommendations that suggest the sort of stances needed to reboot federal policy in the next era.

These recommendations—advanced in a series of accompanying or future policy briefs—call on Washington to help furnish a sound platform for state and regional execution on "the big stuff"—technological innovation, advanced manufacturing, export promotion, infrastructure, housing, and human capital development—even as it reforms its operations and works to strengthen federalism more broadly. In doing so, the proposals indicate specific ways the federal government can *do less, better* by cutting to invest, reforming while investing, and strengthening federalism.

In that sense, this by-no-means exhaustive list of proposals illustrates through examples the nature of the three kinds of reforms that are needed in Washington to catalyze a new "bottom up" era of productive growth.

Cut to invest

Begin with the need to "cut to invest." America must cut its debt and reignite growth—at the same time. However, stabilizing the nation's finances and stimulating long-term growth will take more than a plan to reduce the budget deficit. It will require, instead, a series of moves that cut wasteful, counter-productive spending; contribute to deficit reduction; and expand support for the kind of investments needed to stimulate high-quality growth in U.S. regions. Which is why the president and Congress should seize the current opportunity to shift hundreds of billions of dollars over the next few years away from spending and tax subsidies aimed at inessential or consumption-oriented activities and towards both deficit reduction and a series of investments in innovation, advanced industries, export promotion, infrastructure, housing, and education.

All of this can and should happen at once, as was made clear through the important "cut and invest" analyses of the Progressive Policy Institute in the 1990s.[31]

And so the new "Cut to Invest" push should begin with several important actions detailed in accompanying policy memos.

To begin with, the president and Congress should **empanel a bipartisan Cut to Invest Commission**—modeled after the successful military Base Realignment and Closure Commission—that would serve as a key driver of the new "cut to invest" stance. Proposed initially by the bipartisan National Commission on Fiscal Responsibility and Reform (chaired by Alan Simpson and Erskine Bowles), the new commission would be charged with reviewing the entire budget, item-by-item, and identifying at least two percent of the budget—more than $200 billion—in budget cuts over the next decade, $100 billion of which would be dedicated to high-priority investments. (The rest would be channeled into deficit reduction). In this fashion, the new commission would eschew the mindlessness of across-the-board cuts and automatic triggers and instead make hard choices now about what the federal government should and shouldn't do—all with an eye to reigniting substantial long-term growth. Congress and the president should therefore create the panel immediately, tasking it to submit its package of recommendations to Congress, which would have to vote on it without amendment.

Nor should Congress hesitate to go after some of the "big ones" in the tax code. For example, it is now time to **limit the growth of the mortgage interest deduction (MID)**, which massively subsidized the real-estate portion of the failed consumption economy and is now poised to balloon to a cost of over $1 trillion over the next five years. Here, too, lies a major opportunity to shift the nation away from expensive consumption-related expenditures, reduce the deficit, and free up resources for productive investment. For that reason Congress and the White House should strongly consider reducing the growth of the deduction as part of a larger agreement on tax and spending reform. So significant is this opportunity, in fact, that it is discussed in its own brief separate from the brief on the "Cut to Invest Commission." Similarly, another brief in the series argues that the imperative to stabilize the budget, stabilize the environment, and invest in low-carbon technology development requires Congress to **institute a modest tax on carbon pollution**, while directing part of the revenue to energy system innovation and deployment and the rest to growth-inspiring tax cuts and deficit reduction. Although not a "cut" of the budget, this measure would, like the other "cut to invest" measures, improve the nation's balance sheet, help to place the economy on a more sustainable footing, and invest in future growth and innovation.

As to the investment side of the "Cut to Invest" agenda, the list of desirable public investments is long but a number of proposals suggest the nature of the needed commitments. In general, the needed sort of investments will attend to the basic inputs of prosperity that make people, businesses, industries, and regions more productive. Taken together, investments like those identified here seek to invest directly in the economy—on matters like innovation, higher education, infrastructure, and neighborhood stabilization—where the private sector can't or won't. And so investment recommendations in the accompanying series of briefs call, among other things, for Congress and the president to:

- **Expand the research and experimentation tax credit and make it permanent.** This will provide an important boost to innovation and therefore economic activity in the U.S., particularly in metropolitan areas, by encouraging firms to dedicate more funds to innovative activity than they otherwise would

- **Create and build out a network of 25 regional advanced industry innovation hubs to perform highly collaborative applied R&D on key problems in high-value technology.** Such a network will accelerate research and shorten the path from scientific discovery to widespread commercial deployment on select problems in key industries in U.S. regions

- **Support the designation of 20 or more "manufacturing universities."** The U.S. must be able to make things here and to do that requires that the nation embrace and reintegrate a strong engineering culture. The designation of a cadre of manufacturing flagships would help a nation that has thrived on science-based innovation reclaim its knack for applied engineering

- **Revive Build America Bonds (BABs) to support key infrastructure projects.** Creating a permanent, lower-cost version of the now-expired program will encourage sorely needed investment in U.S. infrastructure by accelerating state and municipal financing of projects

- **Exempt private activity Bonds (PABs) from the alternative minimum tax (AMT) so as to spur needed infrastructure upgrades.** This will attract additional finance into needed private projects with a public purpose, such as airports and intercity rail facilities

- **Create new bond and tax credit programs to restore housing market vitality to distressed neighborhoods.** Together these programs will help demolish or restore thousands of now-vacant or substandard residential properties while catalyzing new homeownership opportunities and more robust market activity in those neighborhoods damaged by the real estate crash

Enabled by the "cut" portion of the "Cut to Invest" agenda, these affordable, efficient, and implementable actions are the sort of the steps by which the federal government can begin to help restore the economy's capacity to create new value, economic growth, and broadly shared prosperity.

Invest but reform

And yet, direct investment—made possible by the "Cut to Invest" playbook—cannot and should not predominate. With its capacities constrained by fiscal stress as well as decades of institutional decline, the federal enterprise needs to proceed in new, reformed ways that unleash the capabilities of its state and local partners as well as the private sector.

In this fashion, the likely scale-back of federal programs in the next four years should combine both programmatic streamlining and a deeper rethinking of the federalist compact. Direct, top-down, and categorical approaches will need to be increasingly replaced by smarter, more catalytic efforts that embrace and empower local and private capacities. Likewise, conventional, one-size-fits-all spending and program delivery will need to give way to greater empowerment of states and localities and increased reliance upon incentives and partnerships—a new stance that places the federal government fully in the service of "bottom-up" regional and private-sector problem-solving and creativity.

What might such reformed engagement look like?

Several proposals advanced in companion briefs suggest ways the federal government can better leverage and align its programs—both internally in Washington and, perhaps more importantly, with external state and metropolitan partners and realities.

For example, in order to promote traded-sector competitiveness in America, one brief in the series calls on Washington to go beyond mere adjustments of trade and tax policy by **announcing a Race to the Top-type competition for advanced manufacturing** to expedite the transition towards a more innovative, productive, and inclusive economy. Why do it this way? In contrast to other strategies, such a competition would get much more out of limited federal investment by helping to enlist, align, and amplify the currently fragmented efforts of states, metros, and the private sector—as well as the federal government. In this way, the competition would catalyze committed state and local coalitions of implementers to develop high-quality cluster-appropriate initiatives around innovation, infrastructure, export promotion, and skills training even as it fostered greater federal government alignment with the true regional geography of the production economy. In this way Washington would again deploy more transparent, innovative incentives and assistance to reward smarter approaches that compel real reform and real impact.

Similarly, a proposal to **reorganize federal export promotion activities** suggests that the federal government not just to do more of the same to promote trade but instead focus on its core strengths in trade policy and foreign market intelligence and relations while seeking to empower states and metro areas as key partners in delivering trade and investment outcomes. A refocused, reimagined export promotion push of that sort would be able to achieve much more than the present one can.

And likewise, another brief calls on the Employment and Training Administration at the Department of Labor to **better align flows of H-1B visa fee revenue to local workforce needs**. Currently, those flows—which are supposed to be used to enable regions to pay for programs to overcome workforce deficits so employers they do not have to rely on foreign workers—are at present distributed without reference to the intensity of local demand for high-skilled workers, thereby limiting the impact of these federal investments.

At the same time, other papers seek to wield the federal touch deftly in ways that will draw in non-governmental financing or stimulate better organization of local efforts. For example, other papers in the series call on the federal government to:

- **Make available to renewable energy projects two financial mechanisms—real estate investment trusts (REITs) and master limited partnerships (MLPs)—that are now only available to traditional energy projects,** such as for coal and natural gas development. By leveling the playing field in this way, two smart technical tweaks could draw in substantial flows of private capital and lower the cost of renewable energy development, catalyzing in turn new economic development and innovation in the clean economy

- **Substantially streamline the housing voucher system** by competitively awarding the operation of the program in urban areas to one well-qualified organization or consortium that will administer it throughout an entire metropolitan area. Currently, the government's primary tool for addressing the housing needs of low-income renters is administered by thousands of individual local public housing agencies. Recasting the program through competitive awards could substantially cut costs and improve the effectiveness of the now balkanized program

Strengthen federalism

Finally, several other briefs suggest ways that Washington can better unleash the capacities of its state and local partners. It is a given, after all, that the federal government will have to operate much differently in the next four years. Most obviously, the coming administration will be characterized by fiscal constraint in Washington and increasing activism and self-help in the regions.

All of which means that whenever possible the federal government should seek ways to empower its state and local partners to implement new solutions, aid and abet their creativity, and then facilitate the sharing and scaling of good ideas.

Along these lines, a number of the Metro Program briefs illustrate some of the needed stances, including three that urge the federal government to:

- **Reauthorize use of the Property Assessed Clean Energy (PACE) program for financing energy efficiency and renewable energy projects on properties in the residential sector.** A questionable administrative ruling that has interrupted PACE use on the residential side should be reversed. Extension of this authority to local jurisdictions is an example of strengthening federalism by permitting and empowering "bottom-up" action on a matter of national concern—in this case, energy efficiency

- **Create a dedicated "PPP" unit to support bottom-up infrastructure investment by public-private partnerships in U.S. metropolitan areas.** With their budgets constrained, localities are increasingly interested in leveraging private-sector financial resources and expertise to deliver a range of infrastructure projects. However, these public/private partnerships (PPPs) are often complicated to structure and vary from deal to deal. For that reason, the federal government should establish a dedicated PPP unit to encourage local deal flow by offering quality control, policy formulation, and technical advice to remove bottlenecks and protect the public interest. By creating such an office, Washington would support creative metropolitan action to begin addressing the nation's massive backlog of needed infrastructure upgrades

- **Create or partner to create a special entity to conduct a competition among metropolitan areas to identify three metropolitan innovations each year worthy of scaling up and supporting with systemic reform.** Whether it's Los Angeles' innovative "30/10" initiative for accelerating mass transit expansion or Northeast

Ohio's regional "business plan" for improving the innovative capacity of small and medium-sized enterprises (SMEs), metropolitan areas and their states are increasingly prolific sites of innovation.[32] Washington should recognize those metropolitan areas that come up with breakthrough innovations, respond with systemic changes that support the innovations, and then hold up the new ideas as models for other states and metros to adapt and adopt. In this way the federal government can play a limited but catalytic role by amplifying and promoting innovative strategies that have already emerged at the local level

With each of these moves, Washington would take new steps to aid and abet—rather than hinder—the ongoing emergence of a new kind of "bottom-up federalism," where cities and metros as much as states lead the nation's efforts to crack the code on tough national challenges.

Conclusion

In sum, President Obama and the next Congress have no choice but to look beyond Washington as they seek to resolve the nation's fiscal crisis and get the nation moving again.

The conventional wisdom is that Washington is broken because it is mired in ideological division and partisan rancor. And that is true.

However, the federal government is also broken because it is fundamentally misaligned with the imperatives of a new global order that is unrelentingly competitive, constantly changing, and paradoxically local.

Washington's dysfunction, in this respect, is not just political but substantive. In its priorities, in its institutional formats and ways of operating, the federal enterprise currently appears unable for the most part to respond to the need to develop a new American growth model. And it is that inability to respond to profound challenges that has deepened the current sense of drift.

And yet, to a surprising degree, both the nation's political crisis and its economic one seem addressable at least in part through an embrace of initiatives that push the federal government to do less, better while putting itself more in service of its regional economies.

Washington has failed for the most part to put in place the investments needed to reestablish a national platform for economic success. However, "cutting to invest" could be broadly popular given that most Americans reside in local economies that profit from such investments.

Washington struggles to prune and reform its own activities to empower states and localities to execute. However, government reform and devolution are broadly appealing agendas.

And likewise—while the national government has failed to fully leverage the power of federalism to devise and scale up solutions—the popularity of recent successes such as the Race to the Top suggest that the celebration, support, and sharing of major systemic breakthroughs by states and localities represent a promising way to break through the current gridlock.

And so, while the constraints on action remain severe, an opportunity exists for President Obama and Congress to get the nation moving again by adopting a set of focused, strategic initiatives that would at once invest in growth, empower regions and states, and leverage the power of federalism.

Washington should lead, then. But to do so it will need to put itself in service of the nation's metropolitan centers of innovation and growth.

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Endnotes

1. Congressional Budget Office, "An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022." Washington, 2012.

2. A growing journalistic and academic literature has begun to argue that policy-related uncertainty—sharpened by political polarization—has been a key actor in slowing the recovery from the recession of 2007–2009. Blogger Ezra Klein detailed earlier this year how the 2011 debt ceiling fight depressed job creation during the months of May to August of that year in a post entitled "14 Reasons Why This Is the Worst Congress Ever." Wrote Klein: "Early in the year, the economy seemed to be gathering momentum. In February, it added 220,000 jobs. In March, it added 246,000 jobs. In April, 251,000 jobs. But as markets began to take the Republican threats on the debt ceiling more seriously, the economy sputtered. Between May and August, the nation never added more than 100,000 jobs a month. And then, in September, the month after the debt ceiling was resolved, the economy sped back up and added more than 200,000 jobs." See Ezra Klein, "14 Reasons Why This Is the Worst Congress Ever." Wonkblog at *The Washington Post*. (July 13, 2012). More quantifiable than this contention is the fact that the debt-limit clash increased the nation's borrowing costs. Along these lines the U.S. Government Accountability Office recently calculated that the showdown increased the nation's borrowing costs by $1.3 billion in 2011 alone. See U.S. Government Accountability Office, "Debt Limit: Analysis of 2011 –2012 Actions Taken and Effect of Delayed Increase on Borrowing Costs." (Washington: 2012). Available at www.gao.gov/products/GAO-12-701 More broadly, a 2011 study by economists at the University of Chicago Booth School of Business found that periods of economic policy uncertainty—like the debt-ceiling dispute—are followed by significant declines in output, investment, and employment. See Scott Baker, Nicholas Bloom, and Steven Davis, "Measuring Economic Policy Uncertainty." (Chicago: University of Chicago Booth School of Business, 2011).

3. Uncertainty over whether the production tax credit (PTC) for wind will be extended this year is creating severe economic difficulty in the industry. Past stops and starts of the credit have been accompanied by abrupt slow-downs in wind farm development. Now, with the PTC scheduled to expire on December 31, 2012, policy uncertainty is again causing confusion as wind power developers anticipate a possible expiration of the credit and associated reduced profits and ability to finance future projects. See Diane Cardwell, "Tax Credit in Doubt, Wind Industry Is Withering." New York Times, September 20, 2012.

4. Brookings analysis of Moody's Analytics data.

5. Each month The Hamilton Project examines the "job gap," which is the number of jobs that the U.S. economy needs to create in order to return to pre-recession employment levels while absorbing the people who enter the labor force each month. As of September, the nation faces a "job gap" of 11.2 million jobs. For the latest see www.hamiltonproject.org/multimedia/charts/evolution_of_the_job_gap_and_possible_scenarios_for_growth/.

6. Ibid. And see Congressional Budget Office, "An Update to the Budget and Economic Outlook."

7. Data from Census 2000 and 2011 American Community Survey.

8. Recent analysis from the Center on Budget and Policy Priorities underscores the large role that the current economic downturn is playing in the projected federal deficits of the coming decade. See Kathy Ruffing and James R. Horney, "Downturn and Legacy of Bush Policies Drive Large Current Deficits." (Washington: Center on Budget and Policy Priorities, 2012). Ruffing and Horney conclude, using the CBO's August 2008 projections as a benchmark, that the recession and the sluggishness of the recovery alone accounts for over $400 billion of the deficit in both 2009 and 2010 and declining amounts in subsequent years.

9. Congressional Budget Office, "An Update to the Budget and Economic Outlook."

10. Both the so-called Simpson-Bowles and Domenici-Rivlin deficit commissions concluded that modest revenue-raising was going to need to be accompanied by serious downsizing of both entitlement and discretionary spending. See National Commission on Fiscal Responsibility and Reform, "The Moment of Truth: 2010" (Washington, The White House, 2010); and the Domenici-Rivlin Deficit Reduction Task Force, "Restoring America's Future." (Washington: Bipartisan Policy Center, 2010).

11. See Ezra Klein, "14 Reasons Why This Is the Worst Congress Ever." Contributing to the declining productivity of Congress have been increases in polarization and use of the filibuster. Klein notes that the filibuster was invoked a record 139 times in the 110th Congress, more than twice as many as were used during the notoriously contentious 105th Congress. Over the past thirty years, the use of the filibuster has been used by both parties at an increasing rate. Klein points out the absurdity of the resulting political dynamic that occurs when legislation needs 60 votes in the Senate to pass: "Today, with the filibuster 21 of the 50 states, representing 11 percent of the population, can muster the 41 votes to stop a majority in the Senate." Underlying these trends has been the increasing polarization of Congress. The 112th Congress is the most polarized Congress since the end of Reconstruction, as Klein reports. As measured by the widely-used DW-Nominate system, members of Congress are the farthest apart they have been on an ideologicalvoting scale since the late 1800s.

12. For a review of "fiscal cliff" provisions and tradeoffs in dealing with them see Congressional Budget Office, "Economic Effects of Reducing the Fiscal Restraint That Is Scheduled to Occur in 2013." Washington. 2012.

13. Among the major economists who called most prominently for a new growth model after the Great Recession was Lawrence Summers, director of the National Economic Council in the Obama administration. See Lawrence H.Summers, "Rescuing and Rebuilding the U.S. Economy: A Progress Report," address at the Peterson Institute for International Economics, July 17, 2009. Available at www.iie.com/publications/papers/paper.cfm?ResearchID=1264. Many other voices have also critiqued past growth frameworks and policy stances for promoting excess consumption, neglecting production, and embracing a too-simple laissez-faire that has ignored the important role of market failures, institutions, and the interactions of various actors. See, for example, Gregory Tassey, "Rationales and Mechanisms for Revitalizing U.S. Manufacturing R&D Strategies" (Washington, National Institutes of Standards and Technology, 2009); Bruce Katz, "The Next Economy: Transforming Energy and Infrastructure Investment" (Washington, Brookings Institution, 2010); and Robert D. Atkinson and Stephen J. Ezell, Innovation Economics: The Race for Global Advantage. (New Haven: Yale University Press, 2012).

14. For a review of the contents of the American Recovery and Reinvestment Act, aka, the Recovery Act, with an eye to its partial orientation to supporting the emergence of the "Next Economy" see Mark Muro and others, "Metro Potential in ARRA: An Early Assessment of the American Recovery and Reinvestment Act" (Washington: Brookings Institution, 2009). See also Michael Grunwald, *The New New Deal: The Hidden Story of Change in the Obama Era* (New York: Simon & Schuster, 2012) for a more sympathetic account of the "transformative" aspects of the legislation.

15. For troubling reviews of the nation's fundamental innovation and traded sector competitiveness see: Robert Atkinson and others, "Worse Than the Great Depression: What Experts Are Missing About American Manufacturing Decline." (Washington: Information Technology and Innovation Foundation, 2012); Stephen Ezell and Robert D. Atkinson, "The Case for a National Manufacturing Strategy." (Washington: Information Technology and Innovation Foundation, 2011); and Robert Atkinson and Scott Andes, "The Atlantic Century: Benchmarking E.U.and U.S. Innovation and Competiveness." (Washington: Information Technology and Innovation Foundation, 2009). See also Michael Spence, "Globalization and Unemployment: The Downside of Integrating Markets." *Foreign Affairs*, July / August 2011.

16. See, for example, Alan Berube, "MetroNation: How U.S. Metropolitan Areas Fuel American Prosperity." (Washington: Brookings Institution, 2007); Mark Muro and others, "MetroPolicy: Shaping a New Federal Partnership for a Metropolitan Nation." (Washington: Brookings Institution, 2008); and Alan Berube and Joe Parilla, "MetroTrade: Back to the Future for Cities in the Global Economy." (Washington: Brookings Institution, 2012). See also Richard Dobbs and others, "Urban World: Mapping the Economic Power of Cities." (San Francisco: McKinsey Global Institute, 2011).

17. Bruce Katz, "Remaking Federalism to Remake the American Economy." (Washington: Brookings Institution, 2012).

18. In 2010 New York City launched Applied Sciences NYC, an initiative to dramatically expand its capacity in the applied sciences and so to expand its global competitiveness in emerging technology industries. On December 19, 2011, Mayor Michael Bloomberg announced a major partnership with Cornell University and Technion-Israel Institute of Technology to build a $2 billion state-of-the-art applied science and engineering campus on Roosevelt Island in New York City. See Bruce Katz and Judith Rodin, "In New York, Growing a Technology Hub." Atlantic Cities, January 17, 2012 as well as www.nycedc.com/project/applied-sciences-nyc. Created in 2002, Ohio Third Frontier is a $2.3 billion technology-based economic development initiative that is successfully changing the trajectory of Ohio's economy. In May 2010, the initiative was extended through 2015 by public ballot. For more information see http://development.ohio.gov/bs_thirdfrontier/default.htm For its part, Tennessee has embarked on a $50 million initiative designed to support innovation across the state. The goal of the program—called INCITE for its focus on innovation, commercialization,

investment, technology and entrepreneurship—is to raise Tennessee's profile in innovation-based economic development and drive growth in the creation of knowledge-based jobs. INCITE is a component of Gov. Bill Haslam's Jobs4TN strategy, which features a "bottom-up" approach and focuses on catalyzing regional economic growth. See www.tn.gov/ecd/Innovation.shtml and www.tn.gov/ecd/pdf/Jobs4TN_Press%20Release.pdf.

19. Northeast Ohio is actively working to implement an innovative "metropolitan business plan" for transitioning more of its small and medium-sized manufacturing enterprises into higher-value, more innovative growth businesses through intensive consulting and peer exchange. See www.brookings.edu/~/media/Research/Files/Papers/2011/4/12%20metro%20business%20muro/12_metro_business_ohio.PDF and www.manufacturingsuccess.org/Programs/PRISM.aspx. The Louisville and Lexington metropolitan areas are also working with Brookings to develop a "business plan" strategy to stimulate innovation and lift competitiveness in the area's manufacturing industries. See www.lexingtonky.gov/index.aspx?page=2942 In Massachusetts Gov. Deval Patrick's administration has developed a roadmap for advancing advanced manufacturing and is moving to implement a number of new initiatives designed to encourage further expansion of the Bay State's manufacturing sector. See www.mass.gov/hed/economic/initiatives/manufacturing/advanced-manufacturing-collaborative.html.

20. Los Angeles and Portland have each developed detailed metropolitan export plans in partnership with the Metropolitan Policy Program at Brookings and are moving to implement them. See www.brookings.edu/about/projects/state-metro-innovation/mei For its part, the state of Minnesota is an active participant in the Minneapolis-Saint Paul region's parallel plan.

21. The Seattle area has layered together significant funding for the execution of a metropolitan business plan aimed at consolidating the region's leadership in building-control and related technologies related to the world's massive emerging energy efficiency marketplace. Philadelphia has embraced the siting of the Department of Energy's energy efficient buildings energy innovation hub at the city's Navy Yard as a crucial opportunity to establish world leadership in the field. For its part, the State of Connecticut—frustrated by gridlock at the federal level and seeking more creative ways to finance clean energy projects— last year established the first state-level clean energy finance bank in the U.S. Implementation is well underway. See Ken Berlin and others, "State Clean Energy Finance Banks: New Investment Vehicles for Clean Energy Deployment." (Washington: Brookings Institution, 2012).

22. Chicago has for several years been working to execute a substantial "Metropolis Freight Plan," while Florida and Michigan have placed freight and people movement high on their priority lists. Florida is proactively coordinating statewide freight efforts and in 2012 Gov. Scott established the Office of Freight Logistics and Passenger Operations. The office coordinates multimodal freight strategies and interests by working directly with regional freight representatives to prioritize state and local investments. In Michigan Gov. Rick Snyder has placed heavy emphasis on securing approval of the proposed New International Trade Crossing (NITC) bridge between Detroit and Windsor, Ontario. See www.chicagometropolis2020.org/PDFs/MetropolisFreightPlan.pdf on Chicago's plan. See www.dot.state.fl.us/publictransportation/ on the Florida office. See Monica Davey and Ian Austen, "New Detroit-to-Canada Bridge To Be Unveiled." The New York Times, June 14, 2012.

23. For background on states' embrace of "bottom-up" economic development see Mark Muro, "Bottom-up' Economic Development Gains Traction." The Avenue blog at The New Republic (November 21, 2011) and National Governors' Association. "Redesigning State Economic Development Agencies." (Washington: 2012).

24. See Bob Weissbourd and Mark Muro, "Metropolitan Business Plans: A New Approach to Economic Growth." (Washington: Brookings Institution, 2011). For a state view see Joe Cortright and Mary Jo Waits, "Growing State Economies: A Policy Framework." (Washington: National Governor's Association, 2012).

25. For a tart review of the typical range of current federal policy activity on economic renewal see chapter 3 of Atkinson and Ezell, Innovation Economics.

26. Numerous modestly scaled Obama administration initiatives—often entailing competitive grant offerings—have sought to recognize, support, or partner with regional and state economic development efforts. For a review of seven such programs assessed as of 2010 see Mark Muro and Bruce Katz, "The New 'Cluster Moment': How Regional Innovation Clusters Can Foster the Next Economy." (Washington: Brookings Institution, 2010). Most notable in the last year was the announcement of an initial pilot institute for an as-yet-to-be-funded National Network for Manufacturing Innovation. See Advanced Manufacturing Portal, National Institute of Standards and Technology. "National Network for Manufacturing Institutes." www.manufacturing.gov/nnmi.html.

27. Mark Muro and others, "MetroPolicy: Shaping a New Federal Partnership for a Metropolitan Nation." (Washington: Brookings Institution, 2008).

28. Most notably, the Progressive Policy Institute has promoted this approach to the budget and growth nearly since its founding in 1989. See, for example, Robert Shapiro and Chris Soares, "Cut and Invest to Grow: How to Expand Public Investment While Cutting the Deficit." (Washington: Progressive Policy Institute, 1997), available at www.dlc.org/ndol_cifc5d.html?kaid=125&subid=164&contentid=1991.

29. Two GAO reports issued in the last two years have highlighted opportunities to save as much as $400 billion annually by streamlining and improving the operation of hundreds of programs in scores of federal agencies. See U.S. Government Accountability Office, "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue." GAO-11-318SP, Mar 1, 2011 and U.S. Government Accountability Office, "Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue." GAO-12-342SP, Feb 28, 2012.

30. U.S. Government Accountability Office, "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue." GAO-11-318SP, Mar 1, 2011 and U.S. Government Accountability Office, "Opportunities to Reduce Duplication, Overlap and Fragmentation, Achieve Savings, and Enhance Revenue." GAO-12-342SP, Feb 28, 2012.

31. See, for example, Robert Shapiro and Chris Soares, "Cut and Invest to Grow: How to Expand Public Investment While Cutting the Deficit."

32. With its "30 / 10" concept the Los Angeles County Metropolitan Transportation Authority (Metro) has devised an innovative and widely transferable plan for leveraging the funds that would be collected with a 30-year sales tax to build transit projects within the next 10 years. By borrowing the money from the federal government up front projects would be delivered sooner, taking advantage of today's low construction costs. See www.metro.net/projects/30-10/ For its part, Northeast Ohio's Partnership for Regional Innovation Services to Manufacturers (PRISM) enables smaller manufacturers to enhance their innovation and commercialization capacity by connecting them to business and technical resources as well as the region's growth-enabling network of advanced manufacturers. See www.manufacturingsuccess.org/Programs/PRISM.aspx.

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About the Authors

Bruce Katz is a vice president at the Brookings Institution and founding director of the Brookings Metropolitan Policy Program. Mark Muro is a senior fellow and policy director at the Brookings Metropolitan Policy Program.

For More Information

Mark Muro
Senior Fellow and Policy Director
Brookings Metropolitan Policy Program
202.797.6315
mmuro@brookings.edu

For general information

Metropolitan Policy Program at Brookings
202.797.6139

www.brookings.edu/metro

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BROOKINGS

1775 Massachusetts Avenue, NW
Washington D.C. 20036-2188
telephone 202.797.6000
fax 202.797.6004
web site www.brookings.edu

Metropolitan Policy Program
at BROOKINGS

telephone 202.797.6139
fax 202.797.2965
web site www.brookings.edu/metro