CUT TO INVEST

Establish a 'Cut-to-Invest Commission' to Reduce Low-Priority Spending, Consolidate Duplicative Programs, and Increase High-Priority Investments

Paul Weinstein Jr.

Summary

In order to locate resources for needed investments in the context of deficit reduction, the federal government should create a bipartisan "Cut-to-Invest Commission" (CIC) to identify $200 billion over 10 years in budget savings, freeing up $100 billion for high-priority investments in industrial innovation, advanced industries, clean energy, infrastructure, education, and skills-building, and $100 billion for deficit reduction.

Background

Accelerating the nation's current sluggish pace of recovery from the Great Recession is ultimately going to require increased investment in the things that spur lasting growth: research and development (R&D), advanced industry exports, infrastructure, education, and skills-building.

However, given the current fiscal climate—with federal debt held by the public expected to reach over 90 percent of GDP in 2020 under current policies and spending as a percentage of GDP already at historically high levels—the prospect of identifying new, dedicated sources of revenue for public investment appears wholly unrealistic, both politically and from a budget perspective.

Where, then, can policymakers find the funds needed for public investment at a moment of fiscal constraint? One approach is to identify redundant, wasteful, and ineffective programs and reduce or eliminate (*cut*) them; and then redirect some of the savings (*invest*) to priority areas with the potential for significant public benefits.

Building on work in the 1990s by Robert Shapiro, then of the Progressive Policy Institute and Bill Clinton's principal economic advisor in the 1991-92 campaign, such an approach holds out real promise for squaring the goals of fiscal discipline and institutional reform with the need to expand support for the specific public investments that make people and firms more productive. Only through such means will Congress be able to scrape away inefficient, obsolete, and actually counter-productive spending programs so as to free up resources for reducing the debt and investing in growth.

The Problem

Unfortunately, meeting the twin goals of cutting and investing has proven easier said than done.

Although key “cut to invest” provisions became part of the federal budget in the 1990s and contributed to three years of budget surpluses in that decade, the decade-and-a-half since then has seen higher spending and large tax cuts that have not only eliminated surpluses but favored consumption over much-needed investment in drivers of economic growth. The result has been anemic economic growth, record deficits, and a growing investment crisis even after the one-time infusions of the 2009 Recovery Act.

Meanwhile, America has no shortage of public investment needs.

Public support for research and development has diminished vis-à-vis the rest of the world. For example, a recent analysis by the Information Technology and Innovation Foundation (ITIF) notes that the United States now ranks 27th in terms of R&D tax incentive generosity.

In addition, the American Society of Civil Engineers (ASCE) estimates that the nation faces a $2.2 trillion infrastructure backlog. One of every eight bridges is "structurally deficient," and 85 percent of public transit systems are struggling to carry growing numbers of riders. As ASCE President Blaine D. Leonard puts it, "We are still driving on Eisenhower's roads and sending our kids to Roosevelt's schools."

Currently, America spends approximately 2 percent of GDP each year on infrastructure investment, while Europe spends close to 5 percent and China somewhere between 9 percent and 12 percent.

Meanwhile, burgeoning deficits threaten federal support for education as well. The automatic sequestration established as part of the 2011 debt ceiling agreement would lower education spending below current policy levels. And even if the sequestration is circumvented, education funding will continue to remain stagnant.

And yet, while America clearly has an investment gap, the nation is also facing the worst fiscal situation since World War II. Today, debt held by the public—now at $11.1 trillion—is more than 70 percent of the U.S. economy, and is set to continue to rise even after the economy recovers from the recent downturn. The national debt is on track to exceed 100 percent of the economy in the next decade and 200 percent by the 2040s. The interest on the debt along with entitlements and $1.1 trillion in tax expenditures are increasingly eating into funding for key public investments. And unfortunately, the problem will only get worse.

With increasingly depleted federal resources and a burgeoning debt that needs to be addressed now, cutting redundant, wasteful, and ineffective programs and reinvesting some of the funds in public investments is a necessity.

Programmatic redundancies are wasteful and in some cases counter-productive. These programs also cost taxpayer dollars, scarce resources that could be spent more effectively elsewhere. According to the U.S. Government Accountability Office (GAO), there is some $400 billion in annual government spending on 1,500 different programs that are wasteful, duplicative, or inefficient. Some of the areas that GAO noted include 53 economic development programs spread across four agencies, seven different U.S. government entities across three federal agencies that are involved in providing training to foreign government officials to detect fraudulent travel documents, and 45 programs that provide or may support related services to children from birth through age five, as well as five tax provisions that subsidize private expenditures in this area.

But redundancy is only part of the problem. Another issue is ineffectiveness. Many programs cannot demonstrate to Congress or to taxpayers that they are accomplishing their intended purposes. Programs without demonstrable results cost taxpayers billions of dollars and fail those who they were intended to serve.

Finally, many programs are not just redundant or ineffective, but actually counter-productive. Many such programs, for example, remain heavily supportive of consumption or non-traded activities rather than innovation, production, and growth. Some examples include: the mortgage interest tax deduction for second homes ($1.5 billion per year); subsidies for fossil fuels ($4.86 billion per year); farm subsidy payments ($5 billion per year); the deduction for CEO pay over $1 million (at least $1.5 billion per year); and the tax deduction for meals and entertainment ($11 billion in 2012).

Proposal

Given the need for more investment, Congress and the president should **establish a Cut-to-Invest Commission (CIC), modeled on the Base Closure and Realignment Commission (BRAC), that would identify spending programs and tax provisions that provide anti-competitive transfers to particular industries and recommend an annual package of appropriate reforms—including alternative investments in growth— to the president and Congress.**

History has shown that the most successful reform efforts are those that have bipartisan support. It should come as no surprise that the most significant government reform effort in the past fifty years, the Hoover Commission of the immediate post-World War II years, was led by a former Republican president who was appointed by a Democratic president. A truly bipartisan commission, with membership drawn equally from both parties, would increase the likelihood of both broad congressional backing and public support.

The CIC should follow the model established by the Defense Base Closure and Realignment Act of 1990 (BRAC, P.L. 101-510). This law required that the BRAC commission consist of eight members selected by the president with the advice and consent of the Senate. More importantly, it effectively divided the membership of the commission equally among Republicans and Democrats. However, to ensure that the CIC completes its work on schedule and in a fair and organized manner—and because the president is the head of the executive branch—the president should be given the authority to name the chair of the commission. Once the CIC assembled its package of cuts and investments, the president would submit it to Congress, which would be required to vote on the entire package without amendment.

In order to streamline programs and identify $200 billion in savings for investment and deficit reduction effectively , **the CIC would be given the authority to review all executive branch agencies** (with the exception perhaps of a small number of unique, independent agencies such as the Federal Reserve and the Federal Deposit Insurance Corporation), **discretionary and mandatory federal programs, and targeted tax incentives** (that is, those tax expenditures that are limited by statute to a specific group of individuals or entities for specific purposes). **The focus of the CIC would be to look for outdated, duplicative, under-performing, low-priority, unnecessary, or counter-productive programs and consider changes to improve each agency's operations.** This expansive approach will allow for the greatest impact, given that any limitations on the scope of the CIC's authority to reform will produce limited results.

In addition to identifying $200 billion in potential cuts and efficiency improvements, **the CIC would also have the power to recommend $100 billion in alternative investments designed to foster the nation's long-term prosperity**. These targeted investments—in advanced industries R&D, clean energy, infrastructure, education, skills-building, and other key economic drivers—would be included in the package of recommendations that the CIC submits to the president and Congress. The remaining $100 billion would be used for deficit reduction.

The work that the CIC will undertake is significant. Sixty years without a complete overhaul (since the Hoover Commission) has made for an overly complicated and often duplicative federal government. That is why the CIC should be given at least two years to make their recommendations and offer legislation for Congress to consider. To further maximize its impact, the CIC should be allowed to submit more than one round of recommendations over the two-year period, after which time the commission would sunset. A "multiple round" approach would also help the CIC build public support and increase the likelihood of its success. This approach is also modeled on the original BRAC commissions, which made recommendations in multiple rounds.

The original and arguably most effective model for the CIC exists at the state level in Texas. The legislature created a sunset commission in 1977 to eliminate waste and inefficiency in state government agencies. Estimates from reviews conducted between 1982 and 2009 showed 27-year savings of over $780 million, compared with expenditures of $28.6 million. Based on the estimated savings achieved, for every dollar spent through the sunset commission process, the state received $27 in return.

Budget Implications

Establishing the CIC would have positive budgetary consequences, especially if part of a larger deficit reduction plan. The goal of the CIC would be to identify $200 billion in savings over 10 years from wasteful, duplicative, and inefficient spending and tax breaks, half of which would be used for deficit reduction and the other half for priority investments.

To ensure the dollars saved by the CIC are used only for the new investments designated by the CIC to receive those dollars, **discretionary spending would be split into three categories**: **security spending, non-security spending, and a new category called investment spending.** Establishing additional, broad categories of spending for the purposes of establishing a budget cap is not new. For example, the Clinton administration and Congress altered the cap structure in FY 1994 and FY 1995 to account for the new spending required under the Community Oriented Policing Services (COPS) program by adding a category separate from defense and non-defense spending called the Violent Crime Reduction Trust Fund. Under different names, a separate category for criminal justice discretionary spending remained in place throughout the 1990s.

State of Play

The cut-and-invest concept has adherents on both sides of the aisle. The bipartisan National Commission on Fiscal Responsibility and Reform (Simpson-Bowles)—which had the support of three elected Republicans and three elected Democrats and a majority of Commission members—proposed the creation of a cut and invest committee to identify $200 billion in discretionary savings, with half the savings going to deficit reduction and the other to high-priority investments. Out in the states, Republican Gov. Sam Brownback of Kansas has moved to eliminate up to eight state agencies and a number of government positions, while also making new investments in early childhood education and key industry clusters, such as aviation and cancer research. Meanwhile Democratic Gov. Andrew Cuomo of New York fought for passage of legislation to “right-size” state and local government by rewarding mergers and consolidations, while creating new regional economic development councils that align state investments to the unique assets of each region.

Implementation Requirements

Legislative action would be required to create the CIC. Passage of cut and invest plans put forward by the CIC would also need congressional approval.

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About the Author

Paul Weinstein Jr. directs the MA in Public Management program at the Johns Hopkins University. He served as a senior advisor to the National Commission on Fiscal Responsibility and Reform as well as chief of staff of the White House Domestic Policy Council and senior advisor for policy planning to the vice president during the Clinton-Gore Administration. From 2001 to 2008, Weinstein was chief operating officer and senior fellow at the Progressive Policy Institute.

For More Information

Paul Weinstein Jr.
Director, MA in Public Management
The Johns Hopkins University
202.663.5923
pweinst3@jhu.edu

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For General Information

Metropolitan Policy Program at Brookings
202.797.6139
www.brookings.edu/metro

1775 Massachusetts Avenue NW
Washington, D.C. 20036-2188
telephone 202.797.6139
fax 202.797.2965