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A Pro-Growth Agenda to Strengthen the American Economy

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KEY TAKEAWAYS

The traditional approach of reactionary government-directed fiscal stimulus to fight recessions has largely been unsuccessful and poorly targeted.

During this historic economic expansion, policymakers should be proactive and remove government-imposed constraints on future economic growth.

Congress can reduce tariffs, reform costly financial, environmental, and labor laws, return resources to the private sector, and keep taxes permanently low.

The United States is currently in the longest economic expansion in recorded history, which has led economists to predict an inevitable recession.[1] The economic future is unknowable, but there are still concrete policies that lawmakers should consider, given what *is* known about the current state of the economy, and given lessons from past responses to economic downturns. A pro-growth agenda will strengthen the American economic expansion, and if necessary, can help to minimize the impact of any future recession.

The traditional tools for fighting economic downturns are almost always reactive, managing the symptoms of a recession rather than promoting a proactive economic program for renewed growth. Increased government spending, new regulations, and other temporary ad hoc measures are always ill-timed, poorly targeted, and never enough to satisfy their proponents. Even a decade after the last recession, advocates for greater government intervention continue to call for additional stimulus spending.[2]

The traditional approach of reactionary government-directed fiscal stimulus has largely been unsuccessful. Even more tailored "automatic stabilizers" that are triggered when the economy begins to slow down and unemployment increases have costs that often outweigh the benefits. Even proponents of automatic stabilizers acknowledge that they are in need of reform.[3] Furthermore, automatic stabilizers perpetuate a cycle where the federal government's increased size and importance in the economy is used as justification for not ever returning federal programs and agencies to their appropriate size and scope.[4]

Focusing on subsidies to ameliorate the costs of lost jobs does nothing to address the causes of economic downturns and often exacerbates underlying obstacles faced by private markets. A pro-growth economic agenda to sustain continued economic opportunity should identify and remove government barriers to business investment and disincentives to work.

The Economic Situation

America is in the midst of the longest economic expansion in recorded history, which is benefiting everyone, most of all lower-income and less-skilled Americans. There are more than 7 million job openings, and wage growth has averaged above 3 percent over the past year.[5] Meanwhile, the lowest 10th percentile wage earner (people making about $12 an hour) experienced wage growth of 7 percent over the past year.[6]

Following the 2017 Tax Cuts and Jobs Act (TCJA) and a dramatic re-orientation of the U.S. administrative state away from increasing regulatory burdens, there were measurable increases in investment, job openings, and economic confidence.[7] The tax cuts for individual Americans included lower marginal tax rates, allowing people to work and save more. Even more fundamentally, the reform cut taxes on new investments made in America by lowering the corporate income tax rate permanently and allowing immediate expensing for five years.[8] If made permanent, the tax cuts and the Administration's work to slow down the rate of new regulations and roll back the most punitive rules from past Administrations will represent structural reforms to the American economy that will increase business investment and labor supply.

However, there are also important factors that are restraining the economy's growth potential. Specifically, there is a high level of policy uncertainty associated with domestic politics that is depressing the expected gains from tax and regulatory reforms. The Administration's approach to trade has upended global supply chains, which has negative effects that ripple through the world economy. Threatened or imposed tariffs on America's biggest trading partners, including Canada, the European Union, Japan, and Mexico, is precipitating the balkanization of once increasingly free global markets.

Unprecedented levels of government debt and medium-term uncertainty about the direction of domestic fiscal policy after the 2020 presidential and congressional elections pose significant additional economic risks. This uncertainty depresses economic conditions by pushing investors into safer assets, leading firms to postpone or forgo investments and hiring, slowing productivity growth, and depressing consumption expenditures.[9] Global uncertainties compound domestic risks, as the U.K. negotiates separation with the European Union, Japan raises its consumption tax, Italy stares down an impending debt crisis, and China struggles with demographic changes and economic mismanagement, among many others.

During the longest expansion in American history, policymakers should double down on what has been working and fix what is not. Congress needs to reassert its authority in setting tariffs, advance new free trade agreements and advance the freedom for Americans to trade in order to quiet long-term uncertainty associated with trade. The 2017 tax cuts must be made permanent, and deficits need to shrink to ensure taxes stay low. The Administration can continue to roll back past expansions of existing laws, but until Congress targets the costliest financial, environmental, and labor regulations, new investments will always be threatened by future executive reinterpretation of existing laws.

Consumer spending and confidence remain bright spots in the economic data. When demand is strong and there are plenty of jobs, the economic agenda could not be any clearer: Additional growth must, by definition, come from a greater supply of workers and more investment. Removing impediments to supply requires the tedious work of ensuring policy certainty for long-term planning and culling unproductive laws and regulations that have built up over time.

Trade Certainty

The costs for Americans buying and selling goods abroad has steadily increased in the past few years due to this Administration's trade policy.[10] Compounding the direct cost increases from tariffs, uncertainty about future trade policy has the effect of delaying planned business activity or canceling planned investments altogether.[11]

In 2018, the average applied tariff rate in the U.S. increased from 1.5 percent to 2.6 percent.[12] By the end of 2019, the U.S. government had increased tariffs on roughly 15 percent of total imports and nearly all imports from China.[13] This dramatic spike in tariffs has resulted in an uncertain environment for sectors ranging from automotive manufacturing to retail sales. Other countries are also signing trade agreements without the U.S., leaving U.S. exporters at a competitive disadvantage. Threatened tariffs on countries other than China, as well as global uncertainty over EU–U.K. trade, have created tremendous uncertainty, which presents an economic challenge for the United States in the years to come.

New Trade Agreements. Congress and the Administration can begin to undo the ongoing economic turmoil by resolving the trade dispute with China and advancing new trade agreements as soon as possible.

There are several economies that stand out as potential free trade partners for the United States. Taiwan, for example, has long been a strong economic partner. U.S. exporters could gain access to the Eurasia market through the country of Georgia. Switzerland has shown that it is a competitive and dynamic economy geographically in the middle of the European Union, though it is not an EU member. Building a stronger trading relationship with Tunisia could help the citizens of both countries increase economic opportunity.[14] Finally, advancing free trade agreements with the U.K. and Japan could benefit consumers in each country.

Lower Tariffs. More than 60 percent of all U.S. imports are intermediate goods—business inputs, such as steel or aluminum, or capital goods, such as machinery.[15] Low or zero tariffs on intermediate goods allow American manufacturers to access inputs at competitive prices, and thereby allow them to more efficiently produce finished goods.

The Administration can unilaterally eliminate all tariffs that it has imposed since 2018, including those on washers, solar products, steel, aluminum, and specific imports from China. Congress should eliminate tariffs on all intermediate goods to help institutionalize a more certain business climate and make prices more competitive in the global market.

Congress should also renew and make permanent the Generalized System of Preferences (GSP) and Miscellaneous Tariff Bill (MTB) before these programs expire in December 2020. The GSP is a preferential tariff program for developing countries, which allows products from certain countries to be imported without tariffs.[16] The MTB eliminates specific tariffs for some products that are not available in the U.S.[17] Doing so would provide additional certainty for those U.S. companies that import under these programs and allow them to better plan for future purchases.

Streamlining Costly Financial, Environment, and Labor Regulations

Regulations accumulate over time, incrementally adding new costs that depress output, restrict innovation, reduce the supply of jobs and labor, and limit financial markets. The work of removing the many impediments to the supply side is a tedious task that "requires a Marie Kondoing of our public life, not a grand new initiative," as put by economist John Cochrane.[18] By focusing on financial, environment, and labor regulations, Congress can address some of the biggest federal impediments to the private sector. No list is comprehensive; the work of sifting through the accumulated federal laws and their regulatory progeny will require institutional dedication over several years. Many constraints also come from state and municipal governments through zoning that restricts housing supply, and licensure that restricts the supply of credentialed professions.

Financial Regulations. Many types of financial firms—not just banks—have long dealt with increasingly complex capital rules, liquidity rules, disclosure rules, leverage rules, and the constant threat that regulators can create new rules or enforce old rules differently. Over-regulating financial intermediaries makes it difficult to create and maintain the jobs and businesses that are the backbone of the American economy.

For at least a century, the U.S. regulatory framework has protected incumbent financial firms from new competition, suppressing the very market forces that drive innovation, reduce prices, and prevent excessive risk-taking. The result is that entrepreneurs have suffered from fewer opportunities, and consumers have suffered from fewer choices, higher prices, and less knowledge of financial risks. In order to spur innovation, opportunity, and growth, federal officials should start with the following reforms:

- **Create a new financial firm charter.** U.S. banking law remains stuck in the 1930s with regard to which functions financial companies should perform. It was never a good idea to restrict banks to only take deposits and make commercial loans, and it was never a good idea to prevent investment banks from taking deposits. Doing so makes markets less stable. All financial intermediaries function by pooling the financial resources of those who want to save, and funneling them to others who are willing and able to pay for additional funds. This fact should be the underlying principle that guides U.S. financial laws. Policymakers should create new charters for financial firms that eliminate activity restrictions and reduce regulations in return for straightforward higher equity or risk retention standards.[19] These charters will ultimately replace government regulation with competition and market discipline, thus lowering the risk of future financial crises and improving individuals' ability to create wealth.

- **Shrink government's role in housing finance.** Federal officials should begin shrinking the footprint of the federal government by making reforms to Fannie Mae and Freddie Mac, the government-sponsored enterprises (GSEs), and the Federal Housing Administration (FHA). These reforms include, but are not limited to, the following: (1) reducing conforming loan limits (that is, ensuring that the GSEs will purchase, and the FHA will insure, only lower priced homes); (2) narrowing the GSEs' and FHA's focus to the financing of primary homes; (3) eliminating the charters of the GSEs; (4) raising the GSEs' guarantee fees (g-fees) and the FHA's mortgage insurance premiums; and (5) requiring the FHA to insure only a fraction—rather than the current 100 percent—of the principal balance of mortgages. These reforms will allow private actors to provide more capital for sustainable home financing, thus providing new economic opportunities while protecting taxpayers and helping homes to become more affordable.

- **Repeal the Dodd–Frank Act.** Dodd–Frank became law during the Obama presidency, when Nancy Pelosi (D–CA) led the House of Representatives and Harry Reid (D–NV) presided over a near filibuster-proof Senate majority. It was a partisan bill that garnered no Republican votes in the House and just three in the Senate. It was largely a progressive wish list of policies that failed to fix what caused the financial crisis. Dodd–Frank provided more than one lifeline to large failing financial firms and created the Consumer Financial Protection Bureau—possibly the most politically charged, allegedly independent regulatory agency that financial markets have ever known. The 800-plus-page law expanded the failed regulatory approach that helped create the 2008 crisis, and it further relied on the federal government to plan, protect, and prop up the financial system, thus enshrining "too big to fail" into law. Repealing Dodd–Frank is a good first step toward protecting taxpayers and allowing private firms to more easily provide the financial services that consumers need.

- **Rationalize the U.S. Securities and Exchange Commission's (SEC's) exemption and disclosure framework.** The SEC and Congress should work together to create a reasonable, harmonized scaled disclosure regime for Regulation D, Regulation A, crowdfunding, and other exemptions and for small public companies.[20] This will entail both regulatory and statutory reforms. It would reduce regulatory costs, improve fairness, and aid entrepreneurial capital formation. The SEC has recently taken the first step toward this result.[21]

- **Broaden the definition of "accredited investor."** The SEC or Congress should substantially increase the number of investors who may invest in Regulation D private offerings by providing bright-line tests of sophistication. This would democratize access to higher-return (and higher-risk) investments and improve entrepreneurs' access to capital.[22]

- **Reform the Financial Industry Regulatory Authority (FINRA).** FINRA is largely unaccountable to the securities industry or to the public. Due process, transparency, and regulatory-review protections normally associated with regulators are not present, and its arbitration process is flawed. Reforms are necessary. FINRA itself, the SEC, and Congress should reform FINRA to improve its rule-making and arbitration process.[23]

- **Reform the SEC.** The SEC is the most important regulator of U.S. capital markets. Although its budget has increased by 82 percent over 10 years, resources have flowed into unnecessary management, "support," and ancillary functions, while core functions have been neglected. Its organizational structure is unwieldy, its information technology appears to be poorly managed, and bases its decisions on inadequate data. The SEC does little to remove unnecessary regulatory impediments to entrepreneurial capital formation. Reforms are necessary so that the SEC can better support well-functioning capital markets.[24]

- **Improve anti-money-laundering laws.** The current Bank Secrecy Act (BSA), also known as the Anti-Money Laundering (AML) rules, imposes large costs on society, intrudes on privacy, and fails any reasonable cost-benefit metric.[25] These rules have a particularly adverse impact on small businesses and the poor. Costs exceed $7 million per conviction and amount to between $5 billion and $8 billion annually.

There is little to no evidence that the BSA/AML laws are a cost-effective law enforcement tool. Any international information-sharing regime must include serious safeguards to protect the privacy of individuals and businesses. Major reforms are necessary.[26]

Environmental Regulations. Americans want a clean, healthy, and safe environment—and the major environmental statutes are costly, outdated, and fail to achieve their objectives efficiently or effectively. Rather, they are often used by activists to block and delay significant new investments in public and private infrastructure. Investors must spend their resources on lobbying, fighting lawsuits, and filing paperwork.

Congress should reform outdated and unnecessary regulations and shift more responsibility for environmental protection to the states, which are better equipped to customize policies for local conditions than Washington. Below are some of the most important barriers to economic development that achieve little to no environmental benefit. Congress and the Administration could dramatically improve the landscape for new investments across every sector of the economy while protecting the environment by first addressing these reforms. Congress and the Administration should:

- **Repeal the National Environmental Policy Act (NEPA).** Rather than improving environmental outcomes, NEPA has evolved to become a tool to delay and obstruct projects that are unpopular with special interest groups or politicians who ignore scientific and technical expertise. In one instance, a mining company waited 17 years for a permit.[27] For highway projects, the average time to complete an environmental impact statement increased from 2.2 years in the 1970s to 8.1 years in 2011.[28] Far from compromising environmental stewardship, repealing NEPA would provide an opportunity to remove duplication of state environmental and other federal requirements.

- **End the use of ancillary benefits to justify environmental regulations.** Overreliance on ancillary benefits can allow the Environmental Protection Agency (EPA) to regulate a pollutant without ever making the case that reducing emissions of the targeted pollutant is warranted. The use of ancillary benefits misleads the public on what drives the estimated public health benefits of a regulation and provides an excuse for the EPA and other agencies to regulate whatever it wants.[29]

- **Curb excessive litigation.** Though objectors can play an important oversight role, special interests too often use citizen suits and permissive definitions of legal standing as ways to indefinitely delay and cancel projects. This "defeat by delay" strategy through the courts makes projects expensive and time-consuming to the point of discouraging investment or blocking legitimate activity altogether. Congress should clarify requirements for legal standing (such as requiring proof of a connection to, and harm from, the challenged action), narrow the window for judicial review of federal approvals for all projects, and require that bonds be posted by plaintiffs seeking to block activities in order to reduce abuse and curb defeat by delay tactics that harm private parties and taxpayers.[30]

- **Reform the Endangered Species Act (ESA).** The ESA has objectively failed to protect and restore endangered species. However, environmental activists have used it successfully to block infrastructure and economic development across the country. Rather than creating the right incentives for economic growth and species protection, the ESA has largely been an ineffective conservation tool.[31]

Labor Regulations. The American labor market is currently healthy, jobs are plentiful, wages are rising, and non-wage benefits, such as privately provided paid family leave and retirement saving subsidies, continue to become more widely available. Nevertheless, federal rules drive up the cost of employment and complicate the employer–employee relationship, decreasing the flexibility of the labor market and increasing the hurdle that potential workers must cross to join the productive economy.

America is simultaneously experiencing historically low unemployment while not yet reaching full employment. While the prime-age labor force participation rate is trending up, it has not fully rebounded from the crises of the 2000s. In 2017, the executive director of the Joint Economic Committee of Congress, Scott Winship, argued that "the rise in labor force inactivity is primarily a supply-side issue," meaning more people are choosing not to work and this continues to be the case today.[32] As alternatives to work become cheaper, more enjoyable, and financially possible (through government and other subsidies), impediments to labor-force participation, and the supply of labor in general, will have an outsized impact on economic growth and productivity. To sustain a healthy labor market, federal policymakers should start with the following reforms:

- **Harmonize the government's multiple definitions of "employee."** Different tests and rules to determine who is and is not an employee of a company make it difficult for employers and workers to differentiate between employees and contractors. This increases costs and decreases employee flexibility for the rapidly growing number of independent contractors. If businesses can be held liable for the actions of contractors over whom they exercise little or no control, there will be fewer jobs available for workers and fewer opportunities for entrepreneurs. Congress should clarify the test for independent contractor status under the Fair Labor Standards Act, the National Labor Relations Act, and the tax code based on the "common law" test that bases determinations on how much control an employer exerts over a worker. Similarly, Congress should codify the definition of a joint employer to apply only if one company exercises direct and immediate control over another company's employees.[33]

- **Protect employees' rights and freedoms.** Workers should be free to choose if they want a union to represent them. They should also be free to vote in secret ballot elections; protected from violence, coercion, and penalties if they do not want to join a union; given the opportunity to vote on continued union representation; and not required to provide their personal information to a union.[34] Policies, such as those in the Employee Rights Act, accomplish these protections. Unions should not be permitted to manipulate voting units beyond the business level, and employers should be permitted to give performance-based raises without union consent to increase workplace productivity.[35] Moreover, Congress should reform the National Labor Relations Board, which presides over labor disputes, to make it less political.

- **Allow legal immigration and technology to improve productivity and spur innovation.** Technological gains raise incomes by increasing productivity, and immigration helps to increase the labor supply to generate higher economic output. In the economics literature, it is widely accepted that the overall economic impact of immigration is economic growth. Businesses tend to respond to increased immigration by investing in new capital (for example, by building additional factories), which suggests that immigration does not crowd out existing work.[36] Sound immigration policies can help to supply workers for the more than 7 million open jobs through a merit-based system, immigration enforcement, and pro-growth economic policies that will allow American workers and the American economy to continue to prosper.

Creating Tax Certainty and Removing Disincentives for Business Investment

The 2017 TCJA was a structural reform to the U.S. tax code to remove disincentives to work and invest. The tax cuts for individual Americans included lower marginal tax rates so that people are able to save more of their earnings. The reform also cut taxes on new investments made in America by lowering the corporate income tax rate and allowing immediate expensing for some assets. Investment in capital is what makes workers more productive and leads to higher wages and more jobs.[37]

Undermining some of the predicted benefits, the law created uncertainty for businesses and individuals. Some sources of uncertainty include a highly complex new international tax system, many provisions that change over time, and the individual tax cuts expire after 2025. Congress's first order of business should be to clarify remaining ambiguities in the law and make the temporary provisions permanent. This will allow businesses and individuals to plan more comfortably for the future. Congress should also consider continuing to lower tax disincentives to investment and work. Congress should:

- **Expand expensing.** By not allowing companies to account for the full cost of their investments when they are incurred, the U.S. tax code reduces investment, which translates to lower productivity and smaller income gains. The 2017 tax cuts temporarily addressed this problem by allowing companies to immediately "expense" some short-lived investments, but other investments, such as buildings, still have to use the costly and complicated pre-TCJA system. Permanent tax cuts and expanded expensing to all investments could significantly boost the economy.[38]

- **Reduce tax rates for businesses and workers.** Further lowering the corporate tax rate from 21 percent to the originally proposed 15 percent would continue to support the gains from tax reform, and paired with full expensing could be a powerful and fast-acting antidote to slumping business investment. Similarly, cutting the tax rate on capital gains and dividends and indexing gains to inflation would unlock privately held investments so that they can be better deployed throughout the economy. Lastly, reducing the individual income tax rates beyond the modest 2017 tax cuts could further decrease disincentives to work and allow the millions of small businesses that are taxed as individuals to grow.

Privatizing Government-Owned Assets

The federal government owns and operates far too many assets, which could be better managed by the private sector, or decommissioned to create room for innovative new industries, services, and products to meet the changing needs of Americans. In some cases, federal assets are underutilized or unused. In other cases, federal activities are quite clearly private-sector endeavors that do not belong under the purview of the federal government. Markets will make better use of underutilized federal properties to the benefit of customers and local communities. Privatizing assets will also increase the tax base and, therefore, federal, state, and local tax revenues.

The benefits of privatization far outweigh the upfront "costs" of privatization, such as those caused by budget scoring rules that make privatization unnecessarily difficult politically. There are many individual examples of successful divestment of federal assets, among them:

- The Old Post Office Pavilion in Washington, DC, which was transformed from a languishing food court to a five-star hotel under the provisions of a 60-year lease to the Trump Organization in 2013;

- The South Nevada Public Land Management Act of 1998, which made 68,000 acres of federal lands near Las Vegas available for purchase and generated proceeds for Nevada's General Education Fund, the Southern Nevada Water Authority, and federal conservation and maintenance projects; and

- The Alaska Power Administration Asset Sales and Termination Act of 1995, which sold federally managed electricity generation, transmission, and administrative assets between 1995 and 1998, and generated over $87 million in revenues.[39]

There are a variety of ways to accomplish the downsizing of federal assets. Undertaking a process similar to military base re-alignment and closure (BRAC) to dispose of a large number of surplus property is one approach. In some cases, it may be most appropriate to transfer managerial authority to states (for example, in the case of some federal lands), which can then determine courses of action according to their unique circumstances.

Congress and the Trump Administration should privatize the following assets:

- **Federal buildings.** The federal government holds a vast array of real property—leasing or owning approximately 295,000 buildings in the United States and spending $1.7 billion to maintain vacant or underused buildings.[40] However, significant hurdles exist for the government to offload real property, such as federal laws that force agencies to first offer the facility to another federal agency, state and local governments, or qualified nonprofits.

- **Tennessee Valley Authority (TVA) and Power Marketing Administrations (PMAs).** The mission of the TVA and PMAs to provide rural electrification and economic development have long been accomplished.[41] Electricity production and distribution are primarily private and local functions and their continuance as government corporations has led to costly investments, environmental damage, high electricity rates, and growing liabilities for U.S. taxpayers. The TVA and PMAs own extensive generating capacity and hundreds of thousands of miles of transmission lines in the South, West, and Northwest, some of which are valuable assets. Both the Reagan and Clinton Administrations proposed privatizing the PMAs.

- **Fannie Mae, Freddie Mac, and other GSEs.** Mortgage securitizers Fannie Mae and Freddie Mac imploded in 2008, triggering a major recession and financial crisis in the United States.[42] Instead of shutting down these failed companies, both GSEs remain under government conservatorship, with taxpayers standing behind all of their obligations and the housing market even more distorted than it was before. History shows that the housing market does not need this type of government guarantee. Fannie Mae and Freddie Mac are America's largest GSEs, but other GSEs that should be devolved include Amtrak, the U.S. Postal Service, the Federal Home Loan Banks, and the Export–Import Bank.

- **Federal lands.** The federal government owns over 640 million acres, 700 million subsurface acres, and the Outer Continental Shelf covering more than 1.7 billion acres. Federal responsibilities on these lands and waters include managing millions of acres for energy and mineral development, timber and biomass production, grazing land, and wild horse and burro management; 492 dams and 338 reservoirs; 419 national park sites; 27,000 historic structures; over 110 million wilderness acres; 150 million-acre National Wildlife Refuge System; 72 fish hatcheries; and other related facilities for endangered species recovery. Federal agencies cannot adequately manage these lands and the natural resources on them, and face multibillion-dollar maintenance backlogs. The federal government simply passes on the costs of poor land management to federal taxpayers, but private citizens, businesses, and nonprofit organizations have powerful incentives to manage resources better. The President and Congress should explore avenues to reduce the size of the federal estate dramatically, with the exception of congressionally designated national parks and wildlife preserves. Options should include privatization, transfer to states, and the use of private land trusts.

- **Federal lending for student loans.** The federal government now originates 89 percent of all student loans, making the private sector virtually obsolete. The federal government's role in originating and distributing federal loans inflates tuition costs and allows students to make subsidized investments in degrees with little value to employers. Racking up $1.6 trillion in debt with little ability to pay it back has sidelined some of the brightest young Americans from fully participating in the modern economy. The private sector is better suited than the government to determine creditworthiness of students while putting downward pressure on tuition prices.[43]

- **The Transportation Department's Saint Lawrence Seaway Development Corporation (SLSDC).** Created through the Wiley–Dondero Act of 1954, the SLSDC is a government-owned entity charged with maintaining and operating the part of the Saint Lawrence Seaway that is within United States territory. The seaway opened in 1959. Canada privatized its agency equivalent in 1998, eliminating any future taxpayer funding for its maintenance and operation activities.

- **Defense Department infrastructure.** The military has approximately 19 percent excess capacity, ranging from 6 percent in the Navy to 29 percent in the Army.[44] It is not likely to need the same types of facilities it now has. Previous military installations have been transitioned to productive, innovative uses, an example being the Presidio

Trust housing, retail, and recreation area that was formerly a major Army base. The last time the Defense Department was able to shape its infrastructure footprint was during the 2005 round of BRAC. Congress should allow the Defense Department to conduct another rigorous and transparent review of its current and future infrastructure needs, including the closing of bases and facilities as appropriate.

- **The Strategic Petroleum Reserve (SPR), the Northeast Home Heating Oil Reserve, and the Gasoline Supply Reserves.** Congress initially authorized the SPR to store up to one billion barrels of petroleum products, and mandated a minimum of 150 million barrels of petroleum products. It currently holds 645 million barrels.[45] The Northeast Home Heating Oil Reserve and the Gasoline Supply Reserves established by Congress contain 1 million gallons each of diesel and refined gasoline to prevent supply disruptions for homes and businesses in the Northeast. Whether a shortage or a surplus of any resource exists, the private sector efficiently responds to changes in oil prices by unloading private inventories, making investments in new drilling technologies, or increasing the use of alternative energy sources. Congress should authorize the Department of Energy to sell off the entire reserve (specifying that the revenues go solely toward deficit reduction) by auctioning 10 percent of the country's previous month's total crude production until the reserve is completely depleted. The Energy Department should then decommission the storage space or sell it to private companies.

- **Commercial nuclear waste management.** Management of nuclear waste from commercial nuclear power reactors is a business activity, not an inherent government function. Yet the Nuclear Waste Policy Act established a system where the Department of Energy is legally responsible for collecting and storing waste from commercial nuclear reactors. Decades of dysfunction demonstrate the federal government's inability to manage nuclear waste rationally, economically, or at all. Taxpayers and electricity ratepayers have spent more than $15 billion to evaluate a repository site at Yucca Mountain in Nevada, and no technical or scientific evidence has yet disqualified it as a viable option. Congress should appropriate funds to complete the review of the Yucca Mountain permit application and transition to a more market-based approach that allows for an innovative, multi-dimensional market with an array of management opportunities for the future nuclear industry. The private sector should ultimately take responsibility for managing its own nuclear waste, with the government limited to providing regulatory oversight and taking final ownership of any waste upon final disposal, similar to the approach in Finland.[46]

Restraining and Reforming Federal Spending

Economists often forecast that the effects associated with government spending, deployed correctly and quickly, will have a "multiplier effect" returning more economic growth than the simple dollar outlay.[47] Such predictions often come up well short of the estimates necessary to make the outlays worth the cost.[48]

The most common calls are for new spending directed at infrastructure projects. Like all demand-side stimulus, the results of new infrastructure spending are typically disappointing. Temporary spending increases tend to shift resources within the industry rather than resulting in a permanent expansion in the number of firms or jobs.[49] Existing supply-side constraints around permitting, labor union prevailing wage requirements, and procurement restrictions also remain obstacles that must be overcome regardless of the funding source.[50]

Unshackling Infrastructure Investment. Rather than increasing the federal role in infrastructure, policymakers should meet calls for increased spending by first removing the existing constraints on already appropriated funding and private activity by scaling back regulations. Expediting permitting and reforming energy-sector regulations can unlock hundreds of billions of dollars in economic value over the next decade.[51] The Administration's "One Federal Decision" policy to streamline environmental reviews is a positive example of such reforms and should be codified by Congress.[52] Removing barriers to private ownership and operation of airports,[53] reforming airport funding,[54] and privatizing Air Traffic Control,[55] would revitalize the aviation industry. Reforming federal rules regarding private activity bonds and public–private partnerships can facilitate significant new private funding for infrastructure projects.[56]

The per-dollar value of existing federally funded infrastructure projects could be increased by repealing the Davis–Bacon Act for setting wages, repealing project labor agreements for work rules, and repealing "Buy America" restrictions on materials.[57] Prioritizing spending from the Highway Trust Fund by eliminating non-highway spending diversions, and devolving existing federal transportation spending and taxes to state and local governments, would further increase the economic value and speed of taxpayer-funded infrastructure projects.[58]

De-Risking the Debt. Large debts and uncontrolled deficits are a poorly understood source of economic uncertainty even given the substantial literature on government debt. This is at least partly due to the fact that sustained high levels of sovereign debt during peace time are a relatively new phenomenon. Any economic crisis will only expand the gulf between revenues and outlays as people rely on existing benefit programs more heavily and tax revenue declines.

Existing U.S. debt and deficits create uncertainties that are likely a source of current debt-market instability and depressed investment as governments around the world continue to rely on unprecedented levels of debt. Central banks themselves are also purchasing more government debt than ever before.[59] Historically, this has been an important tool that has allowed the U.S. government to run deficits during recessions without worrying too much about associated short-run concerns. With deficits already close to historic highs, traditional fiscal policy could face new constraints. Similar uncertainty exists around how the Federal Reserve will unwind its balance sheet if the economy remains strong, and what remaining tools it has to use in the case of a downturn as interest rates remain historically low.

Large deficits can also mute the impact of tax policy as investors are forward-looking and know that if spending is not reasonably constrained and reformed, taxes are likely to increase.[60] Tax cuts are often associated with future tax increases, absent spending reductions.[61] This causes businesses to hold back investments while becoming more risk averse. At the same time, new taxes are often associated with new spending rather than deficit reduction.[62] However, the policy uncertainty alone associated with increased deficits is enough to depress economic growth.[63]

The main drivers of spending growth and the national debt are Social Security, health care entitlement programs, and interest payments on the national debt. By 2029, these categories of spending will consume 86 percent of all federal revenues.[64] Medicare is projected to run out of reserve funding by 2026 and the Social Security Trust Fund is projected to be depleted by 2035. The funding shortfalls mean benefits will be cut or taxes will increase substantially.[65] Reforming entitlements is the key to putting the federal budget on a long-term path to sustainability and reducing the risks associated with the national debt.[66]

Reforms

The best way to respond to an economic slowdown is by removing disincentives that stand in the way of economic activity, through ensuring policy predictability and pursuing an environment that does not discourage working, saving, and investing. There are a number of ways that policymakers can achieve such an environment including many of the proposals offered in this *Backgrounder*. It might be the case that recessions can never be avoided but it is possible to reform current policies so that they stop depressing economic activity while also providing policymakers with additional needed flexibility during recessions when they do happen.

To remove barriers to innovation, economic opportunity, and growth, federal officials should:

- **Pursue trade agreements and lower tariffs** in order to increase choice and provide competitive prices for consumers and businesses and ensure more certainty for future investments.

- **Streamline costly financial, environmental, and labor regulations** that pose the largest impediments to private-sector growth and innovation.

- **Privatize government-owned assets** to create room for innovative new industries, services, and products to meet the changing needs of Americans.

- **Create tax certainty and restrain federal spending** by making the 2017 tax cuts permanent and reforming the largest drivers of growing federal deficits to ensure that taxes do not increase and that the U.S. debt becomes manageable.

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