AMERICANS for TAX REFORM

722 12th Street N.W.

Fourth Floor

Washington, D.C.

20005

T: (202)785-0266

F:(202)785-0261

www.atr.org

Testimony of Grover Norquist
President, Americans for Tax Reform and Chairman, Center for Fiscal Accountability

submitted to

United States House of Representatives
Committee on Science and Technology, Subcommittee on Investigations And Oversight

Hearing on
"Follow the Money Part II: Government and Public Resources for Recovery Act Oversight"

Mr. Chairman, Members of the Committee,

I appreciate the opportunity to submit testimony on the issue of "following the money," specifically the money appropriated under the "American Recovery and Reinvestment Act of 2009." I serve as president of Americans for Tax Reform and chairman of our most recent project line, the Center for Fiscal Accountability. We focus on keeping the growth of government in check by keeping taxes and spending low and promote transparency and accountability in that context.

Government Cannot Create Wealth

As a taxpayer advocacy organization, Americans for Tax Reform was strongly opposed to the passage of the "Recovery Act" under the guise of economic stimulus. We dispute the notion of government spending as "stimulus" for the economy, as do many economists. History underscores government's failure to "spend" an economy out of a recession:

> In 1997, Argentina's economy began to worsen. In response, Argentine non-interest government spending grew from 23% of GDP in 1997 to 25% of GDP by 2001. The equivalent in the U.S. would be an immediate increase in government spending of nearly $300 billion. Despite this, average real GDP growth in the period was just 0.7%
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> In the 1990s, Japan tried to grow government to "prime the pump" of the economy. Government spending grew from 32% of GDP in 1991 to 38% of GDP in 2000. The equivalent in the U.S. would be an immediate increase in government spending of nearly $900 billion. After this experiment, Japan's per-capita national income fell from 86 percent of the U.S. level in 1991 to only 74 percent in 2000. The people of Japan became poorer after this massive government "stimulus"
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> In 1929, the U.S. entered the Great Depression. In the decade following, a Republican failed president (Herbert Hoover) and a Democrat failed president (FDR) increased federal spending from 3.4% of GDP in 1930 to 10.3% of GDP in 1939. The equivalent today would be an immediate increase in government spending of $1 trillion. Despite all the spending of the New Deal, the U.S. economy actually shrank from $97.4 billion to $89.1 billion, or nearly 10 percent in 10 years.

Government cannot create wealth, it merely displaces capital and moves it around. Noted economist Henry Hazlitt pointed out years ago:

> The greater the amount of government spending, the more it depresses the economy. In so far as it is a substitute for private spending, it does nothing to "stimulate" the economy. It merely directs labor and capital into the production of less necessary goods or services at the expense of more necessary goods or services. It leads to malproduction. It tends to direct funds out of profitable capital investment and into immediate consumption.

Essentially, Keynesian "stimulus" is akin to walking to one side of a lake, removing water with a bucket, and carrying it over to the other side to pour it back in. This will not "stimulate" the lake. It will be no deeper than it was before.

Thanks to the "stimulus/bailout/pork/omnibus" bills, federal spending alone this year will be about 30 percent of GDP, according to Strategas Research Partners, LLP. That's the highest level since 1945, when World War II was drawing to a close. Since then, the average has been only 20 percent of GDP, a figure that held up as recently as two years ago. Since 2007, the federal government has managed to increase spending by 50 percent, and the budget just passed by Congress envisions a world where the federal government spends 25 percent of economic output on a permanent basis. These are unsustainable levels, and they will have to be paid for, most likely in the form of tax increases.

Not only does this package place a massive burden on American taxpayers, it also comes fraught with many problems, not least in the form of strings attached to funding made available to states, which are required to expand programs such as unemployment insurance. This is likely to lead to budgetary problems at the state level down the road once "stimulus" funds dry up, and the reason for which several governors have announced their opposition to accepting such funds.

The Invention of a New Metric: "Jobs Created/Saved"

Apart from the aforementioned underlying flaws, another problem we see is the arbitrary focus on the "jobs created/saved." President Obama has claimed that the Recovery Act would create or save four million jobs. In his press conference marking his 100th day in office on April 29, he asserted that the Act had already saved 150,000 jobs to date – against the background of official Bureau of Labor statistics that point to 1.3 million jobs lost since the President took office.[1]

The number of jobs "created and saved" will be impossible to determine. While there may be a metric to calculate job creation, any such claim can only be an estimate and fails to take into account any jobs that are destroyed as money is taken out of one part of the economy to inject it into another. Further, there is no way to scientifically and accurately calculate the number of net jobs saved, because it is impossible to know what would have happened absent the passage of the "stimulus" package.

Earlier this year, Senator Max Baucus (D-MT) challenged the Administration on their arbitrary claim, saying:

> "You created a situation where you cannot be wrong. If the economy loses 2 million jobs over the next few years, you can say yes, but it would've lost 5.5 million jobs. If we create a million jobs, you can say, well, it would have lost 2.5 million jobs. (…) You've given yourself complete leverage where you cannot be wrong, because you can take any scenario and make yourself look correct."

Transparency and Accountability Challenges

While we remain unconvinced of the merits of the Recovery Act, and remain concerned about the burden it imposes on taxpayers, the focus now must be damage control. This Committee has an important responsibility to ensure that funding from the Recovery Act is spent with an eye on

[1] http://www.bls.gov/news.release/empsit.nr0.htm.

minimizing the potential for fraud, waste, and abuse, the danger for which lurks whenever large sums of money are spent expeditiously. The key to minimizing fraud, waste, and abuse are transparency and accountability.

While the President assumed office promising that "those of us who manage the public's dollars will be held to account, to spend wisely, reform bad habits, and do our business in the light of day,"[2] already the way in which the Recovery Act was passed - without a single hearing by any committee, and without giving members of Congress an opportunity to read the hundreds of pages of bill text and report language – was a blatant violation of both the spirit and the letter of that promise.

And despite renewed lofty promises of an "unprecedented level of transparency" with regard to the implementation of the Recovery Act, so far, taxpayers are still largely in the dark as to how "stimulus" dollars are being spent.

Recovery.gov, the website which the Administration promised would allow "every America (to) find out how and where their money is being spent," has been touted as the administration's one-stop-shopping place for stimulus information. However, while aesthetically pleasing, the site so far holds little detail, but instead many colorful charts, links and announcements, as well as propaganda. Private sector websites like Recovery.org currently hold more useful information about spending projects already underway.

Given that much of the funds designated for agencies under this committee's jurisdiction will be distributed in the form of grants, a recent update on the implementation of the Federal Funding Accountability and Transparency Act which led to the creation of USAspending.gov launched on December 13, 2007, should alarm members of this committee: Over a year after its launch "significant data quality and completeness issues remain" - specifically with regards to assistance data (primarily grants and loans). If government is not able to live up to transparency requirements for regular government expenditures, how will we achieve oversight, transparency, and accountability for massive sums of funds that are rushed out the door?

The Recovery Act itself was rather vague in its transparency and accountability requirements. Subsequent guidance memoranda from the Office of Management and Budget (OMB) have taken first steps in the right direction. However, they still fall short in providing a framework that will be capable of helping prevent fraud, waste and abuse. One of the big concerns in this area is the failure of the disclosure requirements to capture multi-tier sub-awards, meaning funding that flows from the prime recipient through several other tiers of sub-awarding before it reaches the final recipient, and OMB should strengthen its guidance accordingly.

The promised "unprecedented level of transparency" can only be considered achieved if the following applies:

All information relating to expenditures made under the Recovery Act, ranging from prime-award over the various tiers of sub-awards to the final recipient should be provided in a form that allows users to programmatically search and access all data in a serialized machine-readable format, which allows for data to be exported. Users should be able to sort data by categories as well as search and find data by single keyword.

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[2] President Barack Obama, Inaugural Address, Jan. 20, 2009.

If the data is presented in such a format, third-party groups will be able to supplement and augment the government's efforts to provide transparency and accountability by building their own websites and leveraging new technologies to create mesh-ups and other user-friendly applications as some have set out to do.

Taxpayers should further be able to access the full text of all contracts and related documents (i.e. RFPs, terms etc). The OMB guidance memoranda require the posting of summaries of contracts or orders (of contracts over $500,000 or of the contracts that were not fixed-price/competitively awarded). However, a comprehensive analysis of the spending occurring under the Recovery Act is only possible when access to all expenditure documents is granted – no thresholds, and full text if permissible by law, and if not permissible by law, maybe the law would have to be revisited. The same standards should apply for grants.

Lastly, given the implications of this massive spending package for taxpayers, transparency and accountability is needed in the process – not after-the-fact. Consequently, only providing the data to taxpayers in (close-to) real-time would do them justice, but at this point, it appears more likely that taxpayers will only be given the opportunity to perform an autopsy.

Thank you.