

Testimony of the
U.S. Public Interest Research Group

By
Gary Kalman

February 17, 2011

Waste and Abuse in Federal Spending

Before the
United States House
Committee on Oversight and Government

The Honorable Darrell Issa, Chair

Testimony of Gary Kalman, U.S. PIRG Federal Legislative Office Director
On
Waste and Abuse in the Federal Spending

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Chairman Issa, Ranking Member Cummings, and members of the committee I thank you for inviting me to testify today on behalf of the U.S. Public Interest Research Group -- U.S. PIRG.

U.S. PIRG, the federation of state PIRGs, is a nonprofit, nonpartisan organization that advocates and educates on matters to encourage a fair, sustainable economy, protect the public health, and foster responsive, democratic government.

The level of federal spending is of great concern to Americans. A November Pew Research Center poll, showed that 70 percent of Americans believe federal spending is an urgent problem. Other opinion research indicates that public concerns are focused on waste, whether it is fought for and won by narrow special interests, programs that have outlived their usefulness, or blatant inefficiencies that have been allowed to continue for years.ⁱ

How government collects and spends money is critically important. Tax and budgeting decisions are the most concrete way that government declares its public priorities and balances between competing values.

Unfortunately, budget-making rules and public laws about taxes and spending often fail the public interest in a number of ways. For instance:

- **Special-Interest Giveaways** – Subsidies and tax breaks are often granted on the basis of private influence or connections instead of their public merits.
- **Lack of Transparency and Accountability** – It is not possible to ensure that government decisions are fair and efficient unless information is accessible and officials can be held to task for their actions.
- **Wasteful and Counter-Productive Expenditures** – Resources too often get wasted or programs create incentives that are unwarranted or undesirable
- **Unfair Taxes** – Ordinary households bear an increasing burden while large corporations increasingly avoid paying their share.
- **Short-Sighted Decisions** – Laws and regulations often fail to address long-term consequences, instead deferring difficult decisions or opting for short-term “fixes” that can make problems worse.

U.S. PIRG advocates improvements in fiscal policy to stop special-interest giveaways, increase budget transparency and accountability, eliminate waste, ensure that subsidies or tax breaks serve the public, and make taxes fairer.

Public money should be spent for the most effective pursuit of clear public benefits or to encourage beneficial behaviors undervalued by the market. U.S. PIRG believes that taxes should be fair, reliable, transparent, and guided by policy goals rather than political deal making. Budgeting should similarly be open, accountable, and follow long-term planning.

We are proud to have partnered with the National Taxpayers Union to develop the list of spending reductions detailed in our October 2010 report, Toward Common Ground: Bridging the Political Divide to Reduce Spending. The report details more than \$600 billion in specific spending cuts over 5 years and a copy of the report has been included in our written testimony submitted for the record.

These spending cuts are a good place to start, but not only because of the current budget situation. In good fiscal times and bad, during years of budget surpluses or deficits, taxpayers deserve to know that their money is being well spent, that it is going to true public priorities and that there is accountability in the system. The USPIRG-NTU partnership dates back to the Green Scissors coalition which brought together an impressive number of environmental and taxpayer watchdog groups to target wasteful spending that harmed the environment and public health. The two groups also worked together on improvements and efficiencies to the federal contracting process with an eye toward saving tens of billions of taxpayer dollars through common sense reforms.

The point is that while there is any number of issues that may divide our groups – and our respective memberships -- there are broad areas where we can come together and support responsible and accountable spending of taxpayer dollars. One message of our joint effort is for Congress to start where there is agreement from across the political spectrum.

I'd like to share with you U.S. PIRG's approach to the spending cuts. We entered our partnership with NTU guided by four basic principles:

1. Oppose subsidies that provide incentives to companies that do harm to the public interest or do more harm than good. An example here is subsidies for ethanol for which, according to researchers from the University of Minnesota and elsewhere, there is very little if any truth to the benefits of ethanol and there are adverse environmental impacts.
2. Oppose subsidies to mature, profitable industries that don't need the incentive. These companies would engage in the activity regardless of the taxpayer support. We would include in this category subsidies through the Market Access Program which, among other things, effectively pay for overseas television advertising and other marketing of specific products of successful multi-billion companies. These companies have both the incentive and resources to do their own product promotion without taxpayer handouts.
3. Support reforms to make government more efficient. Examples here include reducing the inventory of unused or underused government buildings and encouraging the use of centralized military repair depots.
4. Oppose funding where there is authoritative consensus to do so. This means: (1) strong, independent agreement across the political spectrum that a program is wasteful, or (2) the agency or department receiving the funding has argued against it. A specific example here is the National Drug Intelligence Center which has been the subject of numerous unfavorable reports about its impact and effectiveness. The GAO has concluded that it duplicates existing efforts.

A particular value of the recommendations detailed in the report is that they are specific; they focus on agreed-upon wasteful spending. Too often we see gestures toward unnamed waste without taking the hard and necessary step of stating exactly which programs should be cut.

Along these lines, I note that U.S. PIRG does not support "across the board" cuts -- such policies fail to differentiate between true public priorities and where there is genuine waste or inefficiencies in the system. Americans prioritize national defense, but if efficiencies can be made to the way we repair military vehicles, that savings is no less important than market reforms to streamline the costs of Medicare.

While not in the report, we would also urge committee members to review special interest carve outs through tax expenditures and loopholes. These expenditures have the same bottom-line effect on our nation's deficit as direct line-item spending. Regardless of whether spending takes place through the tax code or the appropriations process, it should be part of the conversation and it should be transparent, accountable and serve the public.

Take for example loopholes that allow for the increasing use of off-shore tax havens. Many corporations operating in the United States funnel money through offshore tax havens in order to avoid paying billions in U.S. taxes. In fact, an independent study found that nearly two-thirds of corporations pay no taxes at all. Goldman Sachs, which received a \$10 billion taxpayer bailout, managed to get their effective tax rate down to one percent by utilizing maneuvers they describe as “changes in geographic earnings mix.”

Those who use tax havens benefit from easy access to American markets, workforce, infrastructure and security but pay little or nothing for it. Ordinary taxpaying households and small businesses end up picking up the tab for the missing revenue to the U.S. Treasury. The avoidance and evasion of taxes for a few becomes the burden for many – and for the future.

Offshore tax havens cost taxpayers revenue totaling as much as \$100 billion per year - \$1 trillion over 10 years. Individuals and corporations based in the U.S. who pay taxes on their revenues must shoulder this burden for those who do not.

Let me end by saying that many of the items on our list challenge long-standing subsidies to narrow special interests. While these expenditures serve little or no continuing public purpose and their elimination would be widely likely be supported by the public, there will no doubt be intense lobbying efforts to preserve the handouts. We urge you to resist those efforts and take the first important steps toward addressing our federal spending problem and ensuring that any public expenditure is for the public interest.

We applaud the committee for looking anew at these giveaways and urge you to challenge tradition in the difficult decisions to reform the budget that lie ahead.

Thank you

ⁱ Rasmussen poll, December 10, 2010 and *Washington Post/Kaiser Family Foundation/Harvard University* poll Sept. 22-Oct. 3, 2010

Committee on Oversight and Government Reform
Witness Disclosure Requirement – "Truth in Testimony"
Required by House Rule XI, Clause 2(g)(5)

Name: GARY KALMAN

1. Please list any federal grants or contracts (including subgrants or subcontracts) you have received since October 1, 2008. Include the source and amount of each grant or contract.

The U.S. Public Interest Research Group (U.S. PIRG), the entity I will represent at the hearing, has not received any federal grants or contracts. For full disclosure, I also serve as staff for the U.S. PIRG Education Fund and that entity has received a 1 year contract from the National Community Service Corporation starting in 8/15/10 for \$461,188.

2. Please list any entity you are testifying on behalf of and briefly describe your relationship with these entities.

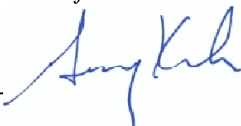
I will be testifying on behalf of the U.S. Public Interest Research Group (U.S. PIRG). I serve as the Director of the Federal Legislative Office.

3. Please list any federal grants or contracts (including subgrants or subcontracts) received since October 1, 2008, by the entity(ies) you listed above. Include the source and amount of each grant or contract.

As stated above, U.S. PIRG has not received any federal grants or contracts. By way of full disclosure, the U.S. PIRG Education Fund, with which I am also affiliated, has received a 1 year contract from the National Community Service Corporation starting in 8/15/10 for \$461,188.

I certify that the above information is true and correct.

Signature:



Date:

2/15/2011

Background

Gary Kalman Biography

Gary Kalman directs U.S. PIRG's federal affairs office in Washington, D.C. From 2005 through 2007 he led the legislative advocacy and research for U.S. PIRG's Democracy Program where he specialized in campaign finance, government accountability and election reform. During that time, he was a leading voice in the successful effort to pass landmark reform of the Congressional ethics and lobbying laws. In 2009, Mr. Kalman was a founding member of Americans for Financial Reform, a coalition of more than 250 state and local organizations that, in the wake of the economic crisis, led the effort to reform our nation's financial sector. He is the author of several reports on money and politics. He has testified before Congress and he and his work have appeared in The New York Times, The Washington Post, USA Today, Fox News, MSNBC and elsewhere.

Prior to joining U.S. PIRG, Mr. Kalman worked with a team of producers to develop the nationally syndicated NPR program, Justice Talking. In a partnership with the New York Times, NPR and the University of Pennsylvania, he led the development and design of Justice Learning, an award-winning Internet-based civics program recognized at the 2006 Webby Awards. He is a co-editor of The U.S. Constitution: What it Says, What it Means (Oxford University Press). A graduate of Clark University, Mr. Kalman has also served as a political campaign and organizational consultant and as an instructor at LaSalle University where he lectured on nonprofit advocacy and development.