

## [To Cut or Invest: A Timely Debate](#)

On 02.07.11, In [News](#), By Daniel Goldfarb

Recently, a debate has been raging between those who want government to cut spending and those who want it to invest in the future. Today, ITIF and The Breakthrough Institute brought together the leading voices on both sides of the spectrum at a debate entitled, [“Cut or Invest: What’s the Best Way to Grow Our Economy?”](#) With Robert Atkinson of ITIF and Fred Block of Breakthrough Institute supporting investment and David Kreutzer of the Heritage Foundation and Jerry Taylor of the Cato Institute supporting spending cuts, the debate illuminated the sharp differences that will have to be overcome to achieve forward looking energy policy.

With the Tea Party’s success in the last election and President Obama’s recent focus on re-investing in America’s innovation capacity, the debate between ‘deficit hawks’ and [‘innovation hawks’](#) has dominated recent headlines. Today’s event, much like the larger dialogue, focused on the appropriate role of the government in the economy. In Fred Block’s opening statement, he defined a three point argument that became the focal point for much of the debate:

1. Most of the necessary deficit reductions will have to come from economic growth – a position shared by conservative as seen in their support for Bush’s tax cuts.
2. Greatly expanded R&D is critical for the rapid economic growth.
3. Public investment in R&D, especially in energy, is essential because of market failures.

Much, although not all, of the following disagreement focused on point three. Taylor and Kreutzer argued that the government was ill suited to fund R&D because of the inherent politicization of federal funding. Key to this argument was the idea that the free market is most capable of properly allocating funds to R&D projects.

To this Atkinson contended that “short term capital pressures” force bad decisions on R&D in the private sector. This response brings to bear an important question: can the financial time lines of companies and financiers properly align with the long term horizons of basic R&D?

Kreutzer seemed to think that one of the biggest problems with government R&D was that an unprofitable idea could continue to receive government funding, where as in the private sector you get only “one strike”. But can advanced technologies reasonably be expected to reach commercialization without a few setbacks? The long term horizons of such government R&D programs as DARPA, ARPA-E, the National Labs, and the NIH are in fact more able to accomplish research breakthroughs because they accommodate the pace of technological innovation.

[The government's long history](#) of funding the R&D that has led to some of the nation's greatest inventions also became a point of contention between the two sides. Kreutzer pointed to ARPA's creation of the predecessor to the Internet as a reason the government *should not* pursue clean tech R&D, saying that the intended function of the Internet was not to facilitate commercial exchanges, but rather for military purposes. His argument being that the government does not do a good job at applied research.

Yet that example, and his basic analysis, seem like the very argument *for* federal R&D. Government supported research, because it gives technologies multiple strikes, facilitates profound unintentional positive outcomes. Whereas projects in a private lab are meant for commercial ends, the government is able to provide more flexibility due to its lack of profit seeking. It is in fact commercialization that the private sector excels at, as Kreutzer's example of the Internet shows us, and the government should continue to provide the seed of innovation by which companies grow whole industries.

Moving forward, it is crucial to remember that the debate need not be black and white. A smart government strategy will combine the best of each tactic, cutting wasteful spending and using that money to invest in America's economic engine, innovation.