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House Committee on Appropriations

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I am Robert Greenstein, executive director of the Center on Budget and Policy Priorities. The Center is an independent, nonprofit policy institute that conducts research and analysis on a range of federal and state policy issues, with particular emphasis on fiscal policies and policies affecting low- and moderate-income families. We receive no government grants or contracts and are funded by foundations and individual donors.

My testimony today will focus on three areas: 1) trends in funding for domestic discretionary programs and how this part of the budget is affecting the short-term and long-term budget outlook; 2) the President's budget proposals with regard to this part of the budget; and 3) how broader national and global forces and the trend toward widening income inequality are likely to affect needs for non-defense discretionary funding in the years ahead.

I. Domestic Discretionary Funding Trends and their Impact on the Budget

In some quarters, there is misunderstanding of recent trends in funding for domestic discretionary programs. Some people believe that funding for these programs has exploded since 2001 and been a key factor driving the federal budget from surpluses at the start of the decade to the deficits we face today. The facts do not support this view.

There has been — and continues to be — a long-term decline in expenditures for non-defense discretionary programs both as a share of the economy and as a share of the budget. Expenditures for non-defense discretionary programs (including international affairs and homeland security) equaled 5.2 percent of the Gross Domestic Product in 1980; they amount to 3.7 percent of GDP today, and under the Congressional Budget Office baseline, will decline to 2.8 percent of GDP by 2018.

Similarly, these programs accounted for 24 percent of the budget in 1980, make up 18.2 percent of the budget today, and will constitute about 14.7 percent of the budget by 2018 under the budget baseline.

Changes Since 2001

Some people argue that whatever the longer-term trend, appropriations for discretionary programs unrelated to national security have mushroomed since the start of 2001 and have helped fuel the return of deficits. This perception reflects, in part, the fact that significant increases in domestic appropriations were enacted in 2001, when policymakers believed we would be running large budget surpluses for the indefinite future and sought to address perceived needs to invest more in education, biomedical research, and other areas.

In the six-year period since deficits have returned, however — i.e., from fiscal year 2002 to fiscal year 2008 — funding for domestic discretionary programs outside homeland security has increased only modestly in real terms and actually has fallen in real *per-capita* terms and as a share of the economy.

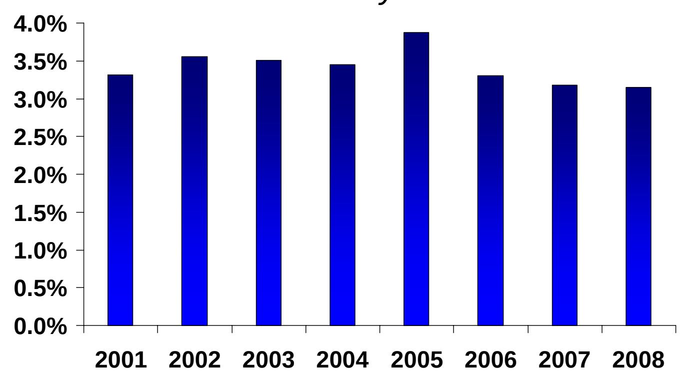
- Total funding for domestic discretionary programs outside homeland security is 5.4 percent greater in fiscal year 2008 than in fiscal year 2001, after adjustment for inflation and population growth (i.e., in real per capita terms). This is an average annual rate of growth of seven-tenths of one percent.[1] [2]

- When policymakers wrote the fiscal year 2002 appropriations bills in summer of 2001, the budget appeared to be awash in

Figure 1

Funding for Domestic Discretionary Programs Is Lower As a Share of the Economy Than in 2001

Domestic Discretionary Funding Outside Homeland Security as a Share of GDP



Source: CBPP calculations based on CBO data. Figures include emergency and supplemental funding.

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[1] If one adjusts only for inflation and not for population growth as well, the increase from 2001 to 2008 equals 12.5 percent, for an annual average growth rate of 1.7 percent.

[2] Funding data are from the Office of Management and Budget, *Historical Tables*, February 2008, and include amounts designated as "emergency funding." These data are adjusted in two ways. First, the amount of obligations specified in appropriations bills for program funded by the highway and aviation trust funds are counted as discretionary funding. Second, the officially scored levels of budget authority in a few areas are adjusted to avoid serious distortions as a result of timing anomalies. For example, changes that Congress has made over time in how it provides advance appropriations for various education and training programs will distort comparisons of funding levels for different fiscal years, unless an appropriate adjustment is made to ensure that one is comparing "apples to apples" rather than "apples to oranges." To address this problem, we treat all such advance appropriations on a "program year" basis, so that valid comparisons can be made across fiscal years. For more information on these and other adjustments, see the appendix to Richard Kogan, *The Omnibus Appropriations Act*, Center on Budget and Policy Priorities, February 1, 2004.

surpluses, and significant increases were provided for many discretionary programs. After deficits returned as a result of a combination of factors, that growth first slowed and then began to be reversed, with overall funding for domestic discretionary programs outside homeland security being cut over the past few years by most measures. If one compares the overall funding level for domestic discretionary programs outside homeland security in fiscal year 2002 to the levels for fiscal year 2008, one finds a *decline* of 2.6 percent in real per capita terms over the six-year period.[3]

- Figure 1 shows that, as a share of the economy, funding for domestic discretionary programs outside homeland security has unquestionably declined, falling from 3.31 percent of GDP in 2001 and 3.56 percent of GDP in 2002 to 3.15 percent of GDP in 2008, which is one of the lowest levels in at least half a century.

The Shift from Surpluses to Deficits

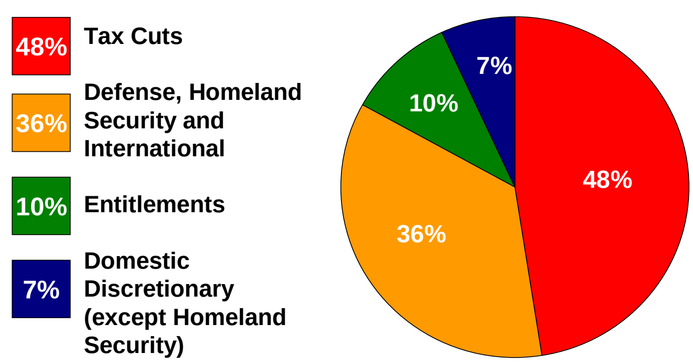
Another way to assess these trends is to consider the causes of the shift from the surpluses that the Congressional Budget Office forecast at the start of 2001 to the deficits we have actually experienced. At the start of the decade, CBO forecast sizeable surpluses for each of the next ten years. Instead, the government has ended up running significant deficits. What caused the turnabout?

CBO data indicate that poorer-than-expected economic performance (including the effects of the recession that hit in 2001) and technical estimating errors accounted for about 31 percent of the budgetary deterioration that occurred in the 2002-2007 period (i.e., 31 percent of the difference between the surpluses forecast for those years at the start of 2001 and the deficits that actually resulted). The other 69 percent of the deterioration, however, was the consequence of spending increases and tax cuts that Congress passed and the President signed.

The CBO data allow us to determine the particular types of legislation responsible for the fiscal deterioration that was caused by legislative action. As Figure 2 indicates, nearly half of this deterioration resulted from tax cuts. A little more than one-third resulted from increases in what the Administration terms security-related spending (i.e., defense, homeland security, Iraq, Afghanistan, other anti-terrorism expenses, and international

Figure 2

Cost, 2001-2007, of Legislation Enacted Since January 2001



Source: CBPP calculations based on Congressional Budget Office data.

[3] Adjusting only for inflation, there has been an increase of 3 percent over the six-year period.

affairs). A smaller portion — one-tenth of the deterioration — resulted from entitlement expansions. Note that only seven percent of the deterioration resulted from increases in domestic discretionary spending above the 2001 levels adjusted for inflation.

Furthermore, the share of the fiscal deterioration attributable to domestic discretionary programs will shrink below 7 percent in the years ahead. The discretionary spending levels in 2007 include spending related to Hurricane Katrina, which will eventually diminish. In addition, the portion of the deterioration that is due to the prescription drug legislation enacted in 2003 will rise in the years ahead, causing the shares attributable to other factors to become somewhat smaller. In short, as these data indicate, domestic appropriations have been a bit player at best in the budgetary deterioration of this decade.

The Nation's Long-Term Fiscal Problems

The more important budgetary questions relate to the difficult decades that lie ahead. Levels of deficit and debt are projected that are unprecedented in the nation's history.

Last year, the Center on Budget and Policy Priorities released projections of what the fiscal landscape will look like through 2050 if we remain on our current policy course — i.e., if the tax cuts of recent years are made permanent, no changes are made in Medicare or Social Security, relief from the Alternative Minimum Tax is continued, etc. The results are extremely disquieting. Deficits, which currently are below 3 percent of GDP, are projected to reach 20 percent of GDP by 2050, and the federal debt (now about 37 percent of GDP) is projected to spiral to more than 200 percent of GDP by 2050. (Our projections are based heavily on CBO estimates and are in line with the long-term projections previously issued by CBO, GAO, and others.)

We also examined the causes of this projected fiscal collapse. The findings are clear: the fiscal deterioration projected over the next half century is due entirely to three factors: increases in health care costs throughout the U.S. health care system that will drive up both private-sector health care costs and Medicare and Medicaid costs; the aging of the population, which will raise the costs of Social Security, as well as Medicare and Medicaid costs; and the costs of extending the tax cuts without offsetting their costs. *None* of the long-term deterioration of the budget that is projected through 2050 is attributable to discretionary programs — for the basic reason that spending on discretionary programs has been shrinking as a share of GDP for more than 30 years, and the CBO baseline projects it will continue to do so in the years ahead. If discretionary spending *falls* as a share of GDP, it cannot cause overall federal spending, deficits, and debt to *rise* as a share of GDP.

In addition, with domestic discretionary spending projected by CBO to equal only one-seventh of the federal budget by 2018, there simply are not large savings to be had here, unless policymakers wish to make increasingly draconian cuts in this part of the budget.

The bottom line is that domestic discretionary spending has had little to do with the return of deficits in recent years and has virtually nothing to do with the projected deterioration of the budget outlook in coming decades. In terms of addressing the nation's very serious long-term fiscal problems, domestic discretionary programs are essentially a sideshow. Major progress in addressing the grim long-term budget outlook will not be made until policymakers institute major, system-wide health care reforms that materially slow projected rates of growth in Medicare and Medicaid costs, raise more revenues, and close the Social Security shortfall.

II. The Proposals in the President's Budget

The President's new budget is not gentle to domestic discretionary programs. The President's budget essentially has four major elements:

- It would make the 2001 and 2003 tax cuts permanent at a cost the budget shows at $2.2 trillion over ten years. (The actual cost is higher, because the budget assumes that the Alternative Minimum Tax will mushroom, affect close to 40 million taxpayers by 2012, cancel out a substantial portion of the tax cuts for many taxpayers, and thereby lower — on paper — the cost of making the 2001 and 2003 tax cuts permanent.)

- The budget includes new funding for operations in Iraq and Afghanistan in 2008 and 2009, as well as substantial increases in 2009 for defense costs not related to the Global War on Terrorism. By 2009, defense funding unrelated to Iraq, Afghanistan, and the Global War on Terror would be 40 percent — or $150 billion — higher than in 2001, after adjusting for inflation. Smaller increases are included in the international area.

- The budget includes almost $230 billion in reductions over five years in projected entitlement costs, the majority of which would come from Medicare.

- The budget includes reductions in funding for domestic discretionary programs of as much as $160 billion over five years — that is, over the next five years, funding for these programs would be set a cumulative total of roughly $160 billion below the 2008 level, adjusted for inflation.[4]

There has been some confusion about the effect of the President's budget on domestic discretionary programs in 2009, as a result of a statement included in the President's budget that the budget would increase "non-security" discretionary funding by three-tenths of one percent. For several reasons, this figure is somewhat misleading. First, the group of programs that OMB said would increase by 0.3 percent includes some *defense* programs, such as the Department of Energy's nuclear weapons programs. Second, the figure was derived by *excluding* some veterans' and border security funding from the 2008 level, while *including* the continuation of such funding in the level reflecting the President's request for 2009. This makes the 2008 level look artificially low and causes the President's 2009 request to appear to be an increase. Finally, in making the 0.3 percent computation, OMB did not adjust the 2008 levels for inflation.

[4] The $160 billion decline is for domestic discretionary programs as a whole, *including* homeland security programs (except for homeland security programs classified as part of the defense budget). If homeland security programs are excluded, the five-year decline exceeds $160 billion.

When these matters are corrected, the result is that the Administration's overall funding level for domestic discretionary programs (other than homeland security) in 2009 would be $20.5 billion — or 4.6 percent — *below* the 2008 level adjusted for inflation.[5]

The domestic discretionary cuts proposed in 2009 include the following:

- In the poverty area, funding for the Low Income Home Energy Assistance Program (LIHEAP) would be cut $570 million or 22 percent. (This is the reduction before adjusting for changes in energy prices.) This would require cutting more than 1 million low-income families and elderly people off the program entirely, shrinking the average amount of assistance provided to poor families by 22 percent, or some combination of the two. The funding level that the President proposes for LIHEAP in 2009 — $2.0 billion — is identical to the program's funding level in 2001, even though home energy prices are now 65 percent higher than in 2001.

- The budget would freeze funding for child care assistance for low-income families for the seventh consecutive year. After adjusting for inflation, child care funding in 2008 already is almost 17 percent below the 2002 level. (Between 2002 and 2006, the last year for which these data are available, the number of low-income children under age five *grew* by more than 8 percent.[6]) According to the Administration's own data, 200,000 fewer children in low-income families would receive federal child care assistance in 2009 under the President's proposed levels for discretionary and mandatory child care funding streams than received such assistance in 2007.

- The budget reduces or freezes funding for a number of other low-income assistance programs, as well. For example, because of cuts in the Section 8 housing voucher program, the nation's largest low-income rental assistance program, at least 100,000 fewer low-income households would receive voucher assistance. The budget falls approximately $1.3 billion short of the amount need to renew the vouchers in use.

- The budget would cut funding for the Centers for Disease Control and Prevention by $433 million, even before adjusting for inflation. These reductions include sharp cuts in funding for detection and control of infectious diseases and preventive health services.

- The budget would reduce funding for the Environmental Protection Agency by $330 million, before adjusting for inflation. EPA funding in 2009 would fall more than $1 billion below the 2004 level (and $700 million below the 2001 level), before adjusting for inflation.

- While the budget would expand some education programs, it would cut others, and its total funding for K-12 education would, at best, simply keep pace with inflation. Although resources for K-12 education were increased in the years immediately following enactment of the No Child Left Behind law, funding has eroded since then. Overall funding for K-12 education in 2008 is 9 percent below its 2004 level, after adjusting for inflation.

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[5] Before adjustment for inflation, the drop is $10.6 billion, or 2.3 percent. It should be noted that the President's budget also proposes that the fiscal year 2009 appropriations bills include $6.4 billion in non-controversial mandatory savings. If those savings are accepted, then domestic discretionary programs outside homeland security would have to be cut $14.1 billion in 2009, after adjusting for inflation, rather than $20.5 billion.

[6] "Low-income" here refers to children whose families have incomes below twice the poverty line.

- Finally, the budget would cut overall discretionary program grants to states and local governments in 2009 by $15.1 billion, or 9 percent, even before adjusting for inflation — and by $19.1 billion, or 11 percent, after inflation is taken into account. For example, grants to states and cities for homeland security, law enforcement, and firefighters and other first responders would be cut by $1.5 billion, or 45 percent, even before adjusting for inflation. Cuts such as these would force states to institute even larger program cuts or tax increases than otherwise will be needed to close the budget gaps now emerging in states across the country as a result of the economic downturn. Unlike the federal government, states must balance their budgets, even during economic downturns, when revenues slow or contract.

In short, the cuts proposed in domestic discretionary programs are substantial and would affect a number of important services. The cuts would affect many disadvantaged children, parents, and seniors of limited means and would squeeze state and local governments. One of the combined effects of these program reductions and the tax cuts the budget proposes would be to further widen inequality.

Discretionary Program Cuts, Tax Cuts, and Medicare Savings

Before concluding the part of my testimony that focuses on the President's budget, I would like to offer a few observations about the Administration's budget as a whole. For the pain that the $20.5 billion in proposed domestic discretionary reductions in 2009 — and the roughly $160 billion in proposed reductions over five years — would cause, the savings would be modest, especially compared with the cost of the tax cuts. Making the tax cuts permanent would cost $2.2 trillion over the next ten years under OMB estimates (and $3.1 trillion if one uses CBO estimates of the cost of the tax cuts and takes into account the cost of the portion of continued AMT relief that would simply prevent the AMT from canceling out part of the President's tax cuts).

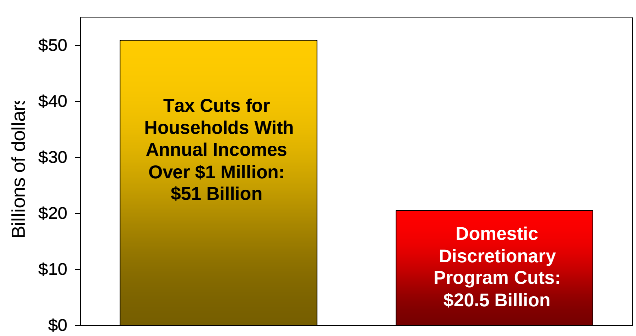
Based on cost estimates from CBO and estimates of the distribution of the tax cuts by the Urban Institute-Brookings Tax Policy Center, the top 1 percent of households (currently those with incomes above $450,000) will receive a total of *$1.1 trillion in tax cuts over the next ten years* if the tax cuts and AMT relief are extended. The Tax Policy Center estimates that the average tax cut for these households will be $67,000 a year by 2012; in today's dollars, this is more than the entire annual income of the typical American household. Similarly, people with incomes of over $1 million a year will receive more than $800 billion in tax cuts over the next ten years if the tax cuts are extended, and their average tax cut will be $162,000 a year by 2012, according to the Tax Policy Center.

These figures lead to a few comparisons. In 2009, the cost of the tax cuts for people with incomes over $1 million (the top 0.3 percent of households) will be *$51 billion.* This is more than double the *$20.5 billion*

Figure 3

President's Budget Proposes Large Cuts in Domestic Programs, But Tax Cuts for Millionaires Are Larger

Tax Cuts and Spending Cuts, 2009



Source: CBPP calculations based on Office of Management and Budget, Joint Committee on Taxation, and Urban-Brookings Tax Policy Center data. If certain mandatory savings are adopted, domestic discretionary cut would drop to $14.1 billion; see footnote 4.

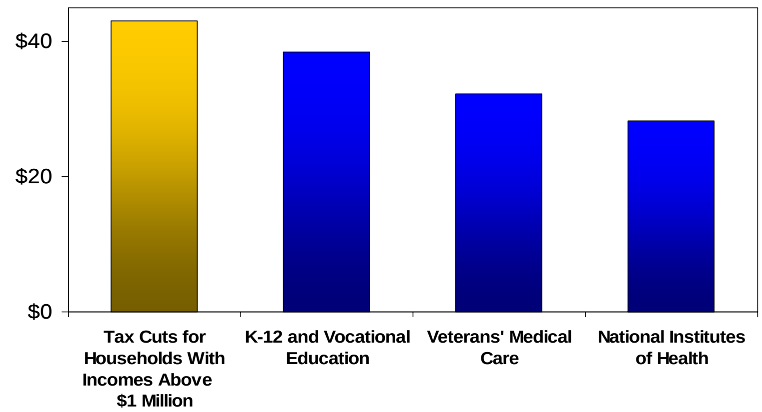
the President's budget would save in 2009 through all of the cuts it proposes in domestic discretionary programs.

Another way of looking at this is to compare the cost of the tax cuts to what the federal government devotes to areas like education and veterans' health care. The annual cost of the tax cuts just for people with incomes over $1 million *exceeds* the total amount the federal government devotes each year to K-12 education and vocational education. Similarly, it exceeds the total amount the federal government spends on veterans' health care.

Figure 4

Cost of Tax Cuts for the Households with Incomes Over $1 Million Exceeds Spending on High-Priority Programs

2007 Program Expenditures and Tax Cuts



Source: CBPP calculations based on Tax Policy Center, CBO, & Treasury Department data.

As these observations may indicate, I do not think that we can afford the full panoply of the President's tax proposals. I also believe we must begin to work on systemwide health-care reform to slow the rate of growth in health care costs in both the public and private sectors. It is in the tax code and the health care system, along with Social Security, that tough decisions will have to be made sooner or later.

If policymakers cannot make progress in these areas, then the first part of the budget to get squeezed substantially as the long-term fiscal picture darkens is likely to be domestic discretionary programs. And to get big savings out of the domestic discretionary part of the budget, the reductions would have to be severe.

Such reductions would threaten the ability of the government to perform a number of its most basic functions. They also would prevent policymakers from addressing important unmet needs, some of which are discussed later in this testimony.

III. Widening Inequality

There is little question that income inequality has widened significantly in recent decades. Congressional Budget Office data, which cover the period from 1979 to 2005, show the following.

- The average annual after-tax income of the top 1 percent of Americans more than tripled between 1979 and 2005 — rising from $326,000 a year to $1.07 million a year, an increase of $745,000 per household, or 228 percent. (This and all other income figures cited here have been adjusted for inflation by CBO and are presented in 2005 dollars.)

- In contrast, the average after-tax income of the middle fifth of the population rose a modest $8,700 — or 21 percent — over this 26-year period. It stood at $50,200 in 2005.

- And the average income of the bottom 20 percent rose just $900 — or 6 percent — over this 26-year period and stood at $15,300 in 2005.

- Looked at another way, the *share* of the national income going to the top 1 percent of households doubled, while the share going to the bottom four-fifths of households declined.

Another way to illustrate what has occurred is to note that in 1979, the average after-tax income of households in the top 1 percent was *23 times* the average after-tax income of households in the bottom fifth of the income scale. By 2005, the top 1 percent made *70 times* as much, the widest such gap on record. Similarly, in 2005, the average income of the top 1 percent in 2005 was 21 times that of the *middle* fifth, another record.

This long-term trend shows no signs of abating. The CBO data show that just between 2004 and 2005, real after-tax income jumped by an average of $180,000 for households in the top 1 percent of the income scale, while rising only $400 on average for middle-income households and $200 for low-income households. This $180,000 average gain for households in the top 1 percent in 2005 translated into about $180 billion in additional after-tax income for the top 1 percent.

Another principal source of data on this matter — the research findings of economists Thomas Piketty and Emanuel Saez — show similar results. Piketty and Saez found that nearly half — 47 percent — of the income gains in the nation in 2005 went to people in the top 1 percent. Their research also indicates that the concentration of income at the top of the income scale is now greater than at any time since 1929.

IV. Domestic Discretionary Funding Need in the Future

Various developments in the nation and the world, including the stunning increases in inequality, are creating an imperative for increased resources for certain discretionary program areas. I would like to address developments and needs in four broad areas: 1) the need to make American workers and businesses more competitive, and to do so in a way that leans against the trend toward greater inequality, by improving the skills and prospects of less-fortunate Americans and by easing child poverty; 2) addressing needs that will arise from the aging of the population; 3) meeting certain global challenges; and 4) enabling the federal government to perform its basic functions adequately. This is not intended to be an exhaustive list of areas where increased investment should be considered.

1. Improving U.S. competitiveness and addressing growing income inequality and high levels of poverty in the United States

In an increasingly global economy, there is growing concern about jobs and economic activity shifting from the United States to other countries. There is also mounting concern over the increase in income inequality over the past quarter century and the fact that many Americans are not sharing in the gains of economic growth. Among those who have voiced strong concern about growing inequality in recent years are former Federal Reserve Chair Alan Greenspan, current Fed Chair Ben Bernanke, and President Bush in a speech on Wall Street in January 2007.

Both Chairman Bernanke (in a speech last year) and former Treasury Secretary Larry Summers (in testimony last year before the Joint Economic Committee) have emphasized the need for increased investments. To boost productivity, Summers has called for increased investment in education (including early education), infrastructure, and research and development. He pointed to what he termed a "remarkable" decline in federal support for basic research. He also observed that "nothing is more important to our prosperity then the quality of the American labor force" and explained that "A growing body of evidence suggests that pre-school education has an enormous rate of return, particularly for children from a disadvantaged background, and funding for these kinds of programs should be a high priority." Finally, he pointed to "key areas such as transportation and other infrastructure facilities where investment has been grossly inadequate."[7]

In Chairman Bernanke's speech, he, too, called for "policies that boost our national investment in education and training," noting that "A substantial body of research demonstrates that investments in education and training pay high rates of return both to individuals and to the society at large." Like Summers, he added that recent research "has documented the high returns that early childhood programs can pay in terms of subsequent educational attainment and in lower rates of social problems, such as teen age pregnancy and welfare dependency."[8]

Recent pathbreaking research by a team of researchers at the University of Chicago, Northwestern University, and Harvard also is of note. These researchers, who have produced the first high quality national study that follows children from infancy through adulthood (the study follows individuals to age 37), have found that poverty in early childhood is linked with large shortfalls in work hours and lower earnings later in life. The researchers estimate that eliminating poverty among children under five would boost annual work hours among these children when they grow up by an average of 12 percent per year, and boost their annual earnings by an average of 29 percent. These are among a growing number of findings that suggest the importance of government supports and policies that directly reduce child poverty, both in the current generation and in future generations.

Although the children of today are the workers of tomorrow, the United States tolerates a level of child poverty well above that of nearly all other western industrialized nations. For hard-headed economic reasons as well as for humanitarian reasons, this matter ought to be addressed. It is noteworthy that the United Kingdom set a goal of cutting child poverty in half between 1999 and and 2010 and ultimately of eliminating it, and has made impressive initial progress toward this goal.

Poverty and Inequality

After years of experience with various programs, we know that certain programs and types of interventions can deliver results. But we underfund them. Although many of the federal policy reforms needed to address poverty and rising inequality lie outside the discretionary part of the budget, there are some discretionary areas that will need more funding if we are serious about making significant progress here.

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[7] Testimony of Lawrence H. Summers before the Joint Economic Committee, January 31, 2007.

[8] Chairman Ben S. Bernanke, "The Level and Distribution of Economic Well-Being," Remarks before the Greater Omaha Chamber of Commerce, February 6, 2007. See also Julia B. Isaacs, "Cost-Effective Investments in Children," The Brookings Institution, January 2007.

This includes early education and child care initiatives. As noted above, research has shown that quality early education can result in marked improvements in children's school readiness and success in elementary school. Moreover, the issues of child care and early education are closely linked. Low-income working parents either need quality preschool that lasts through the full work-day or need child care that "wraps around" educationally-oriented preschool programs. The child care piece is significant; research has shown that child care subsidy programs have significant impacts on parents' employment rates and earnings.[9]

Despite the strong evidence of the importance of early education and child care, however, federal investment in both has been falling since 2002. Head Start funding in 2008 is 11 percent below the 2002 level, and child care funding 17 percent below the 2002 level, after adjusting for inflation. Head Start and child care assistance programs serve only a minority of the low-income children eligible for these programs. While some states have made significant investments in preschool, particularly for 4 year olds, wide gaps remain between the early education opportunities available to more affluent children and those available to low-income children.

Another such area is housing vouchers, which enable poor families to move to where there are more job opportunities and better schools. A number of studies have documented positive effects, especially for children, when families use vouchers to relocate to lower poverty areas. Recent research also highlights the role of housing vouchers in preventing homelessness among very poor families with children, finding a 74 percent reduction in homelessness among very poor families that receive voucher assistance. Only about one-quarter of the low-income families eligible for housing assistance receive such assistance from either the voucher program or another low-income housing program.

Increased funding also is needed for financial assistance to enable low-income students to attend college. The nation is failing to perform adequately in this area, a failure that limits future gains in productivity and economic growth and contributes to inequality.

A study by the Department of Education's National Center for Education Statistics compared the financial aid received by students enrolled in college in 2003-2004 with the amount needed to meet these students' financial needs, as determined under federal financial aid formulas. The study found that among students from families with incomes below $20,000, some 87 percent of community college students had unmet needs that averaged $4,500 per student per year, and 80 percent of students in public four-year colleges had unmet needs averaging $6,000 per year.[10] Many low-income students who face these financial gaps drop out before completing college. Others are deterred from enrolling in the first place.

Nor does last year's student aid legislation make that much of a dent. That legislation increases Pell Grants in increments through 2012-2013. But the level that the maximum Pell Grant will reach

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[9] Hannah Matthews, *Child Care Assistance Helps Families Work: A Review of the Effects of Subsidy Receipt on Employment*, Center for Law and Social Policy, 2006 http://www.clasp.org/publications/ccassistance_employment.pdf.

[10] Figures are from the 2003-2004 National Postsecondary Student Aid Study. Figures here are for undergraduate students who are dependents of their parents (and are classified into income groups based on their parents' incomes), but the figures for low-income independent students are similar. See National Center for Education Statistics, "Student Financing of Undergraduate Education: 2003-2004," U.S. Department of Education, August 2006, http://nces.gov/pubs2006/2006186.pdf.

in 2012-2013 will be *only $250* over the highly inadequate 2003-2004 level, after adjusting for general inflation — and will likely be significantly *below* the 2003-2004 level, relative to average tuition and fee costs at public four-year colleges and universities, which have been rising faster than the overall inflation rate. (This calculation of the maximum Pell Grant in 2012-2013 assumes that Congress appropriates discretionary funds for the Pell Grant program each year that are sufficient to maintain the *current* maximum award, and that the mandatory Pell Grant funding provided by last year's student aid law is used to raise the grant above that level.) During the 2003-2004 school year, the maximum Pell Grant covered 87 percent of average tuition and fees at public four-year institutions. If college costs continue to rise at their recent pace, the maximum Pell Grant in 2012-2013 will cover only about 65 percent of average four-year college tuition costs and fees.

The growth in the financial aid gap for low-income students is an emblem of how government policies are failing to adequately address the economy's need for highly productive workers in coming decades and also are exacerbating the trend toward greater inequality. In recent years, policymakers have increased financial aid for students from very affluent families who would attend college anyway by creating very generous new tax breaks, such as 529 plans. At the same time, policymakers have allowed financial aid for low-income students to erode significantly and thereby increased the barriers that such students face in obtaining higher education.

2. The Aging of the Population

The proportion of Americans who are elderly will rise in the decades ahead. Although there is no reason to believe that the *percentage* of elderly people who live in poverty will rise, the *number* of elderly people living on small incomes will increase substantially.

Increases in funding will be necessary for various programs that provide services to elderly people who are needy and frail, such as programs operated under the Older Americans Act. This is also true of funding to preserve the existing stock of federally assisted housing units that serve low-income elderly people; shortfalls in funding for the project-based section 8 program, as well as chronic underfunding for maintenance and capital repairs at public housing developments, pose a growing risk to housing for 1.2 million low-income elderly households. Funding increases also will be needed for staffing at the Social Security Administration and the Centers for Medicare and Medicaid Services as the number of Americans relying on these agencies swells.

3. Global Challenges

President Bush has spoken in several State of the Union addresses of the need for increased funding to fight diseases such as HIV/AIDS and malaria around the world, especially in very poor countries, and to help combat severe poverty and underdevelopment abroad through the Millennium Challenge Account. These measures are important from both a security and a humanitarian standpoint. Because of overly tight levels placed on the Appropriations Committees, however, Congress has yet to fully fund the President's request in this area.

The United States continues to rank near the bottom in the western world in terms of the share of its budget and its economy that it devotes to such matters. Increased resources are needed here and will continue to be needed for a considerable period of time.

4. Enabling the Federal Government to Perform Adequately

There are at least three areas where increased resources will be needed for the government to do an adequate job — IRS enforcement, government statistics that guide decisions economy-wide, and resources needed to ensure a stable, well-functioning federal workforce.

The tax gap is estimated at over $300 billion a year. Most Americans would agree that having those who are shirking their obligations pay the taxes they owe is preferable to raising taxes on law-abiding households. But the IRS lacks the resources to do the job that it needs to do. Given the huge budget holes we face in coming decades, this matter badly needs to be addressed.

There also is growing concern that a squeeze on appropriations levels will place some important government surveys and statistical reports in jeopardy. In both the private and the public sectors, decisions that are informed by solid data are generally sounder, and produce better results, than decisions that are not.

Last, but certainly not least, analysts are increasingly concerned about the hollowing out of the federal workforce that lies just around the corner. For years, the federal workforce has been squeezed down, even as Congress has placed more tasks on many federal agencies. Across the federal government, a large cohort of dedicated, highly skilled individuals who joined federal service in the 1960s, 1970s, or early 1980s is now approaching retirement. In not that many years, most of this cohort of senior, high-performing civil servants will be gone. Unfortunately, the workforce coming up behind these highly skilled individuals is, in many agencies, quite thin — in no small part because years of reductions in real resources for agency staffing made it difficult for many agencies to hire talented new blood in adequate numbers.

There is now growing risk that performance will decline significantly in many agencies across the federal government in the coming decade. This is a matter that needs urgent attention. To be sure, more is needed than simply infusions of resources. But in many agencies, more resources for staffing are a necessary, if not a sufficient, condition to averting the marked deterioration in performance that threatens in the years ahead.

Conclusion

This testimony is not meant to imply that all discretionary programs are essential or that no savings can be secured in any of them. That certainly is not the case. But the savings that can be achieved are likely, in my view, to fall well short of the additional resources that will be needed in critical areas such as those discussed above.

Domestic discretionary programs are not the cause of the nation's budget woes. It would be unfortunate if failure to act on the budgetary challenges that we face — especially in the areas of health care, taxes, and Social Security — were to lead policymakers to make unsound decisions regarding the discretionary side of the federal budget and to fail to provide resources essential to remaining competitive, confronting global challenges, addressing challenges posed by galloping income inequality, and providing adequate-quality public services for the American people.