TESTIMONY OF ROBERT GREENSTEIN
Executive Director
Center on Budget and Policy Priorities

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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 may affect demands on non-defense discretionary funding in the future.

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 3.6 percent of GDP today. Under the Congressional Budget Office baseline, they will decline to 2.8 percent of GDP by 2017.

Similarly, these programs accounted for 24 percent of the budget in 1980, make up 18 percent of the budget today, and will constitute about 15 percent of the budget by 2017.

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.

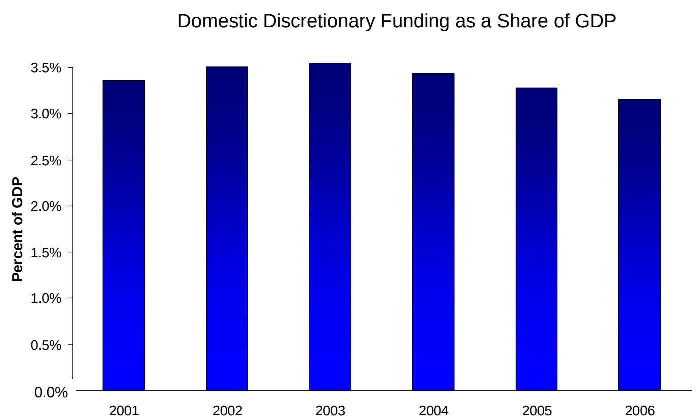
* This testimony was prepared and delivered to the House Committee on Appropriations. Due to weather conditions, the hearing was cancelled, therefore this testimony was not presented in person.

In the five-year period since deficits have returned, however — i.e., from fiscal year 2002 to fiscal year 2007 — funding for domestic discretionary programs outside homeland security has *not* increased in real terms and actually has fallen by several key measures. Once the joint funding resolution for fiscal year 2007 is enacted, most of the growth in funding for domestic discretionary programs that occurred earlier in the decade will have been cancelled out.

- Total funding for domestic discretionary programs outside homeland security will be only 0.6 percent greater in fiscal year 2007 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 just one-tenth of one percent.[1] [2]

- As noted, when policymakers wrote the fiscal year 2002 appropriations bills in summer of 2001, the budget appeared to be awash in surpluses, and significant increases were provided for many discretionary programs. After deficits returned (as a result of a combination of factors including the recession, tax cuts, the response to the September 11 attacks, and later Iraq), that growth first slowed and then began to be reversed, with overall funding for domestic discretionary programs outside homeland security being cut significantly 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 2007, one finds a *decline* of 4.4 percent in real per capita terms over the five-year period. Even if one adjusts only for inflation (and *not* for population growth as well), one finds there has been *zero growth*; the 2007 funding level for domestic discretionary programs outside homeland security is virtually identical to the 2002 level in real terms.

Funding for Domestic Discretionary Programs Is Lower than in 2001 as a Share of the Economy



Source: CBPP calculations based on CBO data. To avoid distortions, figures do not include funding for homeland security or hurricane relief.

- As a share of the economy, funding for domestic

[1] If one adjusts only for inflation and not for population growth as well, the increase from 2001 to 2007 equals 6.5 percent, for an annual average growth rate of 1.1 percent.

[2] Funding data from 2001 through 2006 are from the Office of Management and Budget, *Historical Tables*, February 2007. Data for 2007 assume enactment of the House-passed H.J.Res. 20. 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.

discretionary programs outside homeland security has unquestionably declined, falling from 3.36 percent of GDP in 2001 and 3.51 percent of GDP in 2002 to 3.06 percent of GDP in 2007, which is probably the lowest level in at least half a century.

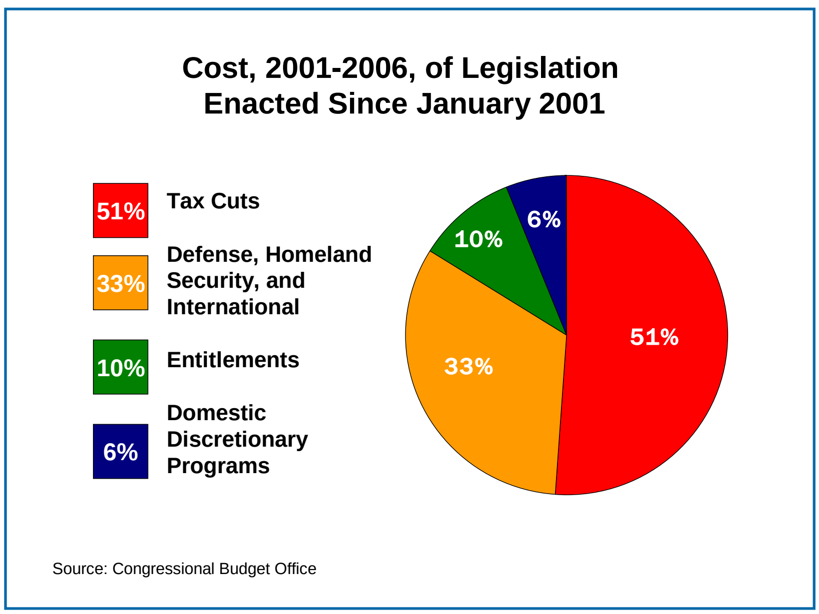
The Shift from Surpluses to Deficits

Another way to assess these trends is to consider the causes of the shift from the surpluses 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 five fiscal years (fiscal years 2002-2006). Instead, the government ended up running substantial deficits in all of those years. 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 37 percent of the budgetary deterioration that occurred in the 2002-2006 period (i.e., 37 percent of the difference between the surpluses forecast for those years at the start of 2001 and the deficits that actually resulted). The other 63 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 1 indicates, about half of this deterioration resulted from tax cuts. About 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 affairs). A smaller portion — one-tenth of the deterioration — resulted from entitlement expansions. Note that only six 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 6 percent in the years ahead. The discretionary spending levels in 2006 include a substantial amount of 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 month, 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 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 2 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 2017, 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. Those programs would receive harsher treatment than any other component of the budget.

The President's budget essentially has four major elements:

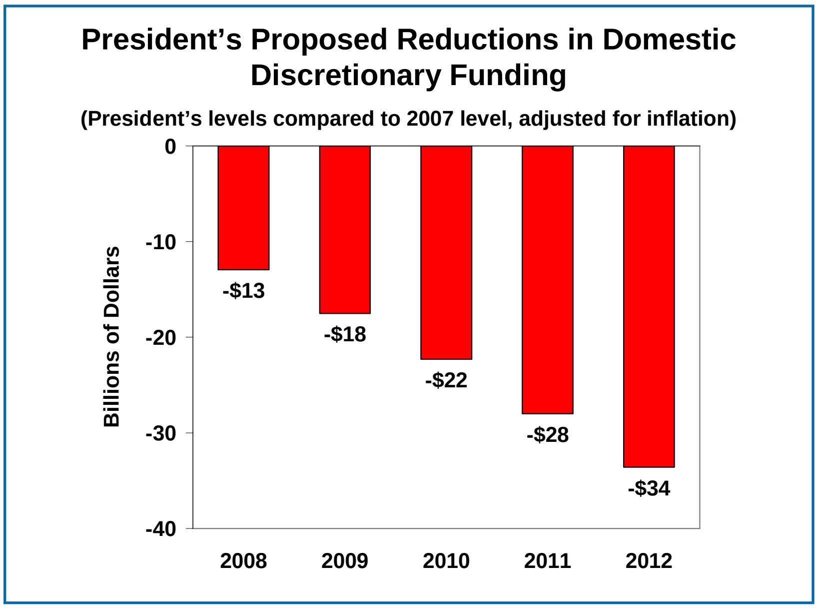
- It would make the 2001 and 2003 tax cuts permanent at a cost the budget shows at $1.7 trillion over ten years. (The actual cost is higher, because the budget assumes that the Alternative

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, as well as substantial increases in defense costs not related to the Global War on Terrorism. Smaller increases are included in the international area.

- The budget includes $96 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 $114 billion over five years. In other words, funding for these programs, including homeland security programs that are not considered defense programs, would be set a cumulative total of $114 billion below the 2007 level included in the full-year joint funding resolution, adjusted for inflation.[3]



The reductions in funding for domestic discretionary programs would grow year by year. They would total $13 billion in 2008, and more than double to $34 billion by 2012. (Note: There is some confusion about the effect of the President's budget on domestic discretionary programs in 2008, as a result of a statement included in the President's budget that the budget would increase "non-security" discretionary funding by one percent. This one percent figure is now out-of-date. It was computed *before* the full-year CR for 2007 was developed; in computing the one percent increase, OMB assumed a 2007 non-security discretionary funding level that turned out to be a little too low. In addition, the group of programs that OMB said would increase one percent includes some *defense* programs, such as the Department of Energy's nuclear weapons programs. Finally, in making the one percent computation, OMB did not adjust the 2007 levels for inflation. When these matters are corrected, the result is that the Administration's overall funding

[3] We do not yet have all the data needed to make budget authority adjustments for coming years that are comparable to those in our analysis of funding changes from 2001 through 2007. Therefore, the funding figures in this section refer only to budget authority for domestic programs as officially defined, rather than as adjusted. The size of the cuts in discretionary programs proposed in the President's budget is not likely to be affected much by the presence of absence of such adjustments. The corresponding reduction in outlays for domestic discretionary programs would be somewhat smaller than $114 billion over the next five years because some of the outlay reductions would show up after the fifth year.

level for domestic discretionary programs in 2008 would be $13 billion — or 3.2 percent — below the 2007 level adjusted for inflation.[4])

The President's budget provides details on the specific discretionary cuts it seeks for 2008, but lacks specifics for how to achieve the larger domestic discretionary reductions it seeks for years after that. Fortunately, the supplementary budget tables that OMB has provided to the Budget Committees provide information on the proposed domestic discretionary cuts *by program area* (i.e., by budget "function" and "subfunction") for each year through 2012.

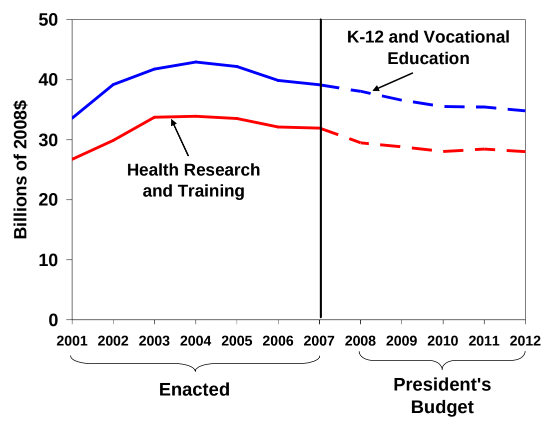
The OMB tables show that to achieve the $114 billion in domestic discretionary reductions over the next five years, the budget would exact cuts in nearly every domestic discretionary program area. Nearly every domestic discretionary area, with a few exceptions such as science, space, and technology and the Strategic Petroleum Reserve, would be cut over the next five years (relative to the 2007 levels adjusted for inflation). A few examples:

- Funding for environmental and natural resources programs would be reduced $2.5 billion in 2008 and $20.1 billion over five years, relative to the 2007 funding levels adjusted for inflation. The reduction in this area would reach 15 percent in 2012. Every program category in this area would be cut, including conservation and land management programs and pollution control and abatement.

- Funding for K-12 education and vocational and adult education (the area of the budget that includes No Child Left Behind) would be cut $9.9 billion over five years. By 2012, most of the real funding increases that were provided for these programs earlier in the decade would be reversed.

- Funding for the "criminal justice assistance" area, which includes programs that provide grants to state and local governments for law enforcement efforts, would be cut $9.4 billion over five years, or more than 45 percent.

Earlier Investments in Education and Health Research Would Largely be Rolled Back



- The "health care research and training" area — the main component of which is funding for medical research at the National Institutes of Health — would be cut $9.8 billion over five years.

- The part of the budget that includes funding for services for various groups of disadvantaged Americans — such as the Head Start program, several programs that minister to abused and neglected children, and programs funded under the Older Americans Act — would be cut $8.3

[4] Before adjustment for inflation, the drop is $1.5 billion, or 0.4 percent.

billion over five years.

- Some programs that would be *increased in 2008* — such as veterans' health care — would be cut in the years after that. In every year from 2009-2012, funding for veterans' health care would be set below the 2007 level adjusted for inflation. The net reduction in this area would be $5.0 billion over five years.

Because the budget does not provide specific program-by-program proposals for years after 2008, the impact of these funding reductions cannot be measured with precision. But one can get a sense of what would be involved by examining the specific cuts the budget does propose for 2008 and then taking into account the fact that the domestic discretionary cuts proposed for 2008 are less than half as deep as the cuts that would be required by 2012. The discretionary cuts proposed in 2008 include the following:

- The Low-income Home Energy Assistance Program, which helps several million poor families and elderly and disabled people heat their homes in the winter (or cool their homes in the summer in hotter parts of the country), would be cut $420 million, or 19 percent, below the expected 2007 funding level adjusted for inflation. (The program would be cut $379 million below a freeze level.) Funding for the program would be set lower in 2008 than in every year since 2000 (after adjusting for inflation), despite the sharp increases in fuel prices in recent years and OMB's own forecast that fuel prices will be higher next winter than this winter.

- The Commodity Supplemental Food Program, which provides modest supplemental food packages (the packages cost the government a little less than $20 a month) to 440,000 needy elderly people, would be terminated.

- Funding for child care for children in low- and moderate-income families would be frozen, even as inflation causes the cost of providing child care to continue to rise. A table in the President's budget itself shows that according to the Administration's own estimates, the number of children provided child care assistance would be reduced by 300,000 over the next few years, from 2.3 million in 2006 to 2.0 million in 2010. (The budget apparently contemplates a long-term freeze in child care funding.)

- Head Start funding would be reduced $100 million below the 2007 level, before adjusting for inflation, and more than $200 million after inflation is taken into account. These reductions would come after several years of essentially frozen funding. Since teachers' salaries and the cost of rent and supplies generally rise with inflation, to cope with this cut, Head Start programs would need to reduce the number of children they serve or to make other changes that could diminish the quality of the program, such as reducing teachers' salaries or cutting back on the educational, health, and other services the program provides.

- The preventive health services block grant, which helps state and local agencies undertake efforts to prevent or reduce the incidence of various health problems such as obesity and lead poisoning, would be eliminated.

In short, the cuts proposed in domestic discretionary programs are deep and would affect a number of significant services. The cuts would affect many disadvantaged children and seniors of limited means.

It also may be noted that a large share of these reductions would occur in programs that provide grants to state or local governments, which deliver the services. Between 2006 and 2008, grants to state and local governments to operate discretionary programs would be reduced by $11 billion, after adjustment for inflation. (The comparison here is from 2006 to 2008, because we do not yet have sufficient detailed information on the level of grants to state and local governments that would result in 2007 from the joint funding resolution.)

Discretionary Program Cuts, Tax Cuts, and Medicare Savings

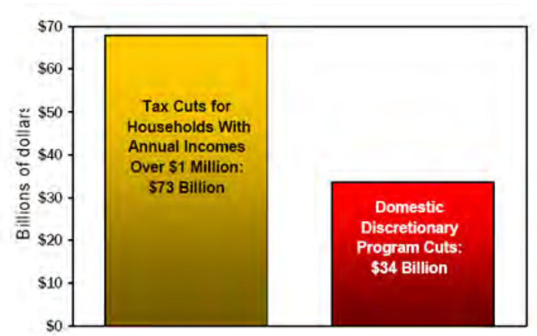
Before concluding the part of my testimony that focuses on the President's budget, I would like to offer a few observations about the architecture of the Administration's budget proposal as a whole. The first such observation is that for all of the pain the proposed $114 billion in domestic discretionary reductions over five years would cause, the savings would be rather meager, compared with the cost of the tax cuts. Making the tax cuts permanent would cost $1.7 trillion over the next ten years under OMB estimates (and $2.6 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 simply involves preventing the AMT from canceling out a significant portion of the President's tax cuts).

Based on cost estimates from CBO and estimates of the distribution of the tax cuts across the income spectrum produced by the Urban Institute-Brookings Tax Policy Center, the top 1 percent of households (currently those with incomes above $400,000) will receive a total of $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 total annual income of the typical American household. Similarly, people with incomes of over $1 million a year will receive more than $700 billion in tax cuts over the next ten years if the tax cuts are extended. Their average tax cut will be $162,000 a year for 2012, according to the Tax Policy Center.

These figures lead to a few comparisons. In 2012, the cost of the tax cuts for people with incomes over $1 million (the top 0.3 percent of households) would be *$73 billion*. This is more than double the *$34 billion* that the President's budget would save in 2012 through all of the cuts it proposes in domestic discretionary programs, which, as noted, would affect nearly every domestic discretionary area in the budget.

Tax Cuts for Households Over $1 Million Compared to Proposed Reductions in Domestic Discretionary Programs

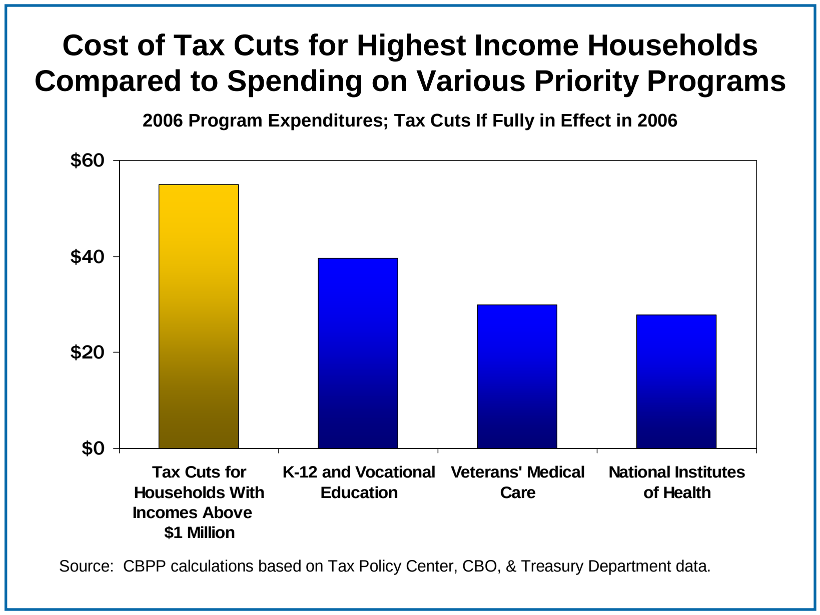
Tax Cuts and Funding Reductions, 2012



Source: CBPP calculations based on Office of Management and Budget, Joint Committee on Taxation, and Urban-Brookings Tax Policy Center data.

Another way of looking at this is to compare the cost of the tax cuts to what the federal government devotes to priority areas like education and veterans' health care. When the tax cuts are fully in effect, their annual cost just for people with incomes over $1 million will *exceed* the total amount the federal government devotes each year to K-12 education and vocational education. It will also exceed the total amount the federal government spends on veterans' health care.

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 cannot afford *not* to begin seeking some savings in Medicare, and believe Congress should give some of the President's Medicare savings proposals serious consideration. 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.



The Medicare Payment Advisory Commission (MedPAC), Congress' expert advisory body on Medicare payments, has issued recommendations to Congress that would achieve some savings in Medicare and improve program efficiency without harming beneficiaries. Some of the Administration's new proposals regarding Medicare provider payment rates are consistent with the MedPAC recommendations and merit consideration, as do the MedPAC savings proposals that are not included in the President's budget, including the proposals regarding excessive payments to private plans.

The Administration's proposals to ask higher-income seniors to pay somewhat higher Medicare premiums — premiums that would still leave most of these individuals with generously subsidized Medicare benefits — deserve consideration as well. I am strongly opposed to measures that would unravel support for the universal social insurance nature of Medicare. Neither I nor most other analysts with whom I have spoken believe, however, that the type of premium changes the Administration is proposing would have such an effect. (Some of the specifics of the Administration's proposal would need modification.)

I raise the tax cut and Medicare issues here because I believe they are relevant to the topic at hand. If policymakers cannot make progress on revenues, Medicare, and broader health care reform, the principal area of the budget that will get squeezed 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 will have to be severe and could threaten the ability of the government to perform some of its most basic functions.

III. Factors that Will Cause Some Discretionary Areas to Need Additional Funding in the Future

Finally, various developments in the nation — and the world — are creating an imperative for increased resource levels for certain discretionary areas in the years ahead. I group these factors into four broad categories: 1) meeting critical global challenges; 2) making American workers and businesses more competitive (and doing so in a way that seeks to prevent income inequality from becoming much more severe); 3) addressing the challenges of poverty and demography; and 4) enabling government to perform its basic functions adequately.

1. Global Challenges Outlined in the State of the Union

In his State of the Union address, the President spoke 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. From both a security and a humanitarian standpoint, these measures are extremely important. Primarily because of overly tight levels placed on the Appropriations Committees, however, Congress has yet to fully fund the President's request in this area. (In 2007, the HIV/AIDS request is fully funded, but the Millennium Challenge Account is well below the President's request.)

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 these matters. Increased resources are needed here and will continue to be needed for a considerable period of time.

In his State of the Union address, the President also spoke of the need for increased investment in alternative energy research. Climate change may be the single greatest danger facing the planet. Action to deal with it is needed on a number of fronts, one of which is energy research. So it, too, will require more resources.

2. Improving U.S. competitiveness and addressing the trend toward growing income inequality 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 also is mounting concern over the sharp increase over the past quarter century in income inequality in the United States and the fact that many Americans are failing to share in the gains of economic growth. Among those who have recently voiced strong concern about growing inequality are former Federal Reserve Chair Alan Greenspan, President Bush (in a speech on Wall Street in late January), and the current Fed Chair Ben Bernanke, in a major address last week.

Both Chairman Bernanke's speech and recent testimony before the Joint Economic Committee by former Treasury Secretary Larry Summers emphasize the need for increased investments in several areas. To boost productivity, Mr. Summers called for increased investment in 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." In addition, he pointed to "key areas such as transportation and other infrastructure facilities where investment has been grossly inadequate."[5]

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

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."[6]

3. Challenges of Poverty and Demography

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 and the good of the society at large, this matter ought to be addressed. (The United Kingdom has set a goal of cutting child poverty in half by 2010, and ultimately eliminating it, and has made impressive initial progress toward this goal.)

After years of experience with various programs, we know that certain programs and types of interventions can deliver results. Yet we underfund them. While a good part of the federal policy reforms needed to address the substantial incidence of poverty in our country 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.

This includes Head Start, child care and early education initiatives, and housing vouchers, to name a few. (Housing vouchers 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.) Moreover, Census data show that nearly three million low-income families with children now pay more than 50 percent of their income for housing.) If measures to address global warming cause energy prices to rise, substantial increases in the low-income energy assistance program (and other forms of income support for low-income families) will be essential, as well.

There also is a demographic factor that should not be ignored — the large increase in the number of elderly individuals in coming decades. 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 clearly will rise substantially. Increases in funding for various programs that provide services to elderly people who are needy and frail, such as programs operated under the Older Americans Act, will be required, as will increased resources for staffing at the Social Security Administration and the Center for Medicare and Medicaid Services.

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.

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[6] 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.

The tax gap is estimated at upwards of $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 the critical areas 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, and providing adequate-quality public services for the American people.