Testimony of Robert Greenstein
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Before the Committee on the Budget
United States House of Representatives

The President's Fiscal Year 2007 Discretionary Budget
February 16, 2006

Thank you for inviting me to testify. I am Robert Greenstein, executive director of the Center on Budget and Policy Priorities, a policy institute that conducts research and analysis on fiscal policy issues, with a particular focus on the impact of policies and programs on low- and moderate-income families. The Center does not receive (and never has received) any funds from federal grants or contracts. It is supported by foundations and individual donors.

My testimony today is divided into three sections. The first examines the extent to which domestic discretionary programs have grown in recent years. The second section examines what the President's budget proposes with regard to domestic discretionary programs. The final section examines several important issues that these budget proposals raise.

I. What Has Happened to Domestic Discretionary Programs Since 2001?

Many people have come to believe that domestic discretionary programs have exploded since 2001. This is not the case. Depending on the measure used, total funding (i.e., total appropriations) for domestic discretionary programs has risen modestly, fallen slightly, or remained largely unchanged.

- On a real per capita basis, total funding for domestic discretionary programs outside homeland security is only two percent higher in fiscal year 2006 than it was in fiscal year 2001. This represents an average annual growth rate of 0.4 percent per year.

  (In comparing funding levels for years such as 2001 and 2006, it is necessary to adjust for inflation, as 2006 dollars and 2001 dollars are not equivalent and do not have the same buying power. The OMB and CBO baselines for discretionary programs both adjust for inflation. One also should adjust for changes in the size of the U.S. population. When the population grows, the cost of government programs rises because more children attend school, the number of people seeking government services from passports to child care assistance increases, etc. When the population grows, revenues also increase, because there are more workers paying taxes, and the economy grows as well because the size of the labor force — a key component of economic growth — expands. If one adjusts for inflation but *not* for population growth, then total funding for domestic discretionary programs outside homeland security grew at an average annual rate of 1.4 percent between 2001 and 2006.)

- As a share of the economy, total funding for domestic discretionary programs outside homeland security actually *declined* between 2001 and 2006. It stood at 3.36 percent of GDP in 2001 and stands at 3.13 percent of GDP in 2006.

Increases (or decreases) in deficits are usually measured as a share of the economy. As these data indicate, domestic discretionary programs have not been a significant contributor to the shift in recent years from budget surpluses to budget deficits.

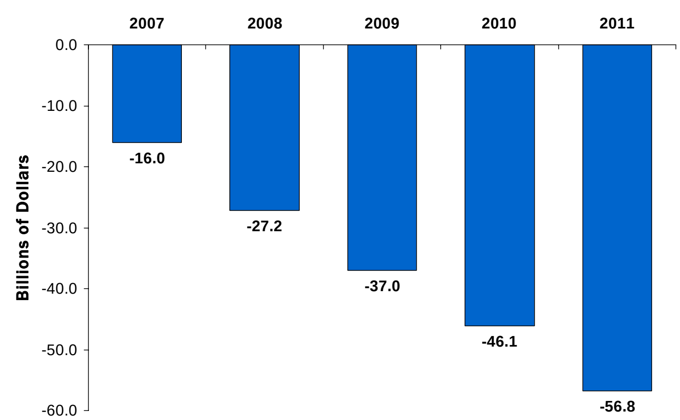
II. What the President's Budget Proposes for Domestic Discretionary Programs

The President's budget proposes substantial reductions in domestic discretionary programs over the next five years. Total funding for these programs would be cut $16 billion in 2007, relative to the OMB baseline (i.e., relative to the 2006 level adjusted for inflation). The funding reduction would grow larger with each passing year. By 2009, funding for these programs would be $37 billion below the OMB baseline. In 2011, funding would be $57 billion below the baseline, and outlays for domestic discretionary programs would fall to their lowest level since 1962, measured as a share of the economy. Over the five years as a whole, funding for domestic discretionary programs would be cut a total of $183 billion. (See Figure 1.)

These cuts would be achieved both through program terminations and through program reductions. Nearly every category of domestic discretionary programs would be cut significantly.

FIGURE 1

THE PRESIDENT'S PROPOSED CUTS IN DOMESTIC DISCRETIONARY FUNDING GROW LARGER OVER TIME



- There are 15 budget categories (or "functions") that include domestic discretionary programs. Under the President's budget, total funding for domestic discretionary programs would be cut significantly over the next five years in 14 of these 15 categories. Only the General Science, Space, and Technology category would be spared.

- A few examples:

  - Funding for veterans programs would be cut by a total of $10.3 billion over the next five years, with the cuts reaching 13 percent in 2011.

  - Funding for energy programs — which include research on alternatives to oil, conservation efforts, and emergency energy preparedness programs — would be cut a total of $4.4 billion over five years, with the cuts reaching 29 percent in 2011.

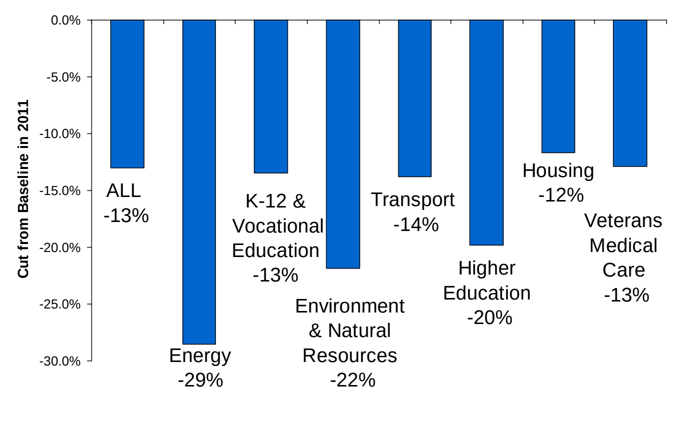
  - Environmental and natural resources programs would be cut 22 percent by 2011, with the cuts totaling $28.1 billion over five years.

  - Education, job training, and social services programs would be cut $52.7 billion over five years. The cuts would reach 17 percent in 2011.

- Funding for discretionary health programs — including medical research at NIH, community health centers, and HIV/AIDS treatment funds — would be cut $24.2 billion over five years, with the cuts reaching 13 percent in 2011.

FIGURE 2

THE PRESIDENT'S BUDGET CALLS FOR SIZEABLE CUTS TO DOMESTIC PROGRAMS OVER 5 YEARS



OMB materials also show the proposed discretionary funding levels for each of the next five years for each budget sub-category (or "subfunction"). There are 56 budget subfunctions that include domestic discretionary programs. By 2011, discretionary funding would be cut for 49 of these 56 program areas, or nearly 90 percent of them.

- Elementary, secondary, and vocational education programs would be cut a total of $18.1 billion over five years, with the cut reaching 13.5 percent by 2011. Higher education programs would be cut $15.8 billion over five years, and 20 percent in 2011. Total education funding would be cut nearly $36 billion over five years.

- Health care research and training, which includes the National Institutes of Health, would be cut $15.5 billion over five years (and by 14 percent in 2011).

- Consumer and occupational health and safety, which includes funding for mine safety, would be cut by 15 percent by 2011.

- Hospital and medical care for veterans would be affected substantially, with the cuts amounting to $9.3 billion over five years and $4.5 billion in 2011 alone (a 13 percent reduction in that year). Given the rising cost of medical care and the large number of wounded servicemen returning from Iraq and Afghanistan, these reductions do not seem tenable.

- Within the natural resources and environment function, recreational resource programs — including the national parks — and pollution control and abatement programs each would be cut 22 percent by 2011.

Program Terminations and Reductions

The budget proposes terminations or reductions of hundreds of domestic discretionary programs. The Administration has issued a list of the programs it would terminate in 2007. In addition, an OMB listing has become available that shows the funding level envisioned for every discretionary program account for each of the next five years.

Table 1

Proposed Funding for Various Budget Sub-Categories
(President's Proposal Relative to the Baseline)

Budget Sub-Category	Change in 2011: In Billions of Dollars	Change in 2011: Percent Change	Five Year Change: 2007-2011: In Billions of Dollars
Elementary, secondary, and vocational education	-$5.6	-13.5%	-$18.1
Higher education	-$4.0	-19.8%	-$15.8
Energy conservation	-$0.2	-27.4%	-$1.0
Health care services	-$2.2	-10.5%	-$7.1
Health care research and training	-$4.5	-13.8%	-$15.5
Consumer and occupational health and safety	-$0.6	-15.4%	-$1.6
Hospital and medical care for veterans	-$4.5	-12.9%	-$9.3
Conservation and land management	-$2.2	-20.9%	-$7.9
Recreational resources	-$0.6	-22.5%	-$2.2

The terminations include, among others:

- The *Commodity Supplemental Food Program*, which provides nutritious food packages for less than $20 a month to 420,000 low-income elderly people, one-third of whom are over age 75;

- The *Preventive Care Block Grant*, which is operated by the Centers for Disease Control and Prevention and provides grants to states for preventive health services for underserved populations;

- The *TRIO Talent Search* program, under which colleges and universities — in many cases, Historically Black Colleges and Universities — assist disadvantaged secondary school students (two-thirds of whom are minority) by providing them with academic, career, and financial counseling so they will be better able to finish high school and attend college; and

- The *Community Services Block Grant*, which provides funding for a range of social services and other types of assistance to low-income families and elderly and disabled individuals.

Other programs that would be terminated include: vocational education, the Emergency Watershed Protection Program, Gaining Early Awareness and Readiness for Undergraduate Programs, and Safe and Drug Free Schools Grants.

A much larger number of programs would face deep funding cuts:

- Funding for special education, under which states receive grants to help cover the added costs of providing special education to children with disabilities, would be cut about $5.5 billion over five years.

- EPA grants to states (and Indian tribes) for environmental protection, clean-up, and land preservation activities — which already were cut by $427 million in nominal terms in 2006 — would be cut another $420 million below the baseline in 2007, and by larger amounts in subsequent years.

- Discretionary appropriations for the Child Care and Development Block Grant would be cut by $1 billion over the next five years. The President's budget includes a table showing that under the budget, the number of lower-income children receiving child care assistance would be cut from 2.2 million in 2005 (and 2.45 million in 2000) to 1.8 million in 2011. In other words, the number of such children aided would be reduced by more than 400,000.

- In December 2005, HUD issued a report finding that 1.1 million very-low-income elderly households that receive no federal housing assistance have "worst-case housing needs," which means they either pay more than 50 percent of their limited incomes for housing or live in severely substandard housing. The budget proposes to cut deeply into the Section 202 Supportive Housing for the elderly program, which provides capital grants and operating subsidies to non-profit institutions to develop and generate affordable housing for elderly people with low incomes. Large cuts (a cut of 27 percent) would start in 2007; by 2011, the funding cut would be 37 percent.

- The equivalent housing program for low-income people with disabilities would be sliced by more than half in each of the next five years. The recent HUD report found over 500,000 low-income people with disabilities who have worst-case housing needs and receive no federal housing aid.

III. Issues Raised by These Proposals

These proposals calling for substantial reductions in nearly all domestic discretionary program areas raise several issues:

- Would the savings be used for deficit reduction?

- Is the "Program Assessment Rating Tool" system sound and is it being used appropriately when it is cited as justification for various of these program terminations and reductions?, and

- Are the cuts proposed in domestic discretionary programs equitable — are they part of a program of shared sacrifice?

I address each of these issues in turn.

Would the Savings Contribute to Deficit Reduction?

The nation faces serious long-term fiscal problems. Deficit reduction is needed. The data in the President's budget show, however, that the substantial reductions that the budget proposes in domestic discretionary programs would *not* be used to reduce the deficit. Instead, the resulting savings would be used to offset a portion of the costs of other, costly budget proposals.

- The budget's figures show that OMB expects the proposals for reductions in domestic programs — in both discretionary and entitlement programs — to reduce federal expenditures by $191 billion over the next five years. (This does not reflect proposed Katrina or avian flu supplementals or the proposal for Social Security private accounts.)

- But the budget also proposes $79 billion in *increased* defense and homeland security spending (not counting the additional expenditures that would result from the supplemental appropriations requested for military operations in Iraq and Afghanistan).

- And the budget proposes $285 billion in tax cuts over the next five years — and $1.7 trillion over ten years.[1] (These figures underestimate the tax-cut costs, because the budget omits the cost of continuing to provide relief from the Alternative Minimum Tax after 2006.)

- As a result, the overall effect of the President's proposals would be to increase the deficit in every year, compared to what the deficit would be in the absence of the proposals. The Administration's own numbers indicate its budget proposals would increase deficits by $192 billion over the next five years.[2] Data in the Administration's budget materials show that deficits would total $760 billion over the next five years *without* the policy proposals in the budget, and would total $952 billion *with* these proposals.

In other words, since the tax cuts would cost substantially more than the domestic program reductions would save, there would be no deficit reduction. The budget would continue to "dig the hole deeper," and the budget's steep domestic discretionary cuts would be used to offset a fraction of the cost of the proposed tax cuts rather than to shrink the deficit.

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[1] These figures are taken directly from the Treasury Department's book explaining the Administration's tax proposals. It includes the revenue and outlay effects of the Administration's tax proposals.

[2] The $192 billion total includes the increased interest payments on the debt that would have to be paid because of the effects of the Administration's proposals in increasing deficits and debt. Note: the deficit estimates used here do not include the effects of the Administration's proposal to convert part of Social Security to private accounts. Were that proposal included, the increases in the deficit that the Administration's proposals would cause would be larger.

The baseline used here is the Administration's current services baseline, adjusted to remove the effect of making the 2001 and 2003 tax cuts permanent. (The Administration includes in its baseline the costs of its proposal to make the tax cuts permanent, in order to make that proposal appear to have no cost.) The Administration's baseline — and the baseline used here — do not assume any future supplemental appropriations for operations in Iraq and Afghanistan or for domestic emergencies. Likewise, expenditures from emergency funding that the President is requesting for 2006 and 2007 have been excluded from the calculations here. Were they included, the President's budget would be seen as increasing deficits by *more* than $192 billion over five years.

The PART System

Many of the domestic program cuts being proposed have been defended on the grounds that OMB's PART ("Program Assessment Rating Tool") system has found them to be ineffective. The concept of PART is very reasonable. But the use of the PART system in the new budget to justify the termination of numerous programs is fraught with problems.

In the case of many programs that the budget slates for termination, PART did *not* find the programs to be ineffective. In some cases, programs rated as moderately effective are targeted for elimination. In other cases, programs for which the Administration has failed to gather sufficient evidence of effectiveness *or* lack thereof are slated for termination.

A phrase found in the budget alongside many of the proposed program terminations is "Results not demonstrated." This generally does not mean that the program has been studied and found ineffective, but that Congress and the Executive Branch have not bothered to invest the funds to conduct research to evaluate the program, usually because the program has been considered too small in cost to justify using a portion of limited research and evaluation funds to conduct a rigorous evaluation of it.

Consider, for example, the budget's proposal to terminate the Commodity Supplemental Food Program (CSFP), a $107 million program that provides nutritious food packages that cost the government less than $20 per month to 420,000 low-income seniors, one-third of whom are over age 75. (The program also serves a much smaller number of low-income pregnant women, infants, and young children.) The Administration's PART document acknowledges that the CSFP program may "contribute positively to access to food assistance for low-income elderly people in the places where the program operates." But the PART system gave the program a low rating on two of the PART criteria — demonstrated program results and strategic program planning on the part of the operating agency (in this case, USDA).

It is not unreasonable for OMB to expect USDA to engage in strategic planning with respect to the program and to ask whether the program is effective. Lack of adequate steps by USDA to complete a strategic planning process, however, is not sufficient cause for eliminating a program that serves about half a million low-income seniors, mothers, and young children. Moreover, research has *not* found CSFP to be ineffective; to the contrary, the reason for the low PART rating on program "results" is that federal funding has not been provided either to conduct evaluation research on the program's effectiveness or to develop sophisticated reporting systems to measure program performance. Current and prior Administrations and Congresses have opted to focus the limited research and evaluation funds available for federal food assistance programs on the major programs such as food stamps and the school lunch program. The small amount of funding provided for CSFP has been dedicated to delivering services to needy people rather than conducting research and instituting sophisticated performance measurement systems.

It may be appropriate for Congress and USDA to invest more energy and resources in setting and evaluating CSFP's performance goals and effectiveness. But a low PART ranking simply because such activities have not yet been conducted is not a valid basis for eliminating the program and causing hardship among many program participants.

This problem is magnified by a major deficiency with PART: it is not even-handed, because it leaves out a large part of the budget — the federal tax code.

It has long been recognized that the tax code contains numerous provisions that use the tax system to deliver subsidies. These provisions are referred to as "tax expenditures." In a report that the Joint Committee on Taxation issued in January 2005, JCT explained that "special income tax provisions are referred to as tax expenditures because they may be considered analogous to direct outlay programs, and the two can be considered as alternative means of accomplishing similar budget policy objectives. Tax expenditures are similar to those direct spending programs that are available as entitlements to those who meet the statutory criteria established for the programs."

The Joint Committee on Taxation periodically publishes a list of all tax expenditures. The cost of these items, as estimated by JCT, totals $914 billion in 2006. The President's budget also contains a list of tax expenditures; the costs listed for these measures total $872 billion in 2007.[3]

There is little question that some tax expenditures are of dubious value or have outlived their usefulness. A January 2005 Joint Tax Committee report included options for narrowing some tax expenditures. So does CBO's new volume on deficit reduction options. Of particular note, various tax expenditures have *not* been rigorously evaluated and likely would score poorly if PART were applied to them.

The Government Accountability Office has explicitly called for PART to be revised to include tax expenditures. The GAO has specifically asked OMB to "require that tax expenditures be included in the PART process and any future such budget and performance review processes so that tax expenditures are considered along with related outlay programs in determining the adequacy of federal efforts to achieve national objectives."[4]

Unfortunately, the continued exclusion of tax expenditures from PART — and the use of PART to help justify terminating programs on the grounds that their effectiveness has not been demonstrated, even when the reason for such a finding is that funds have not been provided to conduct a program evaluation — mean that PART is being misused. It appears that PART is being used inappropriately to advance a rather ideological agenda.

Shared Sacrifice?

The deepest cuts in the President's budget would come in domestic discretionary programs, despite the fact that expenditures for these programs have been well behaved as a share of GDP and the programs have contributed little to the return of deficits. The nation's looming long-term fiscal problems stem entirely from other parts of the budget. There is a striking absence of shared sacrifice here.

Particularly stark is the contrast between expenditures for many discretionary programs and the cost of the tax cuts enacted in recent years, which the budget would make permanent. Figure 3

[3] Due to interaction effects between various tax expenditure provisions, the precise total cost of all tax expenditures would vary somewhat from these JCT and OMB figures.

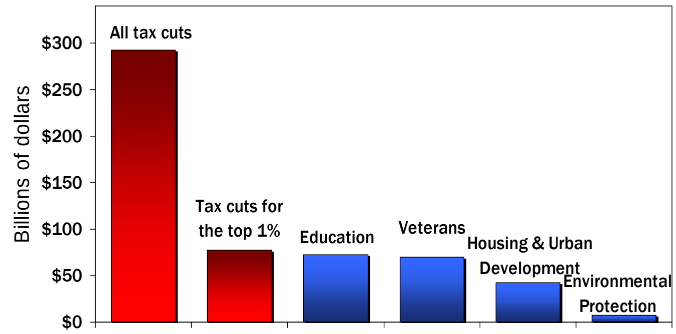
[4] Government Accountability Office, "Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to be Reexamined," September 2005, p. 74.

compares the annual cost of the 2001 and 2003 tax cuts when they are fully in effect (including the cost of continuing relief from the AMT) to the annual cost of various agency budgets. It shows that when the tax cuts are in full effect:

FIGURE 3

Tax Cuts Cost More Than Most Agency Budgets

2005 Agency Budgets, Tax Cuts if Fully in Effect in 2005



Source: CBPP calculations from Congressional Budget Office data

Center on Budget and Policy Priorities; last revised February 1, 2006.

- Their annual cost will be more than three times as large as the current level of federal funding for education at elementary, secondary, and post-secondary levels combined. It also will be more than three times the cost of all veterans programs, including veterans health care, veterans pensions, veterans disability compensation, and other veterans services.

- The cost of the tax cuts will equal the *combined* cost of all of the following agency budgets: agriculture, labor, education, veterans affairs, transportation, HUD, justice, state, interior, EPA, and energy.

- The cost of the tax cut for the top one percent of households, whose average income is close to $1 million a year, will be nearly the same as the total amount the federal government spends on education at all levels. The cost of the tax cut for the top one percent also will be about as large as the cost of everything the federal government spends for veterans.

In short, rather than there being shared sacrifice, the prime beneficiaries of the tax cuts would move farther ahead while less-fortunate people for whom domestic discretionary programs are most important — such as low-income seniors in the CFSP program or children in working-poor families who need child care — would fall farther behind. This becomes even more troubling when the distribution of the tax cuts is taken into account: the Urban Institute-Brookings Institution Tax Policy Center estimates that when the tax cuts enacted in 2001 and 2003 are fully in effect, the average tax cut will be $650 a year for households in the middle of the income scale but $136,000 for households that make more than $1 million a year. (These figures are in 2004 dollars.)

Among those who would fare badly from this unbalanced approach to the budget — i.e., from the lack of shared sacrifice — would be state and local governments. Under the Administration's budget, grants to state and local governments for programs other than Medicaid would decline nearly $14 billion between 2005 and 2007, after adjusting for inflation. This drop reflects the fact that many domestic discretionary programs operate as grants-in-aid to state or local governments, which run the programs or provide the services. The Administration's budget also includes $35.5 billion over ten years in federal savings from legislative and regulatory changes in the Medicaid program; four-fifths of these federal Medicaid savings would come from measures that shift costs from the federal government to state and local governments.

IV. Conclusion

The conclusion that I draw from this is that the proposed cuts in domestic discretionary programs are substantially too deep and that the nation needs a more balanced fiscal approach in which *all* parts of the budget — revenues, entitlements, domestic discretionary programs, and the Pentagon — are put on the table for review. In both 1990 and 1993, policymakers placed all parts of the budget on the table, and they achieved deficit reduction of about $500 billion over five years on each of those occasions. That sort of effort is badly needed again.

Committee on the Budget

Witness Disclosure Requirement - "Truth in Testimony"
Required by House Rule XI, Clause 2(g)

Your Name: Robert Greenstein	
1. Will you be representing a Federal, State, or Local Government entity? (If the answer is yes please contact the committee).	NO
2. Please list any federal grants or contracts (including subgrants or subcontracts) which you have received since October 1, 2002: None	
3. Will you be representing an entity other than a Government entity?	YES
4. Other than yourself, please list what entity or entities you are representing: Center on Budget and Policy Priorities	
5. Please list any offices or elected positions held and/or briefly describe your representational capacity with each of the entities you listed in response to question 4: Executive Director of the Center on Budget and Policy Priorities	
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