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Reforming the Federal Budget Process: The Need for Action

Testimony before the Senate Committee on the Budget

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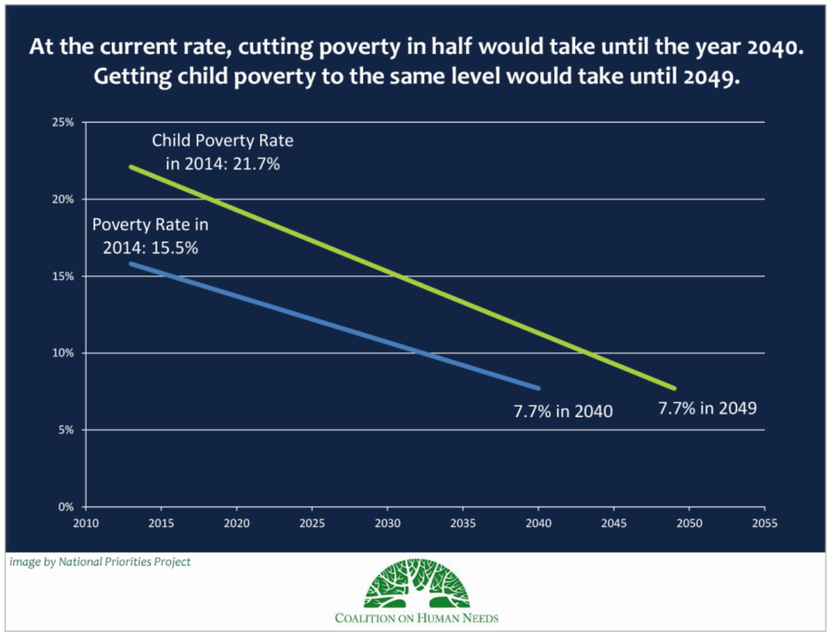
Chairman Enzi, Ranking Member Sanders, and members of the Senate Committee on the Budget, thank you very much for the opportunity to testify about ways the federal budget can better fulfill its primary purpose: to serve as a blueprint for meeting the nation's needs.

The Coalition on Human Needs (CHN) is made up of more than one hundred national faith, service provider, civil rights, labor, policy experts and other advocacy organizations, with many thousands in its network nationwide, who join together to protect and improve federal programs of importance to low-income and vulnerable people. CHN is an independent nonprofit organization that does not receive government funding. We believe that the federal budget ought to chart the path towards shared and sustained prosperity. But Congress' current approach to the budget, in its practice and evasion of budget rules, does much to thwart shared economic progress.

What needs should our budget help us address? First and foremost, most Americans have been experiencing stagnant incomes, with those at the median or below taking losses. From 2000 to 2014, the median income for non-elderly households dropped from $68,941 to $60,462, or 12.3 percent.[1] Even after the official end of the recession, the poorest fifth saw their average income decline from $12,279 in 2010 to $11,859 in 2014 (all in 2014 dollars).[2] Forty-eight million are poor; more than one-third of our people live near poverty.[3] Our young families in particular are struggling. They are part of the Recession Generation.[4] As predicted, coming of age in the worst downturn in decades has left many young adults far behind those who reached adulthood in better times. More than 40 percent of families with children headed by 18-24 year old parents are living in poverty.[5] We knew the Great Recession would take a lasting toll, but instead of mitigating its impact, we are drowning our young workers in underemployment and college debt. Home ownership is less attainable, and rents are rising. We are failing to prepare for our aging population – we need more well-trained caregivers and supports to enable seniors to remain in their homes and communities. There are not enough good jobs, but there is plenty of work that needs doing, and that the federal government should share in funding: caregivers for young and old and rebuilding our crumbling infrastructure, to name only a few examples.

In 2014, five years after the end of the recession, poverty declined modestly. But the pace is too slow. If we continue to see the same percentage point reduction year after year, it would take a quarter century to cut poverty in half, and 35 years to get child poverty down to the same rate.[6] We need federal investments to speed up progress. We need to build on the proven successes of programs such as low-income tax credits, which lifted 10 million people out of poverty, and SNAP/food stamps, which raised at least 4.7 million people out of poverty. To programs like these, we should add job creation measures through infrastructure repair and better funding for education, health professions, child care, and home care for seniors and people with disabilities. These investments increase incomes and reduce hardships across the generations – helping workers get jobs now, providing children with better food and health, child care and education, and helping seniors to maintain health and maximum independence.



The federal budget ought to make it possible to invest in economic growth that will reach our young families and protect our seniors. As a first principle, it ought to protect low-income people in budget and deficit reduction plans. That was, in fact, a key tenet of the Bowles-Simpson deficit reduction plan, which was a precursor to Congress' attempts to reduce the deficit.

But Congress has not adhered to this first principle in its budget proposals. The FY 2016 Congressional Budget Resolution instead targets two-thirds of its cuts[7] over the next decade at low-income programs. More immediately, plans for FY 2016 have set up structures and enshrined practices favoring cuts to domestic programs that should be expanded; that increase military spending without proper oversight; and that extend and expand tax expenditures even if they provide incentives for sheltering income offshore, not investments at home.

Disinvestments in the Routes Out of Poverty. The Budget Control Act's imposition of caps has inflicted multiple rounds of damage on many programs that can help low-income people escape poverty. Even without taking the deeper round of sequestration cuts into account, cuts in many human needs programs from FYs 2010 – 2015 were deep. The Coalition on Human Needs analyzed spending on 150 discretionary programs[8] of importance to low-income people over this period, and found that about one-third were cut by at least 15 percent over the five-year period, counting inflation. That includes job training for adults and youth (cut more than 18 percent), low-income home heating or cooling (LIHEAP, cut nearly 40 percent), and juvenile justice state formula grants (cut about one-third). In addition, the number of meals provided to low-income seniors has dropped by 21.3 million since 2005, because funding has not kept pace with rising food and transportation costs. The sequestration cuts occurring in FY 2013 hit harder, causing 57,000 children to be denied Head Start, denying rental housing vouchers to 100,000 households, and reducing the number of meals provided to seniors by about 5 million. Most of the one-year reductions in Head Start placements and senior meals were restored as part of the budget agreement that lifted sequestration caps at least in part in FYs 2014 and 2015. However, only 30,000 of the rental vouchers have been restored so far and the long-term decline in senior meals has not been reversed .

If Congress allows the sequester cuts to take effect again in FY 2016, it will be a needless backwards step, further slowing the nation's modest progress in reducing poverty. If sequestration cuts return this year, spending on domestic discretionary programs will decline to their lowest level as a share of GDP over the past 50 years. Domestic programs will shrink 17 percent from FY 2010 to FY 2016, taking inflation into account.[9]

Cuts over the past few years have affected both discretionary and mandatory programs. Most painfully, Congress cut the Supplemental Nutrition Assistance Program (SNAP, formerly food stamps) in 2013. Average costs per meal were reduced from $1.70 to $1.40 per person.

These reductions hurt people. The health research project Children's HealthWatch found that households with children under age three experiencing the cutback were 23 percent more likely to be food insecure (unable at all times to be able to afford nutritious food) than before the cut. Infants and toddlers in these households are at greater risk for bad health and education outcomes.[10]

The loss of benefits hurts, but the other side of the coin is that the presence of benefits like SNAP, WIC, and school meals can set children on the path out of poverty. Sherry Brennan recently told her story to members of Congress and the Administration during a Community Voices Day of Action[11]. As a child, her family received food stamps; she ate free school meals. She did not like the stigma attached to these benefits, but she knows her health and attentiveness at school depended on this help. Now she is a senior vice president in Fox's television networks group, and, as she says, "…I've paid more in taxes over the past 25 years than my entire family got in government assistance…" Sherry embodies the anti-poverty effectiveness of SNAP and other nutrition benefits.

Rental housing vouchers are another case in point. If the Senate Transportation-HUD FY 2016 appropriations bill were to become law, not only will the 70,000 still lost vouchers not be restored, but an additional 50,000 vouchers will be lost. This means families who have in many instances been waiting for years for this help will continue to wait. Housing subsidies lifted 2.8 million people out of poverty in 2014, according to the Census Bureau's Supplemental Poverty Measure, which counts non-cash benefits such as housing assistance that are not included in the official measure. Only one in four eligible low-income renters receives a housing subsidy because funding is so low; if funding were increased, more families would be able to rise out of poverty. Instead, if sequestration returns, fewer will get help.

Rental vouchers are just one example of all the additional harm sequestration will inflict, but it is a powerful one. There is mounting evidence of the benefits of this form of housing assistance to children. Children whose families were able to move to low-poverty neighborhoods were 30 percent more likely to attend college than comparably poor children in high-poverty neighborhoods. As young adults, they paid $394 more each year in federal income taxes because of higher earnings compared to other poor children who didn't move to better neighborhoods, over time offsetting government's cost of providing the housing subsidy.[12]

Similarly, Head Start and other preschool programs improve health and employment outcomes later in life. These differences are true of siblings, when only one was a Head Start participant.[13] Low-income children who have participated in various forms of preschool programs have higher rates of employment, higher earnings and lower levels of criminal activity as adults. A Brookings Institution study judged early childhood education one of the four most cost-effective approaches for children, meriting further investment.[14]

The Obama Administration has proposed full-year, full-day programs for all children in Head Start and preschool for all four year-olds. Neither House nor Senate appropriations bills fund either of these proposals, despite the evidence of their benefits for children. The lack of Head Start funding would either deny 570,000 children the lengthened school day and year or require denying Head Start altogether to 140,000 children so those remaining could get the enhanced schedule. Staying within the sequestration caps also leads Congress to eliminate Preschool Development Grants now provided to 18 states, affecting more than 100,000 children, as well as denying another 25-33 states the opportunity to gain such grants.

Funding beyond the straitjacket sequester levels would allow extra measures to help youth and adult workers recover from the recession. Senate funding for job training and employment services fails to make such investments, leaving 2.7 million fewer workers served than the Obama Administration's above-sequestration proposal.

There are large cuts in K-12 education funding for low-income school districts. Services across government would be undermined because of staffing cutbacks and restrictions affecting Social Security, Medicare, Medicaid, CHIP, and labor protections such as recovery of back wages. Senior nutrition faces continued shortfalls, as the eligible population grows by 12,000 every day, and Meals on Wheels programs average waiting lists of 135 people each.[15]

Current Practice Disproportionately Hits Domestic Programs and Undermines Investments for Economic Growth. There are several areas where Congress has chosen to set up new budget rules, or evade existing ones. They share a common impact: concentrating the burden of deficit reduction on domestic priorities that are needed to create shared prosperity.

- **Evading Caps on Pentagon Spending:** Congress, in enacting the Budget Control Act, provided that if no better deficit reduction plan could be agreed to, cuts would be evenly shared by defense and non-defense (domestic and international) discretionary programs. It was originally anticipated that a balanced plan would incorporate savings from mandatory as well as discretionary spending and would reduce the deficit through revenue increases as well. Instead, the majority of savings have occurred through cuts in discretionary programs. But Congress has been evading the requirement of equal savings from defense and non-defense programs. By increasing funding in the uncapped Overseas Contingency Operations (OCO) account, Congress is attempting to provide sequester relief to the Pentagon unavailable to domestic programs. The OCO funding is $38 billion higher than the President's request, is explicitly intended for purposes unrelated to the Iraq and Afghanistan conflicts, and the increase is not paid for.

Whether defense-related or domestic, requests for additional spending ought to be subject to scrutiny by Congress, and approved if the need is justified. Many domestic priorities can be readily justified: programs are demonstrably effective and meet a significant need. They have nevertheless been rejected because they cannot be shoehorned within the sequester cap. Congress is not applying the same standard to the military.

- **Changing the Rules to Require More Offsets for Transportation Spending:** Maintaining roads, bridges and public transportation are important engines of economic growth and jobs. Consistent with previous practice, the Congressional Budget Office counted total Highway Trust Fund spending in FY 2015 as making up the baseline for FY 2016. That is, $50.6 billion could be spent in FY 2016, or $506 billion over 10 years. That includes $336 billion projected to come from the gas tax, and $170 billion supplied from the general fund. According to CBO's definition of the baseline, only expenditures beyond this continued flat funding would have to be paid for. But this year Congress changed the rules to require that ***any*** expenditure from the general fund had to be offset with other cuts or revenue sources, even if there was no increase over the previous year. That meant that the $8 billion Congress transferred from the general fund at the end of July to extend highway spending through October 29 had to be paid for, and that the further extension about to come due will also need offsets.[16]

  This more stringent rule has problematic consequences for investments in economic growth, because it makes it difficult even to secure flat funding for transportation, while keeping pace with inflation and growth really requires increased funding. But it also deters needed investments in other domestic programs, because they all must compete for a limited set of offsets, made still more limited by Congress' refusal to consider most forms of revenue increases as means of paying for needed expansions. If the "low hanging fruit" of increased revenues from improved tax compliance or other savings that do not come from reducing services are taken to pay for baseline transportation costs, they will not be available to provide more four year olds with preschool or to prevent the loss of more rental housing vouchers.

- **Not Paying to Extend Corporate Tax Breaks:** Unlike the decision to require offsets for current spending levels for transportation costs, Congress has been willing to extend expiring corporate tax expenditures with no offsets. While the usual practice has been to extend these tax breaks for one or two years at a time, the House has passed legislation to make a number of corporate tax benefits permanent, at a cost of hundreds of billions of dollars, without offsetting the loss of revenue. Here too, Congress operates with a different set of rules for tax cuts as compared to funding programs to help low-income people move forward. Not long ago, an egregious illustration of the differing yardsticks was displayed in a House Committee on Ways and Means session. The Committee was marking up legislation to make a number of corporate tax breaks permanent, at a cost of about $300 billion over ten years. These costs were not paid for. At the same time, they were taking up legislation to assist young people aging out of foster care. Included in the bill was $1 million to allow the young people to receive birth certificates, health insurance records or other documents needed to apply for college or employment. The first reaction of the majority was to strip out this provision, because it was not paid for with cuts elsewhere. Exposing this unfortunate decision to the light of day resulted eventually in the approval of these funds months afterwards. But the different standards applied that day to $300 billion in permanent tax breaks versus $1 million in documents to allow young people leaving foster care to make their way in the world was telling.

- **Unwillingness to Invest in Shared Prosperity Through Revenues from Fair Sources:** The federal budget, as noted, is a critically important tool to direct investments in initiatives to help workers advance, children thrive, and seniors maintain independence. In budgeting, Congress chooses priorities, and investments that allow more people to participate more fully in economic growth are sound choices. Congress has been one-sided in requiring offsets to pay for expanded services, while not paying for tax cuts or Pentagon spending that exceeds the sequester cap. If it persists in requiring that investments such as education, nutrition, housing or transportation are paid for, Congress should not exclude fair revenue increases from the mix of possible offsets.

  One example of a good choice is paying for full-year, full-day Head Start by closing the tax loophole for hedge fund managers. Their costs are similar – about $1.5 billion a year for the Head Start expansion, with closing this loophole estimated at bringing in between $1.4 billion - $1.6 billion. There is bipartisan support for ending the hedge fund manager's extra break. Which makes more sense? Continuing a lower tax rate for millionaire hedge fund managers or improving early childhood education to increase its employment, earnings and other benefits?

  This is just one small example. At a time when inequality is rising, with about 30 percent of that rise fueled by changes in U.S. tax and budget policies that either favor the rich and corporations or reduce incomes for those with low incomes,[17] we can reasonably reduce spending in our tax code that benefits the rich. Those who reject incorporating such revenue increases in budget plans should acknowledge that virtually all the economic growth since the end of the Great Recession has gone to the richest Americans. There has been no trickle-down benefit. Federal spending, however, can help all Americans to share in and contribute to economic growth. In bad economic times, deficit spending has worked to revive the economy. A new analysis by Alan Blinder and Mark Zandi shows that without the federal spending enacted during the Great Recession, 17 million jobs would have been lost (twice the actual job reduction) and the unemployment rate would have jumped to nearly 16 percent.[18] When the economy is stronger, it is not unreasonable to ask those who have reaped all the gains to contribute so that more can make progress. Senator Sanders' far-reaching legislation to end the evasion of U.S. tax liability by corporations sheltering income overseas would raise close to $600 billion over 10 years. That alone could replace most of the sequestration cuts. Other sources of revenue that would redress inequality and enable investments in child care, nutrition, housing assistance, education, infrastructure, scientific research, and more, include repealing the tax break for fossil fuels ($48 billion over 10 years); raising the capital gains tax to 28 percent ($233 billion over 10 years) and imposing a small financial transactions tax (at 30 basis points, $350 billion over 10 years).[19] Congress should revisit its approach and make fair revenue increases an integral part of making the federal budget work for all Americans.

One Change That Can Prevent an Unprecedented Self-Inflicted Wound. As we head uncomfortably close to exhausting the Treasury's authority to borrow, it is worth noting that even the threat of U.S. default can dampen economic growth. The solution is certainly not to dictate that the U.S. will pay only bondholders and Social Security beneficiaries, while failing to pay/delaying payment on all its other obligations. Can anyone really think it is responsible even to threaten the loss of veterans' benefits, nutrition assistance through SNAP, paychecks to federal workers, rental vouchers, grants to states for education and community development, and so much more? One budget change should be a return to automatic increases in the debt limit as needed to pay for the programs that Congress has itself approved.

Conclusion. The federal budget is needed to fuel sustained economic growth that reaches all of us, not just multimillionaires. To the extent that Congress skews the process so that spending caps and other restrictions are applied rigorously to domestic programs while not applying these rules to Pentagon spending and tax cuts, budget practices will thwart progress. We know much more now about the benefits across generations of low-income tax credits, nutrition, education, housing, health care and jobs programs. These programs are cost-effective investments. Congress should stop sequestration cuts while protecting vital programs like SNAP, Medicaid, and low-income tax credits. Putting these needs first will help to mitigate the damage done to young families and retirees alike by the Great Recession. The workings of the economy plus budget and tax policies that favor the rich have resulted in economic gains felt only by a small fraction of people and corporations at the top. Changing budget policy and practice can help millions more make gains.

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