

Political and Policy Context for the FY 2003 Budget

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The first two chapters of this book are intended to provide a framework for understanding the detailed budgetary data and analysis that follow. This chapter builds on the previous one to describe the political and policy context within which the FY 2003 budget process will take place. It begins with a brief account of the past year's experience and then moves to a discussion of the proposed FY 2003 budget. The chapter then turns to a more specific treatment of continuing and emerging R&D policy issues that are likely to shape the R&D policy landscape in the current budget cycle and in those to come. The chapter concludes with some speculations about what may be in store for R&D in the remainder of the budget year and beyond.

R&D IN THE PAST YEAR'S BUDGET PROCESS

The FY 2002 budget process differed sharply from its immediate predecessors in several important respects. First, the inauguration of George W. Bush in January 2001 ushered in a new set of policy priorities that sought to combine the traditional Republican themes of tax relief and military might with the more recent Republican concerns for re-invigorating the federal role in education and raising the profile of religious organizations in the delivery of social services. Second, the end of the longest expansion of U.S. economic activity in the nation's history in March, coupled with the Bush Administration's tax relief package signed into law in June, marked the end of the era of budget surpluses that began in 1998. Third, in addition to their political and psychological consequences, the terrorist attacks of September 11 had profound fiscal effects, not the least of which was the \$40 billion emergency supplemental appropriations bill signed into law on September 18.

Each one of these events alone would have been sufficient to declare the existence of a new budgetary dynamic at play in Washington. That they would happen in relatively quick succession in the same year only reinforced this fact. Moreover, their confluence produced a budget process that was at times bitter and divisive and at times conciliatory and harmonious. When President Bush signed his tax relief package into law in June in the face of rapidly deteriorating economic conditions, congressional Democrats placed the blame squarely at his feet when the arrival of a recessionary economy later in the year abruptly ended the short-lived era of budget surpluses. This elicited Republican counterclaims that the tax cuts were only marginally responsible for the return of deficit spending and that additional tax cuts should be a key ingredient in any effort to stimulate the faltering economy. In the wake of the terrorist attacks of September 11, however, both parties quickly united to fashion an emergency supplemental appropriations bill to repair the damage done by the attacks and to respond to them on both legal and military fronts. Though this bipartisan unity turned out to be short-lived, it did serve as a striking counterpoint to the rough-and-tumble politics that characterized the remainder of the FY 2002 budgetary process.

When the process finally ended with the signing of the last appropriations bills in January 2002, FY 2002 appropriations—including the emergency appropriations bill—stood at \$718 billion, far more than President Bush’s original \$661 billion request submitted the previous April. In comparison with FY 2001, this represented a 6.8 percent rise in discretionary spending.¹ Federal R&D spending increased at an even steeper rate, totaling \$103.2 billion, an \$11.6 billion or 12.7 percent increase over FY 2001. This was the largest dollar increase in history and the largest percentage increase in nearly 20 years.

More specifically, there were substantial increases for all major federal R&D agencies, in contrast to the proposed cuts for most agencies outlined in the Bush Administration’s April budget request (see Table I-1). The largest dollar and percentage increases went to the two largest R&D funding agencies, the Department of Defense (DOD) and the

¹ Discretionary spending is the roughly one-third of the federal budget subject to annual appropriations decisions by Congress and the President, as distinguished from mandatory spending which is specified in permanent law. Nearly all federal support for R&D is contained within the discretionary portion of the budget.

POLITICAL AND POLICY CONTEXT FOR THE FY 2003 BUDGET

National Institutes of Health (NIH), reflecting the high priority placed on defense and health by the Bush Administration and Congress. In addition, agencies with counter-terrorism research portfolios fared particularly well. In response to the terrorist attacks of September 11, terrorism-related R&D nearly tripled to \$1.5 billion in FY 2002 (up from \$579 million in FY 2001). Roughly half of these dollars came from regular appropriations and half from the \$40 billion post-September 11 emergency response fund.

THE PROPOSED BUDGET FOR FY 2003

On February 4, the Bush Administration rolled out its FY 2003 budget request, which called for \$767 billion in overall discretionary spending—an increase of \$49 billion or 6.8 percent above FY 2002 levels. President Bush's budget request was the first in five years to propose deficit spending for the coming year, even though it would have been possible to propose a balanced budget. However, President Bush pointed to the overriding concerns of bolstering homeland security, winning the war on terrorism abroad, and returning the nation to economic vitality as justifications for his red-ink budget. Thus, the FY 2003 budget request would lead to a unified deficit of \$80 billion (and a non-Social Security deficit of \$259 billion). However, this figure was based on the Office of Management and Budget's (OMB) comparatively optimistic tax-revenue projections for FY 2003. By contrast, the Congressional Budget Office estimated that the federal government will take in fewer tax dollars in FY 2003 and that the president's budget would lead to a unified deficit of \$121 billion. Regardless of whose numbers one accepts, it is highly improbable that the federal budget will be "back in black" in FY 2003.

Not surprisingly, the DOD would garner the lion's share of the FY 2003 budgetary expansion, seeing its bottom line rise by \$44.9 billion to \$379.3 billion—an increase of 13.4 percent. This would represent the largest one-year increase in defense spending since the Reagan Administration's military buildup during the Cold War. Included in the request is approximately \$9.4 billion designated for the war on terrorism, \$7.8 billion for missile defense and \$300 million to counter biological attacks. The request also includes a \$10 billion contingency fund to be used at the DOD's discretion as the evolving war on terrorism presents ostensibly unforeseen demands on DOD resources and personnel. However, in the first round of DOD budget hearings on Capitol Hill,

even the most hawkish members of Congress expressed doubt about the wisdom of writing a blank \$10 billion check. (For more on the DOD budget, please see Chapter 6.)

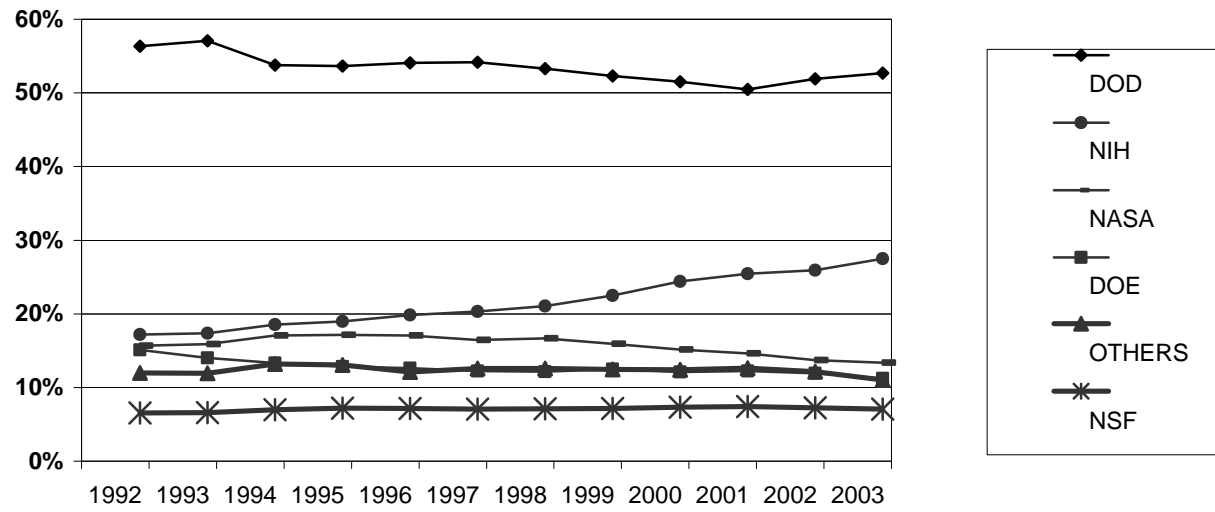
In addition to the numerical contents of the budget request, the request also highlighted several management themes important to the Bush Administration. Many of these themes were first presented in “The President’s Management Agenda,” a document issued by OMB in August 2001. Based on the premise that success in government should not be measured by program initiation, the document outlined a plan to improve governmental performance through greater attention to the evaluation of government programs. To this end, the FY 2003 budget request contained “management scorecards” that assessed the performance of each federal agency across five areas: human capital management, competitive sourcing, financial management, E-government, and budget and performance integration. Additionally, the request took aim at congressional earmarks, asserting that such spending has grown overly excessive in recent years and that it “mars merit-based processes for distributing the American people’s resources.”

The frugality-promoting language of the budget request notwithstanding, total federal R&D would increase to \$112.0 billion in FY 2003, representing an increase of \$8.9 billion or 8.6 percent above FY 2002 levels (see Table I-1). However, the proposed increases for DOD (\$5.2 billion) and NIH (\$3.7 billion) account for all of the overall increase, leaving all other R&D funding agencies combined at the same funding levels as FY 2002. Thus, this would further reinforce the “missiles and medicine” profile that federal R&D has assumed in recent years.

CONTINUING AND EMERGING R&D POLICY ISSUES

Apart from the size of the federal R&D budget, several important policy issues currently confront the R&D community. As mentioned above, the Bush Administration’s FY 2003 budget request would bring into even greater focus the “missiles and medicine” profile of the current federal R&D portfolio. That is, DOD and NIH would reap nearly all of the R&D funding gains, while funding for all other federal R&D performers would remain flat or decrease. This is not a new phenomenon. Over the past decade, DOD and NIH have commanded the largest shares of each year’s R&D budget; DOD has steadily hovered around the 50 percent mark, while NIH now accounts for nearly a quarter of federal R&D

Figure 1. Share of R&D by Top 5 Agencies



Source: AAAS historical tables for federal R&D.

activity (see Figure 1). Admittedly, the recent upswing in NIH funding is the result of the agreement previously reached by Congress and the Clinton Administration to double the NIH budget over the period FY 1998-2003. Nevertheless, concern is inevitably raised over this increasing imbalance in the federal R&D portfolio and its implications for the future of American science. In fact, at a February hearing of the House Committee on Science on R&D in the FY 2003 budget, several members renewed their concerns over these divergent funding paths. Being the final year of the NIH doubling plan, it will be interesting to see whether these trends continue or whether R&D resources will be spread more evenly across the full range of federal R&D performers.

In light of the Bush Administration's efforts to emphasize management, accountability, and efficiency throughout the federal government, the R&D community is also faced with the issue of how these efforts will impact the direction of federally funded R&D. Indeed, in the above-mentioned "President's Management Agenda," the development of better R&D investment criteria is one of the Bush Administration's stated program initiatives. To this end, OMB and the Department of Energy (DOE) have begun work to develop performance criteria for applied R&D programs within the DOE portfolio. The eventual goal of the Bush Administration is to carry out similar exercises with other federal R&D agencies and to develop a separate set of criteria for basic research. With regard to the latter, the National Academy of Sciences convened a February workshop with representatives from OMB, DOE and various stakeholder groups (*e.g.*, industry, professional associations and universities) to discuss how the development of basic research performance criteria might be accomplished. Though generally supportive of the OMB effort, these stakeholder groups asked pointed questions about the level of decision-making at which these criteria would be applied (*e.g.*, agency versus program), the possibility of stifling high-risk research that might eventually lead to big payoffs, and the potential pitfall of using easily available performance criteria that may not be pertinent to the scientific question at hand, among others. Given that the ultimate aim of the Bush Administration is to use these performance criteria in funding decisions, the R&D community will obviously want to remain engaged as this dialogue unfolds.

The R&D community will also continue to be engaged in the myriad ethical, legal and scientific issues that surround ongoing developments in biotechnology. Perhaps the most publicized development in this regard

POLITICAL AND POLICY CONTEXT FOR THE FY 2003 BUDGET

was President Bush's decision last August 9th to limit federally funded research on human embryonic stem cells to those cell lines in existence at the time of his decision. Based on a determination previously made by NIH, this meant that 64 cell lines located at research facilities both in the U.S. and abroad would be eligible using this criterion. However, some biomedical researchers questioned the viability of some of these cell lines. To help clarify issues regarding the quality of these cell lines, as well as to announce funding opportunities for research on the approved cell lines, NIH later launched in November the Human Embryonic Stem Cell Registry as an information clearinghouse.

More recently, political attention has turned to the question of human cloning. Since Congress reconvened in January, two Senate committees have already had hearings on whether to pass legislation that would call for a comprehensive ban on human cloning. On one side are proponents of a bill (S. 1899) authored by Senators Sam Brownback (R-KS) and Mary Landrieu (D-LA) that is identical to a bill approved by the House last summer (H.R. 2505). The Brownback-Landrieu bill would ban all forms of human cloning, whether for producing a human baby (reproductive cloning) or for scientific research (research cloning). On the other side are proponents of a narrower cloning ban that would prohibit reproductive cloning but permit research cloning. Two such narrow bans have been introduced, one by Senators Tom Harkin (D-IA) and Arlen Specter (R-PA) and the other by Senators Dianne Feinstein (D-CA) and Edward M. Kennedy (D-MA). In support of the Brownback-Landrieu bill is an unlikely alliance of religious conservatives and environmentalists, while those in opposition include a coalition of science organizations, patient groups, and the biotechnology industry. Much like the debate over research on human embryonic stem cells, the debate over human cloning expands the list of stakeholders beyond those normally involved in federal R&D policy debates. In so doing, debates over biotechnology demand that members of the R&D community engage a wider audience than has heretofore been the case—a requirement that is only likely to increase in the future.

Finally, the continuing war on terrorism presents both opportunities and challenges to the R&D community. From an exclusively mercenary perspective, the war on terrorism has meant more money for the R&D community; this would continue under the Bush Administration's FY 2003 budget proposal. A recent AAAS analysis indicates that final FY 2002 appropriations for counter-terrorism R&D were nearly \$1.5 billion,

an increase of more than \$900 million above FY 2001 levels.² And, though difficult to divine exactly, preliminary analysis of the Bush Administration's proposed FY 2003 budget indicates that this number would jump to roughly \$2.8 billion. The majority of these funds would go to NIH to undertake a variety of bioterrorism-research activities, including the procurement of vaccines for anthrax, improvement of NIH lab security and the administration of funds for the construction of extramural biosafety labs (see Chapter 8 for more details of NIH counter-terrorism activities).

In terms of the R&D enterprise writ large, however, the federal reaction to the events of September 11 has not been entirely benign. In the name of national security, the Bush Administration has moved to curtail the flow of any and all information that could potentially serve the cause of terrorists seeking to do harm, including scientific research data. Thus, government agencies have been purging their Web sites of sensitive information on hazardous chemicals, weapons of mass destruction and aviation accident reports, among others. Additionally, the U.S. Geological Survey removed a report on the nation's water supply from its Web site and from approximately 300 federal depositories; DOE removed scientific research papers issued by national laboratories containing such keywords as "nuclear," "chemical" or "storage" from its Information Bridge Web service. Whether these moves will do lasting damage to the fundamental principle of scientific openness, or whether they are merely prudent measures taken in light of extraordinary circumstances will only become apparent with the passage of time.

FORECAST FOR THE FY 2003 BUDGET AND BEYOND

On March 9, President Bush signed into law an economic stimulus package that is projected to inject \$51 billion into the economy this year, \$43 billion next year and \$29 billion in 2004. This ended a long and often bitter debate begun in the wake of the events of September 11 over the appropriate scope and nature of a stimulus bill that would both provide relief to those adversely affected by the terrorist attacks and inject much needed energy into a flagging economy. For their part, Republicans focused on large tax cuts—to both individuals and corporations—as the salve to aid the wounded economy. Democrats, on the other hand, called for modest tax cuts focused on low- and middle-

² See *Congressional Action on R&D in the FY 2002 Budget*, January 2002.

POLITICAL AND POLICY CONTEXT FOR THE FY 2003 BUDGET

income individuals and for extended unemployment benefits to include health care coverage. In the end, the package was a compromise; Republicans failed to get the large tax cuts they desired and Democrats failed to get the expanded unemployment benefits they had sought.

The compromise on the stimulus package thus sets the stage for the November 2002 mid-term elections and the FY 2003 budget negotiations. That such a compromise was achieved when it was is most likely due to the fact that members of Congress wanted to be able to show some product to their constituents when they begin campaigning for re-election this spring. The ability to campaign with some tangible product in hand becomes all the more important when one considers the stakes of the mid-term elections. Still hurting from the defection of Senator Jim Jeffords (I-VT) in May, Republicans are intent upon re-taking the Senate and maintaining their slim majority in the House, while Democrats are equally determined to maintain control of the Senate and possibly win a majority in the House. Given that mid-term elections generally favor the party that does not hold the White House, Democrats' prospects would normally be bright. However, re-districting performed in the wake of the 2000 census that has generally favored Republicans and the soaring approval ratings of President Bush will most likely negate this historical tendency.

Then comes the matter of the FY 2003 budget process. Normally, the next step would be the congressional budget resolution that would set spending totals and functional allocations and designate reconciliation (changes in tax or entitlement laws) instructions to various House and Senate committees. Though legally non-binding, the resolution establishes a framework under which Congress considers the current budget request. This year, however, there are serious doubts about whether a budget resolution will even be adopted, given the convergent circumstances of a divided Congress, an election year and residual resentment in both parties over the previous year's fiscal battles. Though the budget process will still proceed without a budget resolution, the absence of such a framework may presage an exceedingly grueling FY 2003 budget process.

Beyond the immediacy of the current year's budget battle, additional fiscal issues loom on the horizon. Of particular interest to the R&D community will be the effort to renew the R&D tax credit when its current life runs out in June 2004. Known formally as the Research and

Experimentation Tax Credit, the R&D tax credit allows businesses to write off up to 20 percent of their R&D costs. The tax credit was created in 1981 at a time when lawmakers feared that the U.S. was falling behind in applied research. It has since been renewed ten times. The key question that will confront lawmakers in 2004 is not whether to renew the tax credit—it has enjoyed strong bipartisan support—but whether to make it permanent. Advocates of this position maintain that such a move would remove all doubt over its fate and thereby spur investment in private-sector R&D. At the end of the tax credit's last incarnation in 1999, the R&D Credit Coalition—comprised of 87 professional and trade associations and over 1,000 companies—pushed hard for permanency. And, in anticipation of the 2004 debate, prominent figures from both political parties have voiced support for this position. At an April 2001 gathering of high-tech business leaders in Virginia, Vice President Cheney stated that “it’s time to end the uncertainty once and for all, and to make the R&D tax credit permanent.” At a January 2002 speech at the Center for National Policy, Senate Majority Leader Tom Daschle (D-SD) asserted that “the R&D tax credit is one of the most effective mechanisms to encourage innovation, increase business investment and keep the economy growing. We should work together to make it permanent.”

Complicating this move toward permanency, of course, will be the nation's economic health over the next few years. According to estimates contained in its FY 2003 budget request, the Bush Administration projects that making the R&D tax credit permanent would mean \$51.1 billion in foregone revenue over ten years. Given the stated desire on both sides of the aisle in Congress to end the return to deficit spending as quickly as possible, this price tag may appear too large to lawmakers seeking to bring revenues and expenditures back into balance.