

## **Political and Policy Context for the FY 2005 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 2005 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 2005 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**

Though the FY 2003 budget process was viewed as one of the more painful legislative episodes in history, the FY 2004 budget process fared only slightly better during the first session of the 108<sup>th</sup> Congress. Any expectations that Republicans regaining control of the Senate would thereby ease the appropriations process were quickly dispelled with the attack on Baghdad in April and the obvious fiscal pressures it would place on an economy already weighted with a burgeoning deficit.

As the immediate success of the campaign to oust Saddam Hussein settled into a protracted era of civil unrest, sentiments among some politicians—especially moderates—grew more pessimistic. These sentiments refused to ebb as U.S. troops failed to find any weapons of mass destruction in Iraq. Democrats, already smarting from losing what little gains it had made in previous elections, were now bolstered by a growing chorus of fiscal conservatives wary of the effect the war would have on an already mounting budget. The politics of the margins took on a whole new meaning in the first session of the 108<sup>th</sup> Congress.

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As in the previous year, the House and Senate failed to pass a budget resolution that could have provided a guideline for reining in discretionary spending. Nevertheless, by the August recess the House appropriations committees had efficiently reported out 11 of its 13 appropriations bills, while the Senate had only managed to move four. With the war in Iraq evolving into a more protracted engagement requiring larger investments, Congress worked quickly to ensure that the military would not be held in limbo. By October 1, 2003, the Defense, Homeland Security, and Legislative Branch appropriations bills were completed and signed into law by the President. The three were followed with passage of the Interior, Military Construction, and Energy and Water appropriations by December 8, 2003, before Congress recessed to end the first session. (See Table I-9 for the 13 appropriations bills and R&D funding within them.)

That still left seven remaining bills, including the three most difficult: Labor-HHS, Commerce-Justice, and VA-HUD-IA. Both chambers had actually begun talking quietly of an omnibus bill as early as July. Initially, various rumors circled the halls of Capitol Hill of pairing difficult bills, such as Labor-HHS, with less controversial legislative vehicles, with the hope of passing bundled pairs before the end-of-the-year recess. Unfortunately, the exploding federal budget deficit, \$375 billion in the past fiscal year (2003), meant that battles would predictably ensue over funding certain domestic programs, pitting parties and chambers against one another.

The more politically seasoned congressional watchers knew that in the end a single omnibus bill would be the only way for Congress to realize the inevitable. The House approved the omnibus bill by *sine die* adjournment, but procedural disputes delayed final Senate approval, with the President signing the omnibus into law (P.L. 108-199) on January 23, four months into the fiscal year.

The final discretionary total for R&D in FY 2004 brought federal investments to a new record of \$126.5 billion, an \$8.4 billion or 7.1 percent increase over FY 2003 and \$4.6 billion more than the President's request (see Table I-1). As has been the pattern in recent years, 93 percent of the \$8.4 billion increase went to the Department of Defense (DOD), the Department of Homeland Security (DHS) and the National Institutes of Health (NIH); leaving all other R&D funding agencies

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collectively with only a modest increase. DOD's R&D alone received 80 percent of the increase reaching another all-time high of \$66.0 billion. The DHS saw its R&D portfolio surge by 43.0 percent or \$316 million to \$1.1 billion. On the other hand, after five years of annual 15 percent increases, NIH budget growth slowed down considerably, with its R&D portfolio increasing a modest 3.1 percent.

Hidden in the FY 2004 appropriations bills were numerous earmarks, in fact, R&D earmarks dramatically increased, totaling \$1.9 billion in the Omnibus and Defense appropriations bills. Earmarks rose 32 percent from the \$1.4 billion in FY 2003, a stark contrast to last year when they declined slightly from FY 2002. Within a record R&D investment of \$126.5 billion in FY 2004, up 7.1 percent, R&D earmarks actually grew far faster than R&D spending as a whole. Nearly all of the increase was due to an explosion in R&D earmarks in the DOD and DOE budgets.

### **THE PROPOSED BUDGET FOR FY 2005**

On February 2<sup>nd</sup>, just one week after the delayed conclusion of the FY 2004 budget, President Bush released his FY 2005 budget proposal. The budget proposes total discretionary spending of \$818 billion, a modest increase of 3.9 percent, but higher than the pre-Iraq requested increase of 2.5 percent in FY 2004. The budget foresees a \$363 billion deficit in FY 2005, declining to \$237 billion by FY 2009. In order to reach the FY 2009 goal, however, the President's budget does not provide any allocations for the war in Iraq or reconstruction costs in Afghanistan.

Even with such a constrained discretionary picture, the FY 2005 budget proposes significant funding for federal R&D at \$132.0 billion—\$5.5 billion or 4.3 percent more than FY 2004. Yet again, the growth is due to large increases in defense and homeland security R&D, with almost the entire \$5.5 billion going to DOD and DHS. Research and development at DOD would grow to nearly \$70 billion, mostly due to preparations to deploy a national missile defense system later this year. The DHS R&D portfolio would increase 15.5 percent to \$1.2 billion and begin a shift in emphasis from near-term technology development toward more basic and applied research in FY 2005 (see Chapter 6 for more on DOD, and Chapter 12 for more on DHS).

The remaining federal R&D portfolio would reflect the President's goal of keeping nondefense discretionary spending at 0.5 percent above FY

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2004 levels. Even two favored nondefense R&D agencies are adjusting to diminished expectations. The NIH budget, after doubling in five years would see an increase of only 2.6 percent, and the National Science Foundation (NSF) budget of \$5.7 billion would fall well short of the \$7.4 billion envisioned in the authorization bill signed into law in 2002.

In addition to keeping nondefense discretionary spending at 0.5 percent, the Administration diplomatically addresses the fiscal pressures that congressional earmarks place on the already constrained discretionary budget. In its supporting documents on the budget, the Office of Management and Budget (OMB) includes a discussion on earmark trends within the R&D chapter. It restates the Administration's commitment to funding research based on merit-based evaluations and emphasizes that it "will continue to work with academic organizations, colleges and universities, and the Congress to discourage the practice of research earmarks and to achieve our common objectives."

#### **CONTINUING AND EMERGING R&D POLICY ISSUES**

Amidst the debates of growing deficits and skyrocketing earmarks, a number of emerging issues appeared this past year that impact the scientific community and that show no signs of ebbing during the continuing year. First, as mentioned above, the medical research community has had to adjust to a much more difficult fiscal landing after five years of generous budgets. Like a begrudging parent, the Congress has shifted attention away from finding additional monies to bestow upon NIH and to more difficult questions as to how those monies have been utilized and managed.

The first indication that NIH could not rest upon the laurels of past years was during a July floor debate of the House Labor-HHS appropriations bill. The House came within a razor-thin margin (210-212) of passing an amendment introduced by Rep. Patrick Toomey (R-PA) that would have eliminated funding for five NIH peer-reviewed grants. Toomey cited the grants—which all involved subjects that touch on sexual behavior or drug use—as objectionable because they were "much less worthy of taxpayer funding than the kind of research the NIH is generally doing to cure... devastating diseases."

The scientific community could have chalked up the event as a throwback to former Sen. William Proxmire's Golden Fleece awards, if a

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separate hearing in October had not led to revelations that a much larger list of almost 200 similar grants existed. The “NIH Hit List” (as it became known in DC) had been compiled by a conservative religious group and distributed to Members of Congress sympathetic to their agenda.

The failure of the Toomey amendment by such a close margin caused the scientific community—a normally staid group—to speak out against perceived attacks to the research enterprise. Even the AAAS issued a scathing editorial in its journal, *Science*, that was picked up in a number of media outlets. (For more on this controversy, see Chapter 21.)

The Toomey episode occurred at a time when the scientific research community was already highly-sensitized by Democratic accusations that the Bush Administration was politicizing science. Allegations continued throughout the year that the White House was stacking scientific advisory committees, and suppressing or distorting scientific facts to meet the needs of already pre-determined policies. Although the allegations could be argued as a partisan ploy, it has only seemed to collect steam with the issuance in February 2004 of a letter signed by 60 prominent scientists, including former presidential science advisors and Nobel Laureates, expressing similar concerns.

Another topic of concern is the impact of national security policy measures on the research process. Academics published well-documented surveys that show a decline of 33 percent in the number of applications by foreign students to U.S. universities and colleges. The surveys reveal what many higher education institutions had predicted, that new visa restrictions would have a negative impact to U.S. schools.

A new issue that surfaced this past year is the subject of publishing unclassified research by scientists living in countries governed by the Treasury Department’s Office of Foreign Assets and Controls (OFAC). A request for clarification of the rules by the Institute of Electrical and Electronic Engineers (IEEE) revealed that OFAC considers the mere act of editing an article (regardless of content) a violation of existing rules. The OFAC ruling was made more contentious by IEEE’s response to no longer accept any articles by scientists in affected countries.

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Achieving the proper balance between scientific openness and national security, therefore, is likely to be an ever present topic for members of the R&D policy-making community.

#### **FORECAST FOR THE FY 2005 BUDGET AND BEYOND**

The FY 2005 budget deficit projections have already painted a grim picture for the remainder of the year. This image is far from impressionistic given a very real FY 2004 budget deficit that could exceed \$500 billion. Though Washington policy makers have shown little appetite for making the hard choices necessary to get the budget back into balance, it is only in the area of domestic discretionary spending that they show some fiscal restraint. This does not bode well for R&D.

Surprisingly, both chambers have already made some headway in framing budget resolutions. The Senate passed its version, increasing defense and homeland security funds \$1 billion above the President's request, while constraining domestic discretionary spending by allowing only a \$2 billion, or 0.4 percent increase. The very modest growth in domestic discretionary spending—even lower than the Administration's plan—includes an additional \$1.3 billion for NIH.

The House Budget Committee passed a plan that essentially mirrors the Senate-passed measure. The House resolution would freeze nondefense discretionary spending and increase defense and homeland security funds at the President's request. The measure was ready to go to the House floor for a vote as this report went to press.

The tight constraints placed on domestic discretionary programs by the Administration and Budget Committees means that the difficult choices will need to be debated and argued among the appropriators. In such an environment, providing funds for nondefense R&D programs would involve taking money from other programs that are already proposed for cuts. Compound this with an Administration unwilling to budget for the war in Iraq and a budget that falls within a presidential election year, and there is little incentive for Congress to dispense with the budget in a timely fashion. Thus, this FY 2005 R&D proposal appears to be just the first step in a long battle that could stretch into next year.