

Political and Policy Context for the FY 2001 Budget

Stephen D. Nelson and Joanne P. Carney, AAAS

The first three chapters of this book are intended to provide a framework for better understanding of the masses of budgetary figures that follow. Chapter 1 provides a structural and comparative overview of R&D by explaining how it fits into the overall federal budget, how it relates to our nation's economy, what recent trends in federal R&D support have shown, and how the U.S. and other nations compare in key indicators. Chapter 2 offers historical perspectives on R&D funding trends of the past 25 years. This chapter builds on the previous chapters to describe the political and policy context within which the FY 2001 budget process will take place. It begins with a brief account of the past year's experience, then moves to a characterization of the proposed budget and its initial reception by the Congress, and 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

Budget surpluses continued to shape the political process, as the federal government recorded a surplus in FY 1999 for the second year in a row, and surpluses were projected into the foreseeable future. However, even the budgetary good news did not prevent another year of intensely partisan bickering. The release of the Administration's FY 2000 budget came in the context of the historic impeachment trial of President Clinton in the Senate, and the President's acquittal left the Republican-run Congress in no mood to cooperate with the Administration.

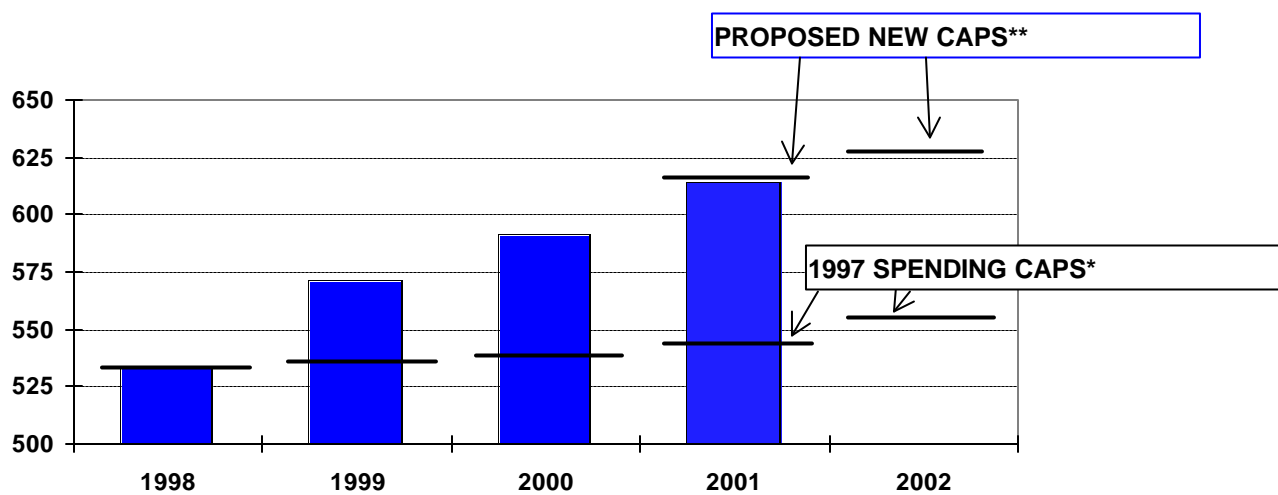
Although federal revenues were running at unexpectedly high levels, the primary political reality of the budget process continued to be the caps

(spending limits) on discretionary spending agreed to by Congress and the President in 1997 and extending through FY 2002. Although their underlying economic assumptions would seem to have been made irrelevant by the government's actual revenue levels, the political reality was that the caps would continue in place because of their political symbolism (of budget restraint) and each side's fear of being tarred as profligate by being the first to propose raising or eliminating them. The caps had in fact been circumvented in FY 1999 by \$21 billion, through a series of budgetary sleights of hand. However, Congress and the President were confronted in FY 2000 by a discretionary cap—still the law of the land—of \$538 billion, \$18 billion less than FY 1999 final appropriations. The President's proposed budget for FY 2000 contained increases for most nondefense R&D agencies, but stayed technically within the discretionary cap by proposing offsetting revenues, including a re-run of the previously failed tobacco tax proposal.

Congressional leaders, including new Speaker of the House Dennis Hastert (R-IL), were determined to impose fiscal discipline and not to be boxed in as they had been at the end of the previous budget year. But the combination of a \$15 billion FY 1999 supplemental appropriation, the postponing of the more expensive and difficult FY 2000 appropriations bills until late in the process, and shortchanging the latter in the process of passing earlier bills left Congress in the situation of not being able to pass the later bills without loading them with budgetary tricks. In a replay of the previous year's scenario, dreaded by the Republican leadership, there was once again a stalemate between Congress and the President late in the budget cycle. After seven continuing resolutions (temporary spending bills) beyond the October 1 start of FY 2000, with the President insisting on his budgetary priorities and Congress becoming impatient to adjourn, fiscal discipline collapsed. The byzantine final agreement allowed for over \$590 billion in discretionary budget authority, while technically meeting the cap of \$538 billion (see Figure 1) by means of the most creative and far-reaching array of budgetary tricks seen in recent decades.

Federal R&D programs shared in the increases. Total federal R&D for FY 2000 came to \$83.3 billion, \$3.2 billion (or 3.9 percent) over FY 1999 totals (see Table I-1). The big winner was once again the National Institutes of Health (NIH), with an increase of \$2.2 billion (or 14 percent), although, as one illustration of the numerous budgetary tricks,

Figure 1. Discretionary Budget Authority and Discretionary Caps, FY 1998-2002, in billions of dollars



Source: Budget of the U.S. Government FY 2001.

* - Original spending caps in 1997 Balanced Budget Agreement.

** - Proposed discretionary spending limits in FY 2001 budget request. Proposed caps extend to FY 2010.

FY 1998-2000 levels are enacted discretionary BA. FY 2001 level is President's proposed budget, net of designated offsets.

nearly \$3 billion was withheld until the next-to-last day of the fiscal year. Defense R&D was also rewarded, gaining \$498 million (or 1.2 percent) to a total of \$42.5 billion—a turnaround of that sector’s recent budgetary history. Most other major R&D agencies, with the exception of the Department of Transportation (DOT) and the Environmental Protection Agency (EPA), won increases, although some were modest.

OTHER S&T POLICY ISSUES DURING THE PAST YEAR

The protracted process of getting through the final appropriations bills was paralleled by powerful events that occurred within both government and the research communities. These events indicate how allegations, revelations, and breakthroughs—both positive and negative—can shape public policy dialogue. More importantly, they show how issues that appear removed from scientific research can have a significant effect on the practice of science.

Much of the yearlong debate over which directions to take in a flush fiscal environment was overshadowed by allegations of the theft of U.S. nuclear and military technology secrets by China. In the wake of alleged espionage by an employee of Los Alamos National Laboratory, congressional and presidential task forces investigated security threats at the Department of Energy (DOE) laboratories. The resulting reports from both branches concluded that security had been lax and that management by DOE had become so dysfunctional that only reorganization could salvage the agency. The House Armed Services Committee strategically placed language in a veto-proof defense authorization bill to create a new semiautonomous agency within DOE to manage nuclear security issues. DOE, which had survived previous unsuccessful attempts by policy makers to close or reorganize it, had finally run out of luck. The new agency, the National Nuclear Security Administration, officially opened its doors on March 1, 2000, amid continued harsh criticism by Congress as they and the Energy Secretary struggled over management authority.

Of greater importance to the scientific research community—and lost in the media coverage of espionage, courtroom trials, and power plays on Capitol Hill—was the suspension of a vital program to encourage international collaboration. As part of the defense authorization bill, the Foreign Visitors Program, a project that allows foreign scientists to

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conduct unclassified research at energy laboratories, was placed on a temporary moratorium by Congress until proper security oversight could be established. The full repercussions of these events are not fully known, but the scientific community is still reeling from this action.

Paralleling these national security disputes was a major breakthrough in medical research. The revelation that two privately-funded research teams had successfully isolated and cultured human embryonic stem cells represented a significant advance in science. The news heralded both scientific promise as well as ethical and legal perils, and launched a series of new debates. The heart of the dispute centered on a legal interpretation of whether stem cell research falls within a 1995 congressional ban on human embryo research.

After reviewing the language in the congressional ban, the National Institutes of Health (NIH) issued guidelines that endorsed federally funded research utilizing stem cells. The new rules, however, included a caveat that federal funds could not be used to derive or extract the cells from human embryos. This is an important distinction, as it places the responsibility for extraction in the private sector. Hence, there was no reason to change the existing legislative structure since the stem cells would not be obtained with the use of federal funds.

The release of the NIH guidelines prompted an outcry from a group of Senators attacking the ruling as an effort “to justify transgressing the law”. Battle lines have been drawn within the Congress between those who view this as a promising research field and those who view it as immoral, unethical, and illegal. While some members are vocal about which side of the fence they stand on, many others have hesitated to enter the fray.

On a final, less volatile matter, the Research and Experimentation (R&E) tax credit was extended for five years in last year’s omnibus appropriations bill. The credit is designed to provide additional incentives for firms to increase their overall level of research support and to encourage the financing of research areas that firms may not otherwise invest in because of the amount of capital required. For the past ten years, Congress has allowed the tax credit to expire eight times and then has been forced to reinstate it on an annual basis. This roller-coaster

approach to policy making left little room for private-sector firms to incorporate tax incentives into their long-term strategic research plans. Though not permanent, the five-year extension was praised by many as a first step in the right direction.

THE PROPOSED BUDGET FOR FY 2001

The actual content of the FY 2001 proposals for R&D appears elsewhere in this report, briefly in Chapter 1 and in much greater detail in Chapters 4 and following. Our purpose in this section is to consider some of the background for the budget's construction and its initial reception by the Congress.

President Clinton released his proposed budget for FY 2001 on February 7, 2000. It projects a string of surpluses well into the new century, and outlines a plan to pay off the national debt by 2013 while still providing expanded Medicare coverage and real increases in discretionary spending over the next decade. Nearly all federal support of R&D is funded out of discretionary spending, the one-third of the budget subject to annual appropriations.

A major feature of the President's budget proposals, however, concerns the discretionary spending caps. The FY 2001 cap specified in the 1997 agreement would have required severe cuts in discretionary programs in the FY 2001 request. As Figure 1 illustrates, the current FY 2001 cap is \$542 billion, which is \$50 billion lower than FY 2000 discretionary budget authority. In explicit recognition of the informally acknowledged difficulty, fiscally and politically, of meeting such a figure, the President proposes to repeal the existing caps and to replace them with far more generous ones that would allow a 5.2 percent increase in total discretionary spending in FY 2001, to \$622 billion (see Figure 1). As a result, the budget finds room for increases in many programs, including most R&D programs, and is headlined by a proposed 19.8 percent increase for R&D in the National Science Foundation (NSF). In future years, the caps would rise at the rate of expected inflation and would thus allow for small future increases in R&D and other discretionary programs. Overall, the revised-caps proposal is intended to introduce somewhat greater flexibility into the budget, while still providing a measure of fiscal discipline and giving political cover to the Congress for going along with proposed increases.

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A central tenet of the R&D budget proposals for FY 2001, given considerable prominence by the Administration, is the principle of balance in the allocation of resources among science and engineering disciplines. In recent years, Congress has given a series of large increases to the NIH, resulting in a significant emphasis on biomedical and life science research (see Figure 3 in Chapter 2 dealing with historical trends in federal R&D support). By contrast, the FY 2001 budget proposes a more balanced federal research portfolio through large increases for R&D programs in non-life-sciences disciplines. Every major R&D funding agency would receive an increase except the Department of Defense (DOD), and even within DOD its basic research programs are proposed for increases. This principle of balance was music to the ears of many disciplines that have not fared so well in recent years. The biomedical research community, meanwhile, continues to urge the Congress to continue the string of double-digit percentage increases that NIH has received in recent years, an effort that, if successful, would continue to increase the funding gap between the life sciences and other fields.

FORECAST FOR THE FY 2001 BUDGET AND BEYOND

The budgetary environment for R&D at this point appears to be relatively bright. Surpluses are projected; there has been general bipartisan agreement to support R&D spending, even under tighter discretionary caps; and now the Administration has proposed replacing the older, more restrictive caps with newer, more flexible ones. Congress will of course have its own priorities and agenda, and will alter the President's requests, but it seems likely that if the Congress shares the Administration's concern for a balanced research portfolio, most if not all of federal R&D will benefit.

However, anything can happen—and this is a presidential election year. While the former, more restrictive discretionary caps may appear to be a thing of the past, both ends of Pennsylvania Avenue will continue to grapple with funding priorities and spending limits. In March, the House Budget Committee released its proposed budget resolution, limiting total discretionary spending to \$596.5 billion, a 10 percent cut to the Administration's request for most domestic programs after factoring in a proposed increase to defense spending even higher than the President's proposed increase and increases for selected high-priority domestic

programs. The White House immediately attacked the resolution, noting the negative impact on education, science, and social programs. This rhetorical wrangling reveals that the times may not be changing as much as one might have expected.

Complicating this environment is a congressional calendar shortened considerably by the upcoming presidential election. Once again, Congress plans to pass legislation in a timely fashion in order to be able to focus on campaigning in the period preceding the November elections. However, neither chamber or branch of government will likely come to a quick agreement on spending limits and priorities. Consider also that the White House has proven in the past to be adept at using congressional impatience to adjourn to its advantage. If this holds true, then it is likely that decisions on the more difficult appropriation bills will again be postponed until the end of year; and the final spending limits could be bypassed in a frenzy to complete the appropriation bills. One likely final result: increases for discretionary programs including R&D.