

Congress Adjourns for August; NIH and DOD R&D Up, But Other Agencies Uncertain

(This analysis is a progress report on FY 2001 House and Senate appropriations so far in the budget process, and summarizes the AAAS R&D Funding Updates released so far. This updates a previous June 26 progress report. The complete series of AAAS R&D Funding Updates, including continually updated analyses of R&D by agency in FY 2001 appropriations, is available on the AAAS R&D Web Site (<http://www.aaas.org/spp/R&D>) in the “FY 2001 R&D” or the “What’s New” sections.)

Before leaving Washington for a month-long August recess, Congress made substantial progress on FY 2001 appropriations, although much remains to be done before the October 1 start of FY 2001. The House of Representatives has approved its versions of all the FY 2001 appropriations bills covering the major R&D funding agencies, while the Senate is further behind. Only one major R&D funding agency, the Department of Defense (DOD), has received its final appropriations, but several more should see their final appropriations emerge from House-Senate conference after Labor Day when Congress returns to session.

FY 2001 R&D in House and Senate Appropriations

FY 2001 will be a banner year for defense R&D. Before the recess, both the House and Senate gave final approval to a DOD appropriations bill, and the President is expected to sign it into law shortly. The final bill provides major increases for DOD R&D, including substantial increases for basic and applied research. Just before the recess, the House and Senate came to a provisional agreement on a final, \$2.7 billion or 15 percent increase for the National Institutes of Health (NIH), but delayed filing a conference report until September.

But because the House and the Senate are working with discretionary spending ceilings for nondefense programs that are far below the President’s request and are even below FY 2000 funding levels, the House would fall far short of the Administration’s request for nearly all non-NIH nondefense R&D programs and would cut many programs below FY 2000 (see Table 2). The Senate would provide more generous funding to non-NIH nondefense R&D programs, but at the cost of siphoning funds from the one appropriations bill it has not yet drafted (see Table 1). Unfortunately, this bill is the VA-HUD bill, which funds R&D in the National Science Foundation (NSF), the National Aeronautics and Space Administration (NASA), and the Environmental Protection Agency (EPA). The Senate will not draft this bill until September, and hopes to raise the discretionary spending ceiling to do so.

When it returns to session in September, Congress will face enormous pressure to raise funding for domestic programs above the levels it has proposed so far. President Clinton has threatened to veto nearly all of the domestic appropriations bills in either the House or Senate form, or both, and is ready to wield his veto pen unless Congress brings funding closer to his requested levels. With new budget projections calling for ever-higher budget surpluses in the years ahead and a strong desire to complete appropriations in time to adjourn well before the November elections, it will be hard for Congress to resist giving the President everything he wants. It seems likely, then, that FY 2001 will be a banner year not only for DOD and NIH, but for the broad portfolio of federal R&D programs. (For details on individual agency appropriations, please see the agency R&D Funding Updates on the AAAS R&D Web site).

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- **The Senate, in appropriations action so far, would offer significant increases to most R&D funding agencies.** For the agencies whose appropriations the Senate has drafted, total R&D would increase by nearly 8.7 percent or \$6 billion (see Table 1). Most of this increase is well on its way to becoming final. The Senate last week gave final approval to a 6.8 percent or \$2.7 billion increase for DOD R&D to \$41.9 billion, which should become law shortly. This appropriation includes a 13 percent increase in DOD's support of basic research and an 8 percent increase in applied research. The Senate proposed a 15 percent or \$2.7 billion increase to the NIH budget, and just before the recess a House-Senate conference committee agreed to make the Senate figure final. Other agencies slated for large increases in R&D in the Senate versions of their appropriations include the Department of Energy (DOE; up 6.1 percent to \$7.6 billion), the U.S. Department of Agriculture (USDA; up 7.0 percent to \$1.9 billion), and the Department of Transportation (DOT; up 13.1 percent to \$686 million).
 - A few agencies would see their R&D budgets decline in the Senate bills, mostly because tight constraints on domestic discretionary spending forced Senate appropriators to make tough choices between competing priorities. Department of the Interior R&D would decline slightly to \$571 million, in contrast to a requested increase to \$590 million. R&D in the Department of Commerce would fall 2.7 percent to \$1.0 billion. Although most Commerce programs would receive significant increases, including an 8.1 percent boost for National Institute of Standards and Technology (NIST) intramural R&D programs and a 12.8 percent boost for the Advanced Technology Program, these would be offset with a requested cut to NIST's Construction of Research Facilities account. R&D in the National Oceanic and Atmospheric Administration (NOAA) in Commerce would rise 2.5 percent to \$606 million. Within DOE, funding for physics and fusion research would decline. The fate of R&D in major R&D funding agencies such as NSF, NASA, and EPA is uncertain; Senate appropriators will not draft appropriations for them until mid-September, and unless they allocate more money for appropriations by then, they will face tough choices in allocating scarce funds.
 - **The House would be far less generous to nondefense R&D than the Senate, and would cut R&D funding for many agencies.** Although the House joined with the Senate in agreeing to substantial increases for DOD and NIH, nondefense R&D excluding NIH would decline 1.3 percent in the House appropriations bills. Although the House would award a slight 3.9 percent increase to NSF R&D to \$3.0 billion, this would be far short of the nearly 20 percent increase requested by the President. The House would cut NASA R&D by 1.0 percent, mostly because it would eliminate the Reusable Launch Vehicle program. Commerce R&D would fall by nearly a quarter because the House would eliminate the Advanced Technology Program and slash NOAA R&D. USDA R&D would decline 2.0 percent because the House would prevent a mandatory competitive grants program from spending any money in FY 2001 and would cut other competitive research grants, while boosting funding for congressionally designated research projects. While DOE R&D would edge up slightly by 0.7 percent, the House would balance increases for DOE's defense R&D activities with sharp cuts in nondefense energy-related R&D activities and stagnant funding for science activities.

Policy Context and Budget Outlook

Earlier this year, the President requested a total of \$622 billion for discretionary programs in the federal budget, a 5.2 percent increase over FY 2000. In its FY 2001 budget resolution, however, Congress, limited discretionary spending to only \$605 billion, while at the same time increasing defense spending (which accounts for half of discretionary spending) above the President's request in order to demonstrate fiscal discipline and allocate funds for Republican priorities such as tax cuts. As a result, in the congressional plan nondefense discretionary spending in FY 2001 would fall below the FY 2000 level.

Congress is well on its way to following through with its plan. The 2 (out of 13) appropriations bills sent to President Clinton for his expected signature fund nearly all defense discretionary spending. The two bills boost total defense spending in FY 2001 well above \$300 billion and provide large increases for most programs, leaving the remaining 11 appropriations bills funding domestic programs well below FY 2000 funding levels if Congress sticks to its plan. Despite several accounting maneuvers to squeeze additional

domestic spending under the target, Congress has written appropriations bills that fall so short of the President's request that he has threatened to veto 8 of the 11 appropriations bills in either the House or Senate versions, or both.

Not surprisingly, with the exception of NIH, a high congressional priority, congressional appropriations for nondefense R&D have come in well below the request. In the House plan, they have even come in below FY 2000 if NIH is excluded.

The Republican majority in Congress drew up its restrictive spending targets in part to appease fiscal conservatives who have long insisted on controlling government spending, but mostly to increase the budget surpluses available to finance a long list of proposed tax cuts. Since 1998, when the federal government recorded its first budget surplus in 30 years, there has emerged a bipartisan consensus that the federal budget must stay in surplus. Then, in 1999, the federal government recorded its first on-budget surplus in more than thirty years, a budget surplus even without counting the large annual surpluses in the Social Security trust fund (legally classified as 'off-budget'). Now, the bipartisan consensus in Washington is that the federal budget must continue to record an on-budget surplus, allowing all surpluses in the Social Security trust fund and any remaining on-budget surpluses to pay down the national debt.

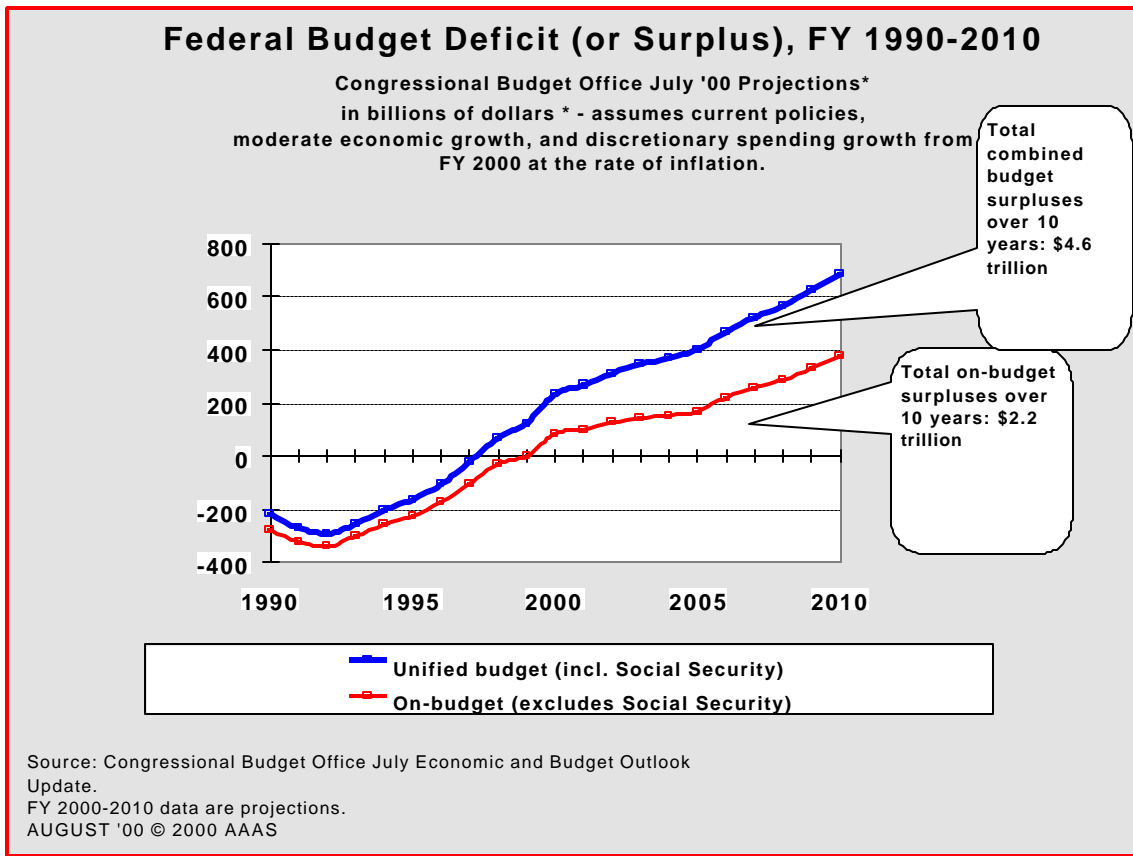


Figure 1.

When the Republican Congress originally drew up its spending plans for FY 2001 in April, the Congressional Budget Office had projected only a \$15 billion on-budget surplus in FY 2001, assuming discretionary spending grew at the rate of inflation (to roughly \$611 billion), leaving little to no room to enact tax cuts while still keeping the government in on-budget surplus. The congressional budget resolution therefore set a discretionary spending target of \$605 billion, below the amount necessary to keep pace with inflation, to allow for more tax cuts in FY 2001. If Congress had agreed to the President's request for

discretionary spending, there would have been no on-budget surplus left for tax cuts. Congressional committees drafted several tax cut bills this spring and summer, most of them designed to cost relatively little in FY 2001 and FY 2002 but with revenue losses ballooning in subsequent years, when projected on-budget surpluses are much higher.

As in past years, the growing economy now offers the President and Congress a way out of their dilemma. In July, the President's Office of Management and Budget issued a revised budget forecast which dramatically raised projections of future budget surpluses. Later that month, the Congressional Budget Office (CBO) issued its own revised forecast. In three short months between April and July, the economy grew so much faster than previously anticipated, boosting expected tax revenues, that the surplus outlook improved dramatically. As shown in Figure 1, CBO now projects an on-budget surplus of FY 2001 (assuming current policies, and assuming discretionary spending of \$611 billion) of \$102 billion. CBO projects that these surpluses will grow every year for a cumulative \$2.2 trillion over the next ten years. Including the Social Security surpluses, combined federal budget surpluses over the next ten years could total \$4.6 trillion, raising the tantalizing possibility that the national debt, now less than \$4 trillion and shrinking, could be entirely eliminated in this decade.

Both President and Congress have other plans for this surplus than simply continuing current policies, letting discretionary spending only keep pace with inflation, and letting surpluses pay off the national debt. But the size of the surpluses, and especially the key FY 2001 surplus, are such that Congress can now agree to raise discretionary spending to the requested \$622 billion in FY 2001 or even higher, enact their proposed tax cuts totaling up to \$1 trillion over ten years, and still have on-budget surpluses left over to pay down the national debt, albeit more slowly than in the status quo scenario. President Clinton, meanwhile, finds that with these surplus projections there is room to call for discretionary spending increases in FY 2001 and future years, take the Medicare program off-budget, introduce a Medicare prescription drug benefit, pay down the national debt, and still have enough of a surplus left over to offer Congress an olive branch by offering to accept some of their tax cut proposals.

Of course, surplus projections depend crucially on the performance of the U.S. economy and can swing wildly based on minute changes in economic performance, making long-term forecasts highly unreliable. But in the near term, it is almost certain that the federal government will record another on-budget surplus in FY 2001 large enough to allow for increases in discretionary spending, and this key finding will affect the budget debates this fall.

When Congress returns to session Labor Day, it will have less than four weeks before the October 1 start of FY 2001 to complete appropriations. Although Congress routinely stays in session working on appropriations past October 1, this year congressional leaders are intensely focused on the November elections, and desperately want to adjourn and spend the month of October campaigning. With control of both the House and Senate at stake, Republican leaders are acutely aware that a swing of five to six seats in either chamber could return Democrats to majority status, and that Republicans will be more vulnerable if Congress is forced to stay in session into October. Meanwhile, President Clinton has the leverage of being able to veto bills until Congress crafts them to his liking, and because his term runs until January he can afford to wait for Congress to become more accommodating.

It is widely expected that there will be too little time in September to approve all the appropriations bills through the normal process, especially if there are vetoes. Some of the remaining 11 bills will emerge from House-Senate conference with sufficient funding to win the President's signature, but others will fall far short of the request unless conferees add funds and break their spending target. Congress may choose to add funds at this stage in order to secure the President's signature. Toward the end of September or the beginning of October, Congress may be forced to bundle several unfinished or vetoed bills together into an omnibus appropriations bill, negotiated in a frenzy behind closed doors by congressional leaders and Clinton Administration officials, and loaded with enough additional funds to break congressional spending limits and move domestic spending totals closer to give the President nearly all of what he requested.

Omnibus bills have been used in each of the past several years, and for most agencies funding levels have wound up far closer to the request than originally proposed by the House or Senate.

This year, it is likely that the non-NIH nondefense R&D funding agencies will end up far above the funding levels proposed by the House and probably above the Senate, and will end up with increases over FY 2000. But the final result will be far from clear until the very last days of the budget process as Congress and the President wrap up appropriations in an early October whirlwind, and whether the results will be positive or merely adequate for R&D will depend crucially on how important R&D programs will be in the minds of budget negotiators, and whether they will be considered as high or low priorities by congressional and Administration officials.

(Further AAAS R&D Funding Updates on the AAAS R&D Web site will provide up-to-date information on R&D in FY 2001 appropriations.)

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Table 1. R&D by Agency in FY 2001 Senate Appropriations (as of August 1)

Table 1. Total R&D by Agency
Senate Action on R&D in the FY 2001 Budget (as of August 1, 2000)
(budget authority in millions of dollars)

	FY 2000 Estimate	FY 2001 Request	Action by Senate				
			FY 2001 Senate	Chg. from Amount	Request Percent	Chg. from Amount	FY 2000 Percent
Defense (military) *	39,282	38,576	41,936	3,360	8.7%	2,654	6.8%
("S&T" 6.1,6.2,6.3 + Medical) *	8,667	7,609	9,383	1,774	23.3%	716	8.3%
(All Other DOD R&D) *	30,615	30,967	32,553	1,586	5.1%	1,938	6.3%
National Aeronautics & Space Admin.**							
Energy	7,117	7,639	7,554	-85	-1.1%	437	6.1%
Health and Human Services	18,082	19,168	20,777	1,609	8.4%	2,695	14.9%
(National Institutes of Health)	17,102	18,094	19,729	1,635	9.0%	2,627	15.4%
National Science Foundation **							
Agriculture	1,763	1,824	1,886	62	3.4%	123	7.0%
Interior	573	590	571	-18	-3.1%	-2	-0.3%
Transportation	606	778	686	-92	-11.9%	79	13.1%
Environmental Protection Agency **							
Commerce	1,073	1,148	1,044	-104	-9.1%	-29	-2.7%
(NOAA)	591	594	606	12	2.0%	15	2.5%
(NIST)	458	497	414	-83	-16.8%	-44	-9.6%
Education	233	271	257	-14	-5.1%	24	10.4%
Agency for Int'l Development	122	98	144	46	46.9%	22	18.0%
Department of Veterans Affairs **							
Nuclear Regulatory Commission	53	53	53	0	0.0%	0	0.0%
Smithsonian	113	122	119	-3	-2.1%	6	5.7%
All Other	331	300	327	27	8.9%	-4	-1.3%
Total R&D ***	69,348	70,567	75,354	4,787	6.8%	6,007	8.7%
Defense R&D	42,583	41,981	45,527	3,546	8.4%	2,944	6.9%
Nondefense R&D ***	26,765	28,586	29,827	1,241	4.3%	3,063	11.4%
Nondefense R&D minus NIH ***	9,663	10,492	10,098	-394	-3.8%	435	4.5%
"21st Century Research Fund" ***	30,251	32,102	33,707	1,605	5.0%	3,457	11.4%

AAAS estimates of R&D in FY 2001 appropriations bills. Includes conduct of R&D and R&D facilities.

All figures are rounded to the nearest million. Changes calculated from unrounded figures.

* FY 2001 Senate figures are based on the Defense House-Senate conference report, and are final.

** The Senate has not drafted appropriations for these agencies. Totals excluded from all columns.

*** Agencies for which the Senate has not drafted appropriations (NSF, NASA, EPA, VA, HUD) are excluded.

August 1, 2000 - Senate Appropriations Committee-approved or Senate-approved appropriations as of the August recess. All appropriations (except DOD) are subject to change on the Senate floor or in House-Senate conference.

Table 2. R&D by Agency in FY 2001 House Appropriations (as of August 1)

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House Action on R&D in the FY 2001 Budget (as of August 1, 2000)
(budget authority in millions of dollars)

	FY 2000 Estimate	FY 2001 Request	Action by House				
			FY 2001 House	Chg. from Amount	Request Percent	Chg. from FY 2000 Amount	Percent
Defense (military) *	39,282	38,576	41,936	3,360	8.7%	2,654	6.8%
("S&T" 6.1,6.2,6.3 + Medical) *	8,667	7,609	9,383	1,774	23.3%	716	8.3%
(All Other DOD R&D) *	30,615	30,967	32,553	1,586	5.1%	1,938	6.3%
National Aeronautics & Space Admin.	9,777	10,040	9,680	-361	-3.6%	-97	-1.0%
Energy	7,117	7,639	7,168	-471	-6.2%	51	0.7%
Health and Human Services	18,082	19,168	19,153	-15	-0.1%	1,071	5.9%
(National Institutes of Health)	17,102	18,094	18,152	58	0.3%	1,050	6.1%
National Science Foundation	2,863	3,431	2,974	-457	-13.3%	111	3.9%
Agriculture	1,763	1,824	1,727	-97	-5.3%	-36	-2.0%
Interior	573	590	549	-40	-6.8%	-23	-4.1%
Transportation	606	778	694	-84	-10.8%	87	14.4%
Environmental Protection Agency	647	673	649	-23	-3.5%	3	0.4%
Commerce	1,073	1,148	816	-332	-29.0%	-257	-24.0%
(NOAA)	591	594	522	-72	-12.2%	-69	-11.8%
(NIST)	458	497	270	-227	-45.6%	-188	-41.0%
Education	233	271	235	-36	-13.1%	2	1.1%
Agency for Int'l Development	122	98	130	32	32.9%	8	6.7%
Department of Veterans Affairs	655	655	685	30	4.6%	30	4.6%
Nuclear Regulatory Commission	53	53	53	0	0.0%	0	0.0%
Smithsonian	113	122	116	-6	-4.9%	3	2.7%
All Other	376	362	325	-37	-10.3%	-51	-13.7%
Total R&D	83,334	85,427	86,890	1,463	1.7%	3,555	4.3%
Defense R&D	42,583	41,981	45,395	3,414	8.1%	2,812	6.6%
Nondefense R&D	40,751	43,446	41,495	-1,952	-4.5%	743	1.8%
Nondefense R&D minus NIH	23,650	25,353	23,343	-2,009	-7.9%	-306	-1.3%
"21st Century Research Fund"	40,028	42,918	41,452	-1,466	-3.4%	1,424	3.6%

AAAS estimates of R&D in FY 2001 appropriations bills. Includes conduct of R&D and R&D facilities.

All figures are rounded to the nearest million. Changes calculated from unrounded figures.

August 1, 2000 - These figures reflect House-approved appropriations, except for agencies marked with a (*).

*** - House-Senate conference figures, reflecting final appropriations.**