

INFORMED BUDGETEER

BACK TO WORK



• After a one-day interruption from the tragedies on September 11, the Congress and the rest of government are back at work undeterred. And in that spirit, but never forgetting our country's hour of terror, the *Bulletin* remains on its same schedule.

- What won't continue the same is the landscape of and the recent rhetoric surrounding the federal budget debate. Evidence of this includes the many quotes of members suggesting that other priorities have emerged that eclipse the mis-focused debate about social security. Further proof is the swift Congressional action last week in responding to the President's request for a second supplemental for FY 2001. Both the House and Senate approved a bill appropriating \$20 billion with an emergency designation to deal with the consequences of the terrorist acts (with a signal that an additional \$20 billion will be provided in a subsequent appropriations bill).
- The budget environment has changed, but what should remain the same is our collective responsibility to ground decisions about priorities on an accurate definition of problems, a clear set of facts and options for addressing them, and a reasoned debate about what is most likely to produce the desired outcomes. In that tradition, the *Bulletin* offers the following sketch of current federal responsibility and resources for fighting terrorism, and continues what has become the *Bulletin's* annual review of the federal role in education funding.

BACK TO THE FACTS ON FUNDING TO COMBAT TERRORISM

- In what was probably a little-noticed document when it was released last month (and now likely to become an important reference), OMB's unclassified *Annual Report to Congress on Combating Terrorism* summarizes the roles and resources assigned to various federal agencies (http://www.whitehouse.gov/omb/legislative/nsd_annual_report2001.pdf). Recent funding levels and the President's request for 2002 appear in the following table.

FUNDING TO COUNTER UNCONVENTIONAL THREATS (\$ in Millions)					
Department	FY 98	FY 99	FY 00	FY01	FY 02
Agriculture	23.5	32.2	37.8	59.9	50.2
Commerce	33.1	44.6	35.2	47.2	55.2
Education	3.6	4.4	6.7	12.0	8.9
Energy	504.9	618.5	724.4	754.2	833.9
EOP	0.1	0.6	0.5	0.3	2.2
EPA	2.0	2.2	4.7	5.2	5.2
FEMA	5.8	17.6	28.1	35.2	35.9
GSA	93.9	96.1	79.8	113.9	116.6
HHS	52.9	217.6	325.0	387.4	445.9
Interior	12.2	15.6	13.6	10.2	9.6
Judiciary	7.0	8.0	12.6	9.8	9.8
Justice	630.0	715.5	765.4	938.6	1,038.3
Labor	3.8	5.4	7.9	14.5	22.8
NASA	40.0	42.0	66.0	117.0	117.0
National Security	4,918.8	5,484.8	6,757.2	7,266.9	7,506.7
Nuclear Reg.	3.5	3.4	4.0	4.6	4.8
Com.	0.0	0.0	0.9	0.9	0.0
OPM	60.7	57.1	48.9	71.4	101.3
Soc. Sec. Admin.	202.3	1,653.9	791.7	1,311.3	1,548.6
State	191.8	296.1	312.5	365.7	400.6
Transportation	401.3	423.3	406.1	475.2	474.1
Treasury	5.8	55.3	23.6	13.3	11.6
USAID	0.0	0.0	2.0	21.7	21.7
Veterans Affairs	7,196.8	9,794.2	10,454.4	12,036.2	12,820.7
TOTAL					

Source: Annual Report to Congress on Combating Terrorism, August 2001

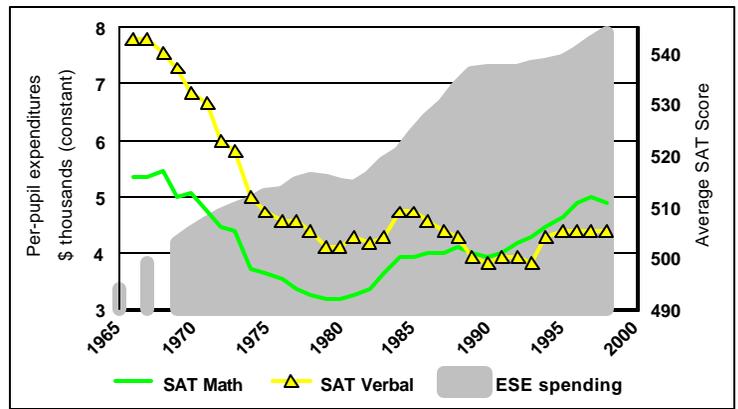
- OMB has submitted this annual report to Congress for the last three years, pursuant to the 1998 and 1999 National Defense Authorization Acts (P.L. 105-85 and P.L. 105-261). Section 1051 of the 1998 Act requires the President to provide information on Executive branch funding to combat terrorism, while section 1403 of the 1999 Act requires that such information include data on domestic terrorism. In addition, the legislation requires that a classified document be issued providing detail on funding for the national security community.
- The report notes that collecting numerical data on activities to combat terrorism and other unconventional threats is difficult. Not only is the funding for these activities usually embedded in larger programs in agency budget requests, but Congress does not normally make explicit appropriations for those purposes either. Instead, agencies make specific allocations for activities to combat terrorism only after appropriations are enacted providing the overall funding levels for the larger programs.
- The report explains that the 2001 enacted levels for combating terrorism total \$9.7 billion. This includes \$8.0 billion for conventional efforts to combat terrorism and \$1.7 billion specifically for defense against weapons of mass destruction. In addition, another \$2.3 billion was enacted for protection of critical infrastructure. The total level enacted in 2001 to counter unconventional threats was \$12.0 billion. The funds were distributed across more than 20 agencies that are involved in the national mission to combat terrorism.
- Such spending increased by more than 67 percent between 1998 (when OMB began collecting such data) and 2001. The average annual growth in spending for those years is 18.7 percent. The report notes that in the last three years the efforts to counter the unconventional threats of terrorism have moved from relative obscurity to become a familiar element of the national security debate; the large increase in funding validates that point.
- The report splits funding for activities to combat terrorism (excluding the monies for protection of critical infrastructure) into four categories: the physical security of the government and the national populace, law enforcement and investigative activities, preparing for and responding to terrorist acts, and research and development. For each of these categories, OMB also makes a qualitative distinction between antiterrorism (defensive measures) and counterterrorism (offensive measures).
- The enacted level for 2001 for physical security, which includes monies for aviation security, was \$4.8 billion, almost half of the \$9.7 billion total. In that same year, funds for law enforcement and investigative activities totaled \$3.5 billion, or 36 percent. Activities relating to the preparation and response to terrorist acts received \$0.8 billion (8 percent), while the remaining \$0.6 billion (6 percent) went for research and development.

BACK TO SCHOOL

- **Home Room:** One assignment for Congress this fall is to finish the education authorization bill. This bill, ostensibly modeled on the President's proposals from this January, is intended to reauthorize and reform the Elementary and Secondary Education Act (ESEA).
- The Senate bill authorizes \$31.7 billion in discretionary spending for ESEA programs in 2002, as compared to the \$18.3 billion appropriated for 2001. By one count, the Senate bill would authorize 89 programs; currently, there are 56.
- If "fully funded," the Senate bill would result in a 73 percent increase in 2002 ESEA spending, as compared to 2001. Much of this leap would come from increasing the Title I grants authorization to \$15 billion, as compared to \$8.6 billion appropriated in 2001. The House bill is more modest, authorizing

\$22.9 billion for ESEA in 2002 (a 25 percent increase) while cutting the number of ESEA programs to 47.

- The Senate bill also includes a new, large direct spending provision for special education grants, converting this discretionary program to a mandatory program not subject to annual appropriations, at a cost of \$8.8 billion in 2002 and \$181 billion over the next ten years. Including this provision pushes the cost of the Senate bill up to \$40.5 billion in 2002.
- **English:** Literary Budgeteers may recall Jonathan Swift's classic *Gulliver's Travels* from their English classes. In the course of his adventures, Gulliver finds himself in two strange lands, Lilliput and Brobdingnag. In Lilliput, a land of tiny people, he is a giant; in Brobdingnag, he is the tiny person.
- Gulliver's relative size, and his own sense of it, affects his behavior dramatically. Since education spending is at issue once again, it may be useful to gain a sense of proportion as the education reform and appropriation bills are considered.
- The most recent data from the Department of Education shows that there are 14,805 school districts in the U.S. supporting 89,508 elementary and secondary schools. In 2001, these schools are projected to spend \$352 billion.
- For the 2001 school year, the U.S. Department of Education is authorized to spend \$42.1 billion. Combined ESEA and special education funds will amount to only about 7 percent of total nationwide K-12 spending. Even if the large spending increases proposed in the Senate version of ESEA were "fully funded," the federal share would probably be little more than 10-11% in 2002.
- State and local governments traditionally hold the lion's share of responsibility for education in the federal system, and they raise the vast majority of revenue for it. This situation will not change significantly, even with seemingly vast increases in federal expenditures.
- **History:** Even so, on the theory that even a little bit more helps, it is helpful to consider the impact that increased spending may or may not have on educational achievement. Even with the enrollment surge produced by the "echo" of the baby boom, per-pupil spending has risen almost constantly since World War II. The Department of Education projects that per-pupil spending will be over \$8,000 in 2001. This is nearly 20 percent more spending than ten years ago, 62 percent more than twenty years ago, and double the spending of thirty years ago, *even after adjusting for inflation*. Other studies indicate that this upward trend holds even after spending on special education (which took off after 1975) is taken into account.
- The extent to which higher spending actually improves education is subject to much debate, but the nationwide trends do not indicate that more necessarily equals better. A glance at just one indicator, SAT scores, yields mixed and uncertain results at best. Despite the increases in real per-pupil spending since 1965 (when ESEA was first passed), SAT verbal scores are well below the levels of thirty years ago and have seen little improvement since 1980. SAT math scores have rebounded since bottoming out around 1980, but like verbal scores are still below those in the late 1960s.



Per-pupil expenditure versus average SAT math and verbal scores, 1965-2000. Source: Department of Education.

- **Special education:** Special education has also become a part of this year's debate, even though it is not an ESEA program. Special education is governed by the Individuals with Disabilities Education Act (IDEA), first passed in 1975. IDEA requires states to provide all disabled children with a "free appropriate public education" in the "least restrictive environment."
- The population of schoolchildren served under IDEA as "disabled" comprises a diverse group of kids. The percentage of IDEA-served children suffering from a severe physical or mental handicap is relatively small, less than one-fifth of IDEA enrollment. The largest portion of children served under IDEA are "learning disabled," at 51 percent.
- According to studies produced by the federally-backed Special Education Expenditure Project (SEEP), the learning disabled account for most of the growth in both enrollment and spending under IDEA. Children labeled as disabled have steadily increased their share of overall enrollment, from 8.3 percent in 1976-77 to 12.8 percent in 1997-98. One study indicated that in the ten-year period 1989-1999, disabilities grouped as "non-severe" (learning disabilities, emotional disturbance, speech or language impairments, and "other health impairments," which often covers children with attention deficit-hyperactivity disorder) accounted for 87 % of enrollment growth and 75 % of expenditure growth.
- There is no comprehensive accounting of current nationwide special education spending; SEEP is now conducting the first such cost study since the late 1980s. CBO figures suggest a nationwide cost of about \$42 billion, but other estimates range from \$35 billion to \$60 billion. The federal government will contribute \$6.3 billion in 2001 through the Part B Grants to States program.
- In recent years, calls for Congress to appropriate "full funding" for special education have intensified. In this context, "full funding" means 40 percent of average per-pupil expenditure (APPE) on all schoolchildren, the maximum authorized amount. This level originates with a compromise reached with the passage of the 1975 act. Some policymakers argue that this level represents a "promise" made by Congress that should be fulfilled. CBO estimates that meeting this level would require \$17 billion in 2001, well above the appropriated amount of \$6.3 billion. Still, the current spending level is the highest ever at 15 percent of APPE, and is twice the 1996 level.
- IDEA is due for reauthorization in 2002. A growing number of critical voices are urging Congress to revisit the basic concepts of special education and the problems the law is designed to address.

- A joint report titled *Rethinking Special Education for a New Century*, jointly issued by the New Democrat-affiliated Progressive Policy Institute and the conservative Thomas B. Fordham Foundation, raises a number of serious questions about the efficacy of special education and makes a strong case for fundamental reform. (Download the report at http://www.edexcellence.net/library/special_ed/index.html).
- The editors of the Fordham-PPI report say that “the federal special education program has been subjected to astonishingly little objective policy analysis.” Congressional responsibility for special education goes well beyond the level of appropriations. It also includes oversight, and the duty to remedy flaws in the program that may hinder, rather than help, the educational progress of the nation’s schoolchildren.