



Federal Budget Helps Drive Health Policy

A close-up look at the budget process and how it affects health care funding

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The federal budget has two distinct but equally important purposes:

1. To provide a financial measure of federal expenditures, receipts, deficits, and debt levels and their impact on the economy in order to promote economic stability and growth
2. To provide the means for the federal government to efficiently collect and allocate resources to meet national objectives¹

It is this second purpose that is important to the health policy agenda since it is through the budget that the health care priorities of the administration and Congress are defined.

Funding for health care represents over 20 percent of all federal spending and accounts for almost 14 percent of our gross domestic product.

Programs funded through this process include:

- Medicare
- Medicaid
- Social Security
- Insurance premiums for federal employees
- Health care funding for the Veterans Administration and the Department of Defense
- Public health dollars for agencies such as Health and Human Services (HHS) and the Environmental Protection Agency

The federal budget process

The federal budget process begins every year in January when the president sends his budget request to Congress. In some years, the president's budget is largely ignored, while in others it serves as a general blueprint for congressional action.²

Congress initiates the budget process in the U.S. House where, under the Constitution, all money legislation must start. The House creates a budget blueprint called the budget resolution. This blueprint is an outline of the major

funding priorities the legislature intends to fund and a gross approximation of their funding amounts.

After passage of this blueprint in the House, the Senate drafts and passes a similar document. A conference committee meets and agrees to a compromise document that is passed by both houses of Congress.

Because this is a budget resolution, it is not signed by the president and does not have the force of law. It serves as an outline for the Congress as it crafts the series of appropriation bills that authorize spending.

The president must then sign these bills to become law before spending can occur. There are also authorization laws that allow spending outside the appropriations process such as entitlement programs like Medicaid.

These programs are considered mandatory spending. By law, they do not need to have an annual appropriation, but they are included in the budget process.

Authorizing spending with appropriation results in policy-making through the budget. Congress can decide

IN THIS COLUMN...

Crafting the budget is an annual process that Congress and the administration use to define the national policy agenda. It is a massive undertaking to decide how more than two trillion dollars is spent by the federal government. Over 20 percent of the budget is used for health care. The budget is a political document that defines the priorities of the federal government and directly influences overall health policy. Its construction deserves to be followed and influenced by physicians to ensure the health of the public.

to authorize an amount for a program but fail to fund it through the appropriations process. That means the program cannot function.

Congress could also appropriate funding for only part of a program—implementing the part it believes is essential to start right away.

Show me the money

The federal budget starts on October 1st of each year. Funding is divided into several different areas to include health (Figure 1). Health expenditures may also be found within the spending plans for other categories such as defense or consumer safety.

Some of the proposed expenditures are mandatory expenditures, while some are discretionary.

- Mandatory expenditures are the result of non-appropriation legislation such as Medicare, Social Security or Medicaid, as well as interest on the national debt. These expenditures are, in effect, entitlements that result in spending that will occur at a certain level unless Congress changes the original statute that authorized the spending. Congress cannot adjust the spending level of these programs through the appropriations process. Mandatory expenditures account for two thirds of all spending.
- Discretionary spending can be changed annually and is subject to 13 annual appropriation bills. Examples include: federal funding for immunizations, research at the National Institutes of Health, or funding for lead abatement programs.

Ninety percent of all revenues come from taxes.

“Federal revenues consist of the money taken in by the government through exercise of its sovereign taxing power. This includes individuals and corporate income taxes, social insurance taxes (such as social security payroll taxes), excise taxes, estate and gift taxes, custom duties, and the like.”¹

Revenues for fiscal year (FY) 2002 are estimated to be around \$2.2 trillion and we will spend around \$2 trillion. Tax reductions have a significant effect on the funding available for government programs.

Health budget priorities for 2002

The president and the Congress identified a series of priorities for FY 2002. Examples include:

- A Medicare prescription drug benefit
- Expansions of community health centers
- A significant tax cut
- Additional increases in the funding for research

**FIGURE 1
FEDERAL HEALTH CARE SPENDING**

National Defense	16%
Non-defense Discretionary	19%
Other Mandatory	7%
Other Means Tested – Entitlements	6%
Interest	10%
Medicaid	7%
Medicare	12%
Social Security	23%

Source: Office of Management and Budget - 2001

- Creating budget authority for a Medicaid expansion for children with special needs (disabled) and allowing families of these children to buy into the program
- Establishing budget authority for reform of the Medicare program
- Providing budget authority for tax credits to buy health insurance pending the passage of legislation
- Funding to strengthen the food safety infrastructure at the Centers for Disease Control and Prevention (CDC) and the Food & Drug Administration (FDA)
- Increased funding for HIV/AIDS for needy countries, while reflecting the importance of the Ryan White Care Act
- Funding for graduate medical education at independent children’s hospitals

These priorities will be finalized as the budget is completed and appropriation bills are passed and signed into law. There is also a need to track what monies are reduced in order to fund these critical needs.

Physicians and physician executives will need to evaluate the effects of these policy decisions on their programs and health systems.

References

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2. Benjamin, G., Benjamin, Y., Kennan, S. *Health Care Playbook, in Health Care Policy and Reform: A Survival Guide for Physician Executives*, Frederick Gale (Editor), American College of Physician Executives, p55-56, 1994.

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