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MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

SUBJECT: Analysis of the Dole Tax Plan

Attached is a detailed analysis we have completed on the Dole Tax Plan. We are using this analysis to educate reporters on our critique of the Dole plan and to highlight many of specifics Dole has failed to acknowledge. As you will see, this document walks-through:

(1) The previous bipartisan commitment to balancing the budget using conservative economics;

(2) How you have stayed on the balanced budget path while Dole has veered from that path with his campaign proposals;

(3) How Dole's new tax cut and spending proposals have left him with a $650 billion deficit hole;

(4) What Dole would have to cut in order to pay for his plan:

- Required: Under any scenario, Dole's plan calls for 40% cuts in discretionary areas, according to his own numbers.
- Option 1: Allow the deficit to explode -- to the tune of $400 billion.
- Option 2: $300 billion cuts in Medicare and $130 billion cuts in Medicaid -- if $400 billion in cuts are distributed by same proportion as in FY97 GOP budget resolution.
- Option 3: Draconian cuts in all other entitlements such as student loans, school lunches, farm subsidies, unemployment insurance, and EITC.

Also included are 1-page appendices explaining:

- Why the Dole plan raises taxes on 9 million
- Why Dole loses 1/2 of the CBO "fiscal dividend" awarded for credible balanced budgets.
- How Dole has already promised 79% of entitlements to be "off the table."
- Why Dole's "nickel" (or 5%) cuts claim is erroneous.
- Examples of impact of 40% cut in discretionary spending could mean.

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ANALYSIS

OF

BOB DOLE'S $548 BILLION TAX PLAN

September 26, 1996

KEY FINDINGS

(Pages 1-5)

KEY FINDINGS

I. PRIOR TO THE DOLE PLAN, REPUBLICANS AND DEMOCRATS SHARED A BIPARTISAN COMMITMENT TO BALANCING THE BUDGET USING CONSERVATIVE ECONOMICS.

- **Previous Bipartisan Consensus on Using Conservative Economics.** Despite significant policy differences in the second-half of 1995 and first half of 1996, both the President and the Republican Congress had reached a bipartisan consensus on the need for a 7-year balanced budget using conservative economic assumptions.

  - ***In fact, Republicans' made using the most conservative economic assumptions available their primary criteria for opening the government during the Shutdown last year.***

> **Newt Gingrich said at the time:** "We're not going to go to any smoke and mirrors, we're not going to go to any games. This is about having an honest, serious balanced budget." [October 10, 1995]

- **Previous Bipartisan Commitment to Scorable Balanced Budget Proposals.** Indeed, while there was some outside criticism of each plan, both the President's FY97 budget proposal and the Republican FY97 Budget Resolution provided the needed details and conservative economic assumptions to be scored by CBO as reaching balance in FY2002.

II. DURING THE CAMPAIGN SEASON, PRESIDENT CLINTON AND BOB DOLE HAVE TAKEN TWO VERY DIFFERENT APPROACHES TO ANNOUNCING NEW TAX CUTS AND INITIATIVES.

- **The President's Path.** Since June, President Clinton has announced $22 billion in new initiatives and tax cuts, such as his 3rd grade reading initiative and $1,500 college tuition tax cut. Each proposal has been accompanied by specific budget offsets.

CLINTON NEW INITIATIVES AND SPECIFIC OFFSETS

<table>
<tr><th>New Initiatives</th><th>Offsets</th></tr>
<tr><td>"America Reads" Challenge
Cost: $1.75 billion</td><td rowspan="4"><u>Package of New Offsets:</u>
• Increase Hart Scott Rodino merger filing fees ($0.420 billion)
• Replace Sales Source Rule with activity-based rule ($5.300 billion)
• Tighten substantial understatement penalty ($0.200 billion)
• Replace single-family loan limit with Freddie Mac limit ($0.200 billion
• Relax restriction on FHA multifamily property ($0.080 billion)
• Charge vendors for cost of payments by paper check ($0.700 billion)
• Reduce corporate jet subsidies ($0.541 billion)
• Deny dividends-received deduction for portfolio preferred stock ($0.200 billion)
• Synthetic fuel production credit ($0.475 billion)
• Repeal Medicare/Medicaid fraud loopholes ($0.470 billion)
• New spectrum -- 18 Ghz ($0.500 billion)
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Cost: $5 billion</td><td>• Auction portion of spectrum between channels 60-69
New Savings: $5 billion</td></tr>
</table>

III. THROUGH HIS LARGE TAX CUT AND NEW SPENDING PROPOSALS, BOB DOLE HAS CREATED A $650 BILLION DEFICIT HOLE.

Through his proposal of a large tax cut, new spending promises, and the loss of assumed interest savings due to unrealistic assumptions and lack of specific pay-fors, Dole has created a $650 billion fiscal hole.

DOLE'S CAMPAIGN PROMISES HAVE PUT HIM IN A $650 BILLION DEFICIT HOLE	
Added Costs From New Tax Cut	**$426 Billion**
Lost Fiscal Dividend	**$142 Billion**
New Spending Promises	**At Least $79 Billion**
DOLE'S DEFICIT HOLE	**At Least $647 Billion**

A. **New Tax Cut Promises -- $426 billion:** On August 5, 1996, Bob Dole proposed a $548 billion tax cut over six years. Since the Republican balanced budget paid for $122 billion in tax cuts with specific savings, there remains $426 billion in new tax cut promises that Dole has not offset with spending cuts or revenue increases.

> **KEY POINT: DOLE'S $548 BILLION TAX PLAN ACTUALLY COSTS <u>$679 BILLION</u> OVER 7 YEARS.** The Dole Plan costs $548 billion over six years. This may seem like it is only $300 billion larger than the $245 billion tax cut Republicans proposed last year -- which necessitated excessive cuts in Medicare, Medicaid, Education, and the Environment -- but the difference is actually far larger; the $548 billion Dole plan is measured over six years, whereas the $245 billion 1995 Republican plan was measured over seven years. According to the Joint Tax Committee, the Dole plan would cost $679 billion over seven years -- $434 billion larger than last year's $245 billion Republican tax cut plan. If Dole nearly tripled the size of the tax cut, how much bigger would the Republican's excessive cuts in Medicare, Medicaid, Education, and the Environment have to be?

B. **Lost Fiscal Dividend -- $142 billion:** Most experts agree that Bob Dole's economic plan lacks the necessary credibility to receive the entire $254 billion "fiscal dividend" the Congressional Budget Office grants for balanced budget plans that use conservative budget assumptions. Several analysts predict that the Dole plan would cause interest rates to rise -- for example, Lehman Brothers predicts that "interest costs to the government rise" under Dole's plan -- which would mean that Dole would lose the whole fiscal dividend. We generously estimate, though, that the Dole plan could receive a fiscal dividend, but it would be only $112 billion. This would leave a $142 billion hole that Dole would have to fill.

C. **New Spending Promises -- At Least $79 billion:** Bob Dole has made new proposals for spending programs totalling at least $79 billion; for example, in March, he told reporters that he wanted to increase the number of B-2 bombers to 40 which would cost at least $15 billion; in June, he proposed a missile defense system that would cost at least $14 billion, and in July, he proposed a school voucher program that would cost $12 billion.

IV. THERE ARE 3 WAYS DOLE COULD FILL HIS $650 BILLION DEFICIT HOLE -- ALL WOULD HAVE DIRE RESULTS:

SCENARIO I:
40% CUT IN DOMESTIC PROGRAMS
AND LEAVE A $400 BILLION DEFICIT HOLE

- **40% Cut In Discretionary Programs.** No matter which scenario he chooses, by his own numbers, Dole's plan requires a $163 billion cut in non-defense discretionary programs -- a 40% across-the-board cut in real terms in 2002.

NON-DEFENSE DISCRETIONARY PROGRAM SPENDING AND CUTS				
	FY 1996	FY 2002	Nominal Cut in 2002	Real Cut in 2002
Republican Budget Plan [FY97 Budget Resolution passed 6/96]	$271 B	$245 B	10%	24%
Dole Budget Plan [GOP Budget with additional Dole cuts]	$271 B	$194 B	29%	**40%**

- **$401 Billion DEFICIT HOLE.** Beyond the required 40% cut, the Dole plan also specifies another $84 billion in savings from spectrum auctions, revised economic assumptions, and entitlement cuts. But, even with these savings, the plan pays for only $247 billion of the $648 deficit hole, leaving a $400 billion hole in the deficit.

Breakdown of Dole's $400 Billion Deficit Hole	
Growth Not Scored By CBO	$178 billion
Lost Balanced Budget Fiscal Dividend	$142 billion
New Unpaid For Spending Promises	$79 billion
Overestimate of Savings from Spectrum Auction	$22 billion
Total Deficit Hole	**$400 billion**

INDEPENDENT ANALYSES CONCLUDE DOLE PLAN WILL EXPLODE THE DEFICIT

- **$300 Billion Deficit In a Single Year According to James Annable, Chief Economist at First Chicago NBD Bank.** [Source: *Baltimore Sun*, 8/7/96]

- **Up To $150 Billion Higher Deficits According To Lehman Brothers** [Source: Lehman Brothers, Dolenomics--A First Glance, August 26, 1996]

- **$127 Billion Higher Deficit in 2002 According To Chief Economist At Norwest Bank:** [Source: *Knight-Ridder News Service*, 8/13/96]

- **$100 Billion Deficit in 2002 According to Macroeconomic Advisers -- two-time winner of the Blue Chip Economic Forecasting Award:** [Source: Macroeconomic Advisers, *The Dole Plan As Supply-Side Macroeconomic Policy*, September 5, 1996.]

SCENARIO II:
40% CUT IN DOMESTIC PROGRAMS
AND DEEPER CUTS IN MEDICARE AND MEDICAID

- **40% Cut in Discretionary Programs.** The Dole plan cuts $163 billion in non-defense discretionary programs -- a 40% across-the-board cut in real terms in 2002. It also includes $84 billion in savings from spectrum auctions, revised economic assumptions, and entitlement cuts.

- **If Remaining Cuts are Distributed as in Current GOP Budget, Dole's Balanced Budget Plan Would Require a $305 Billion Medicare Cut and a $130 Billion Medicaid Cut.** If Dole were to propose specific, credible savings to balance the budget, Dole would have to propose $281 billion in entitlement cuts. If these additional entitlement cuts were distributed the same way as in the current Republican budget, it would mean $196 billion in additional Medicare and Medicaid cuts (on top of the cuts in the current Republican budget). Thus, the Dole plan would cut Medicare by $305 billion and cut Medicaid by $130 billion over 6 years -- that's far deeper than the 1995 Republican budget.

Program	Current GOP Budget	Share of Mandatory Cuts	Additional $281 Billion Cuts Distributed As Cuts In FY97 GOP Budget	Dole's Total Cuts
Medicare Cuts	$168 billion	49%	$138 billion	$305 billion
Medicaid Cuts	$72 billion	21%	$59 billion	$130 billion
Medicare and Medicaid Combined	$240 billion	70%	$196 billion	$435 billion
Other Mandatory	$105 billion	30%	$85 billion	$190 billion
Total Mandatory	$344 billion	100%	$281 billion	$626 billion

- **Under this Scenario, the Dole Plan Requires a $305 Billion Medicare Cut Which CBO Says Would Have "Draconian" Effects:**

CBO ON THE IMPACT OF A $300 BILLION MEDICARE CUT:

- "Reduction in payment(s)..." in the traditional Medicare program "... would be ***draconian***"
- "[W]ould ***lead to an actual reduction*** in hospital payments rather than a slowing in the rate of growth..."
- "[B]eneficiaries would probably find ***their own costs rising substantially***....Access to particular providers and services plus the overall quality of care in Medicare might be ***threatened***..."

[Source: CBO, *Reducing the Deficit: Spending and Revenues Options,* August 1996, pp. 432-433. Emphasis Added.]

SCENARIO III:
40% CUT IN DOMESTIC PROGRAMS AND DRASTIC CUTS IN OTHER "UNPROTECTED" ENTITLEMENTS

- **40% Cut in Discretionary Programs.** As in the other scenarios, Dole's own Fact Sheets claim he will cut $163 billion in non-defense discretionary programs -- a 40% cut in real terms in 2002. Dole Gets $84 billion in savings from spectrum auctions, revised economic assumptions, and entitlement cuts.

- **If Dole Keeps His Promised Programs "Off The Table," He Would Have to Gut Remaining Entitlements.** If Dole keeps his campaign promises to protect nearly 80% of all entitlements from additional cuts -- protecting Social Security, Medicare, Medicaid, veterans, and military retirement benefits -- he would have to propose draconian cuts in all the remaining mandatory programs, such as: student loans, school lunches, unemployment insurance, the Earned Income Tax Credit, SSI for the poor and disabled, Food Stamps, farm subsidies, and the welfare block grant.

ENTITLEMENTS DOLE HAS "TAKEN OFF THE TABLE"

PROGRAM	***DATE DOLE TOOK IT OFF THE TABLE***	***FORUM***	**SHARE OF MANDATORY SPENDING** (CBO, 5/96)
Social Security	August 5th	Economic Plan Announcement Speech	41%
Medicare	August 5th	Economic Plan Announcement Speech	22%
Medicaid	September 1st	60 Minutes Interview	11%
Veterans benefits & pensions	August 20th	Addressing group of veterans	2%
Military Retirement	September 9th	"Listen to America" discussion, [AP 9/9/96]	3%
		TOTAL "Off the Table":	**79%**

- **Since Dole has taken nearly 80 percent of entitlements "off-the-table," the remaining entitlements would be devastated:**

  - Student Loans
  - School Lunches
  - Farm Subsidies
  - Unemployment Insurance
  - Earned Income Tax Credit to help lift working families out of poverty
  - Civil Service Retirement

DETAILED ANALYSIS

SECTION I:
Previous Bipartisan Commitment to Balancing The Budget Using Conservative Economics

I. **PRIOR TO THE DOLE PLAN, REPUBLICANS AND DEMOCRATS SHARED A BIPARTISAN COMMITMENT TO BALANCING THE BUDGET USING CONSERVATIVE ECONOMICS.** Despite significant policy differences in the second-half of 1995 and first half of 1996, both the President and the Republican Congress had reached a bipartisan consensus on the need for a 7-year balanced budget using conservative economic assumptions. Indeed, while there was some outside criticism of each plan, both plans provided the needed details and conservative economic assumptions to be scored as reaching balance in FY2002.

- **Congressional Budget Office.** "CBO projects that the deficit will decline for the fourth straight year in fiscal year 1996 and that the economy will continue to expand at a moderate rate....Both the Congress and the President however have proposed changes in policies that would balance the budget by 2002." [Testimony by CBO Director June O'Neill, April 17, 1996]

Prior to August 5, 1996, when Dole announced his plan, neither the President nor Republicans veered from the fiscal discipline of balancing the budget using conservative economics. After promising the American people a genuine balanced budget, neither side dared adopt rosy scenarios or return to dynamic scoring.

Indeed, Congressional leaders had made rejection of rosy scenarios a major condition of their entire budget stance:

- **Rep. Newt Gingrich:** "We're not going to go to any smoke and mirrors, we're not going to go to any games. This is about having an honest, serious balanced budget." [October 10, 1995]

- **Rep. John Kasich:** "All that Senator Domenici and I have been asking for over this year is that we use accurate numbers. That we use correct information. That we don't use smoke and mirrors and gimmicks and some economist ideas down the street. We want the non-partisan, non-attached Congressional Budget Office to add up the math, just like the President asked." [December 5, 1995]

SECTION II.
A Tale of Two Directions During the Campaign Season:

Whatever the criticisms one might have had with either the Republican balanced budget plan or the Clinton balanced budget plan, both sought to adhere to the strict discipline of using conservative economics and spelling-out how all new initiatives and tax cuts would be paid for. ***Since then, President Clinton has announced $22 billion in new initiatives and tax cuts, accompanied by specific budget offsets. By contrast, Bob Dole has announced a $548 billion tax cut, with entirely rosy scenarios and virtually no specifics.***

NEW CLINTON INITIATIVES -- BEYOND FY97 CERTIFIED BALANCED BUDGET:

- **President Clinton has proposed $22 billion in new tax cuts and initiatives,** such as the HOPE Scholarship Tax Cut ($7.9 Billion net new cost), School Construction ($5 billion), Homeownership Capital Gains Tax Cut ($1.4 billion), & the Welfare-to-Work Jobs Challenge ($3.4 billion).

- **And with each policy announcement, the President has announced specifically what he would cut to offset the costs. President Clinton has made the tough choices and specified in complete detail how he will pay for his proposals,** such as by cutting corporate subsidies by altering the Sales Source Rule for corporations operating overseas ($8.8 billion), reducing corporate jets subsidies ($.451 billion), and repealing Medicare & Medicaid fraud loopholes ($.470 billion).

New Initiatives	Offsets
"America Reads" Challenge *Cost: $2.75 billion* **Home Ownership Capital Gains Tax Cut** *Cost: $1.4 billion* **Environmental Initiatives** *Cost: $1.9 billion* **Welfare-to-Work Jobs Challenge** *Cost: $3.4 billion*	Package of New Offsets: • Increase Hart Scott Rodino merger filing fees ($0.420 billion) • Replace Sales Source Rule with activity-based rule ($5.300 billion) • Tighten substantial understatement penalty ($0.200 billion) • Replace single-family loan limit with Freddie Mac limit ($0.200 billion) • Relax restriction on FHA multifamily property ($0.080 billion) • Charge vendors for cost of payments by paper check ($0.700 billion) • Reduce corporate jet subsidies ($0.541 billion) • Deny dividends-received deduction for portfolio preferred stock ($0.200 billion) • Synthetic fuel production credit ($0.475 billion) • Repeal Medicare/Medicaid fraud loopholes ($0.470 billion) • New spectrum -- 18 Ghz ($0.500 billion) ***New Savings: $8.456 billion***
$1,500 "America's HOPE Scholarship" Tax Cut Net New Cost: $7.9 billion	• Reduction of sales source rule benefits ($3.500 billion) • Auction radio DARS spectrum ($2.100 billion) • International departure fee ($2.3 billion) • Target $10,000 tuition deduction ***New Savings: $7.9 billion***
School Construction Initiative Cost: $5 billion	• Auction portion of spectrum between channels 60-69 ***New Savings: $5 billion***

NEW DOLE INITIATIVES -- BEYOND THE GOP FY97 CERTIFIED BALANCED BUDGET:

- **As shown in the following section, Dole has taken a different path. Dole has offered a $550 billion tax cut and suggested several spending increases without putting out virtually any specific savings.**

SUMMARY OF SECTION III:
The $650 Billion Dole Deficit Hole

BOB DOLE HAS CREATED A $650 BILLION DEFICIT HOLE. Through his proposal of a large tax cut, new spending promises, and the loss of assumed interest savings due to unrealistic assumptions and lack of specific pay-fors, Dole has created a $650 billion fiscal hole.

A. **New Tax Cut Promises -- $426 billion:** On August 5, 1996, Bob Dole proposed a $548 billion tax cut over six years. Since the Republican balanced budget paid for $122 billion in tax cuts with specific savings, there remains $426 billion in new tax cut promises that Dole has not offset with spending cuts or revenue increases.

B. **Lost Fiscal Dividend -- $142 billion:** Most experts agree that Bob Dole's economic plan lacks the necessary credibility to receive the entire $254 billion "fiscal dividend" the Congressional Budget Office grants for balanced budget plans that use conservative budget assumptions. Several analysts predict that the Dole plan would cause interest rates to rise -- for example, Lehman Brothers predicts that "interest costs to the government rise" under Dole's plan -- which would mean that Dole would lose the whole fiscal dividend. We generously estimate, though, that the Dole plan could receive a fiscal dividend, but it would be only $112 billion. This would leave a $142 billion hole that Dole would have to fill.

C. **New Spending Promises -- At Least $79 billion:** Bob Dole has made new proposals for spending programs totalling at least $79 billion; for example, in March, he told reporters that he wanted to increase the number of B-2 bombers to 40 which would cost at least $15 billion; in June, he proposed a missile defense system that would cost at least $14 billion, and in July, he proposed a school voucher program that would cost $12 billion.

DOLE'S CAMPAIGN PROMISES HAVE PUT HIM IN A $650 BILLION DEFICIT HOLE	
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DOLE'S DEFICIT HOLE	**At Least $647 Billion**

A. NEW TAX CUT PROMISES: DOLE'S $548 BILLION TAX CUT CREATING A $426 BILLION DEFICIT HOLE.

- **Dole Has Proposed A $548 Billion Tax Cut -- $426 Billion Above Current Republican Budget Plan.** On August 5, 1996, Bob Dole announced his tax cut package, which his campaign estimates will cost $548 billion over six years. As only $122 billion is paid for within a balanced budget plan, this leaves a $426 billion deficit hole to be filled.

  – **Only $122 Billion of Dole's Tax Cut Is Paid For Within The Republican Balanced Budget Plan.** The current Republican Congressional balanced budget plan contains offsets to fund $122 billion in tax cuts. Therefore, to maintain balanced budget discipline, Dole has to show the specific savings he would use to pay for any tax cuts above $122 billion.

> **KEY POINT: DOLE'S TAX PLAN COSTS $679 BILLION OVER 7 YEARS.** The Dole Plan costs $548 billion over six years. This may seem like it is only $300 billion larger than the $245 billion tax cut Republicans proposed last year -- which necessitated excessive cuts in Medicare, Medicaid, Education, and the Environment -- but the difference is actually far larger; the $548 billion Dole plan is measured over six years, whereas the $245 billion 1995 Republican plan was measured over seven years. According to the Joint Tax Committee, the Dole plan would cost $679 billion over seven years -- $434 billion larger than last year's $245 billion Republican tax cut plan. If Dole nearly tripled the size of the tax cut, how much bigger would the Republican's excessive cuts in Medicare, Medicaid, Education, and the Environment have to be?

B. DOLE HAS A $142 BILLION LARGER DEFICIT HOLE DUE TO THE PARTIAL LOSS OF FISCAL DIVIDEND CBO ASSUMES *ONLY* FOR A CREDIBLE AND REALISTIC BALANCED BUDGET THAT WOULD LOWER INTEREST RATES:

1. **Both the President's and the Republican's Balanced Budget Plans Receive the Full $254 Billion Fiscal Dividend Because of Their Credibility.** CBO assumes this "fiscal dividend" in analyzing credible balanced budget plans such as the President's and the Republican's budget plans. This fiscal dividend occurs because with a credible balanced budget interest rates will decline, economic growth will increase, raising revenues and reducing outlays.

   - **Congressional Budget Office, April 1995**: "Long-term interest rates... might respond to announced future reductions in the deficit ***if those reductions seemed credible*** -- and as Congress proceeds along the path of deficit reduction, credibility is likely to increase." [Source: Congressional Budget Office, *An Analysis of the President's Budgetary Proposals for Fiscal Year 1996*, April 1995, p. 55.]

   - **Fiscal Dividend is $254 Billion -- $209 in Lower Interest Rate Savings.** The CBO currently estimates that the fiscal dividend contributes $254 billion toward reducing the deficit over 6 years, and both the President's and the Republican's budget plans rely on the dividend to reach balance by the year 2002. Of the $254 billion, more than 80 percent -- $209 billion -- result because balancing the budget reduces interest rates.

2. **The Dole Plan Lacks Credibility So It Would Lose All Or A Major Portion of the CBO Fiscal Dividend -- A Generous Estimate Finds Dole Could Lose $142 Billion Of That Dividend.** Since most financial analysts agree that the Dole plan is not credible at all and could result in higher -- not lower -- interest rates, it would almost certainly lost the whole fiscal dividend or a large portion of it. We estimate that Dole's fiscal dividend would by $112 billion -- $142 billion less than assumed by the fiscal dividend within the Congressional Republican balanced budget plan.

- **Econometric Models -- Such As Lehman Brothers -- Suggest Dole Would Lose Entire Interest Dividend.** Many economists believe that the Dole plan will lead to higher interest rates. For example, the Lehman Brother's Sinai-Boston Model finds that the budget deficit will increase and Dole will not receive a fiscal bonus for helping to lower interest rates and interest costs to the government. In fact, Lehman Brothers writes that: "The tax cuts are costly, revenue feedback is less than estimated, and interest costs to the government rise." [Source: Lehman Brothers, August 26, 1996]

- **A More Generous Estimate Finds That Dole Would Lose $142 Billion of Fiscal Dividend Because Interest Rates Would Not Fall As Projected and Plan Lacks Credibility.** An analysis by Macroeconomic Advisers, LLC confirms this fact. For example, in the year 2000, the econometric analysis by Macroeconomic Advisers found that -- even if Dole were able to cut spending -- interest rates would fall 0.77 percentage points less than projected by CBO under the full-fiscal dividend. Since interest rates would fall by less than projected by CBO, interest savings would be only $84 billion. Even assuming that the Dole plan still received a 0.1 percent growth dividend, Dole's fiscal dividend would by $112 billion -- $142 billion less than assumed by the fiscal dividend within the Congressional Republican balanced budget plan. [See Appendix 2 for more detailed information.]

DOLE STRAINS CREDIBILITY BY TRYING TO TAKE *BOTH* THE FISCAL BONUS GIVEN FOR CONSERVATIVE BUDGETS AND THE SUPPLY-SIDE OPTIMISTIC GROWTH BONUS

It strains credibility for the Dole plan to assume huge revenues inflows -- outside of CBO projections -- based on strong growth and then at the same time take the full $254 billion CBO fiscal dividend based on the use of credible, conservative budget assumptions.

LEADING ANALYSTS AGREE THAT THE DOLE PLAN LACKS THE CREDIBILITY NEEDED FOR THE CBO FISCAL DIVIDEND AND WILL CLEARLY INCREASE THE DEFICIT. The breadth of the skepticism among top financial analysts -- as well as the public -- is so strong and severe it is clear that this plan is not credible and would not balance the budget by the year 2002.

- ***Bloomberg Business News***: "Wall Street analysts and economists were skeptical of Republican presidential candidate Bob Dole's economic package, saying the proposed tax cuts and projected growth rate could balloon the deficit and drive up interest rates." [Source: Bloomberg Business News, 8/5/96]

- **Robert Reischauer, former Director of the Congressional Budget Office:** "[It's] a tax cut that will blow an increasingly larger hole in our budget as the years go by." [Source: CNN, 8/5/96]

- **Martha Phillips of the Concord Coalition:** "This will not work. It will blow a gigantic hole in the budget and it will set us back rather than lead us forward." [Source: ABC News, 8/4/96]

- **Stephen Roach, Chief Economist at Morgan Stanley:** "There is not one shred of credible evidence on how Dole will pay for his plan. Fully 65% of the revenue breaks are to be financed by nothing more than wishful thinking. This is as vague as it gets." [Source: *Time*, 8/19/96]

- **William C. Dudley, Goldman Sachs:** "I would say that at this point the credibility of the plan is not very high.... To cut taxes and balance the budget, until you actually specify spending cuts, and do so in detail, the credibility is lacking." [Source: *Los Angeles Times*, 8/6/96]

- **James Annable, Chief Economist at First Chicago NBD Bank and former staff economist at the Congressional Budget Office:** "[Dole] could drive the deficit way past $300 billion.... That means interest rates are going to go up. Mortgage rates are going to go up." [Source: *Baltimore Sun*, 8/7/96]

- ***U.S. News & World Report*:** "[C]ould Dole's plan really cut taxes so much, balance the budget, and spur economic growth? No. Dole's plan looks like a blend of wishful thinking and political fantasy." [Source: *U.S. News & World Report*, 8/19/96]

- **David Wyss, Chief Economist at DRI/McGraw Hill:** "Without a clear statement that tax cuts would not go into effect until we know the spending cuts are real, financial markets would be very skeptical.... I would expect bond yields to go up as a result." [Source: *New York Times*, 8/6/96]

- **Allen Sinai, Chief Economist at Lehman Brothers**: "The tax cuts are costly, revenue feedback is less than estimated, and interest costs to the government rise." [Source: Lehman Brothers, *Dolenomics--A First Glance*, August 26, 1996]

C. **NEW SPENDING PROMISES BEYOND TAX CUT PLAN.** On top of Bob Dole's massive tax cut, he as made spending promises that total at least $79 billion.

BOB DOLE'S NEW SPENDING PROMISES	
Education Voucher Program	**$12 Billion**
Missile Defense System	**$14-$60 Billion**
19 Extra B-2 Bombers	**$15-$35 Billion**
Double Federal Prison Spending	**$2.4 Billion**
Expand the GI Bill	**$5.2 Billion**
Create New "GI Bill for Health"	**At Least $30 Billion**
TOTAL OF NEW SPENDING PROMISES	**At Least $78.6 Billion**

EXPLANATIONS AND DESCRIPTIONS OF BOB DOLE'S NEW SPENDING PROMISES.

- **$12 Billion -- Education Voucher Program.** In July, Dole proposed his so-called Opportunity Scholarships, government-funded vouchers to families to use at religious, private, or public schools. According to the Dole campaign, this proposal would cost $12 billion over four years. [Source: Dole for President, "Restoring the American Dream: Bob Dole's Pro-Growth Plan for America's Families", Dole Web page: http://www.dole96.com/agenda/economics/theplan.html]

- **$14-60 Billion -- Missile Defense System.** Dole has repeatedly called for a comprehensive missile defense system. On June 18, 1996, Bob Dole said that: "In my Administration... we will build a defense for California and America against missiles." [Source: Transcript of Bob Dole's Remarks to Lockheed Martin, 6/18/96] One week later, Bob Dole stated that: "When I am President, we will deploy an effective national missile defense. We can afford it. We can do it. We should begin now." [Source: Remarks by Bob Dole, Philadelphia, PA, June 25, 1996] CBO estimates that such a system would cost $14 billion in the budget window and at least $60 billion to complete in later years. [Source: *Associated Press*, 5/22/96; 6/7/96]

- **$15-35 Billion -- 19 More B-2 Bombers.** In March 1996, Dole told reporters in California -- after an event at the Northrop-Grumman Corp. -- that he wanted to double the number of B-2 bombers built from 21 to 40, even though the Joint Chiefs of Staff and the Pentagon do not recommend this increase. [Source: *Los Angeles Times*, 3/23/96; *Time*, 9/23/96] Based on CBO estimates of an extra 20 B-2 bombers, we estimate that it would cost $15 billion over six years to build 19 bombers, and $35 billion between FY96 and FY2020 (when the 19 additional bombers would be finally delivered). [Source: Based on data from the Congressional Budget Office, July 1995.]

- **$5.2 Billion -- Expanded GI Bill.** According to the *Los Angeles Times*, "One of Dole's proposals is to roughly double the educational benefits now available to veterans and exempt the benefits from taxation. 'We're going to expand the GI Bill,' Dole told a gathering of about 150 supporters here." [*Los Angeles Times*, 9/10/96] Veterans' educational benefits are already exempt from taxation. But, doubling the amount of the stipend paid under the current Montgomery G.I. bill would cost approximately $5.2 billion over six years. This estimate assumes that the maximum monthly stipend is increased from about $400 to $800, and that the population covered remains unchanged at approximately 300,000 veterans. It does not assume any change in the amount of the $1,200 contribution made by the veterans while they are on active duty.

- **At Least $30 Billion -- Expanded Health Benefits for Veterans.** On September 10, 1996, a number of major newspapers -- including the *Los Angeles Times* -- reported that Dole was planning to announce a "GI Bill of Health". Less than a week after Dole spoke at the American Legion Convention, the *Star Tribune* wrote that "[O]fficials of the American Legion spoke Monday about their discussions with the Dole campaign on a proposed 'GI Bill of Health.' The idea would be to open the 173-hospital Veterans Administration medical system to all U.S. veterans." [Source: *Star Tribune*, 9/10/96] The *Los Angeles Times* ran a headline stating "Dole Readying Proposals to Aid Veterans" and quoted Phil Budahn, a spokesman of the American Legion stating that: "'It's every bit as major as the original GI Bill,'" Budahn said of Dole's plan to expand the VA medical system." The *Los Angeles Times* also reported that the "idea would be to open the 173-hospital Veterans Administration medical system...." [Source: *Los Angeles Times*, 9/10/96] If we assume that the population currently served by the Veterans Administration increases from 2.5 million to the entire universe of 27 million veterans, this proposal could cost as much as $20 billion to $40 billion per year more than the current VA medical care program costs. Over six years, this "GI Bill of Health" would cost $120 billion to $240 billion. With $548 billion in tax cut proposals already, there is absolutely no way that Dole could propose a program this large. Since he will undoubtedly have to scale it down, we assume that it costs about $5 billion per year -- or at least $30 billion over six years.

- **$2.4 Billion -- Double Federal Spending On Prison Construction.** On September 16, 1996, Dole proposed to "double federal prison spending" to $810 million per year. [Source: *Associated Press*, 9/16/96] Doubling federal prison spending would cost approximately $400 million per year -- or $2.4 billion over six years. This estimate, of course, is an underestimate since it does not reflect the cost of operating the additional prisons once they are built.

SUMMARY OF SECTION IV:
How Could Dole Fill His $650 Billion Deficit Hole?

SCENARIO I:
40% CUT IN DOMESTIC DISCRETIONARY PROGRAMS AND $400 BILLION DEFICIT HOLE

- **40% Cut In Discretionary Programs.** Whatever the scenario, by his own numbers, Dole's plan requires a $163 billion cut in non-defense discretionary programs -- a 40% across-the-board cut in real terms in 2002.
- **$401 Billion DEFICIT HOLE.** The Dole plan includes another $84 billion in savings from spectrum auctions, revised economic assumptions, and entitlement cuts. Even with these savings and a 40% cut in discretionary programs, the plan pays for only $247 billion of the $648 deficit hole, leaving a $400 billion hole in the deficit if no more cuts are proposed.

SCENARIO II:
40% CUT IN DOMESTIC DISCRETIONARY PROGRAMS AND DEEPER CUTS IN MEDICARE AND MEDICAID

- **40% Cut in Discretionary Programs.** Dole's plan cuts $163 billion in non-defense discretionary programs -- a 40% cut in real terms in 2002. It also includes $84 billion in savings from spectrum auctions, revised economic assumptions, and entitlement cuts.
- **Credible Balanced Budget Plan Would Require $305 Billion Medicare Cut and a $130 Billion Medicaid Cut.** If Dole were to propose specific, credible savings to balance the budget, Dole would have to propose $281 billion in entitlement cuts. If these additional entitlement cuts were distributed the same way as in the current Republican budget, it would mean $196 billion in additional Medicare and Medicaid cuts (on top of the cuts in the current Republican budget). Thus, the Dole plan would cut Medicare by $305 billion and cut Medicaid by $130 billion over 6 years -- that's far deeper than the 1995 Republican budget.

SCENARIO III:
40% CUT IN DOMESTIC DISCRETIONARY PROGRAMS AND DRASTIC CUTS OTHER "UNPROTECTED" ENTITLEMENTS

- **40% Cut in Discretionary Programs.** Dole cuts $163 billion in non-defense discretionary programs -- a 40% across-the-board cut in real terms in 2002. Gets $84 billion in savings from spectrum auctions, revised economic assumptions, and entitlement cuts.
- **Dole's Credible Balanced Budget Keeps Some Programs "Off The Table" and Guts Remaining Entitlements.** If Dole keeps his campaign promises to protect nearly 80 percent of all entitlements from additional cuts -- protecting Social Security, Medicare, Medicaid, veterans, and military retirement benefits -- he would have to propose draconian cuts in all the remaining mandatory programs. The remaining programs include student loans, school lunches, unemployment insurance, the Earned Income Tax Credit, SSI for the poor and disabled, Food Stamps, farm subsidies, and the welfare block grant.

SCENARIO I:
40% CUTS IN DOMESTIC DISCRETIONARY PROGRAMS AND A $400 BILLION DEFICIT HOLE

SCENARIO I	
DOLE DEFICIT HOLE	**$647 Billion**
40% Non-Defense Discretionary Cuts	**$163 Billion**
Other Savings (Entitlement Cuts, Spectrum Auction, and Revised Economic Assumptions):	**$84 Billion**
REMAINING DEFICIT HOLE	**$400 Billion**

1. **DOLE'S PLAN REQUIRES 40% CUTS IN DOMESTIC DISCRETIONARY AREAS -- BY DOLE'S OWN NUMBERS.**

   - **According To Their Own Fact Sheets, The Dole Plan Calls for $217 Billion in Additional Non-Defense Cuts -- $163 Billion in Non-Defense Discretionary.** The Dole plan explicitly calls for $217 billion in additional non-defense spending cuts. While Dole says that $34 billion would come from additional spectrum auctions, CBO scores the same proposal at $12 billion. Of the remaining $205 billion, there is a $46 billion 1% across-the-board spending cut, of which some could be undefined entitlement cuts. If we assume that $23 billion of the $46 billion is in entitlements, there would be a $163 billion additional cut in non-defense discretionary programs.

   - **Dole's Discretionary Cuts in 2002 Would Be 40% Real Cuts And 29% Nominal Cuts.** The Republican budget assumed $271 billion in non-defense discretionary spending in FY1996, and would cut spending in this area to $245 billion in 2002, a $26 billion or 10% across-the-board cut in nominal terms and 24% cut in real terms in 2002. The Dole economic plan assumes $59 billion of new savings in 2002. Assuming $8 billion of this $59 billion comes from spectrum and undisclosed entitlement savings, the remaining $51 billion would come from deeper cuts in non-defense discretionary spending in 2002. That would lower their current $245 billion level in 2002 to $194 billion -- a 29% nominal cut and a 40% real cut.

NON-DEFENSE DISCRETIONARY PROGRAM SPENDING AND CUTS				
	FY 1996	FY 2002	Nominal Cut in 2002	Real Cut in 2002
Republican Budget Plan [FY97 Budget Resolution passed 6/96]	$271 B	$245 B	10%	24%
Dole Budget Plan [GOP Budget with additional Dole cuts]	$271 B	$194 B	29%	**40%**

NOTE: Dole's Plan Will Require Over a 57% Cut in Education, the Environment, and Other Key Areas If Some Republican Priorities Are Protected: Every time Dole takes another area "off-the-table" for cuts, it requires deeper cuts in the areas still "on-the-table". For example, if Dole takes veterans medical care and services off the table as he has promised, as well as the FBI, DEA, US attorneys and marshals ($6.9 billion total in FY95) and the NIH, Center for Disease Control, and National Science Foundation research ($16.6 billion) and NASA, highway construction, and airport grants ($24.9 billion) and FEMA ($4.1 billion), it would mean a 57% cut in all of the remaining areas such as *education and training, the environment, national parks, INS border patrols, FAA air traffic controls, 100,000 COPS, agriculture, and housing programs.*

KEY POINT: Dole's 40% cuts would mean lowest discretionary spending since the Great Depression. The current Republican balanced budget plan contains $305 billion in discretionary savings [Source: CBO, *Economic and Budget Outlook*, August 1996, p. 13]. The $163 billion in additional savings required by the Dole Plan mean $468 billion in real cuts from discretionary programs. The Concord Coalition wrote, "The Dole plan intends to reduce discretionary spending all the way to 4.6% of GDP by 2002...all [non-defense] spending except entitlements would be cut in half from 3.6% to 1.9% of GDP -- the lowest "general government" federal spending level since before the New Deal." [Source: Concord Coalition, "Tax Cut Fever," August 26, 1996, p. 2]

2. EVEN AFTER THE 40% DOMESTIC CUTS, DOLE IS LEFT WITH A $400 BILLION DEFICIT HOLE.

Breakdown of Dole's $400 Billion Deficit Hole	
Growth Not Scored By CBO	$178 billion
Lost Balanced Budget Fiscal Dividend	$142 billion
New Unpaid For Spending Promises	$79 billion
Overestimate of Savings from Spectrum Auction	$22 billion
Total Deficit Hole	**$400 billion**

EXPERTS CONFIRM DOLE'S DEFICIT HOLE EVEN AFTER 40% CUT IN DOMESTIC DISCRETIONARY PROGRAMS:

- **Robert Reischauer, former Director of the Congressional Budget Office:** "[It's] a tax cut that will blow an increasingly larger hole in our budget as the years go by." [Source: CNN, 8/5/96]

- **$300 Billion Deficit In a Single Year According to First Chicago NBD Bank:** James Annable, Chief Economist at First Chicago NBD Bank and former staff economist at the Congressional Budget Office says the Dole plan "could drive the deficit way past $300 billion.... That means interest rates are going to go up. Mortgage rates are going to go up." [*Baltimore Sun*, 8/7/96]

- **Up To $150 Billion Higher Deficits According To Lehman Brothers:** Using the Sinai-Boston model of the American economy, Lehman Brothers estimated that the federal budget deficit would be "higher by anywhere from $15 billion to $150 billion in the years of the program. The tax cuts are costly, revenue feedback is less than estimated, and interest costs to the government rise." [Lehman Brothers, 8/26/96]

- **$127 Billion Higher Deficit in 2002 According To Chief Economist At Norwest Bank:** "[Sung Won] Sohn, the Minneapolis economist, used a computer simulation to determine what would happen if taxes were cut without also reducing federal spending. Consequently, the annual budget deficit would rise $127 billion over current projections by the year 2002." [*Knight-Ridder*, 8/13/96]

- **$100 Billion Deficit in 2002 According to Macroeconomic Advisers -- a 2-time winner of the Blue Chip Economic Forecasting Award:** Even when Macroeconomic Advisers, LLC, assumed Dole could achieve $217 billion in additional spending cuts -- they still found a $100 billion deficit in the year 2002 -- and worse for the foreseeable future: "We find that the dynamic response of the economy to the proposed policies falls well short of that projected in the Plan and, consequently, the proposed cuts in spending are not sufficient to eliminate the deficit. Hence, relative to a policy that does balance the budget but does so without cutting taxes, the Dole Plan raises the deficit, forces up interest rates, and reduces productivity." [Source: Macroeconomic Advisers, September 5, 1996.]

BACKGROUND EXPLANATION:
BOB DOLE'S $400 BILLION DOLE DEFICIT HOLE

- **Dole Loses $178 Billion From Unrealistic Growth Projections:** The Dole plan assumes $147 billion in higher revenues from the higher economic growth the tax cut is projected to stimulate. In addition, it assumes another $80 billion in higher revenues than CBO currently projects. There have been several interpretations of the $80 billion. One interpretation is that it is all illegitimate. The most generous interpretation is to expect somewhat higher revenues because of the *current* strength of the economy.

  Based on the latest economic data, OMB recently increased its projection of revenues by $48.6 billion over 6 years. Thus, $49 billion could be justified. <u>So even with this generous interpretation, $31 billion of the $80 billion is a hidden growth dividend that cannot be assumed -- in addition to the assumption of $147 billion in overall growth.</u>

  - **Dole's $178 Billion "Supply-Side Growth" Assumes a 38% Feedback:** Of the $549 billion tax cut, $75 billion is for a child tax credit -- which is not a growth incentive. Therefore, even if one assumed that all of the rest of their tax cuts were growth oriented, it would still mean they were assuming a 38% feedback (178/474 = 38%). *This is about twice the feedback effect Ronald Reagan assumed in 1980.* [Sources: *Wall Street Journal*, 8/5/96; *USA Today*, 8/6/96; Concord Coalition, 8/8/96]

- **Dole Loses $142 Billion of CBO's Balanced Budget Fiscal Dividend:** As explained in Section II and Appendix 2, most experts agree that Dole's plan would not receive the full $254 billion "fiscal dividend" CBO gives credible plans to balance the budget using conservative budget assumptions. We generously estimate that Dole would lose only $142 billion of CBO's $254 billion dividend.

- **Dole Has To Make Up At Least $79 Billion In New Unpaid For Spending Promises:** As detailed in Section III, candidate Dole has proposed at least $79 billion in additional spending programs, including 19 more B-2 bombers, a comprehensive missile defense program, and an expanded GI Bill for veterans.

- **$21.5 Billion Overestimate of Spectrum Auction:** The only additional spectrum auction Dole has publicly supported -- other than those already in the GOP budget -- is "auctioning of channels set aside for digital broadcasting, an idea that former Senate Majority Leader Bob Dole promoted." [*New York Times*, 6/24/96] CBO estimates that auctioning this spectrum would yield about $12.5 billion [CBO, 1/30/96], yet Dole's plan counts on $34 billion in savings from the auctions.

SCENARIO II:
40% CUT IN DOMESTIC DISCRETIONARY PROGRAMS AND DEEPER CUTS IN MEDICARE AND MEDICAID

SCENARIO II	
DOLE DEFICIT HOLE	**$647 Billion**
40% Non-Defense Discretionary Cuts Other Savings ($12.5 billion Spectrum Auction, $49 billion Revised Economic Assumptions, Restore $142 billion of Full CBO Fiscal Dividend for Credible Plan):	**$163 Billion** **$226 Billion**
Additional Entitlement Cuts Required To Balance Budget	**$281 Billion**
REMAINING DEFICIT HOLE	**$0**

1. **40% CUTS IN DOMESTIC DISCRETIONARY AREAS -- BY DOLE'S OWN NUMBERS.** In this scenario -- as in Scenario I -- Dole would have to cut non-defense discretionary programs across-the-board by $163 billion (or 40% in real terms in 2002). The Dole plan also includes another $84 billion in savings from spectrum auctions, revised economic assumptions, and entitlement cuts.

2. **IN ADDITION TO THE 40% CUTS IN DESCRETIONARY AREAS, TO BALANCE THE BUDGET, DOLE WOULD HAVE TO CUT ENTITLEMENTS BY $281 BILLION -- ON TOP OF THE CUTS IN THE CURRENT GOP BUDGET.** If Dole proposed a credible balanced budget plan with specific cuts, he would regain the entire $254 billion CBO balanced budget fiscal dividend, but would still need to $281 billion in additional savings. [See table above.] The additional savings would have to come from entitlement since he has already cut non-defense discretionary programs 40%.

3. **IN ADDITION TO THE 40% CUTS IN DESCRETIONARY AREAS, IF CUTS ARE DISTRIBUTED AS IN THE CURRENT GOP BUDGET, DOLE'S PLAN REQUIRES $305 BILLION MEDICARE CUT AND $130 BILLION MEDICAID CUT.** If Dole distributes the additional $281 billion in entitlement cuts the same was as in the current Republican budget, 70% of the additional $281 billion in needed entitlement savings would come from Medicare and Medicaid. [See table below.] This means Dole would need an additional $196 billion in Medicare and Medicaid cuts on top of the cuts in the current Republican budget. In total, it would require $305 billion in Medicare savings and $130 billion in Medicaid savings over six years -- more than Republicans tried to cut Medicare and Medicaid by in their budget last year <u>over seven years</u>. Last year Republicans tried to cut $270 billion from Medicare over 7 years, compared to $305 billion over 6 years under the Dole plan.

Program	Current GOP Budget	Share of Mandatory Cuts	Additional $281 Billion Needed Distributed As Cuts In Current GOP Budget	Dole's Total Cuts
Medicare Cuts	$168 billion	49%	$138 billion	**$305 billion**
Medicaid Cuts	$72 billion	21%	$59 billion	**$130 billion**
Medicare and Medicaid Combined	$240 billion	70%	$196 billion	**$435 billion**
Other Mandatory	$105 billion	30%	$85 billion	**$190 billion**
Total Mandatory	$344 billion	100%	$281 billion	**$626 billion**

DOLE'S PLAN REQUIRES A $305 BILLION MEDICARE CUT -- WHICH CBO SAYS WOULD HAVE "DRACONIAN" EFFECTS: The Congressional Budget Office in August 1996 found that a $300 billion Medicare cut over six years would have "draconian" impacts and would lead to cuts -- not just reductions in growth -- in hospital payments. CBO concluded:

CBO ON THE IMPACT OF SUCH A $300 BILLION MEDICARE CUT:

- "Reduction in payment(s)..." in the traditional Medicare program "... would be ***draconian***"
- "Payment growth for risk-based plans would also be ***slashed***."
- "[W]ould ***lead to an actual reduction*** in hospital payments rather than a slowing in the rate of growth..."
- "[B]eneficiaries would probably find ***their own costs rising substantially***"
- "Access to particular providers and services plus the overall quality of care in Medicare might be ***threatened***..."

[CBO, *Reducing the Deficit: Spending and Revenues Options*, August 1996, pp. 432-433. Emphasis Added.]

DOLE'S PLAN REQUIRES A $130 BILLION MEDICAID CUT -- DEEPER THAN DOLE/GINGRICH PROPOSED IN 1995. Distributing the additional entitlement cuts the same way as in the current GOP budget would require cutting Medicaid by $130 billion over 6 years, rather than $72 billion in the current Republican budget. This is deeper than in last year's vetoed budget because it is measured off a much lower baseline and is over 6 years instead of 7 years.

- When CBO scored the vetoed budget off its lower December 1995 baseline it said it would have saved $133 billion over 7 years. The Dole plan would require $130 billion in Medicaid savings over 6 years and off a still lower baseline, and would therefore require still more severe consequences.

- Savings of this level could not be achieved without repealing the Medicaid entitlement which guarantees a basic level of health benefits to anyone eligible, and replacing it with a block grant. States would be forced to deny coverage and benefits for millions of Medicaid beneficiaries by 2002. HHS estimated last year that the vetoed 1995 Republican budget could have forced states to deny coverage to 7.7 million people in 2002, including people with disabilities, poor children, pregnant women, and nursing home residents.

SCENARIO III:
40% CUT IN DOMESTIC DISCRETIONARY PROGRAMS AND DRASTICALLY CUTS OTHER "UNPROTECTED" ENTITLEMENTS

SCENARIO III	
DOLE DEFICIT HOLE	$647 Billion
40% Non-Defense Discretionary Cuts Other Savings ($12.5 billion Spectrum Auction, $49 billion Revised Economic Assumptions, Restore $142 billion of Full CBO Fiscal Dividend for Credible Plan):	$163 Billion $226 Billion
Protects Social Security, Medicare, Medicaid, Veterans, and Military Retirement Benefits	$0 Billion
Cuts Other Entitlements Such As Student Loans, Food Stamps, and School Lunches	$281 Billion
REMAINING DEFICIT HOLE	$0

1. **40% CUTS IN DOMESTIC DISCRETIONARY AREAS -- BY DOLE'S OWN NUMBERS.** As in Scenarios I & II -- Dole would have to cut non-defense discretionary programs across-the-board by $163 billion (or 40% in real terms in 2002). The Dole plan also includes another $84 billion in savings from spectrum auctions, revised economic assumptions, and entitlement cuts.

2. **BALANCED BUDGET REQUIRES $281 BILLION IN ENTITLEMENT CUTS, BUT DOLE HAS PROMISED NOT TO CUT 79% OF ENTITLEMENT SPENDING.** Even after regaining the full CBO fiscal dividend, Dole still needs $281 billion in additional savings from entitlements as in scenario II. But Dole has promised not to cut 79% of entitlement spending: Social Security, Medicare, Medicaid, veterans benefits, and military retirement benefits, beyond those cuts already in the Republican budget.

ENTITLEMENTS DOLE HAS "TAKEN OFF THE TABLE"			
PROGRAM	*DATE DOLE TOOK IT OFF THE TABLE*	*FORUM*	*SHARE OF FY95 MANDATORY SPENDING* (CBO, 5/96)
Social Security	August 5th	Plan Announcement Speech	41%
Medicare	August 5th	Plan Announcement Speech	22%
Medicaid	September 1st	*60 Minutes* Interview	11%
Veterans benefits & pensions	August 20th	Addressing group of veterans	2%
Military Retirement	September 9th	"Listen to America" discussion	3%
		TOTAL "Off the Table":	***79%***

3. WITH 80% OF ENTITLEMENTS TAKEN "OFF-THE-TABLE" DOLE WOULD HAVE TO DEVESTATE ALL OTHER ENTITLEMENTS:

HOW MUCH WILL DOLE CUT REMAINING ENTITLEMENTS?	
?	Farm Subsidies
?	Student Loans
?	School Lunches
?	Unemployment Insurance
?	Civil Service Retirement
?	Earned Income Tax Credit
?	SSI
?	AFDC
?	Food Stamps

THE CUTS TO EACH OF THESE AREAS WOULD HAVE TO BE DEVESTATING. AND EACH ADDITIONAL ITEM DOLE TAKES OFF THE TABLE WILL ONLY MEAN DEEPER CUTS IN OTHER ALL REMAINING AREAS.

APPENDIX 1

THE DOLE TAX PLAN ALSO RAISES TAXES ON 9 MILLION WORKING FAMILIES BY CUTTING THE EITC

9 MILLION WORKING FAMILIES GET A TAX INCREASE UNDER THE DOLE PLAN. Using a sophisticated tax model similar to the one used by the Joint Tax Committee and Treasury Department, Citizens for Tax Justice, a non-partisan tax policy group, concluded that 8.9 million low- and moderate-income working families would face a tax increase averaging $270 each under the Dole plan because the Dole plan proposes large cuts in the Earned Income Tax Credit. This is true even after taking into account *all* the tax cuts in the Dole plan, including the 15% across-the-board rate reduction, and $500 per child tax credit. [Source: Citizens for Tax Justice, 8/26/96] This conclusion -- that millions of low-income families would face a tax increase -- is supported by analyses by the Center on Budget and Policy Priorities and *U.S. News & World Report*.

- **Why Does The Dole Plan Raise Taxes?** The Dole plan increases taxes on millions of families because it includes the $19 billion cut in the Earned Income Tax Credit (EITC) in the current Republican budget and because Dole -- attempting to reduce the cost of his tax package -- specifically revised his $500 child tax credit so that millions of families who will have their EITC cut will also not benefit from the child tax credit.

  How The Dole Plan Denies Families Receiving the EITC the Child Tax Credit, Thereby Raising Their Tax Bill: Under the vetoed Republican budget, families would first reduce their tax bill by the non-refundable child tax credit and then by the refundable EITC. Dole switched the order, making many families ineligible for the child tax credit. Take, for example, a family of four with an income of $23,650. The family currently owes about $1,000 in income tax and $1,800 in payroll tax and receives an EITC of about $1,000. Under the vetoed Republican budget they would have been eligible for a $1,000 child tax credit. Under the Dole plan, they are no longer eligible, and their EITC would likely also be cut. They would likely lose more from the EITC cut than they'd gain from the tax rate cut, and thus they'd face a tax increase.

INDEPENDENT VALIDATION THAT THE DOLE PLAN RAISES TAXES ON MILLIONS

- **Citizens for Tax Justice:** "8.9 million low- and moderate-income working families would face tax *increases* averaging $270 each under the Dole plan, due to its proposed reductions in the earned-income tax credit." [Source: Citizens for Tax Justice, 8/26/96]

- **U.S. News & World Report:** *"One group that wouldn't benefit from Dole's plan comprises roughly 10 million low-income households earning less than $25,000 a year -- most of whom would see their taxes increase.* That's because they now benefit from the earned income tax, which would be scaled back under the congressional Republicans' budget-balancing plan included in Dole's package. Moreover, for technical reasons these households would be ineligible or only partly eligible for the per child credit. On balance, their taxes would rise." [Source: *U.S. News & World Report*, 8/19/96]

- **Center on Budget and Policy Priorities:** The CTJ estimate "is generally consistent with Treasury and Joint Tax Committee estimates of the effects of the tax provisions of the budget reconciliation bill that Congress passed in late 1995 an the President subsequently vetoed....Because the new proposal eliminates or reduces the size of the child credit for several million additional families -- by allowing the credit to offset only the income tax liability that remains after a family's EITC is subtracted -- *the number of families adversely affected by the tax provisions of the Dole proposal is somewhat higher.*" [Source: Center on Budget and Policy Priorities, 9/11/96]

APPENDIX 2

HOW MUCH OF THE FISCAL DIVIDEND SHOULD BOB DOLE RECEIVE?

SINCE BOB DOLE'S ECONOMIC PLAN LACKS CREDIBILITY AND WOULD NOT -- IN ITS CURRENT FORM -- REACH BALANCE BY 2002, WE ESTIMATE THAT DOLE WOULD LOSE MORE THAN HALF OF THE $254 BILLION CBO FISCAL DIVIDEND.

Part I: Higher Interest Rates Mean A Smaller Fiscal Dividend for Dole.

- **This first part of the fiscal dividend results from lower interest rates.** According to the Congressional Budget Office, the effect of lower interest rates accounts for more than 80 percent of the fiscal dividend. Specifically, CBO estimates that interest rates will fall 1.1 percentage points with a credible balanced budget plan, reducing the deficit by $209 billion over six years. (Lower interest rates reduce the deficit by lowering the net interest costs of the debt, lowering costs to the government of student loans, and increasing income received from corporate profits, instead of interest income -- much of which accrues to tax-exempt entities.) [Source: Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1997-2006*, May 1996, p. 33.]

- **The lack of credibility in the Dole plan suggests that interest rates would not drop by as much as a CBO-certified balanced budget. An analysis by Macroeconomic Advisers, LLC confirms this fact.** For example, in the year 2000, the econometric analysis by Macroeconomic Advisers found that -- even if Dole were able to cut spending -- interest rates would fall 0.77 percentage points less than projected by CBO under the full-fiscal dividend. This means that, in the year 2000, interest rates would fall by just 30 percent of what would happen with a credible balanced budget.

- **Dole would only get $84 billion fiscal dividend from lower interest rates, not $209 billion.** Since CBO estimates that a 1.1 percentage point drop in interest rates would reduce the deficit by $45 billion in 2000, we assume that the Dole plan would receive 30 percent of this dividend -- or $14 billion. If we use this same methodology for every year, we find that the Dole plan would have a fiscal dividend from lower interest rates of just $84 billion -- not $209 billion.

Part II: Fiscal Dividend For Economic Growth Remains Unchanged.

- **The other component of the fiscal dividend is higher economic growth.** The analysis of the Dole plan by Macroeconomic Advisers finds that economic growth would accelerate, but by just 0.1 percentage points per year which is identical to the 0.1 percentage point increase in economic growth estimated by the Congressional Budget Office for a credible balanced budget. Therefore, Dole would receive a fiscal dividend for economic growth equal to CBO's estimate: $21 billion.

Part III: With Higher Deficits, Debt Service Dividend Will Be Lower Too.

- **The fiscal dividend for lower debt service will be $8 billion, instead of $24 billion.** The Dole plan would also lose some of the fiscal dividend from lower debt service. Since the deficit would be higher with the Dole plan than with a credible balanced budget, the debt would be higher too. This effect would lower the CBO fiscal dividend from the debt service from $24 to $8 billion.

Conclusion: Dole Fiscal Dividend Would Be $112 Billion, Instead of $254 Billion. In total, the Dole plan would only receive an estimated fiscal dividend of $112 billion, not the $254 billion currently allocated by CBO. This would mean that Dole would lose $142 billion from the fiscal dividend because his plan lacks credibility and does not balance the budget by the year 2002.

ESTIMATE OF THE FISCAL DIVIDEND FOR THE DOLE PLAN

	1997	1998	1999	2000	2001	2002	Total
CBO Estimate of Lower Deficit From Lower Interest Rates[a]	$5	$17	$32	$45	$52	$58	$209
Change in Interest Rates As Result of Dole Plan (% pts.)[b]	-0.16	-0.17	-0.14	-0.33	-0.53	-0.71	
Change in Interest Rates As Result of CBO-Certified Balanced Budget (% pts.)[a]	-0.9	-1.1	-1.1	-1.1	-1.1	-1.1	
Change in Interest Rates As Result of Dole Plan As Share Of Change As Result Of CBO Budget	17.8%	15.5%	12.7%	30.0%	48.2%	64.5%	
Estimate of Fiscal Dividend for Dole Plan From Interest Rate Effect	$1	$3	$4	$14	$25	$37	$84
CBO Estimate of Fiscal Dividend for Higher Growth[a]	c	$1	$3	$4	$5	$7	$21
Estimate of Fiscal Dividend from Lower Debt Service with Dole Plan	c	c	c	$1	$2	$4	$8[d]
Total Dole Plan Fiscal Dividend	**$1**	**$4**	**$7**	**$19**	**$32**	**$48**	**$112[d]**

NOTE: All dollar values are in billions.

a. Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1997-2006*, May 1996.
b. Macroeconomic Advisers, LLC, *The Dole Plan As Supply-Side Macroeconomic Policy*, September 5, 1996.
c. Less than $500 million.
d. Due to rounding, numbers may not add to total.

APPENDIX 3

ENTITLEMENTS DOLE HAS "TAKEN OFF THE TABLE"

While Dole's economic scheme would require $281 billion in additional entitlement cuts to balance the budget, Dole has promised not to make additional cuts in programs totalling nearly 80% of all entitlement spending.

August 18th -- Medicare & Social Security Taken "Off The Table"

☒ Dole: "We're going to balance the budget and cut your taxes without touching Social Security or Medicare, and don't let them try to scare you." [Source: *Boston Globe*, 8/19/96]

September 1st -- On "60 Minutes" Medicaid Taken "Off The Table"

☒ Bob Dole was asked about where he would find the money to pay for his tax cuts. Stahl asked if Dole didn't plan to cut Medicare and Medicaid "where are you going to find the cuts?" Dole responded, *"We're not going to do Medicare and Medicaid and he knows that. They're not even on the table."* [Source: 60 Minutes, 9/1/96]

September 9th -- Military Retirees Benefits Taken "Off The Table"

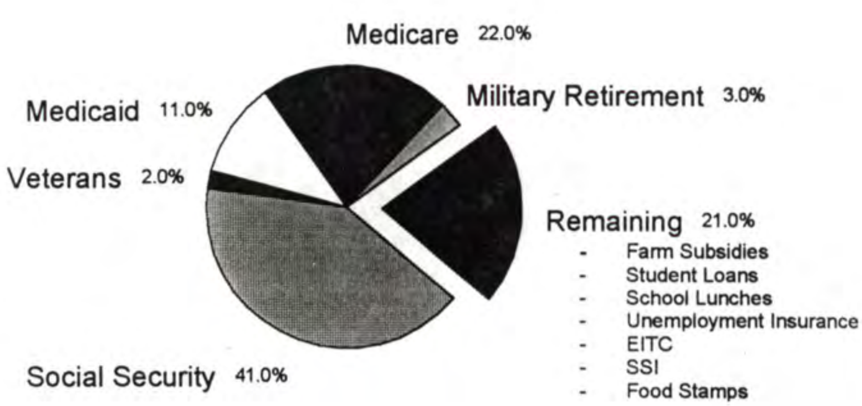
☒ Dole said of military retirees benefits: "When somebody serves their country, that's retirement based on length of service. Others have retirement based on disabilities that are service connected. These two areas in my view are off limits. Nobody's going to touch those benefits." [Source: *Associated Press*, 9/9/96; Dole "Listen to America" discussion, 9/9/96]

August 20th -- Addressing Veterans, Dole Takes Veterans' Benefits "Off The Table"

☒ Bob Dole pledged to keep the nation's "sacred commitment" to providing health care for veterans and to modernize those service, saying "Our veterans are entitled to the best."

Dole told the crowd of veterans, *"Do you think for one minute that...someone who spent over three years of his life in an Army hospital, someone who owes his education to the GI Bill would stand by and allow the budget to be balanced on the back of America's veterans? No way."* [Source: *Dallas Morning News*, 8/21/96]

Dole Has Already Taken 79% of Entitlements "Off-the-Table"



APPENDIX 4

DOLE'S CLAIM THAT HE CAN PAY FOR HIS $548 BILLION PLAN WITH JUST 5% IN CUTS IS JUST PLAIN WRONG

DOLE'S CLAIM THAT HIS PLAN ONLY CUTS SPENDING 5% IS SO MISLEADING THAT THE CONCORD COALITION WONDERS IF HE MISSPOKE. In response to Dole's claim that he would only cut non-defense discretionary programs 5%, the Concord Coalition concluded "Either he misspoke or else he's planning on taking much more from entitlements and asset sales than hitherto indicated." [Concord Coalition, 9/6/96]. This 5% statistic is completely flawed and without merit:

1. **It Does Not Include the <u>$700 Billion In Cuts</u> Dole Needs To Balance The Budget.** Dole admits that his plan assumes enactment of the current Republican budget proposal which CBO says contains $700 billion in spending cuts. [CBO's August 1996 *Economic and Budget Outlook*, p.13] . The current Republican budget had already assumed a 24% real cut in non-defense discretionary programs in 2002.

2. **It Does Not Include The Nearly $200 Billion In Cuts Needed To Replace His Magic Revenues.** By his own numbers, Dole relies on $147 billion from supply-side growth and another $80 billion from updating the CBO baseline. But updating the baseline is likely to produce only $50 billion, not $80 billion, and the $147 billion claim is more than Ronald Reagan claimed his tax cut would produce.

3. **It Does Not Include The $80 Billion He Needs To Pay for His New Campaign Promises,** including his $12 billion private school vouchers program, Star Wars proposal, buying 19 new B-2 bombers.

4. **It Is An *Average* of a *Fraction of the Additional* Cuts Needed Over 6 Years in <u>Nominal</u> Terms -- <u>Not</u> the Real or Nominal Cut in 2002.** It reflects only a portion of the $217 billion in additional savings Dole says he needs, excluding the $700 billion in cuts in the current GOP budget and excluding $34 billion Dole claims come from auctioning spectrum, and it is an average nominal cut over 6 years. It is *not* the full cut in 2002, in either nominal or real terms.

5. **It Is Designed To Divert Attention From The Fact That Their Own Numbers Show A 40% Real Cut In Domestic Discretionary -- Even If They Achieve All Their Growth Dividend.**

   - ***Business Week*:** "[A]fter inflation, a broad range of federal programs would have 40% cuts for their operations by 2002." [*Business Week*, 8/19/96]

   - ***New York Times*:** "What is left is the basic operating costs of the Federal Government -- air traffic control, the Federal Bureau of Investigation, the Border Patrol, prisons, national parks, the Census Bureau, highway repair and countless other activities that Americans expect from their Government. On average, they would have to be cut from current levels by 37% after accounting for inflation." [*NYT*, 9/8/96]

6. **It Also Masks The Deep Entitlement Cuts That Experts -- And Even Dole's National Campaign Co-Chair -- All Agree Would Likely Be Necessary To Pay For The Dole Plan.**

   - **Senator D'Amato, Dole's National Campaign Co-Chair:** "You're gonna have to look at Medicare... I would never say it if I were him [Dole] until after the election. No way. No way. Absolutely. I mean I'm not running this year so I can say it and tell the truth." [Source: Senator D'Amato on the Don Imus Show, 8/12/96]

   - ***Business Week*:** "Where on earth does he come up with that kind of dough...? From popular programs, such as Medicare and environmental protection. But candidate Dole knows it's bad politics to admit that now." [Source: *Business Week*, 8/19/96]

   - ***Boston Globe*:** "Donald Rumsfeld, a senior Dole policy adviser, told CBS News yesterday that 'anyone who says this is going to involve any costs in Medicare, Medicaid, or Social Security is not telling the truth.' But a wide variety of budget specialists said the Dole proposal would require just that, and billions of dollars more as well." [Source: *Boston Globe*, 8/6/96]

APPENDIX 5

EXAMPLES OF WHAT A 40% CUT COULD MEAN

EDUCATION:

- **300,000 Children Could Be Denied Head Start Pre-School Opportunities** -- over 750,000 children currently receive Head Start preschool assistance.

- **2.7 Million Children Could Be Denied Basic and Advanced Skills Assistance from Title I Education Funding Which Currently Helps 6.8 Million School-Children Nationwide.**

- **16 Million of the More Than 40 Million School Children Protected by Safe and Drug Free Schools Could be Denied Safe & Drug-Free Schools Services**, or services could be drastically reduced in each of the 97% of school districts that currently use Safe and Drug Free Schools funds to keep schools safe and our children drug-free.

- **9,700 Young People Could Be Denied AmeriCorps National Service Opportunities --** denying them the opportunity to serve their communities while earning money for college. This year, more than 24,000 young people are serving their communities while earning money towards their education through the AmeriCorps National Service program.

- **1.5 Million Students Could Be Denied Pell Grant Scholarships**, or Pell Grant awards could have to be reduced by 40% for the 3.6 million Pell Grant recipients.

ENVIRONMENT:

- **225 Fewer Environmental Crimes Could Be Investigated.** In fiscal 1995, 562 criminal enforcement actions were initiated, and 245 parties were charged.

- **$520 Million Less for Toxic Waste Clean-Up, Slowing Efforts to Clean Up The More Than 1,000 Still Needing To Be Cleaned-Up.**

IMMIGRATION AND LAW ENFORCEMENT:

- **2,100 Fewer INS Border Control Agents Could Be Patrolling Our Borders, Including 1,900 Fewer Along the Southwest Border.**

- **17,600 of the COPS Already Funded by the Clinton Crime Bill Could Be Defunded.** 40,000 of the 100,000 COPS would never make it to the streets.

PUBLIC SAFETY:

- **A 40% Cut in the FAA Could Mean 6,800 Fewer FAA Controllers and 1,000 fewer FAA safety inspectors.** There are currently 17,000 FAA controllers and 2,600 inspectors.

Estimates based on a 40% reduction in funding and services in FY95 or FY96.