

News from Senator

BOB DOLE



(R - Kansas)

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DOLE SAYS FUNNY MONEY DOES NOT CUT DEFICIT

WASHINGTON -- Senate Majority Leader Bob Dole said today that May 16 action by the House Budget Committee revealed Democrats are still not willing to face up to the tough decisions necessary to really cut the deficit.

"The House Budget Committee's deficit-reduction plan is a blueprint for economic disaster," Dole said. "There are more funny money savings than real deficit cuts," Dole added.

"The House Budget Committee refused to eliminate even one program in 1986 and only one thereafter-- which means they backed away from making cuts that would have a permanent impact on slashing spending. Instead, the Committee decided to gut the Pentagon budget -- which had already taken a sharp cut in the Senate budget," Dole said. "In fact," he added, "in fiscal 1986, 38.4 percent of the Senate plan's savings come from defense. But the House plan cuts 48.9 percent from Pentagon programs when defense spending will account for only 28 percent of the total budget."

"By their own admission, House Democrats fall about \$50 billion short of the Senate's deficit-package. And if you take away the pie-in-the-sky savings, the House budget plan misses the mark by about \$100 billion. That's no way to cut the deficit, and certainly no way to guarantee economic prosperity."

"An editorial today in the New York Post said the House Democrats were living in a 'fiscal fantasyland'. I couldn't have put it better myself," Dole said. "But I hope before the vote in the House next week they wake up from their dream world and join us in the land of fiscal reality and responsibility."



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

May 17, 1985

Honorable Robert Dole
Majority Leader
United States Senate
The Capitol
Washington, D.C. 20510

Dear Bob:

You asked that I provide you with an analysis of the policy problems and spurious claims of savings put forward by the House Budget Committee in its proposed FY 1986 Budget Resolution.

Enclosed, you will find an analysis that highlights the House plan's serious deficiencies. As the analysis shows, the plan amounts to a fundamental retreat on defense, and a total abdication of responsibility on the domestic spending side. I hope you will find it useful in demonstrating the clear superiority of the deficit reduction plan recently passed by the Senate.

Sincerely,

A handwritten signature in black ink, appearing to read "David Stockman".

David A. Stockman
Director

THE HOUSE BUDGET RESOLUTION STORY:
A TALE OF DEFENSE, DECEPTION AND DEFAULT

- o Under the guise of honest budgeting, the House Budget Committee has offered up a cynical concoction of exaggerated savings, numbers gimmicks and political posturing that adds up to a total abdication of responsibility in the face of the Nation's fiscal problems.

A One-Sided Assault on Our National Security Commitments

- o The House Committee's defense level is not a freeze but a dangerous retreat.
- o The Democrats' plan does not cut across the budget in a fair way, but achieves 53% of its savings by slashing national defense -- the 30% of the federal budget that is our country's highest priority.
- o The proposed return to nominal defense level of 1985 represents a 4% real decline and a retreat in real terms almost to 1984 defense levels -- while the Soviets relentlessly build to their 1986 level.

(billions)	<u>1984</u>	<u>1985</u>	HBC Plan
Nominal Dollars.....	\$265	\$293	\$293
Real Dollars (1985)..	276	293	280
Real Growth.....	4.4%	6.0%	-4.2%

- o When operational accounts are protected at minimum essential levels to avoid decline, the HBC defense plan would require a reduction from current plans in research and development, construction and procurement accounts of 19% in 1986, 23% in 1987, and 28% in 1988 -- devastating modernization, and readiness related spares, support equipment and war reserves build-up.
- o The HBC defense proposal is a dangerous budget game designed to show artificially bloated defense savings much beyond what will be responsibly ratified by Congress in the regular appropriations process - as evidenced by the House Armed Services Committee vote of 39 to 4 in favor of zero real growth, instead of the 4.2% real decline proposed by the Budget Committee.

A \$56 Billion Deception

- o While the House package purports to reach the ambitious \$56 billion savings target achieved by the Senate, at least \$14 billion or one-fourth of the claimed savings come from gimmicks, not policy changes:
 - \$3 billion in FY 1986 defense savings are based on pure assertion by the Committee that defense outlays will be lower than CBO would project based on its pricing of their defense changes.
 - Another \$1.55 billion in supposed savings is claimed for financing public housing construction with tax exempt bonds, rather than capital grants. Yet while they score the outlay "savings", they don't record the revenue loss. In fact, this "policy change" will have no net effect on the deficit.
 - Another \$4.0 billion in supposed FY 1986 savings is listed as a plug assumption that government contracting costs are too high, and might well be reduced. While this may or may not be true, the House proposes nothing that will actually achieve these savings -- it only wishes them away. In fact, much of the "contracting" cost base they are supposedly attacking consists of P.L. 480 food donations, NASA space flight tracking operations and Federal employee health insurance contracts.
 - Yet another \$4.0 billion in FY 1986 savings comes from commandeering escrow funds that were established in Outer Continental Shelf litigation. While both CBO and OMB project that these funds will become available in installments over the next four years, the House Committee has apparently decided, in its haste to rack up big numbers, to cash them all out in FY 1986. Above and beyond the gimmickry, actually doing so will actually raise deficits in future years.
 - To pad the 1986 savings even further, the Committee piles up another \$1.6 billion by such expedients as:
 - o Assuming substantial foreign security assistance cuts even as the Congress votes for substantial increases for Israel & Egypt.
 - o Moving Federal Employee Health Benefits fund reserves back and forth between accounts;
 - o Asserting personnel savings through attrition without establishing an attrition policy; and
 - o Predicting savings due to reduced contractor overtime (is this before or after their contracting "cut"?) without adjusting program spending totals to actually achieve the savings.

-- In all, at least \$14 billion -- or 25% -- of the House Committee's supposed \$56 billion in savings is pure smoke and mirrors.

Domestic Spending -- Policymaking by Default

- o The Committee's apparent purpose in piling up heavy defense cuts and numbers gimmicks is to obviate the need to do anything serious at all about the bloated domestic spending sector.
- Of the \$594 billion domestic spending baseline, the House Committee has decided that \$375 billion worth of programs, or 63% -- will be totally exempted from policy changes or one dime of savings. While these indexed cash and in-kind benefit programs meet important national purposes, the Committee has apparently decided that they are perfect as well as sacred.
- In all, of the \$594 billion in baseline domestic spending, the Committee could find only \$9.8 billion in savings -- a mere 1.7% -- to contribute to deficit reduction. It is difficult to believe that the American people would conclude that 98.3% of domestic spending is so critical as to be untouchable.
- Overall, on a three-year basis, faced with a \$1.9 trillion domestic spending baseline, the Committee offers up a meager \$51.4 billion in savings -- less than 3%. By contrast, even after substantial dilution on the Senate floor, the Senate managed to find more than \$125 billion in savings that a majority of the Senate would support -- an amount two and one half times the amount proposed by the House.

The Real Problem is Massive Permanent Structural Deficits

- o In its rush to put big numbers on the FY 1986 scoreboard, the House Committee has totally ignored the need for permanent structural changes in the Federal budget.
- o By FY 1988, over 80% of the House's \$119 billion in claimed savings consists of defense cuts, revenue increases, debt service savings and financing gimmicks. Its package contains less than \$25 billion in permanent program reforms after three years.
- o Absent substantial structural change, the threat posed to the economy by chronic deficits in the 3-4% of GNP range could well balloon the FY 1988 deficit claimed by the Committee to the \$160-170 billion range despite massive reductions in our defense capability.
- o In all, the House Committee has stared into the face of our problems -- big deficits, rising security threats and rampant overspending -- and declared unconditional surrender.