PENNY-KASICH AMENDMENT TO THE GOVERNMENT REFORM AND SAVINGS ACT OF 1993

Y 4. B 85/3: 103-14

HEARING BEFORE THE COMMITTEE ON THE BUDGET HOUSE OF REPRESENTATIVES ONE HUNDRED THIRD CONGRESS FIRST SESSION

HEARING HELD IN WASHINGTON, DC, NOVEMBER 10, 1993

Serial No. 103-14

Printed for the use of the Committee on the Budget

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PENNY-KASICH AMENDMENT TO THE GOVERNMENT REFORM AND SAVINGS ACT OF 1993

WEDNESDAY, NOVEMBER 10, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10 a.m., Room 210, Cannon House Office Building, Hon. Martin Olav Sabo, Chairman, presiding.


Chairman Sabo. The committee will come to order.

Welcome to the committee, in a different seat. Our ranking member, Mr. Kasich.

Mr. Kasich. It is hard to see you, Mr. Chairman.

Chairman Sabo. You are a long way away. And my colleague from Minnesota, we look forward to hearing from you on your proposal. Later this morning we will hear from Alice Rivlin in terms of the administration's response to your proposal.

We have your proposal in descriptive form. I assume at some point it will be in actual draft language. And we would like to know when that would occur.

Let me first commend you for your interest in the ongoing subject of how we deal with the economy and with the budget, and the detail of your proposal. I frankly have some concerns about it, which may not surprise you, and they relate to four specific areas, four general areas of concern.

Number one, there is the impact that your proposal may have on the economy. Frankly, of ongoing concern as we dealt with the budget this year was its impact on the economy that clearly is coming out of a recession, and into a slow recovery. We felt the need to do deficit reduction in a fashion that did not slow down the economic recovery. Because truly in the long term, a healthy, functioning economy is crucial to getting our deficit numbers down.

And the balance between short-term deficit reduction and long-term deficit reduction I think is a crucial part of that equation. It is not an exact science. But frankly, a fairly significant amount of our deficit reduction came early in the package. At points the Senate moved more of it early, and that was of concern to me, because of its potential impact on the economy. And that concerns me with
your proposal and some other alternatives I know that may be suggested as alternatives to your proposal.

My second concern involves the effect of your proposal to further reduce the caps on discretionary spending. And if you have an exact number in mind that you intend to reduce them to, we would like to hear that specific number. The fact is that when we considered the budget resolution earlier this year, we reduced the discretionary spending caps by about $56 billion from what the President had proposed.

Also contained in the President's basic budget was an assumption of about $22 billion of streamlining government that clearly is there, implemented through the reinventing government process. But these were $22 billion of unspecified administrative savings that would have to be found by the administration and the Congress.

So we were looking at, over the 5-year period of that budget, approximately $78 billion discretionary savings simply to meet the targets that we set in the budget resolution that passed earlier this year, where we set discretionary savings at levels that were at or below 1993 levels for the next 5 years.

My third concern is the relationship of your proposal as it relates to the effect on health care reform. As I look at your proposal, a significant part, I think about 70 percent or more of your entitlement changes are in the health care area. Most of those, maybe not in the exact form and to the exact dollar amount, are also contained in the administration's proposal for health care reform, and are used to pay for it.

I think most proposals for health care reform by other individuals and groups also contain the assumption that a significant part of the payment for that particular proposal for health care reform will come from savings in existing Federal health programs, namely Medicare, Medicaid. And they assume that part of those savings in those proposals will go to health care reform or to deficit reduction.

I also think, while you raise some important issues as it relates to changes in some of the entitlement programs, I frankly have concerns over the equity of some of your proposals. I think there is a legitimate case to be made for varying the premium for part B of Medicare, and the administration is proposing that in health care reform.

As I understand your proposal, however, you take certain individuals up to 100 percent of the average cost of part B Medicare, and I was interested in this, to begin looking at how that would affect different parts of the country. What I have discovered is that in 91 percent of the counties in this country, actual costs are less than the national average. And you would be asking a significant number of people to actually be paying more than 100 percent of their cost.

In my own State of Minnesota, I think your proposal would put everyone at 120 to 130 percent of actual costs of part B premium. I think the top cost in our State is $118, in my county, and you would have a premium up in the $140-some category, and those individuals would be paying substantially more than the full cost of their premium.
You also make some changes—as you know, I have recommended in this committee—that we assume a half COLA for military retirees under age 62. The authorizing committee said they considered that and they found the savings in a different fashion.

Frankly, your suggestion of moving to the total elimination of COLAs for people under age 62, I think is a little harsh. Of much more fundamental concern, however, is the change in the thrift match for current Federal employees who were given an option about 9 years ago. They could stay with the old plan or move to the new plan which had less defined benefits, and more of their retirement based on their contribution with a certain match then promised by the Federal Government. Your proposal would significantly change that match by the Federal Government to those employees who made a choice between the old and new system some years ago. The equity of that concerns me.

I also have concerns over the degree to which we deal with broad policy issues simply by a floor amendment late in the session. You raise issues which may or may not be right. I am not smart enough to know that. Tim, you may be, but I am not. And whether we should have all sciences administered through the Federal Government removed from existing agencies and put into a new department, is a rather fundamental change. It may or may not make sense. I am not quite sure that a floor amendment is the way to deal with that. Or start significantly changing the Superfund program at a point in a time when that is an issue that clearly will be subject to major committee hearings as we move to reauthorization or combining a variety of social service programs into a block grant or changing Davis-Bacon, and the list goes on and on. Those are issues Congress clearly has to look at, but consideration of very fundamental change by a floor amendment is I think one where we should proceed with caution.

I must add one final concern. Clearly, as it relates to the savings from reducing Federal employees, the assumption built into the budget we passed included the assumption of 138,000 employees. The administration has recommended the 252,000 that you are assuming which clearly involves some additional savings, but the administration is already using that number. And frankly I am concerned over the degree that that savings is one that appears to be used many times in the congressional process. It is clear we assumed it in our budget resolution. Somehow it has gotten involved in the unemployment bill and has now become part of the crime bill in the Senate. It is now a reason that you use to reduce the discretionary cams. I am really fearful that that is a number that is going to get substantially abused in the legislative process.

Those are some of my concerns. If I might, I know my friend Mr. Stenholm has to leave to chair a hearing. If there is no objection, he would like to make a short statement and have some questions in the record.

[The prepared statement of Hon. Martin Olav Sabo follows:]

PREPARED STATEMENT OF HON. MARTIN OLAV SABO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Welcome to our hearing, Congressman Penny and Congressman Kasich. I have read your proposal with interest, and I am looking forward to hearing your testimony. A little later we will be hearing from Alice Rivlin, Deputy Director of the Of-
I have four areas of concern about your proposal and perhaps you could address them for me when you make your statements.

My first concern is the impact of your amendment on the economy. During months of work on the budget earlier this year, we paid very close attention to the contractionary effect of our actions on the economy. We worked hard in that process to manage the flow of deficit reduction so the final agreement would not take undue risks with the economy. Now we have your amendment before us and it takes some very serious additional cuts out of 1994 and 1995—our staff estimates $24 billion. I fear this could slow down our fragile recovery.

My second concern involves the effect of your proposal to further reduce the caps on discretionary spending. We put extremely tight caps in the budget we passed earlier this year—many people don’t realize how much we are going to have to cut to reach them. For instance, the Budget we passed is $56 billion below the President's budget request for the five-year period. In addition, the President's budget includes $22 billion in unspecified administrative streamlining cuts. This means we need to find $78 billion in cuts in discretionary programs just to meet the caps we have already set for ourselves. This will require all the new cuts recommended in the Penny-Kasich proposal (or some equivalent amount) and more just to arrive at the existing caps.

My third problem with your proposal concerns the equity of its entitlement changes and their effect on health care reform. While I believe we can do more in the entitlement area, I think Medicare changes need to be dealt with in the overall context of health care reform. As I understand this proposal all savings in health entitlement programs would go to deficit reduction and not be available for health reform. If these funds are taken away, I do not believe health care reform can succeed.

In addition, I worry about the equity of many of your entitlement changes. For instance, you propose to require upper-income beneficiaries of Medicare to pay the full national average cost of Part B premiums. In my state and many others this means these people will pay significantly more than 100 percent of their costs. This will happen in every part of the country where medical costs have been held down, essentially punishing people in states which have done a good job of controlling costs. You also propose a major change in the federal contribution to the Thrift Savings plan for federal employees. I think this is unfair to federal employees who made a choice between two different systems based on their understanding of the government's commitment.

My fourth area of concern with your package is the significant number and broad scope of its policy changes. While some of these changes have received committee review, many have not. I believe they all should get the serious deliberation afforded by the normal legislative process. As I understand it, you propose to create a new Department of Science, you propose substantial changes in the Superfund Program, you propose to start unaccompanied tours in Europe for military personnel, you raise the civilian retirement age for federal employees, you modify Davis-Bacon Act requirements and many other programs of the federal government. I have serious problems making such sweeping changes on the floor without the benefit of committee scrutiny.

Finally, I would like to know what specific numbers you are using in your proposal to reduce the discretionary caps. I look forward to hearing your testimony.

Chairman Sabo. Mr. Stenholm.

Mr. STENHOLM. Thank you for your courtesy, Mr. Chairman. And I commend my two colleagues, Mr. Penny and Mr. Kasich. I have enjoyed very much working with both of them on the proposal they are about to submit to us.

I particularly am encouraged by the fact that they are suggesting the caps shall be lowered and pay-go altered by this proposal. That is the proposal that I think is going to be coming.

I would like very much to submit some questions to Dr. Rivlin. As one of the cosponsors of the balanced budget amendment, I always have found it interesting that when we bring the balanced budget amendment to the floor, we are criticized that this is ducking the tough, hard choices; this is not really the way we go about controlling our budget and deficit. This was the argument used
against us last year by our most capable Chairman, and now the OMB Director.

Now what we are about to hear are some pretty hard, tough choices. The Chairman has adequately explained it, characterized the tough choices in the Penny-Kasich amendment. It is interesting now we have from the administration opposition to both the balanced budget amendment and also now opposition to making the tough choices. At some point we can't have it both ways.

I ask unanimous consent to submit some questions to the administration for further clarification concerning their position on both the subject at hand and also the upcoming balanced budget amendment.

Chairman SABO. No objection. We will put the questions in the record.

[The information appears on page 46.]

Chairman SABO. I will recognize the gentleman from North Carolina for an opening statement.

Mr. McMillan. I want to congratulate Congressmen Penny and Kasich for undertaking this unpopular task. The only way we will do something serious about spending is on a bipartisan basis. Neither side has demonstrated its capacity to do so by themselves. This committee won't pass out a serious attempt to rein in spending.

I would submit issues included in this package, which I support, are not that controversial. We have been talking about them for years. The only trouble is we have not been willing to vote for them. And I think this gives us an opportunity to do so.

Again, I thank you for your hard work on this and yield to the gentleman from Connecticut.

Chairman SABO. Mr. Shays.

Mr. Shays. Thank you. I would like to thank the Chairman for conducting these hearings. I have been here 7 years, and to the Chairman's credit and to our two colleagues up front, this is the first time we have really been talking about very meaningful issues in our Federal budget.

Just to respond to the kind of concerns that you have, Mr. Sabo, on our side of the aisle, what we are most concerned with is even under the President's proposal, the national debt will go up $1.6 trillion. When you expressed concern that a $100 billion cut will harm the economy, we think that a 23 percent increase in spending over the next few years, we are cutting the increase in the growth in spending, will not be harmful to the economy.

We are looking at your concern about making savings in health care and we say, Why wait until next year to make those savings? Let's make those savings now. Let's show we can make the savings in health care before we start to spend the money.

In terms of the discretionary caps, we look at the proposal that the two gentlemen on a bipartisan basis have made. If they don't reduce the caps, then the money they are saving could be spent somewhere else. Our concern is that we actually reduce this deficit a little bit more. We look at some of the entitlement changes and say the wealthy probably should pay more.

The bottom line, Mr. Chairman, is that this is an extraordinarily important hearing. What the two gentlemen have done has been
unbelievable in its context, focusing attention on issues that need to be focused in on.

Under the President's proposal, we have a national debt of $1.6 trillion. They are trying to cut from that deficit and get us on a road to prosperity.

We salute you two gentlemen. We are amazed with the fact that people could criticize what you are doing, yet they seem to be oblivious to the consequences of not doing it. The consequences of not taking action are far more harmful than taking action.

Thank you for coming. I yield back.

Chairman Sabo. Mr. Kasich, Mr. Penny, I am not sure——

Mr. Kasich. Tim is going to go first. I guess I don't get to make an opening statement up there and then come back here.

Chairman Sabo. No, you don't.

STATEMENT OF HON. TIMOTHY J. PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. Penny. Mr. Chairman, I listened and took copious notes, as you made your opening remarks. I am just curious to know whether in the final analysis you can bring yourself to support this plan.

It seems to me that the real question here is a debate over whether we have done enough or whether we still have a deficit problem facing this Nation in spite of the effort earlier this year to pass the President's budget resolution and the President's budget reconciliation package.

We do appreciate the interests of this committee in our bipartisan budget amendment. This package frankly stems from the deep feeling of many Democrats that early efforts to cut the deficit through the Clinton budget were insufficient. Although many of us voted for the President's package, we were eager for another attempt at deficit reduction.

As you may remember during the week of August, during that budget vote, the White House and the House leadership made a promise to wavering Democrats that we would be able to offer further spending cuts this fall. In that agreement, the White House was committed to initiate a spending cut bill or a rescission bill this fall in order to lock in the savings achieved in the appropriations process for the next fiscal year, and to implement the recommendations of Vice President Gore's National Performance Review. And reading again from the agreement, an opportunity would be made available for amendments that would propose further savings in discretionary and entitlement spending.

So the arrangement was quite clear. It was in writing. And we appreciate the fact that to date the leadership has been committed to following through on this opportunity for deeper deficit reduction.

Based on that agreement with the leadership and the White House and in the spirit of bipartisanship, which is absolutely essential in order to make serious progress on deficit reduction, Mr. Kasich and I began to put together a task force to work toward the objective of further spending cuts, cuts that would be spread more evenly and thoroughly throughout the accounts of the Federal budget.
This meant that unlike the attempt earlier this year, we would not focus exclusively on defense cuts, but instead would look to other areas in the budget, including the fastest growing area of the budget, entitlement spending.

Nonetheless, entitlement reform as it exists in the Penny-Kasich plan hardly breaks any new ground. Many of our suggestions have been under consideration for years. Means testing of Medicare Part B premiums, for physicians' services, for example, is so well accepted it has been included in the President's health security plan as a cost saving initiative.

Further, our civil service retirement reforms are both necessary and prudent. Without reforms, we will soon be headed over the cliff into the abyss of unfunded pension liabilities. Like our action to save the Social Security System in 1983, Federal service system reform must occur. It is critical to make changes sooner rather than later in order to restrain the program growth that threatens to bankrupt this system in future years, and threaten the availability of these benefits for future retirees.

In all, half of the savings in the Penny-Kasich plan come from entitlement reforms. This is appropriate since half the Federal budget is currently comprised of entitlement spending.

Our budget package drew ideas from a number of sources, including the White House budget, congressional budget proposals, the Vice President's National Performance Review, and other sources.

The President's budget bill as passed, was based on a one-to-one ratio of cuts to taxes. In the opinion of many, including Budget Director Leon Panetta during his confirmation testimony, a more effective proposal would have set the cut to tax ratio at 2 to 1.

The $100 billion or roughly $100 billion in savings represented in our package when added to the Clinton budget adopted earlier this year brings us closer to achieving that goal of $2 in cuts to $1 in revenues.

The fundamental problem we face, Mr. Chairman, is the trend line on deficits. In fiscal year 1993, based on a September update, the deficit number sits at $266 billion. That does gradually decline over the next few years to hit a low of $190 billion in fiscal year 1996, only to then begin climbing again beginning in fiscal year 1997 until it exceeds $300 billion annually shortly after the turn of the century.

These are unacceptable trend lines for our Nation's deficit. It is clear evidence that what we have done so far to address the deficit is insufficient. And it really puts in jeopardy future generations of American taxpayers, some of whom are represented today.

I think we have about two rows worth of students in the audience today who represent the folks that are burdened by our unwillingness and inability to deal more honestly with the deficit problem that confronts our Nation. If we don't pay the bills, they pay the bills, one way or another. It is as simple as that. We have to take responsibility for this deficit today if we want to prepare a prosperous future for these young students down the line.

What it comes down to then is whether we are satisfied with the legislation we passed in August or whether we believe more must be done to cut the deficit. Objections have already been raised be-
cause critics say some of our cuts are already necessary just to keep within the existing budget caps included in the August reconciliation bill. These critics obviously feel deeper cuts are not needed.

Others have objected to our proposal arguing that our cuts would be bad for the economy. On this point economists disagree. But few would argue that the long-term health of our economy depends on maintaining the outdated helium subsidy, on continuing the duplicative Interstate Commerce Commission, on spending $40 million rather than $32 million on Members' franking privileges, on paying schools to offer aviation programs, or protecting the arts and humanities from a modest 10 percent cut over 5 years.

These programs and many other cuts identified in our package represent consumption spending. You can make an economic argument that government investment spending strengthens the economy, but our proposal does not cut investment items.

In the words of our former colleague, Buddy MacKay, who also served on this committee, some programs are "nice but not necessary." We can no longer afford the nice. We must concentrate on the necessary.

A strong economy is based on private investments made possible by affordable interest rates, and affordable interest rates will be possible if we have a more serious deficit reduction proposal.

A strong economy is also a benefit to research and development and training and physical infrastructure, none of which are affected by spending cuts proposed in the Penny-Kasich package.

We are proud of the work done by the 31 Members in a bipartisan task force that produced this proposal. However, we don't feel this package is the end of the debate on deficits. Even our $100 billion in additional cuts is far less than what is needed to balance the budget. But we believe this is an important and necessary step reflecting spending reductions that are achievable.

Some may describe these cuts as bitter medicine. However, there are no poison pills in our package, no outrageous, out of line, or unthinkable cuts. It is a simple, common sense, package which cuts 1 cent on the dollar from Federal spending over the next 5 years.

We believe it deserves the support of every Member of Congress who understands the deficit to be a threat to our Nation's economic future.

[The prepared statement of Hon. Timothy J. Penny follows:]

PREPARED STATEMENT OF HON. TIMOTHY J. PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. Chairman: Thank you for calling this timely hearing and for the opportunity to testify on the Penny-Kasich bipartisan budget amendment.

This package comes from the deep feeling of many Democrats that earlier efforts to cut the deficit through the Clinton budget bill were insufficient. Although many of us voted for the President's package, we were eager for another attempt at deeper deficit reduction. As you may remember, during the week of the August budget vote the White House and the House leadership made a promise to wavering Democrats that we would be able to offer further spending cuts this fall.

So, based on the agreement with the leadership and the White House, and in the spirit of bipartisanship, Mr. Kasich and I began to put together a task force to work toward the objective of further spending cuts—cuts spread more uniformly throughout the federal budget. This meant that the cuts would not be focused solely on defense, but would instead tackle the fastest growing area of the budget—entitlements.
Nonetheless, entitlement reform as it exists in the Penny-Kasich plan hardly breaks new ground. Many of our suggestions have been under consideration for years. Means testing of Medicare Part B premiums for physicians’ services, for example, is so well accepted that it is included in the President’s Health Security Plan as a cost savings. Further, our civil service retirement reforms are both necessary and prudent. Without reform we will soon be headed over the cliff into the abyss of unfunded pension liabilities. Like our action to save the Social Security system in 1983, federal civilian service must be made sound. It is critical to make changes sooner rather than later in order to restrain the program growth that threatens to bankrupt the system for future retirees.

In all, one-half of our savings comes from entitlements. This is appropriate since one-half the federal budget is made up of entitlement spending. Our budget package drew ideas from a number of sources including previous White House budgets, Congressional Budget Office proposals, the Vice President’s National Performance Review as well as from the Concord Coalition and other budget documents.

The President’s budget bill was based on a one-to-one ratio of cuts to taxes. In the opinion of many, including Budget Director Panetta during his confirmation testimony, a more effective proposal would have set the cut-to-tax ratio at two-to-one. The $100 billion savings in our package added to the previously passed Clinton package will bring us closer to achieving the goal of $2 dollars in cuts for each $1 in taxes.

What it comes down to, then, is whether you are satisfied with the legislation we passed in August or whether you believe that more must be done to reduce the deficit. Objections have already been raised to the Penny-Kasich plan because critics say that some of our cuts are already necessary just to stay within the existing budget caps included in the August reconciliation bill. These critics obviously feel that deeper cuts are not needed in future years.

Others have objected to our proposal arguing that our cuts would be bad for the economy. On this point, economists disagree. But few would argue that the long-term health of our economy depends on our maintaining the out-dated helium subsidy, continuing the duplicative Interstate Commerce Commission, spending $40 million rather than $32 million for Members’ franking accounts, paying schools to offer aviation programs, or protecting the arts and humanities from a 10 percent cut. These programs and many other cuts identified in our package represent consumption spending. You could make an economic argument that government investment spending strengthens the economy, but our proposal does not cut investment items.

In the words of our former colleague Buddy MacKay, some programs are “nice but not necessary.” We can no longer afford the nice, we must concentrate on the necessary.

A strong economy is based on private investment made possible by the affordable interest rates which will result from serious deficit reduction. A strong economy is benefited by research and development, education and training and physical infrastructure investments, none of which are affected by the spending cuts in the Penny-Kasich package.

We are proud of the work that has gone into our plan and the cooperation of the 31-member, bipartisan task force that produced it. However, we don’t pretend that this proposal will end the debate on deficits. Even our $100 billion in additional cuts is far less than what needs to be done. But it is an important and necessary step, reflecting spending reductions that are achievable. Some may describe these cuts as bitter medicine. However, there are no poison pills in our package. There are no outrageous, out-of-line or unthinknable cuts. It’s a simple common sense plan for cutting one cent on the dollar from federal spending over five years and it deserves the support of every Member of Congress who understands the deficit to be a threat to our nation’s economic future.

Chairman SABO. Mr. Kasich

STATEMENT OF HON. JOHN R. KASICH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. KASICH. Mr. Chairman, you are a great Chairman and one of the fairest people I have ever known in this Congress. I want to thank you for giving us an opportunity to testify here.

We are excited about this proposal because it does represent change in two areas. First, can you imagine Republicans and Democrats sitting down at a table, bringing their ideas to the mar-
ketplace, respecting one another on budget matters, and creating a process where they were equal partners in assembling a change-oriented proposal that reduces the deficit by $100 billion?

One of the things that the American public is frustrated with is the partisan bickering that goes on. I was up in that chair when my good friend Mr. Panetta, accused me of gridlock because we questioned some of the President's numbers in the very first hearing we had.

I think it is legitimate for the parties to disagree on basic philosophy and basic numbers, and sometimes you just can't reach agreement. But in this case you were able to get 15 Democrats and 15 Republicans to sit down and write a proposal together. After the working groups on a bipartisan basis assembled the pieces of the package, we sat in this room for 3½ hours and as Republicans and Democrats, calmly, respectfully, and in a compromising way designed to reach the goal of $100 billion, actually agreed to this package.

I mean, it was absolutely unbelievable to witness. And then we came in here for a press conference and all of us stood up, 30 of us, endorsing a single package. I mean, it is the way it ought to happen. It is the way it ought to work. It is what the taxpayers want.

Second, it is really a change agenda. It does seek big, broad changes in the way things happen. We do say we don't want the wealthier people in our society getting subsidies from the Federal Government. We do say we don't just want to rearrange the chairs on the deck, but in fact we want to create a department of science and merge agencies, eliminate things like the ICC, which we think is duplicative and unnecessary.

We do want to say it is time to move away from a public housing operation that has not been very successful and move to the concept of vouchers. It is a big step, but we think it has been discussed and it is responsible and it is something we can do.

We do say we want to reduce the total number of Federal employees by a quarter of a million. It is a big package, there is no question about it. It is a change package. In fact, I believe this package is more significant in terms of the scope and breadth of change than any package that we have seen on Capitol Hill since 1981.

You have some serious concerns, and I want to speak to them in a substantive way in terms of what we do with caps and spending and everything else. It is now time. I heard the President say the other night we have a rigorous, hard freeze on discretionary spending. Mr. Panetta came in here a week or so ago and talked about the draconian cuts represented by the hard freeze on discretionary spending.

Maybe before I get to that, I should show you a couple of the things. All we are trying to do is cut, Mr. Chairman, one penny out of the dollar, one penny out of the dollar over the next 5 years. That is what the $100 billion represents.

And I would say to the American people, if the Congress is not capable of cutting an additional one penny out of the dollar over the next 5 years, God help us, as Mr. Shays just said. It would be hard to believe that we couldn't do it. That is why the steamroller
is starting to build for this plan, because it is so reasonable, responsible, and it is specific.

There are no globs. There are no unspecified cuts. The plan is outlined. We would like the White House to get specific at some point before the end of their first term.

Now, we also do something that the media and intellectuals have argued over for years. Mr. Chairman, all you folks want to do is bang on discretionary; why aren't you touching entitlements? We do cut entitlements in this plan. One of the things that amazes me is the minute we do propose cutting entitlements, we are attacked for it.

And don't you think for a second that Mr. Penny and I have had some joyride here. I mean, I have got to limp to the podium because we get tackled whenever we walk on House floor by our colleagues that don't like what we are doing in mandatory or discretionary. This is not fun.

Now, in the area of discretionary cuts, let me just show you what this hard freeze represents. See, a hard freeze means that you don't have any growth over 5 years. Well, as you can see—and I don't have the number from 1993 to 1994—that increase would be about another $10 billion, but we go from 241 to 252 to 260 to 275 to 273, and you have to add them up, of course, each year it is an accumulative baseline.

That is not a hard freeze. That is a significant increase in spending in the domestic, nondefense discretionary accounts.

Now, you might say, Well, John, how could that be? If we have a hard freeze on discretionary, how could your domestic non-discretionary be going up? What does that mean?

Well, here is the way we got to a hard freeze, ladies and gentlemen. We cut defense by about $127 billion, and you can see it coming down. That is all we cut in the budget resolution. We did not cut the nondefense discretionary. This is nondefense domestic discretionary. That is an increase. That line is moving up. It is not moving down.

So what we did is we devastated defense, and then we want to go all over the world and serve everybody in defense. And at the same time we increase the domestic discretionary accounts, and where these points meet, that creates the hard freeze.

So we have a hard freeze by cutting $127 billion in defense, and you couple that with an increase in the domestic discretionary accounts, put the two together, it gives you a hard freeze. The argument that somehow we have devastated all these domestic programs is a distortion of reality. I think we ought to stop having the administration do that.

Now, let me show you what the impact is of Penny-Kasich. We have tried to level out the seesaw. We have cut $127 billion in defense, and you see the discretionary number is rising significantly.

What Penny-Kasich does is to reduce the increase in spending in the nondefense discretionary categories, and the impact of it is simple.

We have a 1-year hard freeze. Now, we have been told we got a hard freeze in domestic discretionary—and I just showed you how the only thing we do is cut defense. We want to give them their
1 year hard freeze in domestic discretionary, which is what we pro-

But over the next 4 years we actually provide for inflation in-
creases in the nondefense discretionary accounts. Devastating, isn't
it?

We only freeze discretionary spending for 1 year at a hard freeze
and then we let it go up at the rate of inflation.

Now, the administration tries to say that we are stealing their
cuts, and the Chairman talked about the $75 billion that they are
having to find.

See, what you have to realize is that the $75 billion they have
to find to meet the caps all comes out of defense. They owe us $75
billion more in specifics in defense. And I would sure like to see
what their specifics are. We have had the bottoms up, the bottoms
down, all these studies over there and we still don't know how they
are going to get there.

But the bottom line is they owe us the cuts out of defense. The
cuts they would like to make in the domestic nondefense discre-
tionary accounts are being used to finance increases in other parts
of that account.

And all we are saying is, we don't want to have any new govern-
ment programs. We want to reduce the growth. All we are doing
in this proposal is reducing the growth in this account. We are not
robbing them of their ability to get to the caps. And what we do
by lowering this is to be able to lower the caps by the savings that
we make out of the nondefense discretionary.

Now, if somebody up there is confused about what I just said, I
don't blame you. That is why we have got the people wanting term
limits, because they hear this, this is like speaking in Greek. But
in simple terms, the administration owes us the $75 billion to get
to the caps in defense, because that is all they cut in the discre-
tionary accounts.

What we are doing is we are slowing the growth of the nondefense discretionary and taking those savings and lowering
the cap. Make sense? Everybody follow that? So it is an additional
$50 billion.

And when they say we are stealing their cuts, that is baloney,
because they don't make any cuts in the nondefense discretionary
accounts. They go up.

So, Mr. Chairman, 50 percent of our package is entitlement pro-
grams, and they are not fun. I mean, Tim Penny and I are getting
all kinds of nice letters from people. And we have also tried to re-
duce these increases in the discretionary. That is really the bulk
of the program. And we have got the clear game plan to get there
with reasonable proposals that Republicans and Democrats worked
on together.

One final comment, Mr. Chairman. That is the issue of the
252,000. First of all, Robert Byrd has gone and scored the reduct-
ions in personnel. He wants about 180,000. He doesn't believe we
are double counting this.

CBO, by the way, is giving us scoring for our reduction of
252,000. There was a 100,000 cut in Federal employees proposed
in the budget. That is part of the 252,000 that Gore proposed. The
cuts that occur with these personnel reductions, we are going to take, and we are just not going to use them to fund your increases.

See, the ledger stays the same. We are not double counting. That is precisely why CBO is giving us the scoring for these personnel reductions.

The fact that the Congress has taken the money, tried to take the money, I think, I don’t know what we are doing there. We are taking the money to pay for unemployment on Monday, and then on Tuesday we are taking it to pay for the crime bill, and I will bet today we will have another proposal to be paid for out of the 252,000. All of them are instructions to conferees, and we are slamming the door on the 252,000.

We want it done. And it gets done under Penny-Kasich, and if they want to have new programs and new spending, find the money somewhere else and stop the charade of trying to spend it three or four times.

So, Mr. Chairman, that concludes my remarks, and we stand ready to answer questions. We would like all of your support for this proposal.

Chairman Sabo. Thank you.

Do you have a specific number that you are reducing the discretionary—

Mr. Kasich. Mr. Chairman, our goal is to get somewhere in the area of $53 billion. As you know, we are being scored by CBO right now. We are going to reduce the cap, Mr. Chairman, just so we are clear on this, by the amount CBO scores.

We may in fact reconvene our little group, because we want to stay in the $100 billion category, but we are not worshipping at the $100 billion shrine. But it is not our intent to not give you a pathway to pay for whatever it is that we lower the cap.

So we are in the process of being scored. This has been worked now for about 2 weeks. And as you know, the administration had the same problem with scoring. We have got some problems with scoring.

The biggest problem we had with scoring is Al Gore’s stuff. Reinventing government has been the biggest problem. It is like a straw man, you get it up there and they can’t score it, because the administration did not do a good job of fixing any numbers to the reinventing government.

So our frustration has not been with the ideas that have come from the Republican alternative proposal or the President’s—some of his good ideas in his budget. Our basic problem has come from the reinventing government. And the numbers in reinventing government are pretty phony, but we are trying to figure out how to put a little meat on those bones.

But we will let you know on the caps coming down when we get completely scored by CBO.

Mr. Penny. If I might add to that point, we have about 85 percent of our package spelled out in legislative form, and the rest of it is being completed, and should be done shortly, CBO is scoring as we get the specific language to them. And I think it will probably be, by the time CBO has done scoring of discretionary savings, it will probably be under the $50 billion mark. But as we scored it based on the best estimates that were available to us, it was I
think at $53 billion. I think it will be under $50 billion by the time we get CBO's numbers.

Chairman Sabo. And your intent is to lower the discretionary spending caps—

Mr. Penny. Over the 5-year period, so you are looking at those savings being achieved or those caps being ratcheted down to reflect these savings over 5 years.

Chairman Sabo. Let me be rather precise on what that does. Frankly, I think you indicated we assumed 100,000. I think the actual number was 138,000 of the personnel reduction wasn't assumed in the budget resolution, when you combine both the civilian and military personnel. And despite the rhetoric, that, frankly, is double counting. And the biggest—over half of your discretionary savings are basically following the same recommendations that are coming from the administration in terms of personnel reductions, the difference being we assumed those reductions for meeting the existing discretionary caps, defense side, those savings are assumed for hitting the President's target.

I am not sure what you are suggesting, whether the assumed defense dollars over the next 5 years should go down further than what the administration has suggested. Is that accurate, John?

Mr. Kasich. Let me tell you, Mr. Chairman, on the issue of double counting, in the area of all nondefense, we are not double counting. We just flat out aren't.

First of all, we don't know where you are going to make these reductions from, and you use these reductions to fuel more spending programs. There is a defense ledger which you cut and a nondefense ledger that goes up. And we just aren't going to let this go up. We are going to bring it down.

And see, you take whatever savings you are going to get by reducing the personnel and use that savings to fuel this line. We don't want to fuel that line. We want to take the savings and drop out the new initiatives.

On the nondefense ledger, we are just not double counting. It is not just my opinion, it is the opinion of CBO and it is the opinion of Senator Robert Byrd who is claiming $182 billion.

Now, I will concede one thing. It is possible that we could be somewhere in the area of $7 or $8 billion of double counting in defense. But we don't know what you are going to do with this $75 billion in defense. We can't get your specifics.

I think you are frustrated like I am. We don't know yet what they are going to do there. But there is a possibility that the only area where we could have some double counting would be $7 to $8 billion. And if in fact the administration wrote to us and told us that they were going to cut these employees out of defense, then we would find the $7 or $8 billion somewhere else or drop the $100 billion down or whatever.

We have shown how the nondefense discretionary goes up. But if they want to send us a letter specifying the number of civilian employees to be cut from defense, we are willing to back those numbers out.

The interesting thing about the 252, of course, is that the 252 is comprised of 100,000—you say 138-. You know, the Clinton Administration has also tried to take credit for an 80,000 civilian person-
nel cut proposed by President Bush. This is another phony number. These were reductions that occurred under Bush and you are claiming under this program. It is just not leveling with people. That is the frustration.

But, Mr. Chairman, we will back the double counting in defense out.

Chairman Sabo. I am not sure about the double counts from the Bush Administration. Clearly 25 is part of the administration's assumptions. A significant part of it were part of our assumptions when we put the budget together this year. Clearly you are using them for another assumption at this point.

I frankly have concern about the Byrd and Senate proposals again to assume they are spent in another fashion, and I frankly think that is another double counting of those monies. But clearly what your proposal would do is take discretionary spending in total, and that includes defense, foreign affairs, domestic, which is frozen. In contrast to growth of about $20 billion a year during the 1980's in discretionary spending, we have frozen it at 1993 levels or lower, the impact of your lowering those caps substantially limits our ability to deal with the variety of problems.

I noticed with interest the House last week, passing by substantial margins, new initiatives in the crime area. They passed by substantial margins. And I think they were good bills.

Frankly, what you would do would be to substantially limit our ability to pass—to fund such things as the new crime bill. Clearly, it limits the capacity to fund what clearly have been high-priority items for a substantial part of this Congress, where we are already assuming there are significant trade-offs that will have to be made between old and new programs to deal with real problems in our society. And you are fundamentally saying you can't do it.

Mr. Kasich. Mr. Chairman, I would tell you that you are correct on the point that we do not provide a tremendous amount of new spending for new programs. But that is a far different argument than that we are stealing your savings.

What you are now arguing—and I agree with it and it is a fundamentally good argument—we are hard freezing discretionary and increasing it by the rate of inflation. That is all we are doing in this amendment. If you want to be spending up at this level for these new initiatives, that is okay, and that is legitimate, and you have got a right to do that and that is a fair debate and a fair fight over what our priorities ought to be.

But that is a different argument than we are stealing your savings or double counting or whatever. Yes, you are right, we are not funding a whole bunch of new initiatives in the Federal Government.

Chairman Sabo. But it is also clear that part of the administration's assumption for substantial personnel savings, you are counting them in a different fashion.

Mr. Kasich. But those were being used to create new programs. Chairman Sabo. Not necessarily.

Mr. Kasich. Oh, yes, they were.

Mr. Penny. The other point is that—

Chairman Sabo. Let's just be clear also on defense, because clearly defense numbers are in flux. To the degree you are talking
about additional defense savings, those go beyond our budget resolution.

We basically assume the administration's savings and defense numbers over the next several years. The dollars you are talking about are additional savings. They are additional dollars they may need out of their stated program to achieve the savings they stated earlier, I think would be a fair description of that.

We are going to have to vote. We have Alice Rivlin coming shortly.

I yield to Mr. McMillan for 5 minutes.

Mr. McMILLAN. I thank the Chair.

Chairman Sabo. Just so the members know, this is the rule on the Brady bill.

Mr. McMILLAN. Let me just make one comment, in view of the last discussion focusing on domestic spending. The growth in entitlement programs is eating up all the funds, and then some. It is the principal driver of the budget deficit.

We have done a pretty good job of at least beginning to get domestic discretionary spending under control, and this enhances that somewhat further.

This proposal includes, I believe, close to $37 billion over 5 years of entitlement savings in Medicare, that are focused principally on getting consistency in copayments, which is particularly in two programs in which there are no copayments, and in asking people whose income is in excess of $75,000 to be willing to pay $146 a month for comprehensive health care.

Frankly, I think that is a heck of a good deal. Maybe they have had a better deal, but there is no way we can continue to fund that for people who can afford to take care of themselves when the budget deficit is running through the roof.

That $37 billion the administration will contend in this debate cannot be used for this purpose because they have proposed under their health care reform package reductions in Medicare of $124 billion over roughly the same period of time.

I might add that they will in all probability include the recommendations that we have here, 20 percent co-pay, and they may shift that sharing of the cost from one program to another, but they will means test at a certain point beneficiaries under Medicare to help generate that $124 billion worth of that savings.

We are not taking the savings away from them so they can't use it later. We are simply saying let's push this forward a little bit by 12 months. The savings will still be there if in fact that is what you want to do with them.

The fact is, though, under their proposal they will turn around and spend $131 billion additional on Medicare over the $124 billion worth of savings so there won't be any savings at all. And they raise taxes under their health care proposal by at latest count at least $90 billion over 5 years, but they also claim deficit reduction in their health care reform package of $57 billion. So they have room to spare by their own numbers.

So I don't think the argument that you can't use our savings now because you need them later holds any water. Let's go ahead and secure them now and that will enable to us do a better job in the future on health care.
Do you all disagree with that analysis of that contention?

Mr. PENNY. The process has been entertaining, to say the least. The objections to our plan are essentially that to the extent that we impact the military budget, it is already on a steep decline, and that is true. Budget authority will go down $127 billion over the next 5 years. It is one of the few areas of the Federal budget that is being cut. And so we have been criticized that we will put even more pressure on the Pentagon.

We have also been criticized that because of the lowering of the caps and some of the specifics cuts we have recommended, that we put renewed pressure on the discretionary domestic budget. We will force new initiatives to compete with existing programs. For example, we have got a crime bill rolling through here, it is being doubled in size by a vote in the Senate, everybody is wondering how we are going to find room for all of the domestic initiatives we are promising folks.

We are being told we are being unfair to defense, unfair to domestic programs, then we are told, as we have been told this for a decade, the real problem is entitlement spending, and of course the fastest growing part of entitlement spending is health care. So we go after the Medicare program with some means testing and some copayments, modest proposals that have been suggested for many years, and should have been adopted years ago, and now we are being told we can't use those savings for deficit reduction because we need that money for health care reform.

The fundamental question comes down to this. If defense has to be left alone, if the discretionary agenda is fine as it is, and the Clinton 5-year trend on discretionary spending is to be protected, and you can't touch health care reform, what can you do to deal with the deficit? The answer is obviously nothing.

We have a modest proposal. Kasich has pointed it out: One cent on the dollar over 5 years. One cent on the dollar over 5 years representing over $100 billion worth of savings. And we are running against all of this opposition, simply because of the status quo, an unwillingness to go any farther.

Evidently that represents a contentment with a deficit trend line that leaves us with $300 billion deficits at the turn of the century. The best we do is get it barely under $200 billion in fiscal year 1997. I am not satisfied with that. I don't think most American taxpayers are satisfied with that. I don't think future generations who are going to get stuck with a weakened economy and a big tax bite to pay off our debt, I don't think they are satisfied with that. But that is essentially the mind set here in Washington, DC.

All of this represents resistance to the kinds of changes that have to occur if we are ever going to make any progress. It is simply a debate between those that feel that more can and should be done to rein in deficit spending and to reduce this deficit and those that think the battle is over, the Clinton budget is the be-all and end-all of the deficit debate. We disagree, and that is why we are here.

Chairman SABO. We will come back, and I think we will have the two of you until about 11:30, and then we will call in Dr. Rivlin.

Before you run, I am curious about the specific answer to Mr. McMillan's question, because—
Mr. Penny. In terms of whether it is needed for health care reform?

Chairman Sabo. No, no, not a value judgment, just to answer him yes or no, how your amendment is structured, because my understanding was your amendment was structured so that you eliminate it from pay-go provisions, so in fact it cannot be used for health care later.

Mr. Penny. It cannot be. We lowered the discretionary cap and we adjust the pay-go requirements so our cuts in Medicare cannot be used to finance health care reform. Our judgment is it is not needed for health care reform.

Mr. Kasich. I will also respond, Mr. Sabo. As you know, the administration has a $55 billion fudge factor, a cushion to fund their health care plan. We are at about $31 billion in entitlement savings, they have got a $55 billion cushion, so for people who argue that we are taking these savings and this kills health care reform as envisioned by the Clintons, that is wrong, because we are only taking $31 billion of the $55 billion. And last week we had a hearing with all the administration people who told us they were accurate down to the decimal point because of all this science we have here. So we are not killing health care with this proposal.

Chairman Sabo. We will go vote.

Recess.

Chairman Sabo. The committee will come to order.

We will go with a couple more people’s questioning, and for members, after Dr. Rivlin, I will start down my list after those who have asked questions. We do not start over from the beginning.

Mr. Beilenson.

Mr. Beilenson. Thank you, Mr. Chairman. I will be brief, but I do appreciate this moment or two to say a couple of things.

I want to say as strongly as I can, I am sure most of my colleagues strongly commend these two gentlemen and their many colleagues for having worked so hard and with so much diligence, in coming up with this proposal. It is a very serious one. Clearly you are people who are truly concerned and more than sincere about this problem which all of us share their concerns about. I just wanted to say for myself that I commend them strongly and thank them for all of the work that they obviously already have done and continue to do on this subject.

I also want to say that while I do share the Chairman’s concerns very much, and think they are very valid, I am also one who—along with the Chairman, I am sure, and most of my Democratic colleagues up here—believes strongly that we have got to do more to cut the deficits further than we were successful in doing earlier this year. I strongly supported the President’s proposal this year. I am glad we did it. I think it is something that will keep interest rates down. I think it has been a good down payment on what we have got to do, but I do think we have got to do some more.

Of all of the potential problems and concerns the Chairman expressed, the one I am personally most concerned about is the effect of further deficit cutting at this time on the economy. I was reassured to a certain extent, I must say, by our friend Mr. Penny’s discussion of the specifics of your proposal, where you were talking about cutting consumption in effect rather than investment. I ac-
cept that. I think it was a wise thing to do and I think all of us agree with you about that.

But as the Chairman at least alluded to earlier on, all of us are concerned to a certain extent about pulling the discretionary caps down even further, not because we are opposed to your argument that we have got to keep the spending down, but because we do believe strongly, as I know you all do to differing degrees, that we have got to have some investment in our economy over the next few years, and of course the further down we pull those discretionary caps, the more difficult it is for us to put money in.

I am just using Mr. Penny's description of investment here, on page 3 of his prepared statement, research and development, education and training, and physical infrastructure investments. People back home all over the country, especially in our part of the country but I am sure in many other parts as well, are still hurting, and I am frankly sorry we are in a position where we seem unable to put additional money into some necessary programs. I am sorry, even though it was perhaps unwisely unfunded, that we weren't able to pass in some form our stimulus package this year. It would have helped a lot of people who I have the privilege of representing back home.

We are unable to do some things that most of us agree, no matter which party we are a member of, ought to be done to some extent over the next few years. We have got to invest in our people and our physical resources.

I am just concerned about cutting further at this time or making it more difficult, almost impossible, at this time for us to put some of these modest investments in some of those areas.

That is the first issue, Mr. Chairman, I wanted to raise.

Secondly, interestingly, I think I am correct about this, I notice that about 67.7, almost two-thirds of your cuts come in just three areas. Perhaps it would be useful for us, if some members have problems with them, if we should concentrate on them. The two entitlement cuts, 20 percent Medicare coinsurance on home health and clinical lab services and the means testing of Medicare A and B, and the cutting of the Federal work force. Those three together are almost two-thirds of all of our cuts.

So perhaps, Mr. Chairman, we could concentrate specifically on some of those. Perhaps Dr. Rivlin will speak to some of those.

I must say, although I am very much in favor of the idea, certainly in theory, of cutting back on the Federal work force, I am not quite clear myself where we came up with the 250,000, whether it would be wise to cut it that much. An awful lot of my constituents and even workers in my district offices have some trouble sometimes getting an adequate response from some of our Federal agencies, for all kinds of reasons. I am not sure that the response would be any better if we have a quarter million fewer of them to seek responses from. But in theory, of course, we are all for that.

But I do, along with the Chairman and others, want to throw out a cautionary note about how strongly we should be counting these cuts and whether we ought to be going quite that far that quickly, although, as I said, it is something this that in theory appeals to all of us.
I want to commend you for your work. You have come up with a lot of suggestions that I think anybody seriously concerned about this deficit problem has got to agree with.

Mr. PENNY. Mr. Chairman, if I might quickly respond, we have talked earlier this morning about the work force reduction, and clearly that is a proposal that has been made by the administration.

The difference is that it is floating around in various forms, and it is not law yet. It has been assumed in the budget resolution, but that doesn't make it law, that doesn't require it to happen. It has been added to the unemployment bill, but that bill may die or it may be stripped from that bill before it comes back for one more vote. It has been included in the crime package in the Senate, but that has a long and tortuous path, and it is unlikely that we will finalize crime legislation this fall.

So until it is locked in, it is not a doubling count to include it in our package. Our hope would be to pass our package, get these cuts finalized before we adjourn for Thanksgiving, and then folks counting it for some other purpose would have to find some other way of financing their agenda.

So I just wanted to speak to that issue. And when you consider that there are a couple of hundred thousand Federal workers that leave Federal employment every year voluntarily, some by retirement, some because they find other employment, it is basically a matter of not filling all the vacancies. There can be a broad latitude for the administration in deciding which of those vacancies to fill and which not to fill. So this is not a meat-axe approach. It does allow the administration to fill selectively where priority work is going on and take these reductions in other areas.

But the other point you stress is the entitlement reductions that are in our package. We have debated this deficit all the years that I have been in Congress. I have offered any number of amendments to appropriation bills, most of them unsuccessful, but thankfully in recent years more of them have been successful.

But one of the criticisms, and I have never disputed this criticism, is that focusing cuts strictly on the discretionary agenda doesn't solve the problem because most of the spending and most of the rapid growth in Federal expenditures lies in the entitlement area.

I think that is the strength of this package, that we have half of our cuts applied against entitlement programs, and that is why it has been somewhat frustrating in the last couple of weeks to have so many criticisms leveled against that very part of our budget reduction package. Because if we do not achieve savings in the entitlement arena, we cannot reduce the deficit.

And as was stated quite eloquently by my colleague, Mr. Kasich, in the President's health care initiative, there is a built-in cushion. The number keeps changing, but the latest estimate I heard was $45 billion. Our Medicare reforms only take $31 billion out of that pool over the next 5 years, which is significantly less than the cushion built into the President's health care plan. So in no way would these savings threaten the outcome of the health care debate, because there is more than enough money built into their proposal for us to deal with most, if not all of the initiatives put for-
ward by the White House without the need for this $31 billion worth of savings identified in the Penny-Kasich package.

Mr. KASICH. Mr. Chairman, I want to reemphasize the 252 can be achieved by attrition. That is how we came up with that number. It probably could be even more aggressive than that.

But I think, Mr. Beilenson, the shocking part of this presentation today is the growth of the nondefense discretionary. You hear the President say, We got a hard freeze, boy, we are really living tight, we really don't have any money, and boy, we are really clamping down. And admittedly, this may not satisfy some, but the numbers when people begin to realize that nondefense discretionary is going up, you know, this gray line, by the way, is the baseline. So we are going way up above the baseline.

And the other thing that is amazing about the proposal is that you would think that by cutting the $100 billion, you would be having to hard freeze domestic discretionary for 5 years. That is what you would think.

And when we plotted it out on graph, we actually saw that we only hard freeze 1 year. The fact is that for 4 of the 5 years we actually have an inflation increase in those programs, and that is pretty hard to believe. And I think that is the untold story of the discretionary debate.

And the thing that has frustrated us, and you know, Mr. Beilen-son, I have been up in that Budget Committee since 1989 getting my ears boxed. We at least have the guts to touch the mandatory programs, and I would love to tell you all the stories. Tim and I—he keeps a list, I just store it up in the top of my head, about all the objections members have about the reductions in mandatory programs. Because we don't walk away from it. We get specific.

Mr. BEILENSON. I give you all the credit in the world. All of us have known for years now, even before you arrived on the scene, the problems with the entitlements, and I give all the credit in the world to you for attacking that.

Mr. KASICH. If we just came with $100 billion and not 429 and not a substitute to reconciliation and something that we have been talking about now for 10 years around here—a lot of these items have been discussed over and over again—if we would miss this golden opportunity to actually drive the ball over the fence, it would be frustrating to many of us, because it isn't like there is a lot of blanks in there, Mr. Beilenson. It is spelled out. And that is why it is so important.

When people waver, Should I do it, should I not, should I go or should I stay, I would say we ought to draw the conclusion that we ought to go for change one time. And we do have a Senate process where they are working over the package as well, and I think we can reach a conclusion that is a very sensible one.

Mr. BEILENSON. Thank you, Mr. Chairman.

Chairman SABO. Mr. Price? After Mr. Price we will call Dr. Rivlin back to the table.

Mr. PRICE. Thank you, Mr. Chairman.

I want to add my commendation to my colleagues for the work that has gone into this and the merit of many of these suggestions. I think the discretionary spending cuts, the entitlement cuts, we
know we need to do more in both of these areas, and many of these suggestions have a great deal of merit.

On the entitlement side, there is a legitimate question about the timing of these health care cuts. These questions occur whether you are supporting the President's plan or the Cooper-Grandy plan or the Chafee plan or whatever. The question is whether this is the time or place to take those cuts out of Medicare when they are going to be required to make these plans work.

But let me move on and address the question of how specific all this is and how real it is, because you are quite rightly making that your battle cry: We have got to have specifics, we have got to have cuts that are real. Yet as I thumb through this list, I see some pretty strange things in it, things we have already done. I see the superconducting super collider. I see the advanced solid rocket motor. I see the wool and mohair subsidies. I see REA restructuring. I see the FAA higher education programs, which I know for a fact we have sliced out of this year's appropriations bill, because I serve on that subcommittee.

How much of that stuff is in there?

Mr. PENNY. Any of the items that have been accomplished in another setting are not counted in our grand total.

Mr. PRICE. I looked at that, Tim, and some are bracketed, a couple of them are. Most of them are counted as I read your document. What I want to know is how much this adds up to. How much of this is either already in the President's budget or has already been done by the Congress or is assumed in our budget? How much of this is really just illusory?

Mr. KASICH. Let me respond by telling you, Mr. Price, you have bracketing that is out of date. We did not bracket the rest of them. In other words, the $103 billion does not include the elimination of any of the programs that you brought up. Every single one that you have brought up is not counted in the calculation. We need to update the brackets. We need a bracket update. But all the ones that you mentioned are not counted in here. Each one of them, REA, the—

Mr. PRICE. FAA?

Mr. KASICH. FAA, the whole darn program you brought before us has all been backed out. We are not attempting to come with anything—we are not coming with anything phony in here. And just like I say, if the super collider—backed out. Solid rocket motor, backed out. So—

Mr. PENNY. They were on the list at the time we began this process, and frankly even at the time we concluded this a couple of weeks ago, some of these issues had not been finalized in terms of conference reports, et cetera. And we were careful to asterisk at the start of our report, those items that might happen in another setting, and those that were certain to happen, like the superconducting super collider, the honey subsidy, those costs were not counted in our $103 billion.

If we lose money between now and the time next week when we get a final number from CBO, it is going to be based on very modest reductions resulting from a few additional items that have already been achieved in the appropriation bills. But they are not big-ticket items, they are not big-ticket numbers. Some reestimates
of savings will occur because we took the best number available, like an NPR number, and now we are finding CBO won't give the same savings.

So we gave the best number we could at the time and we did not double count anything we knew for sure was going to be cut in an appropriations bill. And we are also backing out any numbers of additional cuts that have occurred in the appropriations process.

Mr. PRICE. All right. That is good to know, that your bracketing exercise is going to be updated.

Let me move on to your overall estimates, though, and the question of what you are assuming, what you are presenting as your cuts that actually are already assumed in the President's budget or in the congressional gloss on the President's budget.

As I understand it, our budget resolution required $56 billion in cuts that was not included in the President's budget. Here on the Budget Committee, we know that is true. We know that, for example, some of the personnel cuts that you are assuming are already assumed in the President's budget, and some more are going to be required to meet the additional caps that we have imposed here in the Congress.

In fact, as I understand it—you tell me if I am wrong—but it appears to me that the specific cuts that you have listed, yes, they do go beyond President's budget, but they do not go beyond the congressional budget. In fact, the specific cuts that you have listed, personnel cuts and otherwise, are going to be required to meet caps that already exist. In fact, they are not sufficient, even to meet the caps that already exist.

So when you talk about giving us the specifics, my understanding is that you have not given us the specifics even to reach the existing caps, much less the new caps that you are proposing. Now is that true or not?

Mr. KASICH. Let me go back to the charts. I don't know if you were here for my opening presentation.

Mr. PRICE. Yes, I was here, and it didn't clarify this question.

Mr. KASICH. Let me show you. It is simple. This is how you get to a hard freeze. You cut the living daylights out of defense and you increase domestic discretionary programs.

Mr. PRICE. Let me cut you off, because that is not my question. I understand that point.

Mr. KASICH. I am getting to it. You have to understand that the administration owes us $75 billion worth of specific cuts that come out of defense as outlined in the President's budget that we passed through Congress.

What you gave us in the President's budget that we passed through Congress was a significant increase in discretionary spending. And so when you say we are not specific about how the President is going to reduce his $75 billion, that is his fault. He has done the bottom-up, the bottoms-down review, and he has got to come back to us and tell us where he is going to cut defense. He does not cut domestic discretionary. That is what we are doing.

So the reason we are lowering the cap is we are stopping this growth, and we are putting ourselves on a trend line for a 1-year hard freeze and a 4 years' worth of inflation growth.
When you say, where is the other $75 billion, that is what they have got to come up with to get their defense cuts where they want them to be. That is why—we did not double count. They are the ones that won't give us the specifics. It is not us.

Mr. PRICE. I think you are misunderstanding my question. I understand the charts and the points you are trying to make with them. My question is, where are the specifics to get us where you propose to go?

Am I wrong in pointing out that we are $56 billion below the President's budget, and that the specifics you give us—and leave aside the question of double counting—the specifics you give us, whether they are original with you or whether they are picked up somewhere else, those specifics will not get us even to the existing spending caps. You haven't told us how to get there. That is the point.

Mr. KASICH. You have to keep in mind we have two sides of the discretionary ledger. The nondefense discretionary side of the ledger goes up by a significant amount. The defense side of the discretionary ledger declines. And all we are trying to do is to say, we are going to lower the domestic discretionary nondefense accounts—

Mr. PRICE. John, I understand that. That is not the question. The question is, where are the specifics as to how we get there?

Mr. KASICH. Right here. Right here.

Mr. PRICE. As I read it, these specifics barely take us beyond what we need to do to meet the President's proposed budget. They do not take us below the existing caps. They don't even get us to the caps Congress has already adopted.

Mr. KASICH. The problem you have is you are dismissing one element of it. We are telling you how to lower the caps $50 billion. What you are missing is the $75 billion is what the administration owes us out of defense. At one point you were arguing we are stealing their cuts. We are not stealing their cuts. None of that $75 billion comes out of the domestic nondiscretionary accounts because those increase.

So the $75 billion that you owe us to take us to the present caps comes out of defense. That is what the administration owes us. What we then do is lower the caps by $50 billion, by reducing the increase in the growth of nondefense discretionary.

Mr. PRICE. Fine.

Mr. KASICH. I know it is confusing.

Mr. PRICE. Particularly because you haven't told us how we are going to get there.

Mr. KASICH. I just told you.

Mr. PRICE. We all know that we are going to have to come up in future years with how we meet these caps, the defense caps and domestic caps. Obviously it is a challenge to the White House, as they prepare the 1995 budget, and it will be a challenge to us as we review it. But it is also a challenge to you, particularly when you are raising this battle cry about specifics when you don't even have the savings identified here to get to us the existing caps.

Maybe we are going to have to see what Dr. Rivlin and others have to say about that, but I simply don't see that it adds up.
Mr. PENNY. John F. Kennedy once said, "To govern is to choose." There will be continued difficult choices that will have to be made in future years. We have come up with a very specific package of cuts that get us part of the way towards solving this deficit problem.

Mr. PRICE. Part of the way toward the existing caps.

Mr. PENNY. You talk about assumptions in the President's plan, assumptions in the House budget resolution, but those assumptions aren't law. We are taking some ideas that have been talked about but haven't been enacted, and taking those cuts now.

Now, the real debate is whether we have done enough to cut the deficit. And if you are saying that our cuts don't even make the existing caps, and therefore we have got a major problem because we can't find any other cuts, you are essentially saying the existing caps are tough enough.

I don't think——

Mr. PRICE. I am not saying that.

Mr. PENNY. [continuing] the existing caps are tough enough when you still sit with $190 billion of red ink in fiscal year 1996 only to see those deficits climb in the out years. I mean, it is a fundamental dispute between those that think that this budget is cut to the bone, and those that feel that we haven't solved the problem.

Mr. PRICE. I am not saying—I am not making a statement one way or another about the extent of the budget cutting. I am asking you, where are your specifics as to how we get there. I guess you are acknowledging you don't have the specifics.

Mr. PENNY. The President doesn't have the specifics to meet his own budget.

Mr. PRICE. I am asking you.

Mr. PENNY. This committee did not require the other committees of Congress, the authorizers or appropriators, to share the burden for getting rid of that golden asterisk in the budget resolution that calls for whatever, $50 billion worth of extra cuts over the next 5 years. We are not the ones that created this illusory cut that has been undefined. That is a problem created by the budget resolution and by the administration. You are the ones that don't want to get specific.

We are forcing the debate on to the ground of specific ideas for the first time, and yet we are being criticized because we haven't come up with another $50 billion worth of specific cuts.

Mr. PRICE. You are misunderstanding. I commended you, as did Mr. Beilenson and the Chairman, for many good ideas on this.

Mr. PENNY. But we are being criticized by folks who won't come up with the first $50 billion and aren't inclined to support our $50 billion.

Mr. PRICE. I am just asking what your ideas are specifically for reaching the caps.

Mr. PENNY. I have a lot of ideas. But we have got to get this passed first before we even get to the next round. This package deals with 20 percent of the remaining deficit problem.

Mr. KASICH. Mr. Chairman, so that silence cannot be considered as approval, let me one more time, Mr. Price, address your concerns. You see, any way you want to cut it or slice it the administration owes us $75 billion more in defense cuts to reach their $127
billion in cuts. And in the plan that the President sent up here, and you approved—

Chairman SABO. John, let me interrupt there. Just so I understand what you are saying, I think what you are saying is that from what you understand to be defense policies, that the President needs to find $75 billion in cuts in your judgment to reach the budget numbers that they projected on defense over the next 5 years.

Mr. KASICH. Well, not just to reach the cuts on defense, Mr. Chairman, but to complete the puzzle of discretionary spending where the defense cuts drive the domestic nondefense discretionary increase.

And what I am saying is, you owe us the $75 billion to get down to the cap under the program that you passed. You have to get the $75 billion, and it all, Mr. Price, comes out of defense.

Now, why is that? Because of that red line. And by the way, we sure would like to see the specifics from the President, because he was up here banging around, yelling at us for not having specifics. We have got all of ours. It has been over a year and we still don’t have them.

So we want the $75 billion in specifics outlined in your plan that you voted for to get us to the cap. And then you see Penny and Kasich come in, and they lower it $50 billion more, not in defense but in the nondefense discretionary, because you go above the baseline and all we do is say, Whoa, in light of a $1.6 trillion increase in the national debt, we want to slow the growth in nondefense discretionary.

So when they gave us their $75 billion out of defense outlined in their plan, approved by you, opposed by me, when they give us this $75 billion, that takes us to the hard freeze cap. That puts us right here. That puts us right here. That is the hard freeze. That is the $75 billion that gets us there.

And what Penny and Kasich are saying, see this red line going up, drowning us in red ink? We want to bring that down to an inflation increase for 4 years. That is the specifics. And to get there, we got it.

Now, we can’t wait until the administration will send their specific program up here for the $75 billion.

Let me say one other thing. If the administration wants to admit they are cutting defense too much, hallelujah. We open up the budget process next year and we will help you find the savings so we don’t go $127 billion down in defense.

I think the reason why the administration won’t send us the specifics on the $75 billion is because, you know what they are going to have to say? We are going to close down the B-2. We are going to have to shut down this system and that system and close some bases. And people don’t want to do it because it means unemployment.

And in one of your questions, Mr. Chairman, you talk about the impact of that. That is why they are not sending us the $75 billion.

But at some point they have to, because if they don’t, they violate their own plan. And if they do—and I will predict they have to violate it—we will help them find the savings.
Mr. PRICE. Mr. Chairman, I think it is clear with the spending caps in place on both defense and nondefense spending, we all will have to come up with the specifics to meet those goals. My only hope here was to get a little light shed on what some of those might be in this plan.

Let me just ask one concluding question, Mr. Kasich, again, just to clarify exactly what we are dealing with here and how it compares to our earlier plans. You remember there was a rather confused discussion about how you were counting spending cuts and tax increases and describing the Clinton plan. There were some people who were unkind enough to charge you with using different rules in determining what counted as a tax increase, a different standard than had been applied to earlier administrations.

Let me just ask you, I am struck here that you have a number of user fees: Commodity Futures Trading Commission, Securities and Exchange Commission, Bureau of Alcohol, Tobacco and Firearms, and passenger charges for the Travel and Tourism Administration. Is there anything here that, using the standard you earlier applied to the Clinton plan, would be called a tax increase?

Mr. KASICH. I am glad you asked that question, because I happen to be a believer in user fees, but yet sometimes they are in the eye of the beholder. Under our proposal of cutting spending first to $429 billion, we had a chunk we shaved out called user fees. By the way, the user fees in Penny-Kasich were proposed by Clinton. I am a believer in user fees.

What I objected to is a tax on the Medicare people and calling that a cut. I objected to that. But in our budget and in your budget, I said that a user fee was a user fee.

Now, the groups that are the most revved up about this whole concept of raising taxes are those who have endorsed this Penny-Kasich package. We have $1.2 billion in user fees out of $103 billion. I have to tell you, there are some Members in my party who say, "How could you put user fees in there? I don't think I can vote for this, you have got user fees in there."

I said, "Are you telling me that you can't vote for this because out of $103 billion in cuts, we have $1.3 billion in user fees?" Let's look at the big picture.

That leads you to conclude—and, Mr. Price, I will tell you, this problem is not a partisan one. I mean, this gets back to people who just get nervous about voting for something that changes the status quo.

We think most of our people are going to be for changing the status quo. We wish we had them all. We are working to get them all. But in terms of the user fees, we didn't say you used a user fee for a big tax increase and we didn't. We don't do that in the budget. I wouldn't try to shave it like that. I wouldn't try to do it. If I ever do it and you catch me, and I will do my best to tell you, I am not going to do it intentionally. People make mistakes, but we did not do it in this way in this budget, comparing apples to apples.

Mr. PRICE. So the answer to my question is no?

Mr. KASICH. Come to think of it, I kind of forget what your question was.

Mr. PRICE. My question—

Mr. KASICH. The answer is no, we didn't give you the shafteroo.
Chairman Sabo. Dr. Rivlin has been waiting for an hour from the time we indicated.

Mr. Kasich. How about another Republican here, Mr. Chairman? Chairman Sabo. Mr. Kasich, Mr. Penny, I think you have been accorded more than equal time. I thank you for your testimony.

Dr. Rivlin, I am sorry that we are later that we indicated to you, but we get votes interrupting us, and our friend John is not short of speech.

We are pleased to have with us Dr. Rivlin, the Deputy Director of OMB, to give the administration's response to the Kasich-Penny amendment.

Dr. Rivlin, it is a pleasure to have you back before the Budget Committee.

STATEMENT OF HON. ALICE M. RIVLIN, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Dr. Rivlin. It is a pleasure to be here, Mr. Chairman. I am also glad to be back before the Budget Committee. And I welcome this opportunity to give the Clinton Administration's views on the Penny-Kasich deficit reduction proposal.

I think we all share the same objectives: We want to strengthen the economy by keeping the deficit on a firm downward track. And indeed, we share some of the same proposals, as has been indicated.

So it is with great reluctance that the administration has come to the conclusion that passage of the Penny-Kasich amendment is not good economic policy. It might even hurt deficit reduction.

Let me explain that. As I said, we have a shared goal: A strong economy, productivity going up, high wage jobs, an economy that is competing successfully in world markets. And to get there, we need several policies working together at once.

First, we need to stimulate private investment, which is the key to future productivity. To do that we need to bring the deficit down, to release savings from financing the government to financing productive investment, and to bring interest rates down.

And that is why the administration's first priority, when we came into office, was deficit reduction. We put together a plan, the plan passed, albeit narrowly, and it has worked. Interest rates have come down very substantially already, and investment is beginning to respond.

But deficit reduction is not the only policy we need. Private investment alone is not enough to revitalize the economy. The government also has to do its part. We have to use government resources along with private ones to stimulate technological advances, to modernize our infrastructure, and particularly to upgrade the skills of the work force.

A third kind of policy that we need very badly, and we are focused on it right now, is reforming the health system. We are imposing on this economy what amounts to a health care tax—rising costs spread over the whole economy to support an inefficient health care system.

It is also a system that does not give individuals health care security. And that is not just a fairness problem or a human problem. It is an economic problem. We have people worried that if they
move jobs, they will lose their health care. They are locked into jobs; they are locked onto welfare.

So to improve the economy, we need to get the health care system reformed. And, as we are all very conscious, after last night's debate, we also need policies to open export markets and to give us a free and fair trading system around the world.

All parts of this economic strategy are important. That is why we have concluded that the Penny-Kasich amendment will be counterproductive to the strategy as a whole, for several reasons. The first reason is the importance of health care reform. Medicare cuts as proposed in Penny-Kasich at this time would, in our judgment, make it much more difficult to pass health care reform.

Now, three of the cuts that they propose, totaling about $35 billion, are very similar, almost identical, to those that are proposed in the administration's Health Security Act. One is coinsurance on clinical laboratory services. Another is coinsurance on home health care. They would go to 20 percent. We had 10. But it is the same idea. And the third is the income-related part B premium. We do that in slightly different ways, but we agree on the basic principle.

A fourth cut in Medicare proposed by Penny-Kasich is income-relating the hospital deductible. We think that is not a good idea. People who get up to the deductible are people who are sick, and that loads too much on sick people rather than on the whole beneficiary system.

Hence, we believe passing the Penny-Kasich amendment right now would hinder health reform and hence would hinder deficit reduction. We need health care reform to get control of the costs of health care generally if we are to keep the Federal costs from rising as rapidly as they have been.

The second reason relates to the discretionary spending caps that we already have in the law—caps that the administration proposed and that the Congress passed and indeed strengthened. The Penny-Kasich amendment would reduce the caps by another $50-some-billion dollars. We have heard slightly different numbers, but something in that range. But specific cuts included in the amendment also include items in the President's plan, as well as in our proposal from the National Performance Review, now embodied in H.R. 3400.

The Penny-Kasich amendment cuts approximately $27 billion from the caps for personnel reductions associated with cutting Federal employees by 252,000. But this counts again 100,000 Federal employees already included in the Clinton plan, plus an additional number of defense workers already included in the bottom-up review.

As we look at these numbers, we see additional personnel cuts in the Penny-Kasich amendment amounting to only $7 billion over the period.

There are two other kinds of double counting. One is from consolidating offices in the Department of Agriculture and in the Corps of Engineers. Those are good things to do, but the savings come mainly from cutting people, and you can't count those savings twice.

So after we net out all of these double counts, we would estimate that the Penny-Kasich cuts that are new discretionary cuts and
would therefore be legitimate for lowering the caps, are something in the $30 billion range.

So that gives you the question, does lowering the caps by another $30-some-billion make sense? Is it good economic policy even assuming that you net out the double counting?

We believe that the caps are already very severe. We are acutely aware of their severity in the Office of Management and Budget, as we struggle with putting together the President's proposal for 1995. Those discretionary spending caps already in the law will keep discretionary spending at or below the 1993 levels for 5 years.

If we want to find increases for anti-crime measures, for Head Start, for WIC, for skills training, for health research, for easing the pain of defense conversion—and we do want to find additional money for those things—we will have to cut, all of us, other programs by many billions.

This job will be very difficult. It will require those hard choices that were referred to earlier. And it will be much harder if we add the further reductions in caps proposed in the Penny-Kasich amendment.

Moreover, a lot of these cuts are very controversial, and would not pass easily. They ought to be considered, whatever their merits, in the context of a full-scale budget debate. I refer you to page 5 of my testimony for some of the things that seem to us to be particularly difficult to do.

The amendment proposes increased burden sharing by our allies of about $5 billion. That may be a good idea but it is not something we are going to be able to put together and work out with those allies in the next few weeks.

It proposes additional cuts in retirement benefits. We have already passed COLA delays and termination of the lump-sum retirement benefit. The question of how much further we go in cutting into Federal employee's retirement will be controversial at best.

It proposes housing vouchers, a subject that requires very considerable debate and attention. It proposes several very interesting major consolidations in the Federal Government; for example, a consolidation of NASA, Commerce, EPA and other agencies. That is a very interesting proposal, but it is not something that just can be voted like that and expected to happen.

The list goes on—agricultural cuts, energy research, and so forth. We believe that packaging those into a single amendment would be a mistake. They ought to be considered in a more lengthy process of putting together the budget as a whole.

And finally, Mr. Chairman, there is the question of whether additional deficit cuts are good macroeconomic policy at this time. Deficit reduction, we believe, and I think everybody on this committee believes, is good for the economy in the long run. It reduces interest rates and stimulates investment, but it does cut consumer purchasing power in the short run. Our economy is recovering, and it is doing better, but it is not yet a strong, robust recovery that we can be sure about.

The real question at the moment is whether adding additional cuts to the ones we have already taken in an economy that is still not growing as strongly as any of us would like would be somewhat risky.
So in conclusion, Mr. Chairman, our view is that the President's economic plan as voted by the Congress, plus the additional savings in our National Performance Review package, makes major progress on the deficit. We have set ourselves a very difficult task with these caps, and we would make it more difficult by lowering them further.

Most particularly, we believe that cutting Medicare right now as proposed by the Penny-Kasich amendment would reduce the probability of getting health care reform quickly, and we believe that that would be a serious problem with respect to the economy as a whole and with respect to the prospects for deficit reduction.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Alice M. Rivlin follows:]

PREPARED STATEMENT OF HON. ALICE M. RIVLIN, DEPUTY DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

INTRODUCTION

I appreciate this opportunity to give the Clinton Administration's views on the deficit-reduction proposal of Representatives Tim Penny and John Kasich.

The Administration shares the objective of the Penny-Kasich deficit-reduction plan—strengthening the economy by keeping the Federal deficit on a downward track—as well as many of the specific proposals. Indeed, many of the specifics are already included in the President's economic plan, or have been proposed by the Administration. Thus, we have high regard for the sponsors of this amendment. We have reluctantly concluded, however, that passage of the Penny-Kasich amendment would not be good economic policy—and might even hurt the prospects for deficit reduction.

Let me explain why we believe this.

Strengthening the Economy

The Administration set forth its own long-term agenda for the economy in the President's Vision of Change for America last February. That agenda is based on fundamental aspirations that we all share: productive, rewarding jobs for all who work hard, and industries that compete successfully in world markets.

To have that kind of economy tomorrow, we must invest today. We need skilled, creative workers; state-of-the-art technology; productive workplaces; and modern infrastructure.

This Administration believes that the private sector is the prime mover of the economy. The private sector chooses the corners of the marketplace where the best opportunities lie, and invests in the plant and equipment to exploit those opportunities.

Private investment requires financing at reasonable rates of interest. The big deficits of the 1980s drove interest rates up, and inhibited investment. This Administration's first priority upon taking office was to bring the deficit down. Together with the Congress we did so, and interest rates have fallen—and investment has strengthened—as a result.

However, the private sector cannot do its work alone. It needs tools that only the public sector can provide. All of us recognize the additional costs imposed upon private business because job applicants with newly printed diplomas do not have needed skills; because infrastructure is inadequate or out-of-date; and because technology is behind the times. Government needs to step up its efforts in education, worker training and retraining, infrastructure, and basic research—to match the standards set by the revitalized U.S. industrial sector. If the public sector provides the tools that the private sector needs, we can strengthen the competitiveness of the whole economy.

Reforming the health care system is also essential to a strong, productive private sector. We have allowed an inefficient health care market to impose a "health tax" on our producers that drains resources from more productive uses and puts American companies at a competitive disadvantage in world markets. The Administration has proposed a fundamental health care reform that would cut the rapid growth of that "tax" and improve the competitiveness of American business.

Likewise, our producers must leap hurdles to enter the markets of many of our major competitors. This Administration is committed to opening those markets—
through adoption of the NAFTA agreements, ratification of GATT accords, and cooperative agreements with Japan.

There are many other areas where barriers to business productivity can be removed only with public sector involvement. Crime degrades neighborhoods and adds to business costs; defense downsizing disrupts careers and communities; and the occurrence of immunizable diseases imposes costs on all of society, to name just a few. Government must address these barriers to economic growth and prosperity.

Evaluating in this context, we believe that the Penny-Kasich deficit-reduction proposal is counterproductive.

We take that position reluctantly. We commend the sponsors of the amendment for assembling a package of meritorious deficit reduction ideas. In fact, many of those ideas, as the sponsors freely acknowledge, were already proposed by this Administration. Other elements of their package are creative new ideas.

However, despite the merit of the component parts, passage of the amendment would be undesirable for three reasons: Medicare cuts would significantly complicate reform of the health care system, which is itself a major barrier to economic efficiency and growth; additional cuts would drain needed resources from other priority uses in the economy; and substantial additional deficit reduction at this time could slow the growth of the economy at a crucial point in the business and policy cycles.

Health-Care Reform

Ultimate control of the deficit is unattainable without fundamental health-care reform. The Penny-Kasich amendment would make health reform more difficult to enact, because it would claim Medicare savings that are included in the financing of the President's budget plan.

Three of the Penny-Kasich Medicare proposals—accounting for about $35 billion of the $103 billion in savings in the package—are similar or identical to proposals included in the Administration's Health Security Act:

Collect 20 percent Coinsurance on Laboratory Services: The Administration proposes an identical policy in the health care reform bill. Penny-Kasich savings: $7.1 billion over five years.

Collect 20 percent Coinsurance on All Home Health Services: The Administration proposes 10 percent coinsurance in the health care reform bill. Penny-Kasich savings: $18.5 billion over five years.

Income Relate Part B Premiums: The Administration proposes a similar income-related premium in the health care reform bill but at higher income levels. Penny-Kasich savings: $9.9 billion over five years.

A fourth Medicare reduction applies a means test to the Medicare Hospital Indemnity deductible. It would require Medicare beneficiaries with "retirement adjusted gross incomes" of over $75,000 to pay the first $2,000 of a hospitalization rather than the $676 enrollees must now pay. This has the disadvantage of asking those who are having health problems to pay a greater share of their health costs. This proposal saves $1.5 billion over five years.

Knocking out critical elements of the health care reform bill at this time will hinder, not help, ultimate deficit control. These essential funding elements of the health bill must be reserved for health reform if the goals of health cost control and universal coverage are to be achieved.

Overlap and Double-Counting

The President's economic plan already requires a five-year freeze on discretionary spending, which all affected parties are finding extremely painful. The Penny-Kasich proposal would mandate an additional $50 billion to $60 billion reduction of the discretionary spending caps in the Budget Act. However, the specific spending cuts in their amendment include items that are already part of the President's proposals—leaving a gap between the deficit reduction that is mandated and the new savings that are specified. Thus, the reach of the amendment extends well beyond its grasp; its enactment would force cuts in other programs, including public safety, education, training, technology, and infrastructure improvements that are needed for the health of our economy.

Overlap with National Performance Review. Some National Performance Review cuts in the Penny-Kasich package were proposed by the President for action this fall and are now part of the bill, H.R. 3400, being reviewed by seventeen House committees. The following appear in both the President's and the Penny-Kasich proposals:

- Corps of Engineers consolidation; State Department reductions; Sale of Alaska Power; Energy Cogeneration; Polar Satellite consolidation; FAA higher education grant elimination; USDA reorganization, HUD streamlining; and adjust civil penalties for inflation.


These proposals total approximately $2.5 billion over six years.

Double-counting: personnel reductions. The Penny-Kasich measure proposes cuts of $26.7 billion over five years from personnel reductions associated with the 252,000 fewer Federal employees proposed by the National Performance Review. However, OMB estimates that only $7 billion in savings from FY 1994 through FY 1998 is available with implementation of the personnel reduction. This is based on removing these two "double-counts": Reduction of 100,000 employees already assumed in Clinton five year budget plan. Reduction of defense personnel based on the additional 152,000 NPR personnel reduction already assumed in the Defense Department's Bottom-Up Review.

This leaves the reduction of additional non-defense personnel based on the 152,000 NPR proposal as the only "new" reduction. It is not appropriate to take savings which are already assumed in the Clinton five-year budget plan and the Department of Defense Bottom-Up Review and count them again in an effort to lower the caps. Only the $7 billion saved from the additional non-defense personnel cuts proposed by the NPR is truly a new and unclaimed reduction.

There are two other categories of double-counts which must be noted. First, personnel reductions result from consolidation of agencies such as the Department of Agriculture and the Corps of Engineers. A conservative estimate of these double-counts is $1.0 billion over five years. Second, those proposals in the Penny-Kasich package which are already assumed in the Clinton five-year budget plan must be removed. These total approximately $3 billion over five years.

Taking out the double counts in the Penny-Kasich proposal, OMB's preliminary estimate of the "new" discretionary reductions in the plan totals about $34 billion over five years.

The cuts and the discretionary caps. The current spending caps keep spending at or below FY 1993 spending levels for five years—a virtually unprecedented constraint in Federal spending. By comparison, during the Reagan-Bush administrations discretionary spending increased from $308 billion in FY 1981 to $536 billion in FY 1992. To meet the new caps and fund programs such as crime, Head Start, WIC, education, health research, national service, the environment and defense conversion, billions of dollars of unanticipated new cuts will have to be found. This job will be made tens of billions of dollars tougher if the Penny-Kasich plan were to pass with a further reduction in the spending caps, but without new and specific savings to meet those caps.

Slowing the Progress of Deficit Reduction

The Administration's NPR and rescission proposals were designed for quick passage this fall. The controversial proposals in the Penny-Kasich package may endanger expedited consideration of this legislation.

Defense Cuts.—The issue of burden sharing is always difficult and controversial, and the Penny-Kasich plan proposes $5 billion of contributions from increased burden-sharing by our allies. While over the long term this should be an option, it is not likely to pass the House and Senate this year.

Retiree Cuts.—After the COLA delays and termination of the lump sum retirement benefit in the reconciliation bill this year, it will be hard to ask Federal retirees and employees to accept further cuts through an increased retirement age and reduced contributions to their thrift savings plan—as proposed in the Penny-Kasich bill.

Housing Vouchers.—Substituting vouchers for new construction of public housing is worth examining, but it too is controversial and complex, and will require more focus by the Administration and Congress than will be allowed in an up-or-down vote on the Penny-Kasich amendment.

Consolidate NASA, Commerce, EPA and Other Agencies.—The proposal to consolidate NASA, Commerce, Energy, EPA, NSF, and OSTP into a single agency cannot be resolved by the Congress this session.

Cap R&D for Universities.—Universities will strongly oppose the proposal to cap their Federal R&D overhead payments at 50 percent. Previous reforms in this area make such a broad further policy change questionable, particularly under such expedited treatment and with no specific hearings.

Energy Research.—Cutting energy research, which protects our future supplies, and a moratorium on acquisition of new oil for the Strategic Petroleum Reserve will attract opposition and will be hard to pass this year.

Triple-Base Agriculture cuts.—The Congress is not likely to approve additional agriculture cuts in this session after the battles over similar cuts in this year's reconciliation bill.
Economic Development.—EDA funding cuts targeted at economic development will not receive much support in the Congress because EDA is key to both defense conversion and flood relief.

Environment.—The changes in the Superfund program proposed by the Penny-Kasich package should be considered only as part of the reauthorization of the Superfund program scheduled for next year.

In conclusion, we can work together for enactment of those proposals which appear in the President’s fall package and the Penny-Kasich package. The health care proposals should be set aside and considered in the context of health care reform next year. While we believe that most of the remaining proposals are too controversial for quick enactment this year, they do deserve to be considered as part of the FY 1995 budget debate.

Timing

The President has already proposed, and the Congress courageously enacted, the largest deficit-reduction package in the Nation’s history.

The initial impact of the President’s program was felt with its announcement in early 1993. The prospect of deficit reduction removed much of the uncertainty from financial markets the chance of an explosion of Federal debt and a rapid rise of inflation abated. The result has been a stunning drop in long-term interest rates, which has stimulated investment, and with it the prospects for productivity and long-term economic growth.

While deficit reduction increases investment and spurs economic growth in the future, it necessarily decreases purchasing power currently in the hands of households and businesses. Spending cuts reduce the incomes of the persons and businesses who would have supplied the government with goods or services, or received government grants; tax increases reduce spendable incomes in the same way. As those individuals and businesses reduce their spending, the effect cascades through the economy.

We are confident that the increase in financial stability resulting from the President’s deficit reduction program—and the consequent lower interest rates—will keep the economy growing. Indeed, the economic news of the past few weeks has been most encouraging. However, adding further deficit reduction so close on the heels of the current package—and after interest rates have already declined so far that a further drop is less likely—could slow the economy significantly. And of course, if the economy slows, the deficit will rise—defeating the purpose of the amendment.

The sponsors note that the Penny-Kasich deficit-reduction proposal would reduce Federal spending by only one cent on the dollar, suggesting that such a small impact could not affect the economy adversely. However, the reconciliation bill just passed by the Congress will already reduce the deficit by five times as much. The question is whether the additional spending cuts, on top of the deficit reduction already enacted, would slow the economy—not the size of the new proposal in isolation. And this must be considered in light of the apparent fragility of an economy that has been crawling out of recession, with few signs of taking off into rapid growth, for almost two years.

The Congressional Budget Office and the Office of Management and Budget have both concluded that spending programs in the Federal budget are now under control (that is, they are stable or are falling as a percentage of the GDP over the next ten years)—with the prominent exception of spending on health care. The President has put a comprehensive proposal for health care reform before the Congress; he is preparing to initiate a commission to review the broader related entitlement area. We believe that it would be preferable to allow the President’s economic plan to work, while debating in greater depth reforms that are focused more sharply on the high-growth segments of the budget.

CONCLUSION

Mr. Chairman, after nearly ten months in office, there can be no question as to this Administration’s commitment to serious and continuing deficit reduction and controls on Federal spending. This President has done more to reduce deficits and control Federal spending than any recent President.

Allow me to remind the Committee of the steps he has taken on this critical issue. First, in August, after a long struggle, the Congress enacted the President’s five-year $500-billion deficit-reduction plan, with over $250 billion in spending cuts. Those cuts include $100 billion in savings from mandatory programs like Medicare, farm and veterans’ programs, and Federal retirement programs; they include $100 billion in savings from defense; and they include savings in domestic discretionary
programs, including downsizing the Federal work force and a freeze in Federal civilian pay.

With the President's plan in place, we expect to spend less as a percentage of GDP over the next four years than did either President Bush or President Reagan. The deficit by 1998 will be cut approximately in half as a percentage of GDP and by more than half from where it was originally projected, from $388 billion down to $181 billion.

Second, the President has sent to Congress a package of spending cuts based largely on reforms contained in the National Performance Review. Those savings are roughly $9 billion over five years. He has also proposed a $2 billion package of Fiscal Year 1994 rescissions. In addition, we are working with the Congress on procurement reform legislation that we believe could save as much as $20 billion over five years. We would like to see all of these adopted as a package before Congress adjourns this year.

Third, working with the Congress, the President has accepted existing procedural disciplines on spending and deficits, and considerably strengthened them.

Discretionary spending now is not only capped but frozen for the next five years at the 1993 level. That represents major savings and forces the kinds of difficult choices about priorities that should have been made long ago.

We have maintained a strong pay-as-you-go, or PAYGO, rule. Congress cannot enact new programs—new benefits or tax cuts—that increase the deficit. They must be paid for.

By executive order, the President has established targets for entitlement and other mandatory spending, based on current projections for such spending. If in any year spending exceeds or is projected to exceed those targets, the President must send a message to Congress to address the additional spending. This is the first real discipline ever imposed on unforeseen increases in existing entitlements. The Administration also supports the enactment of legislation that would accomplish the same goal by statute.

Also by executive order, the President has established a deficit reduction fund in the Treasury Department. Into that fund will be deposited year by year the proceeds of the spending cuts and tax increases contained in the President's $500 billion deficit reduction package. This will provide yet another layer of protection against the spending of those proceeds.

Fourth, we expect the President's health care reform plan to help control entitlement costs by slowing down the skyrocketing costs of Federal health care programs. Health care reform would add about $58 billion in deficit reduction over five years, with deficits falling below $150 billion by the year 2000, and perhaps considerably farther if the economy performs a little bit better than we anticipated in our Mid-Session Review.

Fifth, by executive order, the President has established the Bipartisan Commission on Entitlement Reform to examine entitlement programs and search for additional savings to reduce the deficit further.

Finally, the House has adopted, and the President is urging the Senate to adopt as well, a modified line-item veto. This bill, providing for enhanced presidential rescission authority, will enable the President to single out and rescind individual wasteful spending items in appropriations bills without holding up the normal appropriations process. At the same time, it will protect the prerogatives of the Congress by enabling the House and Senate, if they believe these specific items merit enactment, to approve them by a majority vote.

The financial markets and the economy have responded well to this program. And for good reason. It is far more rational and understandable than the stomp-on-the-accelerator-and-stomp-on-the-brake economic policy of the last twelve years, when we had big deficits offset by tight monetary policy.

I urge the Committee and the Congress to continue to support the President's efforts to get our economic house in order. At the same time, I urge you to consider carefully whether it is wise to enact substantial and sudden additional measures which threaten our ability to reform the nation's health care system and which could upset what appears to be a continuing and stable economic recovery.

Chairman Sabo. Thank you, Dr. Rivlin.

Mr. Pomeroy.

Mr. Pomeroy. I don't have a question so much as a comment. It is a comment that would have been germane to the last panel, and equally germane now. I really think this is a laudable effort. Many of us believe the passage of the budget represented the first step
in additional reductions to deficit spending, not the end of the day. So I really do applaud the effort.

As a former insurance commissioner, I used to go around giving seminars to people considering insurance pitches. No matter how convincing the sales pitch, I would say, "Make sure you read the proposal, read the policy, not the sales brochure. They always look good, but read the policy. In fact, scour the fine print before you make your decision." I think certainly Members of Congress ought to do no less than that as they pass legislation which is described by one of the authors as the most consequential bill since 1981.

I am troubled, therefore, that we don't have a bill now. This is something we are going to be looking at and voting on in 10 days. I am inclined to want to vote for it. I really want to support the drive for additional spending cuts. But I want to know what I am doing. The fact that we don't have a bill, I think, is a very serious problem. There are some major policy changes in this legislation.

For example, it creates a new science agency. I am not very favorably disposed to the creation of new agencies at this point in the game, but if there are savings and it makes sense, I will be happy to consider it. But I will want to particularly look at how it will impact, for example, the agricultural research taking place at the State universities in the State I represent. I really can't assess that without the fine print of this legislation. The process by which Congress makes laws troubles me all over the place, and, in fact, this effort troubles me as well.

This is an exemplary bipartisan effort. That is the upside. The downside is there has been no public input, no public hearings, not even public viewing of the discussions by which the decisions were reached relative to what programs were included and not included. In fact, Mr. Kasich talks about getting the, "little group together," to look at further changes.

I really think that this matter, $100 billion to be voted on in 10 days, is something that does require some serious public review and scrutiny in light of its acknowledged policy reach.

I would ask whether the administration has seen actual bill language that will affect these changes.

Dr. Rivlin. No, we haven't, and I would agree with the thrust of your remarks. It is very hard to evaluate a whole series of very far-reaching proposals when one hasn't seen the exact language. It is even harder to find out how much they would save.

Mr. Pomeroy. That concludes my comment, Mr. Chairman.

Chairman Sabo. Mr. Kasich.

Mr. Kasich. I will spare everyone. I wanted to say first of all, we will have a public viewing. It will be for a live body, not a dead one. And I would say to the gentleman, I do appreciate his comments in terms of looking at it. We are in the process now of drafting the specifics, but if you want to get the sense of where we are, it is here. If you have any questions, our staff stands ready, willing and able to answer all the specifics. And we also voted on a big budget proposal to run America that was brought to us in a big book with absolutely no specifics when Clinton sent his budget plan up here. You might remember we were aghast, we had never seen anything like that, and the administration's argument was, Bush had done it, Reagan did it back in 1981 or something, and so we
didn't see your budget. In fact, we still don't know your specifics and we are a year into the deal.

But, Doctor, I just want to say that I have your book, and I know that you and Mr. Panetta are constrained by the fact that you got a job supporting the administration, and I long for the day when you once again will be free in the intellectually unfettered world where we can get Rivlin 2. I am looking forward to Rivlin 2, because we are trying to pass part of Rivlin 1, but we want to see Rivlin 2. I look forward to that. I think you are a great public servant and a great intellect, and I appreciate you being here today, Doctor.

Dr. Rivlin. Thank you.
Chairman Sabo. Ms. Woolsey.
Ms. Woolsey. Thank you, Mr. Chairman.
I guess I haven't been around here long enough to really appreciate that 30 out of 435 Members of the House of Representatives is this great bipartisan effort. I just haven't been here long enough to appreciate that. And I also thought that we had voted on a very tough budget bill. With that and the National Performance Review recommendations, I am just appalled that after we have already slowed discretionary spending with some very hard freezes, that we are even talking about cutting further into our domestic programs, after more than 12 years of severely underfunding the programs that affect our education, our children, and our families.
I am just not willing to sit here and say that I think that is all right. I am also really scared that we are going to get in the way of our health care reform with this proposal.
I sat here all this time to be able to say this, but I have a serious question, and maybe Mr. Kasich can answer it. I would also like to hear your comments on this, Dr. Rivlin. If we weren't taking the Medicare cuts that are being suggested under Kasich and Penny and committing them to the deficit reduction, but would instead set them aside for health care, don't you think that there would be a better chance of seriously looking at these cuts?

Dr. Rivlin. Yes, I believe there would be a better chance of seriously looking at the cuts in the context of health care reform. I think we do need the Medicare cuts to finance our plan.
There was reference earlier to the fact that we don't need them because we built in a cushion. We built in a cushion for a reason. The estimates of how much any plan will cost are very difficult to make and very uncertain.
We made the most conservative estimates that we could, and then we added what we called a cushion. Insurance, if you will, against the possibility of being wrong. We think that is the prudent thing to do. And it would be very irresponsible to give away that prudence and say we don't need it, and that we don't need the Medicare cuts to finance the health care bill.

Mr. Kasich. Lynn, do you want me to make a comment on that?
Ms. Woolsey. Yes. I just want to do a little dialogue here, first. We need to have some assurance that we have a cushion, because think of the controversy if we end up needing that cushion and don't have it.

Dr. Rivlin. That is right.
Ms. WOOLSEY. To me that makes so much sense since we haven't reformed our health care system before. We need a cushion just in case. And the criticism if that cushion wasn't there and we needed it, would undo the whole process.

Dr. RIVLIN. I think that is right. We would immediately be criticized for having been imprudent and having an underfinanced program, and the critics would be right. We do need the Medicare cuts to finance our program.

Ms. WOOLSEY. I agree with you.

Mr. KASICH. Lynn, first of all, I always get disturbed when people loosely use the term irresponsible. I think we ought to be better than that.

Number two, the administration people were up here last week saying that they have got the greatest way to measure the health care plan known to mankind, and that we have all these devices and studies and things and this and that, and it went on, because remember, I was saying they didn't know how to estimate it, and they said, No, we do.

They have a $45 billion cushion. Our cuts total about $31 billion. But I would also tell the gentlelady that in that group, we had another $30 or $40 billion worth of consideration that we would use, and in addition to that we are not sure we are going to create three or four new entitlement programs under the Clinton plan. But I appreciate the gentlelady's concern about that.

Ms. WOOLSEY. May I ask you a question? Have you thought about presenting your plan with the idea of separating out the Medicare cuts and having them set aside in the event they are needed for health care?

Mr. KASICH. See, the problem with that is it it is always tomorrow. We are not going to do it today, we are going to do it tomorrow.

What I would tell you is that there are a whole host of other cuts—first of all, they are not cuts, they are slowing growth of the increase, to be able to make up the difference, the $31 billion. I could right now give you about $40 billion right off the top of my head that we could use to pay for it. But again, that presumes we are going to enact a plan that provides at least three or four new entitlement programs, which I find the Democrats saying they don't want to pass.

So I don't think we are going to pass these new entitlement programs, and therefore we clearly have the money to do what we need to do in health care reform.

Ms. WOOLSEY. Thank you.

Mr. PRICE [presiding]. Mr. Shays?

Mr. SHAYS. I just would begin my comments by saying, I have known about you for years as a State legislator, and you have always stood out to me, and you had a tremendous impact on me as a relatively new Member when I went up to Harvard to hear your presentation about why Congress had to do more to get our financial house in order.

I feel in a way that the points you made to me at that Harvard lecture are being forgotten by the administration today. I mean no disrespect, but if we had taken no action, the national debt would have gone up over $2 trillion. We cut that by about $500 billion,
if we score you the whole amount, even though CBO doesn't score you as much. But there is still this $1.6 trillion national debt.

And it seems disingenuous to me to think that a $100 billion reduction over 5 years is going to hurt the economy when what we are doing is slowing the growth in spending. We are still going to have new spending. We are still going to have growth. And I have a hard time reconciling that.

Let me just ask you, it seems to me the one criticism that could be laid to this bill is that we are not doing enough, not that we are doing too much. And so what I would like to just talk about are the caps.

Am I correct that when the administration finally got its package through that we would use the caps to the point that we have about $56 billion of unspecified cuts that we still have to find? Is that accurate? Or if not, could you just kind of clarify for me before I ask my next question what that number is?

Dr. RIVLIN. Well, we were about $56 billion below the administration's original budget.

So as we work on the 1995 budget, and there will be subsequent budgets, we are in the process of making the very hard decisions about how we want to propose the Congress get under the cap. We have things we want to increase in the interest of strengthening the economy, and we have to decide what has to be cut.

Mr. SHAyS. I understand that. So the bottom line is the 56 is about that number. I am not belittling that. I want to understand that.

Chairman SABO [presiding]. If the gentleman will yield for a second, I think the administration also had about $22 billion of administrative savings and streamlining government that were not defined, which I assume is part of what the Gore commission is trying to do. Is that not—

Dr. RIVLIN. They were defined in the sense that they were things we were actually doing department by department.

Chairman SABO. That is part of the streamlining of government, is it not?

Dr. RIVLIN. The overall rubric was streamlining government, but these were specific cuts made in specific departments, mostly personnel cuts.

Mr. SHAyS. But the bottom line, 56, somewhere in that number, and what I hear from my Chairman is that that is going to be a hard number to reach. And so that when we do make cuts, we first have to make those cuts before we talk about further deficit reduction.

That is an argument that we can honestly debate. My problem with that is we were working on the Penny-Kasich proposal. As one of its participants, we wanted to make sure we were going beyond the President's 500 number and cut more. If we don't lower the caps, we don't see that kind of savings made. We wanted to make sure that these were additional new cuts and not just part of implementing the President's, because we do think the proposal as passed by Congress is pathetic in terms of really getting us to lower this deficit more and not have a $1.6 trillion deficit.

I would like to follow up on one of Lynn's questions. As someone who worked on Penny-Kasich, I could make an argument to this
group of 30 people, which is a sincere group of Members on both sides of the aisle, supported by many other on both sides of the aisle, that the cuts made in health care that are spoken for by the administration could be made and we would not have that be scored as deficit reduction, but we would put it aside. What would the administration's opinion be if we did that?

My argument is, some people say—and I also will say to you, I am someone who hasn't decided whether I am going to vote for the President's plan or a plan somewhere in between.

The question I am asking is, doesn't it make sense to make those savings now rather than delay them 6 months or a year, and show the American people we can make savings in health care, and then see what we do with it afterwards?

Dr. RIVLIN. Well, that is of course not what the Penny-Kasich amendment does. It does take those off the table for health reform.

Mr. SHAYS. You are right. If it were changed to do that.

Dr. RIVLIN. I think one could argue that, but one could also argue that it would be harder to pass health reform, and we think health reform is essential to the deficit reduction. It would be harder to pass it if it were not a package.

Mr. SHAYS. Let me tell you how I think, to get this Member's vote, and I am a real live vote for the administration and others like it, I want see the savings made before we start to spend money and add to the program. And I think there is a whole body out there that says, Show me we can make those savings before we start to spend the money. So you would more likely get my vote. You might check to see if there are others like that.

Let me conclude by saying again, I don't doubt the sincerity of the office. I think your numbers are for the most part accurate numbers. I feel you give us real numbers. We may debate on the significance of them. Your real numbers tell me the national debt still goes up 40 percent.

And what troubles me is percentage-wise that is not as great as in other administrations. But the absolute amount of $1.6 trillion is the biggest increase in 5 years.

I feel the administration should be shutting down this budget and shutting down this government, like Governor Weld did in Massachusetts and Governor Weicker did in Connecticut. Governor Weicker wanted new taxes, Governor Weld wanted cuts in spending, but both of them to their credit said no to the legislative body, we are going to cause gridlock until we do the right thing.

My concern as a Member of Congress is that we are simply postponing the day of reckoning. I really believe in 4 years from now we will say, My God, the deficit has gone up 40 percent, it is now $6 trillion, interest on the national debt is taking 56 percent of all our personal income, we are in one heck of a fix. That is my concern.

That is why I support what Penny-Kasich does, and would hope that maybe the administration would talk, to see if there are ways we could implement most of those cuts. There is nothing to prevent the administration from saying, We like this, we don't like this. Maybe it won't be 100 but 75. Maybe some won't be under the caps and some will.

I thank you.
Chairman Sabo. Mr. Price.

Mr. Price. Mr. Chairman, let me first pick up on Mr. Shays’ line of questioning, because I think it is an interesting one.

Apart from the question of timing—and I do understand your point about the timing of these Medicare cuts—but just looking at the substance of them for a moment, the proposals that we have here, the 20 percent coinsurance on clinical lab services, the 20 percent coinsurance on home health services, correlating the premium for physician services to the enrollees’ income, and also means-testing Medicare hospital insurance deductibles, are those proposals in terms of their substance—leaving aside the question of whether they should be done now or next year—is the substance of them consistent with the administration’s health care proposal, and would these be helpful ways of achieving the Medicare cuts that are anticipated?

Dr. Rivlin. In general, yes. The one that I singled out in my testimony that we would have most quarrel with is the means testing of the deductible. There are other ways of relating Medicare benefits to income that are preferable to means testing the deductible, which hits people who are sicker harder.

Mr. Price. No one is suggesting that Medicare is not going to have to be scrutinized very carefully for additional savings. The question seems to be partly one of timing and also a question of what the specific cuts would be. But in principle, these seem to be constructive suggestions. Am I hearing you say that?

Dr. Rivlin. That is right in isolation. But we think they shouldn’t be viewed in isolation.

Mr. Price. The question of timing, as I said, is one question. The question of substance is one I think we should return to if we do not do something like you have proposed this fall.

Let me return to the question I was pursuing with Mr. Kasich, because I would like to have your take on it. You say in your testimony, and I think it is a point worth underscoring, that what we are talking about here is a constraint on discretionary spending that is really unprecedented.

This is not to say we don’t need to do more, but what we already have is a constraint on spending virtually unprecedented in recent years, and indeed one wonders where a lot of the folks who are arguing for additional cuts were when we were escalating discretionary spending year to year during the previous administrations.

The figures you use are very striking. Discretionary spending increased from $308 billion in fiscal year 1981 to $536 billion by fiscal 1992. That is an incredible year-to-year escalation.

Now we are talking about a freeze in that discretionary spending. And, of course, the Penny-Kasich proposal is that the caps that achieve that freeze should be lowered even further.

Let me ask you the question I asked Mr. Kasich. Do the specific cuts listed in this document take us even to the existing caps, let alone to the new caps that they are proposing?

Dr. Rivlin. No, and the reason they don’t is that what the Penny-Kasich amendment is a list of cuts. It is not a budget. In order to get to the caps one has to put together a whole budget, which involves those very difficult decisions about what things do we actually cut to get under the caps.
Mr. Price. You talk about the pressure that you are under right now as you put together the 1995 budget to meet the targets for next year. Could you describe that process?

Mr. Kasich gave the impression, I think, that the only caps that were having any effect were caps on defense spending. Of course those caps are real, and there is no question the administration is going to have to come up with the specifications to meet those numbers. I am sure you would acknowledge that.

But on the domestic side, is the impression accurate that really the constraints aren't there?

Dr. Rivlin. No, the constraints are there and they are very severe.

Now, if one had the idea that all government spending was a waste and there were no important things we had to do for our economy on the spending side, it might not be so serious. But the Clinton Administration doesn't believe that. We believe it is very important to improve infrastructure, skills and training, to fund WIC and Head Start.

Those are things that we are committed to increasing, and therefore to stick with a hard freeze on discretionary spending, we have to find very severe cuts in other programs, which we hope the Congress will agree to.

Mr. Price. As you work with the department heads, the agency heads, in this period of putting together the 1995 submission, what kind of directives have gone out to them in terms of how their proposed spending should compare to, say, the 1993 spending levels? Are they being asked to cut, to hold the line, to identify selective increases? What is the overall impact of the constraints we are operating under already?

Dr. Rivlin. The overall impact is that we have to stay under a cap of $542 billion for fiscal year 1995, which, as you pointed out a minute ago, is very little increase over where we were even a couple of years ago. And that means if we were to take all of the increases that the Clinton Administration originally proposed in vital investment programs for fiscal year 1995, everything else would have to be cut by 10 percent.

That is obviously impossible. There are many programs that can't be cut by 10 percent. So the decisions that agency heads are making and that the President must make in looking over all of these budget submissions is what things to cut in order to make room for the things that we want to increase under this very severe cap. We will have great difficulty with that.

Indeed, most agency heads think it is impossible. We don't think it is impossible, but we are the Office of Management and Budget, we are supposed to make it possible.

Mr. Price. Of course, a hard freeze does equal a cut in current services terms. What would the—

Dr. Rivlin. Right.

Mr. Price. What would the average cut over the entire discretionary budget be for the next year?

Dr. Rivlin. Over the next 5 years discretionary spending will be coming down in real terms about 2 percent a year.

Mr. Price. Two percent per year?

Dr. Rivlin. Yes.
Mr. Price. That is what the freeze amounts to in real terms?

Dr. Rivlin. Yes.

Mr. Price. What you are saying is the actual cuts in nonpriority areas would be far deeper than that?

Dr. Rivlin. That is right. That is the problem.

Mr. Price. Thank you, Mr. Chairman.

Chairman Sabo. Mr. Allard?

Mr. Allard. Sorry that I wasn’t here to hear all your testimony, but I am curious, in some of the discussions going on at this point, about what the baseline increase has been in both entitlement and discretionary spending from the current budget year, which is 1994, to the budget year that you are working on now, 1995.


Mr. Allard. In 1993, you are talking about a $547 billion baseline?

Dr. Rivlin. Right.

Mr. Allard. And then in 1994——

Dr. Rivlin. $542 billion. That is the discretionary baseline. That is where the caps are. And then the mandatory——

Chairman Sabo. Excuse me, just so we are clear, there are varying descriptions of baseline. Those are the actual caps, not the traditional baseline description.

Mr. Allard. That is fine. I will take that.

Dr. Rivlin. That is what——

Mr. Allard. On the entitlements, where is that going?

Dr. Rivlin. Mandatory, excluding deposit insurance and interest and some other things——

Mr. Allard. I would like to have the total figure including the interest.

Dr. Rivlin. Okay. That gets us to—I will have to do the arithmetic on this, because it is not totaled that way.

Just while we do this, mandatory outlays excluding deposit insurance go from $764 billion to $808 billion in 1994 and $855 billion in 1995. Let me get the sum of the pieces you wanted.

Mr. Allard. You don’t have those figures?

Dr. Rivlin. It will only take my trusty staff a minute to add this. CBO projects that mandatory outlays including deposit insurance and net interest will rise from $869 billion in 1993 to $955 billion in 1994 and $987 billion in 1995.

Mr. Allard. We have a problem with spending in this budget. When we look from 1993 to 1994, the caps don’t show that much of an increase, but when we look on the entitlement side, and look at that growth, nothing more than the baseline is increasing, it looks to me like it is close to 10 percent.

Dr. Rivlin. Entitlement spending has been going up rapidly. A lot of that increase is Medicare and Medicaid spending, which we have been discussing this morning.

Mr. Allard. It seems to me we have to begin to address these very problems. If we have an increase in the entitlement area of 10 percent, and then we are talking about the Kasich plan and the Penny amendments, I don’t see any real cuts there.

What I see is a reduction in the amount of increases, while the country is experiencing an inflation rate of somewhere around 2.8
percent. Yet we have a complaint coming out of the budgeting process, we are strapping programs, we are placing a hardship on these programs, and yet we are looking at, in the total budget, a considerable increase over the inflation rate. We look at entitlement spending and it is even worse.

So I am trying to understand how this is such a draconian proposal that Kasich and Penny have brought forward.

Dr. RIVLIN. I agree with much of what you are saying about the entitlement programs. They are growing very rapidly. That is why we have put such priority on health reform. We believe that in order to control the deficit in the future, we must slow the growth of the Federal Government’s health programs.

The only way to do that, is to reform the entire health system. You can’t deal only with Medicare and Medicaid spending while the rest of health spending remains out of control. That is one of the major reasons for having health care reform.

This morning we have been discussing whether to apply some of the proposed Medicare spending savings to uses other than financing health care reform. We believe that would be a mistake.

Mr. ALLARD. It seems to me that we have to do something to get our deficit spending under control. And the Penny-Kasich proposal is one small step. And I am not sure that the Clinton health care plan is going to pass the Congress in its entirety. I see a lot of modifications that are going to be made, and we may not even recognize it by the time the Congress is finished.

I think it is presumptive on our part to say, let’s put this off in case the Clinton health care plan passes. I suggest we move this now. It is a reasonable approach we can take. Congress can change the law. It takes a majority of votes in the House and Senate to do that. And if this plan is—if the Clinton plan is going to come through, and the priorities are there and Congress decides that, then they have that option to act. But I think we ought to take advantage of every opportunity we can to balance the budget. Now is the time for us do it with the Penny-Kasich plan and we ought to move ahead.

Thank you.

Chairman SABO. Thank you, Mr. Allard.

I have a couple of questions. Some of the proposals for entitlement change, apart from whether you do health care cuts now or later as part of health care reform, and I think clearly we need health care reform, but one of their proposals that bothered me was their proposal on charging a premium on part B and how it is calculated. And frankly I have similar concerns over the administration’s proposal, although it is not quite as much because you don’t go quite as far.

Under the Kasich-Penny proposal—and I must say as background, I think varying the premium for part B makes sense, but I have real problems with the formula which they use of going to 100 percent of national average.

The administration I think goes to 75 percent on national average. That is an incredible varying impact around the country. Ninety-one percent of the counties in this country are not at the national average but are in fact below it. In my State there is not a county in the State that is at the national average. And I think we
have high-quality health care in Minnesota. And in effect, those people—

Dr. RIVLIN. I thought every one was above average in Minnesota. Chairman SABO. We like others to say that about us.

But the top actual cost for part B premiums is $118. And the Kasich-Penny proposal would have people paying $140-some. The administration would have them paying 75 percent of that average.

I frankly think, whether it is Kasich-Penny or the administration proposal, in the name of equity we need to find some other mechanism, potentially varying what the part B premium is around the country. Today it is uniform, 25 percent. As you start changing that ratio, I really think you need to deal with the reality of what the varying premium for part B is around the country. I guess that is not a question as much as a statement.

Dr. RIVLIN. We will look at it, Mr. Chairman.

Chairman SABO. I expect you would find the same situation in Colorado. And we have it county by county in the country. In some States the actual cost is down below $100 for the actual cost of part B premium. The reality is, if you are asking people to pay more than 100 percent, I think the reality and concern of some of the people becomes more and more valid.

One of the other things that concerns me with what is happening, we have had the quarrel about the savings of the 252,000 personnel reduction is being counted over a few times, and I think clearly it is. My concern is we are headed in the path of counting it several times.

I think it has been counted a couple of times, in some fashion on unemployment compensation. It is now being used to fund the crime bill. Clearly, while it may not have been explicit, it was assumed, a significant part of it, in our budget resolution last year. Our friends Kasich and Penny would count it in total, to lower the caps.

Would you define for us what you understood our assumptions to be as we pass the resolutions this year, pre-report of the Gore commission, on personnel reductions for the next 5 years, since you put your original budget together and as we responded to it?

Dr. RIVLIN. Our original budget, the one that you responded to, included the 100,000 personnel reduction. The National Performance Review assumes a 252,000 reduction in Federal employees. Much of that reduction is the Defense Department’s personnel cuts included in its bottom-up review. After deducting the original 100,000 employees and the defense personnel, the remaining non-defense personnel cuts don’t generate much savings. The additional savings equal about $7 billion.

Chairman SABO. Let me ask—aside from how it is counted, which clearly I expect we will keep arguing about—I assume to get there also assumes a series of changes in how we operate the government to get to that number. We will need to change how agencies are run, and make changes among the managers and with the work force and a variety of other assumptions. Is that not accurate?

Dr. RIVLIN. That is right.

Chairman SABO. I suppose this is moving in the opposite direction, but clearly as we look at some programs, there are some areas
where if we spent more money in personnel, we might increase Federal revenues through collections. Because of the way we are set up, those increased personnel are counted within the discretionary side while others are counted elsewhere.

Frankly, one of my concerns as we move from these goals, is that rigid totals end up being counterproductive. My understanding is that in terms of disability claims, that is an area where we probably need more personnel working to make sure we are treating both the individuals and taxpayers fairly.

But if we expend it there, where the savings occur is over in the entitlement side. Is that not accurate?

Dr. RIVLIN. Yes, that is right. There are a number of areas where we clearly don’t have enough people at the moment. Processing the disability backlog is certainly one of them.

Chairman SABO. I hope we don’t lock ourselves in so tightly on specific totals that we end up being counterproductive in the long term in making government run efficiently.

Thank you very much for your testimony today. It was most helpful. We have bells ringing again, and so we will end the hearing. Thank you, and we look forward to working with you.

Dr. RIVLIN. Thank you, Mr. Chairman.

[Whereupon, at 12:50 p.m., the committee was adjourned.]

[Additional material submitted for the record follows.]

**Questions Submitted by Hon. Charles W. Stenholm, a Representative in Congress from the State of Texas, to Hon. Alice M. Rivlin, Deputy Director, Office of Management and Budget, and Responses to Same**

**Question:** In the budget resolution that Congress passed earlier this year, we assumed all of the defense discretionary savings that President Clinton proposed and assumed some additional savings in this function, for a total of $113 billion in defense savings. Given these cuts in defense discretionary spending that were assumed in the budget resolution, it appears to me that Congress will not need to cut domestic discretionary spending from the CBO baseline at all in the next five years in order to meet the discretionary caps. Is my understanding correct?

**Response:** According to OMB estimates, if the President’s defense program is enacted through FY 1998, nondefense discretionary spending in that year must be 0.7 percent lower than it was in FY 1993 in inflation-adjusted terms to comply with the caps enacted in the Omnibus Budget Reconciliation Act of 1993.

**Question:** The criticism that Penny-Kasich is double-counting savings that were in the budget resolution is frustrating to those of us who are supporting Penny-Kasich because it is not clear what savings were assumed in the budget resolution. Could you provide us with a list of the specific domestic discretionary savings that were assumed in the budget resolution and the amount of savings assumed from these proposals.

**Response:** The Administration has spoken only with respect to the savings that were presented as part of the President’s program, which are listed in the Appendix of A Vision of Change for America, pp. 122–129, and embodied in the Budget of the United States Government, Fiscal Year 1994. The savings embodied in the budget resolution are listed in the report language accompanying the resolution.

**Question:** In your statement, you acknowledged that OMB’s preliminary estimate identified discretionary savings in the Penny-Kasich amendment. When the $2.5 billion in discretionary savings proposed by the National Performance Review that were included in H.R. 3400 as well as Penny-Kasich but were not assumed in the budget resolution are counted, the total amount of savings in Penny-Kasich that were not assumed in the budget resolution is $36.5 billion. If my calculations are correct that the defense savings assumed in the budget resolution are more than sufficient to meet the discretionary caps, it follows that all of the domestic discretionary savings that were included in the budget resolution are available to be used to fund new domestic discretionary spending. If both of those assumptions are true, Penny-Kasich includes at least $36.5 billion in domestic discretionary savings beyond those necessary to meet the discretionary caps and fund new priorities. Could
you comment on this and explain the administration's objection to lowering the discretionary caps by at least this amount of new savings?

Response: In the budget resolution, the Congress reduced the discretionary spending caps below the level assumed in the President's economic plan; the President then agreed to that change. That does require additional discretionary spending reductions, however, to finance the President's economic program—which includes increases in some discretionary programs as well as cuts in others—and to meet the discretionary spending caps. The new spending reduction proposals in the Penny-Kasich amendment could help to fill that gap, and the Administration will consider those proposals for its forthcoming FY 1995 budget; but to reduce the caps by the amount of those proposals would enlarge the gap between the cuts now on the table and the amount needed to implement the program and comply with the caps. It is worth noting that the mathematical reasoning in your question assumes that the Congress will enact all of the discretionary cuts proposed by the Administration—and many were not enacted in the FY 1994 appropriations process.

Question: Another thing that troubled me about the spending cuts in reconciliation and reinforced many of us in our desire for additional spending cuts is the discrepancy in the amount of mandatory savings that were achieved as part of reconciliation. When the House passed the conference report on Budget Reconciliation, we were told that it would achieve $88 billion in mandatory savings. Table 5 of OMB's mid-session review attributes $88 billion of the deficit reduction to mandatory savings; however, this figure includes the $16.4 billion in savings projected from debt management. The $88 billion in mandatory savings that was projected when the Budget Reconciliation Act was passed did not include debt management savings. What happened to the $88 billion mandatory savings in reconciliation in the month between passage of reconciliation and OMB's mid-session review?

Response: OMB's projection of mandatory savings in the reconciliation bill included the debt management savings proposed by the President. The Budget Committee's estimates differed from OMB's, and found higher entitlement savings exclusive of debt management.

Question: The Administration testified that the health care reform package recently sent to Congress included a "cushion" of $45 billion. Even with passage of the $31 billion in Medicare savings included in the Penny-Kasich amendment, there remains a $14 billion "cushion." If the President's plan allowed for deficit reduction as had been reported, then why do you state that there is a problem with making those health spending cuts now? It seems to me that Congress showing the American people first that it can control health care spending simply enhances the chances of health reform passing next year. Can you comment on the Administration's anxiety about guaranteeing the deficit reduction which it has promised in health reform?

Response: The Administration included an "estimating cushion" in its proposed health reform because of the uncertainty inherent in such a far-reaching plan. The size of the cushion was chosen to reflect our best estimate of the degree of that uncertainty. To invade that estimating cushion would defeat its purpose, and magnify the risk that the reform would not meet its avowed goals. Furthermore, the nature of the Medicare reductions that should be chosen as a part of the health reform is dependent upon the nature of that reform—in particular, how the reform would affect Medicare beneficiaries and providers. To choose Medicare spending reductions apart from the consideration of the plan as a whole risks that the final package will be unbalanced in its treatment of the elderly and their health-care providers, and reduces the flexibility in the formulation of the plan as a whole. Finally, the Administration does not approve of the increased copayments in the Medicare Part A program included in Penny-Kasich, because they would unfairly concentrate increases in costs upon the sick.

Question: While I believe that the cuts in the Penny-Kasich amendment represent reasonable priority choices, I know some people claim that they are tough, politically dangerous choices. I am puzzled by the OMB sending messages within one single week that these tough choices are unacceptable, while also criticizing supporters of the Balanced Budget Amendment for hiding behind a "cheap vote" rather than being willing to make tough choices. With both of these messages being delivered in the same week, the only alternative I can see is that OMB does not believe additional deficit reduction is important to our current and future economic stability. Yet, I have ample evidence in both written and spoken words that both you and Director Panetta do not believe sustained deficit spending such as we have engaged in for more than a decade is acceptable or healthy. Could you please clear up my confusion over these conflicting messages?

Response: The Administration supported, at considerable political risk, the largest deficit reduction package in our Nation's history. With the cooperation and courage
of the Congress, that package has become law. We chose the size of that package because we believed that it was the right dose of deficit reduction at this time. We have proposed a comprehensive health-care reform to attack the one remaining trouble spot in the Federal budget—as you know, CBO now reports that only Medicare and Medicaid are projected to grow faster than the gross domestic product (GDP) over the next ten years. We have created an entitlement review commission to consider other spending-cut prospects; we have issued a comprehensive National Performance Review on management reform; and we have submitted a package of spending rescissions. We believe that these steps toward deficit control are better policy at this time than enactment of an omnibus package that threatens health reform and includes several provisions that have not been adequately reviewed through Congressional hearings, or that have questionable policy value.