

**PENNY-KASICH AMENDMENT TO THE
GOVERNMENT REFORM AND SAVINGS
ACT OF 1993: HEARING, 103
CONGRESS, FIRST SESSION; HEARING
HELD IN WASHINGTON, DC, NOVEMBER
10, 1993. SERIAL NO. 103-14**

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CONTENTS

	Page
Hearing held in Washington, DC, November 10, 1998	1
Statement of:	
Kasich, Hon. John R., a Representative in Congress from the State of Ohio	9
Penny, Hon. Timothy J., a Representative in Congress from the State of Minnesota	6
Rivlin, Hon. Alice M., Deputy Director, Office of Management and Budget	28
Prepared statements, letters, supplemental materials, et cetera:	
Penny, Hon. Timothy J., a Representative in Congress from the State of Minnesota, prepared statement of	8
Rivlin, Hon. Alice M., Deputy Director, Office of Management and Budget:	
Prepared statement of	31
Responses to questions submitted by Hon. Charles W. Stenholm	46
Sabo, Hon. Martin Olav, a Representative in Congress from the State of Minnesota, prepared statement of	3
Stenholm, Hon. Charles W., a Representative in Congress from the State of Texas, questions submitted to Hon. Alice M. Rivlin, Deputy Director, Office of Management and Budget, and responses to same	46

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.

Members present: Representatives Sabo, Beilenson, Wise, Stanholm, Cooper, Price, Johnston, Mink, Blackwell, Pomeroy, Browder, Woolsey, Kasich, McMillan, Kolbe, Shays, Snowe, Smith of Texas, Cox, Allard, Franks, Smith of Michigan, Inglis, and Hoke.

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-

Office of Management and Budget with her views on your proposal and I want to welcome her also.

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