Deficit panel leaders propose curbs on Social Security, major cuts in spending, tax breaks

By Lori Montgomery
Washington Post Staff Writer
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The chairmen of President Obama 's bipartisan deficit commission on Wednesday offered an aggressive plan to rebalance the federal budget by curbing increases in Social Security benefits, slashing spending at the Pentagon and other agencies, and wiping out more than $100 billion a year in popular tax breaks for individuals and businesses.

The blueprint drafted by former Clinton White House chief of staff Erskine Bowles and former senator Alan K. Simpson (R-Wyo.) would slice more than $3.8 trillion from deficits over the next decade, reversing a rapid run-up in the national debt that many fear has the country headed for crisis.

To meet that goal, Bowles and Simpson are proposing to slay a herd of sacred cows, including the tax deduction for mortgage interest claimed by many homeowners, the tax-free treatment of employer-provided health insurance and the practice of letting retirees claim Social Security benefits starting at age 62. The blueprint would raise the early retirement age to 64 and the standard retirement age to 69 for today's toddlers.

During a briefing for reporters, Bowles and Simpson stressed that the plan is theirs alone and acknowledged that it is unlikely to win support from a majority of the commission's 18 members, many of whom seemed startled Wednesday by its breadth and scope. Bowles called it "a starting point" as the panel attempts to forge an agreement by Dec. 1.

Obama, speaking Thursday at a news conference in Seoul where he is attending the G-20 conference, cautioned that "before anybody starts shooting down proposals, I think we need to listen, we need to gather up all the facts."

"If people are, in fact, concerned about spending, debt, deficits and the future of our country, then they're going to need to be armed with the information about the kinds of choices that are going to be involved, and we can't just engage in political rhetoric," the president said.

"I set up this commission precisely because I'm prepared to make some tough decisions," Obama said, adding that "I'm going to need Congress to work with me."

Balanced-budget advocates praised the seriousness of the effort, saying it has the potential to reframe the debate over taxes and spending that dominated this month's congressional elections, regardless of how many commission members ultimately support it.

"A White House commission has put out a credible plan to eliminate the deficit and debt. This has changed the rules of the game and, for the first time, things are serious," said Maya MacGuineas, president of the bipartisan Committee for a Responsible Federal Budget, who hailed the blueprint as "a breakthrough."

"After this," she said, "the debate simply cannot go back to silly games where people pretend that eliminating earmarks will solve the problem."

Still, the reaction was harsh in some quarters, particularly among liberals who have vowed to protect retirees from any reduction in benefits. House Speaker Nancy Pelosi (D-Calif.) called the plan "simply unacceptable."

Speaker-in-waiting John A. Boehner (R-Ohio) declined to comment, saying he would discuss the plan with his three representatives on the panel. But Republican anti-tax activist Grover Norquist was not happy and warned that Republicans who support the proposal would be breaking their pledge not to raise taxes.

A five-step plan

Obama created the commission this year, directing it to balance the budget - not counting interest on the debt - by 2015. He also requested a long-term plan to rein in the debt projected to spiral in coming decades as the baby boom generation retires and begins laying claim to Social Security and Medicare.

The Bowles-Simpson blueprint lays out a five-step plan that would exceed Obama's targets, if adopted. It would stabilize borrowing within the next three years, balance the budget by 2040 and bring the debt more in line with historical norms.

Step one would be a sharp reduction in discretionary spending that would slice more than $200 billion a year from budgets for the Pentagon and other federal agencies in 2015 and beyond. Strict spending caps would be enforced by new procedural rules and automatic across-the-board cuts.

Step two would be tax reform. The plan would squeeze $100 billion a year out of the tax code through a comprehensive strategy that would eliminate all the expensive and popular deductions known as tax expenditures. Special rates for capital gains and dividends would be gone, and the inheritance tax would reappear at a rate of 45 percent for estates worth more than $3.5 million for individuals and $7 million for couples.

Not all of that cash would be dedicated to deficit reduction. Some of it would pay for an overhaul of the tax code that would lower rates for most taxpayers and eliminate the unpopular alternative minimum tax. The six current tax brackets would be replaced by three brackets with rates of 8 percent, 14 percent and 23 percent. The corporate tax rate, currently one of the highest in the industrial world at 35 percent, would be reduced to 26 percent.

Step three is targeting the rising cost of health care, one of the primary drivers of future deficits. The Bowles-Simpson blueprint would leave in place the vast expansion of health-care coverage enacted this year, rejecting GOP calls to repeal "Obamacare."

But it would strengthen the cost-cutting mechanisms in the law that seek to squeeze savings from Medicare. And it would permanently protect doctors from a sharp scheduled cut in Medicare payments in exchange for other payment reforms and cost-sharing agreements. The plan also would offer doctors new protection from malpractice lawsuits.

Entitlement programs would not go untouched. Step four calls for cutting farm subsidies by $3 billion a year, reducing benefits for government retirees from both the civil service and the military, docking student-loan subsidies and using a new, stingier measure of inflation to calculate increases for programs government-wide.

Social Security reforms

Step five is an overhaul of Social Security, though Bowles and Simpson took pains to make clear that any savings would be dedicated to the solvency of the program - not to reducing deficits in the government's general fund. The retirement age would go up, while benefits for the wealthiest 50 percent of retirees would go down from currently projected levels.

The plan proposes a hardship exemption for those unable to work beyond age 62. And it would institute other reforms aimed at ensuring that the oldest and the poorest retirees receive adequate support.

In addition to reducing benefits, the plan proposes to ensure Social Security's solvency by raising the payroll taxes that finance the program. The rate would be unchanged, but the amount of income subject to the tax would gradually rise from $106,800 this year to about $190,000 in 2020.

"We have harpooned every whale in the ocean - and some minnows," Simpson told reporters, joking that he and Bowles will "be on the witness-protection list when this is over."

Members of the commission, including a dozen sitting members of Congress, emerged from a morning briefing in a Capitol Hill hearing room praising the effort but voicing deep reservations about the details.

Spending cuts outweigh revenue increases by about three to one, a ratio Sen. Richard J.

Durbin (Ill.), the No. 2 Democrat in the Senate, called lopsided. And Rep. Jan Schakowsky (D-Ill.) flatly rejected cutting Social Security benefits as "not at all something I can live with."

Schakowsky also said she wants to see an analysis showing how the changes would affect various income groups. In other words, she said, "Who pays?"

Republicans were equally leery of the proposal. Asked whether he could support it, Sen. Judd Gregg (N.H.), the senior Republican on the Senate Budget Committee, said no. "This is the starting point. It shows the size of the problem, which is massive," Gregg said. "This is the draft for discussion purposes to get us all thinking."

Staff writer Scott Wilson in Seoul contributed to this report.