# Panel Seeks Social Security Cuts and Higher Taxes

By JACKIE CALMES

WASHINGTON — The chairmen of President Obama 's bipartisan commission on reducing the national debt outlined a politically provocative and economically ambitious package of spending cuts and tax increases on Wednesday, igniting a debate that is likely to grip the country for years.

The plan calls for deep cuts in domestic and military spending, a gradual 15-cents-a-gallon increase in the federal gasoline tax , limiting or eliminating popular tax breaks in return for lower rates, and benefit cuts and an increased retirement age for Social Security .

Those changes and others, none of which would take effect before 2012 to avoid undermining the tepid economic recovery, would erase nearly $4 trillion from projected deficits through 2020, the proposal says, and stabilize the accumulated debt.

"It's time to lay it out on the table and let the American people start to chew on it," said Alan K. Simpson , the former Republican Senate leader who is one of the co-chairmen, along with Erskine B. Bowles , who was White House chief of staff under President Bill Clinton .

Their outline will be the basis for negotiation within the commission, which has a Dec. 1 deadline for submitting a final plan. It represents a challenge to both parties: to Mr. Obama and the Democrats, to show in the wake of the midterm election that they are serious about their pledges to address long-term deficits, and to Republicans, who for the most part have ruled out consideration of tax increases even as they have promised new adherence to fiscal responsibility.

Liberal groups immediately condemned the plan when news of it broke, for its Social Security and Medicare changes and for the scope of the spending cuts. The House speaker, Nancy Pelosi , in a statement called it “simply unacceptable.”

The furor on the left was not matched — yet — by a similar outcry from the right to the draft’s proposed revenue increases, cuts to the military or other options.

The plan has many elements with the potential to draw intense political fire. It lays out options for overhauling the tax code that include limiting or eliminating the mortgage interest deduction, the child tax credit and the earned income tax credit. It envisions cutting Pentagon weapons programs and paring back almost all domestic programs.

The plan would reduce cost-of-living increases for all federal programs, including Social Security. It would reduce projected Social Security benefits to most retirees in later decades, though low-income people would get higher benefits. The retirement age for full benefits would be slowly raised to 69 from 67 by 2075, with a “hardship exemption” for people who physically cannot work past 62. And higher levels of income would be subject to payroll taxes.

But the plan would not count Social Security savings toward the overall deficit-reduction goal that Mr. Obama set for fiscal year 2015, reflecting the chairmen’s sensitivity to liberal critics who have complained that Social Security should be fixed only for its own sake, not to help balance the nation’s books.

Mr. Obama created the commission last February in the hope it would provide political cover for bold action against deficits in 2011. His stance now, in the wake of his party’s drubbing, will go a long way toward telling whether he tacks to the political center — by embracing such proposals — or shifts to the left and leaves them on a shelf.

For Republicans, the chairmen’s proposals and a similar report coming next week from a private bipartisan group will challenge their contention that the budget can be balanced by spending cuts alone. That is a claim that many conservative economists and budget analysts reject, given the scale of projected debt as the baby boom generation retires and begins claiming costly federal benefits, after a severe recession .

Mr. Bowles and Mr. Simpson said their plan was “a starting point” as members of the commission met behind closed doors to consider it.

That was clear from the initial reactions of the members, nine of them Democrats, seven Republicans. None embraced the package and several made clear they would not support it without big changes.

“I think every member of the commission would agree that this is not the plan,” said Representative Jan Schakowsky, Democrat of Illinois, who is perhaps the panel’s most liberal member.

The group had made no decisions before the midterm elections, to avoid politicizing the painful options. Even so, the election results — by emboldening victorious antitax conservatives and having led to the defeat of many fiscally conservative Congressional Democrats — are widely seen as having reduced the already slim chance that a supermajority of the commission could agree to a package of proposals by Dec. 1.

Under Mr. Obama’s executive order creating the panel of 12 members of Congress and six private citizens, 14 of the 18 commissioners must agree in order to send any package to Congress for a vote in December. The Senate majority leader, Harry Reid of Nevada, and Ms. Pelosi, who will remain the speaker until January, have promised in writing that the Senate would vote first and, if it approves a plan, the House would vote.

“I think it’s possible” that 14 members will agree, said Senator Tom Coburn , a conservative Oklahoma Republican who worked closely with the chairmen on proposed reductions from the military and in so-called tax expenditures, the myriad tax breaks for individuals and businesses that cost more than $1 trillion a year. “You don’t know until you see what the final plan is.”

In five hours of deliberations on Wednesday, the commission did not discuss the plan’s particulars much but instead talked at length about whether a lame-duck Congress would have time to write specific legislation and then vote, members said in interviews. It was unclear, they said, whether that was a sign other members thought the commission actually could reach agreement, or whether they were hiding behind concerns about legislative procedures to avoid tough policy decisions.

“At least people stayed in the room,” Andy Stern , the former president of the Service Employees International Union , said in an interview, recalling his concerns and others’ that Republicans would walk out if taxes were on the table and Democrats if Social Security and other spending programs were.

Right now the biggest issue facing the lame-duck Congress is whether to extend the Bush-era income tax cuts, which expire Dec. 31, for all taxpayers, as Republicans want, or for income below $250,000, as Mr. Obama and Democrats want. The Bowles-Simpson plan includes one option that assumes only the lower-income rates are extended and another that ends all Bush tax rates and replaces the tax code with simpler, lower rates and many fewer tax breaks.

Extending all the Bush tax cuts through 2020 would add more than $4 trillion to the debt — coincidentally, about the same amount that the chairmen’s painful options are designed to cut in the same time frame.

Their proposed simplification of the tax code would repeal or modify a number of popular tax breaks — including the deductibility of mortgage interest payments — so that income tax rates could be reduced across the board. Under one option, individual income tax rates would decline to as low as 8 percent for the lowest income bracket (it is now 10 percent) and to 23 percent for the highest bracket (now 35 percent). The corporate tax rate, now 35 percent, would be reduced to as low as 26 percent.

But how low the rates are set would depend on how many tax breaks are reduced or eliminated. Some of them, including the mortgage interest deduction and the exemption from taxes for employees’ health benefits, are political sacred cows.

The 18.4-cents-a-gallon federal gasoline tax would rise by 15 cents between 2013 and 2015 so that transportation spending no longer requires money from the general treasury.

The plan would cut $2 from spending for every $1 in new revenues. Total spending would be about 22 percent of the nation’s gross domestic product, and revenues would be held to 21 percent.

Cuts in annual discretionary spending, domestic and military, would be the largest in recent decades. Farm subsidies would be reduced. To further reduce growth in the fast-growing entitlement programs, the plan would expand on the hard-won Medicare cost savings in Mr. Obama’s health care law. And it would limit malpractice awards, long a Republican goal.

David M. Herszenhorn contributed reporting.

*This article has been revised to reflect the following correction:*

***Correction: November 10, 2010***

An earlier version of this article misstated the amount of the current federal tax on gasoline and referred imprecisely to the amount by which it would increase. It also stated incorrectly that Senator Kent Conrad was chairman of the Senate Finance Commitee.