

Obama advisory panel proposes dramatic US social spending cuts

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U.S. Debt Proposal Would Cut Social Security, Taxes, Medicare

By Heidi Przybyla and Brian Faler - Nov 10, 2010

A presidential commission's leaders proposed a \$3.8 trillion [deficit](#)-cutting plan that would trim Social Security and Medicare, reduce income-tax rates and eliminate tax breaks including the mortgage-interest deduction.

The plan would overhaul the federal budget by throwing out hundreds of tax breaks for items such as capital gains and child care. It would raise the gas tax, slash defense spending and bring down health-care costs by clamping down on medical malpractice suits. The Social Security retirement age would be raised to 68 in about 2050 and 69 in about 2075.

"This country's out of money and we better start thinking," said [Erskine Bowles](#), co-chairman of the panel created by President [Barack Obama](#). Without "tough choices," Bowles said, "we're on the most predictable path toward an economic crisis that I can imagine."

Bowles, former President [Bill Clinton](#)'s chief of staff, and Republican former Senator [Alan Simpson](#) of Wyoming announced the proposal in Washington today, stressing that it was intended as a starting point for discussion.

The savings would come between 2012 and 2020. The result would be a deficit totaling about \$400 billion or about 2.2 percent of the nation's gross domestic product in 2015. That would exceed Obama's goal for the panel of a reduction to 3 percent, from the current 9 percent of GDP.

White House spokesman [Bill Burton](#) said in an e-mail the proposals "are only a step in the process towards coming up with a set of recommendations." He said Obama wants to give the panel "space to work on it" and wouldn't comment on the plan.

Lawmakers Balking

The chairmen's plan is already causing some Democrats and Republicans on the 18-member commission to balk. While most economists say some combination of spending cuts and tax increases is necessary, Republicans are wary of tax hikes and Democrats are reluctant to reduce U.S. government benefits.

"This is not a package that I could support," Representative [Jan Schakowsky](#), an Illinois

Democrat, said during a break in a private meeting by the commission before the chairmen released details of their plan. She said any package able to win the necessary 14 votes on the panel would have to look “very different” from the options under discussion.

None of the proposals would take effect next year to avoid disrupting the economic recovery. Bowles said income-tax rates would be reduced to three levels: 8 percent, 14 percent and 23 percent.

Mortgage Deduction

Wiping out all tax breaks, including the home mortgage deduction, while lowering rates would save \$100 billion a year, Bowles said. Members of the panel could decide to keep some tax breaks by offering offsetting cuts, he said.

Bowles said about three-quarters of the savings would come from spending cuts with the remainder from tax increases.

“We have harpooned every whale in the ocean and some of the minnows,” Simpson said. “No one has done this before.”

The proposal calls for discretionary spending to be cut by \$1.4 trillion over 10 years, while mandatory spending — including Social Security, Medicare and Medicaid — would be reduced by \$733 billion. Taxes would be raised by \$751 billion, including a 15-cent increase in the gas tax starting in 2013.

Tax increases would begin in 2012, when they would total \$69 billion. They would ramp up to \$372 billion in 2015, \$588 billion in 2018 and \$761 billion in 2020.

Farm subsidies would be cut by \$3 billion a year. The proposal would also attempt to slow the growth of health-care costs by paying doctors participating in the Medicare health program for the elderly less and calling for “comprehensive” legislation to reduce medical malpractice costs.

Freezing Federal Salaries

Discretionary spending cuts in the plan include reducing congressional and White House budgets by 15 percent, freezing federal salaries and cutting the federal workforce by 10 percent. The discretionary reductions would be split equally between defense and domestic programs, Bowles said.

The plan calls for \$100 billion in defense cuts, including freezing federal salaries and noncombat military pay at 2011 levels for three years and reducing spending on research and development and on facilities maintenance.

The government is projected to run \$8 trillion in deficits over the next 10 years, which would push the national debt up to more than \$20 trillion.

The panel’s goals drew praise from [Maya MacGuineas](#), president of the nonpartisan [Committee for a Responsible Federal Budget](#), a Washington-based group that advocates balanced budgets. The plan “would fix our fiscal problems and truly reflects a balanced compromise across party lines,” she said.

Some of the plan would be painful, she said, “but we must be mindful of the consequences if we fail to act.”

Simpson said the plan was designed to give members of the panel something to “chew on” for further discussions.

‘Witness Protection’

“This is Al’s and my proposal, nobody else’s,” Bowles said. “The president hasn’t seen this proposal.”

Some members of Obama’s financial team have seen the plan and they liked some things and not others, he said. Asked how interest groups would react, Bowles joked, “we’re going to be in the witness protection program.”

Senator [Dick Durbin](#), an Illinois Democrat, called the plan a “starting point for the conversation.”

“We’re not going to have an up-or-down vote on this,” said Durbin. “There are proposals in there that are painful. I told them I said there are things in here which inspire me and other things which I hate like the devil hates holy water. I’m not going to vote for those things.”

Some Republicans also expressed skepticism that the report would survive in its current form. New Hampshire Senator [Judd Gregg](#) called the plan a “starting point.” Representative [Jeb Hensarling](#) of Texas said “some of it I like, some of it disturbs me.”

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