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## Deficit Panel Pushes Cuts

*Plan to Save \$3.8 Trillion Targets Medicare, Pentagon, Middle-Class Tax Breaks*

By JOHN D. MCKINNON, COREY BOLES And MARTIN VAUGHAN

WASHINGTON—A White House commission laid out a sweeping proposal to cut the federal budget deficit by hundreds of billions a year by targeting sacrosanct areas of U.S. tax and spending policy, such as Social Security benefits, middle-class tax breaks and defense spending.



The deficit commission has taken aim at one of the sacred cows of the tax code: the mortgage-interest deduction. Nick Timiraos discusses proposed changes and Brett Arends looks at the likelihood they will actually become law.

tax credit.

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The preliminary plan in its current form would end or cap a wide range of breaks relied on by the middle class—including the deduction for home-mortgage interest. It would tax capital gains and dividends at the higher rates now levied on wage income. To compensate, one version of the plan would dramatically lower and simplify individual rates, to 9%, 15% and 24%.

For businesses, the controversial plan would significantly lower the corporate tax rate—from a current top rate of 35% to as low as 26%—but also eliminate a number of deductions. It would make permanent the research-and-development

Overall, the plan would hold down the growth of the federal debt by roughly \$3.8 trillion by 2020, or about half of the \$7.7 trillion by which the debt would have otherwise grown by that year, according to commission staff. The current national debt is about \$13.7 trillion.

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The budget deficit, or the amount by which federal expenditures exceed revenues each year, was about \$1.3 trillion for fiscal-year 2010, which ended on Sept. 30.

The interim report stands as an opening bid in what will likely be a heated debate over the future of spending and taxes, issues that exploded in the midterm elections. Many of the plan's more provocative elements are intended as starting points for negotiation, not final recommendations.

President Barack Obama urged leaders of his own Democratic Party to hold their fire over the recommendations and said "tough choices" will be necessary.

"Before anybody starts shooting down proposals, we need to listen, gather up all the facts, and be straight with the American people," Mr. Obama said at a press conference Thursday in Seoul, where he attending a Group of 20 nations summit.

**Journal Community*****What should be dropped from the deficit reduction panel's draft proposal?***

- Federal health-care cuts
- Social Security cuts
- Homeowner tax deductions
- Defense spending cuts
- Federal worker pay freeze, 10% reduction
- Something else. Explain

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The question is whether members of the commission can hone the draft into something on which they can agree, or whether they and their supporters will splinter. The plan's unveiling Wednesday provoked denunciations from some quarters, particularly from organized labor and liberal lawmakers, but also from conservative taxpayer advocates.

"We have harpooned every whale in the ocean, and some of the minnows," said co-chairman Alan Simpson, a retired Wyoming Republican

senator. "No one has ever done that before." The panel of 18 lawmakers, business and labor leaders and others was formed by Mr. Obama; it was led by Mr. Simpson and co-chair Erskine Bowles, a White House chief of staff to former President Bill Clinton.

On Social Security, the plan would gradually raise the retirement age to 68 around 2050 and 69 by 2075. It would combine various cuts to benefits with an increase in taxes on wealthier people's incomes. It would also seek to rein in federal spending on health care beyond what's called for in the recently passed health-care overhaul. This would be achieved by introducing further changes, including reform of medical-malpractice law, and by seeking to slow the growth of the Medicare program.

The plan would make significant cuts on spending over which Congress has direct control, beyond entitlements such as Medicare. It identifies \$410 billion in discretionary spending cuts by 2015. It proposes cutting the federal work force 10%, at a savings of \$13.2 billion by 2015.

Congressional earmarks—provisions inserted into legislation for lawmakers' pet projects—would be banned permanently, saving \$16 billion.

In the bond markets, which have much riding on the outcome of the deficit debate, investors cautioned that the ideas are preliminary and touch many political third rails.



The co-chairs of a deficit commission established by the White House has called for limiting federal spending on health care, gradually raising the retirement age and lowering the corporate tax rate. Jerry Seib discusses.

With gridlock likely after the midterm elections split control of Congress between the two parties, enacting major changes designed to significantly cut the deficit "would take some pretty Herculean efforts I think down in Washington, D.C.," said Kevin Flanagan, chief fixed-income strategist at [Morgan Stanley Smith Barney](#).

The plan's authors hope this first draft will improve the chances of any final version, said commission aides, by making it look milder by comparison. At a minimum, the plan's surprise release gives President Obama a chance to

appear serious about deficit cutting should he adopt its recommendations.

The panel's recommendations aren't binding; its proposal needs to garner the votes of 14 of the 18 members to trigger votes in the House and Senate. But the final version, due Dec. 1, likely would be a starting point for any deficit-reduction plan Congress and the White House put together.

"In the end, the president is going to have to decide whether to incorporate some of this into the 2012 budget," said David Walker, a former U.S. comptroller general and an advocate for deficit reduction. "He's going to have to lead, because if the president doesn't lead on this, it goes nowhere fast."

Mr. Obama avoided any comment on the specifics, as did Congressional leaders. Both said they'd wait for a final product.

Lawmaker reaction was mixed, suggesting any final plan will be weaker than the one released Wednesday. Sen. Judd Gregg (R., N.H.), the top Republican on the Budget Committee and a panel member, called it "a genuine product that deserves very serious attention."



The Commission released a draft of recommendations for President Barack Obama. The panel calls for changes in the tax codes including elimination of the

But liberal panel members were less enthusiastic. Sen. Richard Durbin (D., Ill.) said he wouldn't vote for it, saying that "there are things in there that I hate like the devil hates holy water."

Some important interest groups were sharply critical, particularly over curbs on entitlement spending. The plans authors "just told working Americans to 'Drop Dead,'" said AFL-CIO president Richard Trumka. "Especially in these tough economic times, it is unconscionable to be

popular deduction for mortgage interest. Video courtesy of Fox News.

proposing cuts to the critical economic lifelines for working people, Social Security and Medicare."

The conservative Americans for Tax Reform also blasted the plan. "It confirms what everyone has known—this commission is merely an excuse to raise net taxes on the American people," the group said in a written statement. Supporting the plan would violate the group's no-new-taxes pledge, which many Republicans and some Democrats in Congress have signed, it warned.

Sen. Gregg said that overall, federal spending takes a bigger hit in the plan than taxpayers do. The plan's goal is to reduce federal spending and federal revenues to 21% of gross domestic product. Federal revenues currently are projected to be about 19% of GDP in 2015, and outlays about 23%.

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DISCUSS

*We will never get the deficit under control until Congress stops spending more money than it has to spend. It's that simple.*

—Paul Cooper

spending cuts and changes to the tax code, it would still take until 2037 to balance the budget entirely.

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It would seek to achieve the pullbacks through a mix of spending cuts and increasing tax revenues—about 75% in spending reductions and about 25% from the tax side.

If the plan was adopted in its entirety, it would reduce the deficit to 2.2% of gross domestic product by 2015, exceeding the target set for the panel by the White House of lowering the deficit to 3% of GDP.

The budget deficit equaled 8.9% of GDP in the fiscal year ended Sept. 30. Despite the raft of

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