

# Bowles-simpson essay



**ASSIGN  
BUSTER**

Bowles-Simpson Proposal Essay By the year 2012, the American economy has crossed through large paths of downfall and unsustainability. Many aspects of such inconsistency surround this issue; foreign debt, public spending, and real state price drops are some facts that indicate an unstable economy. Furthermore, current president of the United States Barack Obama has approved a plan that will help stabilize the economy in the long run; this plan has targeted to reduce the federal deficit by cutting spending and raising taxes.

Moreover, this plan was introduced in 2010 by co chairs Alan Simpson and Erskine Bowles of President Barack Obama's deficit commission as stated above, to raise the economy in the long run. As of now, revenue isn't much of a problem, but spending is. Since debt is rising due to spending (taking only this example), the private sector is put in risk of being put out of the market. This would affect small businesses, which are a strength in the American economy since they will not be able to grow and create more jobs, which simultaneously helps the economy.

Indeed, the goal of this plan is to reduce deficit to 2.2% of the gross domestic product by 2015, reduce deficit growth between now and 2020 by 3.8 trillion dollars, and reduce debt as percentage of GDP to 40% by 2037. All this is being linked with the reduction of spending and tax rises. Accordingly, this plan induces a huge tax reform due to the fact that the current tax rates would be modified. In addition, the alternative minimum tax would be eliminated, as well as the child tax credit and the mortgage interest deduction.

It is calculated that if this is taken in mind, there would be a deduction of \$ 1.1 of tax expenditures and it should increase tax revenues. Consequently, it seems that eliminating the mortgage interest deduction would mark a difference positively since it is one of the key elements funding an overemphasis on homeownership in the United States. On the other hand, eliminating the health insurance deduction would cause a healthcare reform. That deduction is actually a pillar of the current employer-based health insurance system. Thus, removing this deduction will force families to move on into the individual health insurance market, if no other adjustments are done. Meanwhile, the proposal expects to raise the cap on taxable wages through 2050 to cover 90 % of all national wages. This would simultaneously increase the program's revenues and would also increase the total payments going out. Moreover, one thing that the Bowles-Simpson plan aims for is revenues to be capped at 21 % of GDP and spending to be brought down to the same level. Such target is actually a redundant number. In order to achieve these cuts, some tactics have been put in the table.

One item that increases the revenues in the plan is its provision to include newly hired state and local workers after 2020. This would in the near term tap more tax revenue for the system and in the long run would obligate additional benefit payments. Also, this provision does not contribute to long-term Social Security sustainability. If it were dropped, then the plan would tilt in the direction of cost containment over almost any time period measured. Medicare takes a big part in the proposal since the idea is to hold growth of federal health spending to growth of GDP by 1 %.

Such cuts are proposed by paying less to doctors, as well as drug companies, and health care providers. Nevertheless, a reform on social security has put in place as well, and it is to add minimum benefits for minimum wage workers to ensure that they are above the poverty level. In other words, the plan aims to ensure that no one retires into poverty after a full working career. On the other hand, this does not reduce cost but it actually increases them. The plan to reduce costs is to make a balance under the benefits by offering fewer benefits for the more wealthy being.

Such action will change the current social security; savings plans will no longer be at a long term for individuals, but a more or less direct welfare program. Hence, the Bowles-Simpson proposal is indeed a fairly tax increase and highly progressive, not to forget that the main goal of this proposal is to eliminate almost all tax expenditures. Putting the numbers on the table, in 2015, the lowest earners would face an average cut in their after-tax income of 3.4 percent or about \$ 400. For middle-income households, there would be a cut of 4 percent on their after-tax income.

And on the top of the mountain, while will be cataloged as the highest earners, they would lose about 5.3 % or about \$ 70,000. It seems that the numbers do not lie; the low-income households and the top income households would be hit by a tax increase, while the upper middle class would have a small tax cut of 1 percent. In conclusion, this plan is a step forward with a few points, which I disagree. First, the measurements on tax rates seem fairly reasonable but it does not seem to mark a tax reform. The tax code is still under its same complexity.

It looks like it would bring revenue, but there are still politics to be discussed. Additionally, it does not seem to specify that tax cuts be used to eliminate national debt. On the other hand, it proposes to cut on health care spending since health care costs are pretty high, which simultaneously brings more national debt. As well, I think the proposal have some kind of gaps, but there is also a debate between republicans and democrats, to see if there is a balance in between both sides since republicans do not really like the idea of tax increases, and democrats are unhappy about the spending caps.