

PRINCIPLES & PRIORITIES

GROUP BUDGET EXERCISE

WORKBOOK

2016 – Spring edition



THE CONCORD COALITION

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Principles and Priorities – Group Budget Exercise

Congratulations! You have just become members of Congress -- and you have been assigned to a special committee charged with finding ways to reduce the projected federal deficit over the next 10 years.

Your committee is responsible for examining a variety of possible spending and revenue policies. Some would reduce spending and raise revenues to reduce deficits. Some other policies, however, would require additional spending and lower taxes, which would increase deficits -- unless they can be offset elsewhere in the budget.

As your committee reviews the options, it should consider:

- **Economics** -- How will your decisions affect the economy in both the short term and the long term? Could some policies help in the short run but cause more damage later?
- **Public Policy** -- Should reducing the deficit be your primary goal, regardless of other policy impacts? Which areas of the federal government should receive more or less funding? Which parts of society would be most affected? Is the federal government too big, too small or the right size? Do your choices fit your vision for the nation's future?
- **Politics** -- How is the public likely to respond to your decisions? Can you explain and defend those decisions to voters? Will you be re-elected?

The Budget Outlook

The federal budget has long suffered from a fundamental mismatch between revenue and spending. This has produced chronic structural deficits, even in good economic times. But in recent years the financial crisis, collapsing housing markets, the severe recession and the slow recovery further strained the budget. From 2009 to 2012 annual deficits averaged over \$1.2 trillion. Lower incomes and high unemployment meant decreased tax revenues and increased safety net spending. Other factors contributing to high deficits were tax cuts and stimulus spending enacted to address the economic downturn.

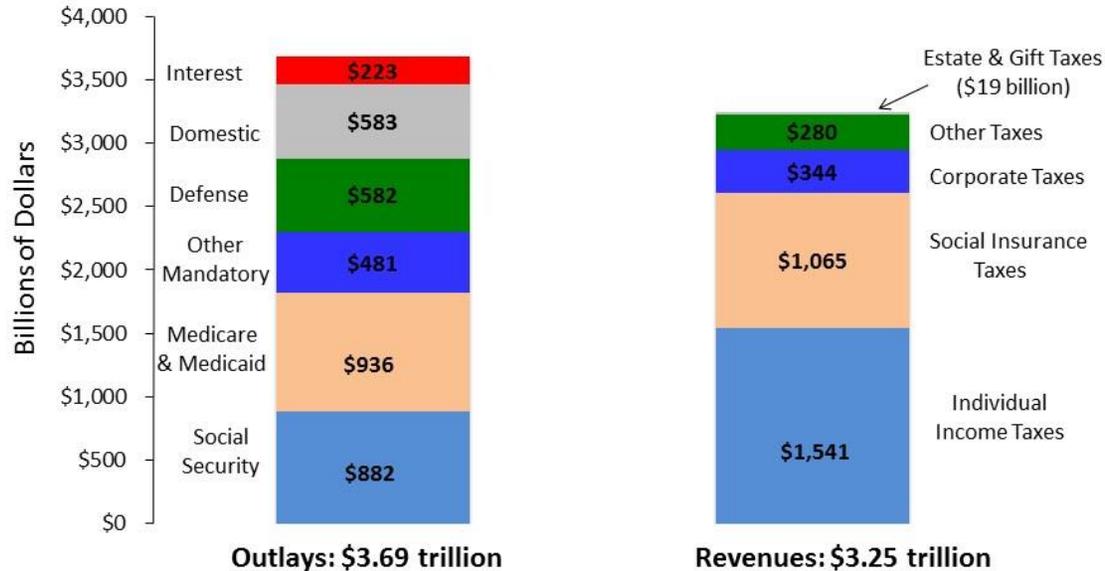
The economy continues to improve, and the deficit dropped dramatically to \$439 billion in 2015. Yet, the structural problems in the budget remain, and deficits are projected to rise again beginning in 2016. The nonpartisan Congressional Budget Office (CBO) has projected that deficits will total \$9.4 trillion over the next decade. (This is called the "baseline" estimate for budget deficits). The projection is based on the assumption that current law will continue into the future unaltered. Importantly, for the purpose of this exercise, the CBO assumes that annual appropriations by Congress -- called "discretionary spending" -- will not exceed the spending caps and sequestration cuts put into place by the Budget Control Act of 2011 and the October 2015 bi-partisan budget agreement.

Beyond the next 10 years, the recent recession and efforts to combat it are not projected to have lasting effects on deficits. Other fundamental transformations underway in our society will have a much greater impact on our future: the aging population and climbing health care costs. These will cause federal spending on entitlement programs like Social Security and Medicare to dramatically increase. Excessive levels of government borrowing and rising interest rates are also expected to sharply increase federal spending in the coming years.

Snapshot of the Federal Budget

Composition of Fiscal Year 2015 Federal Budget

Deficit: \$439 Billion



Making the Hard Choices

With your fellow committee members, review and discuss the policy options on the next six pages. Record your group's decisions by placing a Y (yes) or N (no) in the boxes provided. Given the time constraints, your range of possibilities is limited to a representative sample of budget options that have been considered and debated in Washington.

Background information and arguments for and against each of the options are included in the accompanying *Options Book*.

When discussing the policy options and making your decisions, reflect on your personal *principles* and *priorities*. But ultimately the majority rules, so you will need to carefully consider the views of your fellow committee members as well. You may decide to compromise on some items in order to win support for others that you consider more important.

Options with a negative sign (-) will reduce the deficit by saving the government money or bringing in additional revenue. This means these options will **LOWER** deficits.

The maximum amount of deficit reduction possible in this exercise is \$5.7 trillion over the coming decade. If you approve all policies that increase spending or reduce revenue, on the other hand, you could increase the deficit by \$3.6 trillion.

Category 1: General Government Spending		Deficit Increase or Decrease* (in billions/10 years)	Decision (Yes or No)
1	Create a universal pre-K program for low to moderate-income children	+68	
2	Establish a National Infrastructure Bank to support road improvement	+30	
3	Reduce funding for the National Institutes of Health (NIH)	-35	
4	Reduce Department of Energy funding for energy technology development	-10	
5	Reduce subsidies in the crop insurance program	-20	
6	Reduce funding for the arts and humanities	-6	
7	Eliminate NASA's human space exploration program	-77	
8	Eliminate some Department of Education grants for education	-12	
9	Eliminate federal subsidies for AMTRAK and other intercity rail systems	-14	
10	Reduce the federal workforce by not filling some vacancies as workers retire	-49	

* Options with a negative sign (-) will reduce the deficit by saving the government money or bringing in additional revenue. This means these options will **LOWER** deficits.

Set Overall Discretionary Spending Levels (Includes defense and non-defense programs) -- SELECT ONLY ONE: 11A, 11B, 11C, or 11D		Deficit Increase or Decrease (in billions/10 years)	Decision (Yes or No)
11A	Keep current caps and sequestration for all defense and non-defense discretionary spending (spending determined annually by Congress)	No Change	
<u>OR</u> 11B	Allow discretionary spending to grow with inflation (around 1.9% a year)	+757	
<u>OR</u> 11C	Allow discretionary spending to grow at the same rate as the economy, as it has over the past few decades (around 5.1% a year)	+1,644	
<u>OR</u> 11D	Freeze discretionary spending at 2016 levels without adjusting for inflation	-746	
Subtotal	Deficit Effects of Options 1-11. (Add up effects of "Yes" votes only.)		
Category 2: Military/Homeland Security			
12	Increase funding for the Federal Emergency Management Agency (FEMA)	+8	
13	Cap increases in basic pay for military service members	-24	
14	Limit TRICARE health insurance benefits for military retirees and dependents (separate from Veterans Administration service-related health care)	-73	
15	Replace some active duty military personnel performing support work with civilians	-20	

		Deficit Increase or Decrease (in billions/10 years)	Decision (Yes or No)
16	Defer development of a new long-range bomber for the Air Force	-26	
17	Reduce the number of nuclear-armed ballistic missile submarines	-15	
Subtotal	Deficit Effects of Options 12-17. (Add up effects of “Yes” votes only.)		
Category 3: Health Care and Social Security			
18	Eliminate Affordable Care Act (Obamacare) subsidies for those earning between 300 and 400 percent of the federal poverty level	-109	
19	Add a public plan to the Affordable Care Act health insurance exchanges	-158	
20	Provide seniors with “premium support” to purchase private health insurance	-61	
21	Bundle Medicare’s payments to health care providers; shift from fee-for-service	-47	
22	Raise premiums for Medicare Parts B and D to cover 35% of the programs’ costs	-299	
23	Cap the federal Medicaid contribution to states in the form of block grants	-450	

		Deficit Increase or Decrease (in billions/10 years)	Decision (Yes or No)
24	Limit punitive damage awards in malpractice lawsuits	-60	
25	Gradually raise full retirement age of Social Security from 67 to 70 by the year 2038	-35	
26	Increase the maximum taxable earnings cap for the Social Security payroll tax	-672	
27	Use alternative inflation measure for cost-of-living adjustments in Social Security and other mandatory spending programs	-182	
28	Link initial Social Security benefits to prices instead of wages for higher-earning seniors (progressive price indexing)	-53	
Subtotal	Total Deficit Effects for Options 18-28. (Add up effects of "Yes" votes only.)		
Category 4: Revenue / Taxes			
<i>*If you chose 29A or 29B: Go immediately to Option 35 because the options in between would be duplicative.</i>			
29A*	Engage in <i>revenue-neutral</i> comprehensive tax reform that broadens the tax base and lowers tax rates. Tax preferences are eliminated; tax code shrunk to three brackets.	No Change	
<u>OR</u> 29B*	Engage in <i>revenue-increasing</i> comprehensive tax reform. Three new brackets increase by 1.5 percentage points each, to 9%, 15%, and 24%.	-1,200	

	<i>If you chose 29A or 29B: Go immediately to Option 35.*</i>	Deficit Increase or Decrease (in billions/10 years)	Decision (Yes or No)
30	Eliminate taxes on capital gains and dividends	+1,371	
31	Phase in a minimum tax of 30% on individuals who earn over \$1 million	-66	
32	Convert home mortgage interest deduction into 15% tax credit	-113	
33	Limit the amount of tax-free employer contributions for health care	-77	
34	Allow charity deductions only if one gives more than 2% of Adjusted Gross Income	-212	
35*	Eliminate tax subsidies for the oil and gas industry	-47	
36	Increase the gas tax by 35 cents and index it to inflation	-469	
Subtotal	Total Budget Effect (Options 29-36). Add up total deficit effect of "Yes" votes only.		

Interest costs on the national debt are an important component of government spending. These costs increase when we add to deficits, and they decrease when we reduce deficits. In the “Summary of Results” table below, a line is dedicated to interest costs and adds 15 percent in interest savings for the deficit reduction you have achieved through your policy choices.

PRINCIPLES & PRIORITIES: SUMMARY OF RESULTS

Please copy the subtotals from each section to calculate your total impact on the federal deficit over 10 years.

Category	Deficit Impact
1. General Government Spending (1-11)	
2. Security/Defense Spending (12-17)	
3. Health Care and Social Security (18-28)	
4. Taxes/Revenues (29-36)	
SUB-TOTAL FOR FOUR CATEGORIES	
Interest Savings = (sub-total X 0.15)	
Total Deficit Impact of Your Budget Choices <i>(Sub-total for four categories + interest savings)</i>	