

PRINCIPLES & PRIORITIES

GROUP BUDGET EXERCISE WORKBOOK



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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 projected federal deficits 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, which would reduce deficits. Some other policies, however, would add spending and lower taxes, which would increase deficits.

As your committee reviews the options, it should consider:

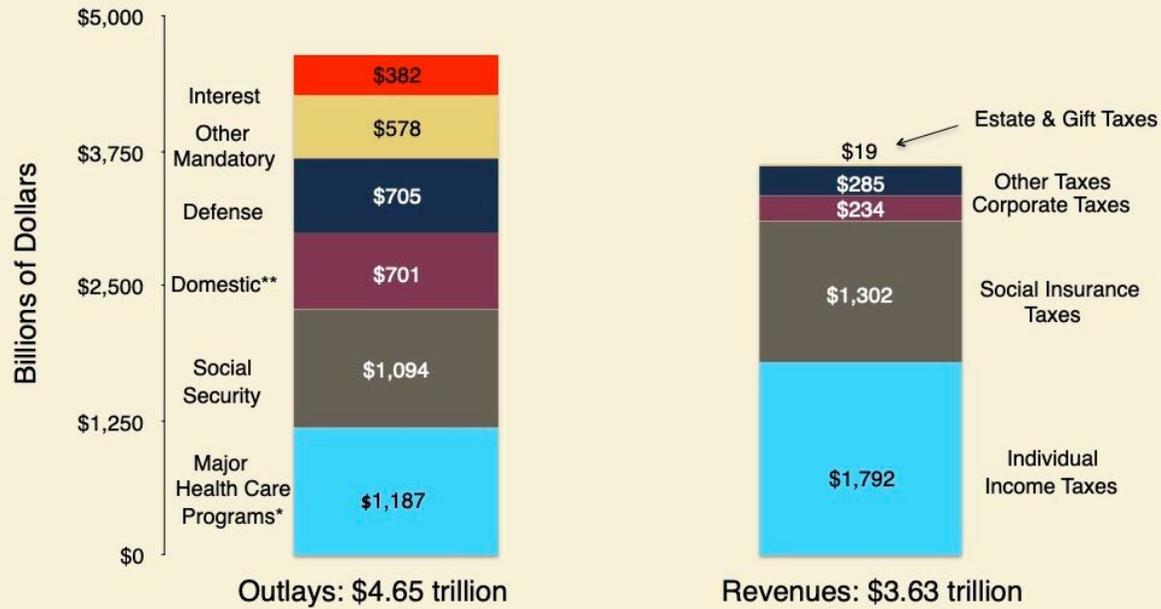
- Economics -- How will your decisions affect the economy in both the short term and the long term? Could some policies help in the short run but cause damage later?
- Public Policy -- Should reducing the deficit be your primary goal, regardless of other policy impacts? Which areas of the federal government 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 your 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. Despite steady economic growth in recent years, the structural problems in the budget remain and policymakers have added to those deficits with major pieces of legislation, thus deficits are projected to dramatically rise in the coming years. The nonpartisan Congressional Budget Office (CBO) has projected that deficits will total \$13.1 trillion over the next decade. (This is called the "baseline" estimate for budget deficits.) The projection is based on the assumption that current laws will continue into the future unaltered.

Composition of Fiscal Year 2020 Federal Budget

Deficit: \$1,015 Billion



*Includes Medicare, Medicaid, CHIP, and exchanges subsidies spending net of offsetting receipts.

**Includes all appropriated domestic spending such as education, transportation, homeland security, housing assistance and foreign aid.

Source: Congressional Budget Office, January 2020



The largest force leading to continued deficits over the next 10 years and beyond reflects a fundamental transformation in our society: the aging of the population and the retirement of the baby boom generation and its concurrent reduction in the growth of the working age population. Combined with climbing health care costs, this change will cause federal spending on benefit programs like Social Security and Medicare to dramatically increase while revenues from workers fails to keep pace. Growing levels of government borrowing and rising interest rates are also expected to sharply increase federal spending on interest costs in the coming years.

Making the Hard Choices

With your fellow committee members, review and discuss the policy options on the next five pages. Record your group's decisions by placing the options' positive or negative (+/-) effects on the 10-year deficit in the boxes provided. If your group decides not to enact a particular option, simply leave the box blank, or write in a zero. 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.

The maximum amount of deficit reduction possible in this exercise is \$7.1 trillion over the coming decade, before interest savings. If you were to approve all policies that increase spending or reduce revenue, you could increase the deficit by a total of \$3 trillion.

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. Options with a positive sign (+) will INCREASE deficits.

| Category 1 - General Government Spending | | | |
|---|---|--|--|
| Option Number | Option Title | Effect on 10-Year Deficit (In Billions) | Committee Decision (Write +/- Dollar Value) |
| 1 | Expand access to child care | +78 | |
| 2 | Establish a National Infrastructure Bank to support road improvements | +30 | |
| 3 | Provide two years of free community college to Pell-eligible students | +67 | |
| 4 | Eliminate federal subsidies for AMTRAK and other intercity rail systems | -20 | |
| 5 | Reduce Department of Energy funding for energy technology development | -20 | |
| 6 | Reduce subsidies in the crop insurance program | -21 | |

| | | | |
|----------------------------|---|------|--|
| 7 | Eliminate NASA's human space exploration program | -93 | |
| 8 | Reduce the federal workforce by not filling most vacancies as workers retire | -35 | |
| 9 | Limit forgiveness of graduate student loans | -32 | |
| 10 | Limit highway funding to expected revenues | -170 | |
| 11 | Eliminate or reduce funding for certain grants to state and local governments | -53 | |
| Category 1 Subtotal | | | |

| Category 2 - National Security and Defense Spending | | | |
|--|--|--|--|
| Option Number | Option Title | Effect on 10-Year Deficit (In Billions) | Committee Decision (Write +/- Dollar Value) |
| 12 | Reduce funding for naval ship construction to historical levels | -75 | |
| 13 | Cancel purchase of F-35s, and purchase F-16s and F/A-18s instead | -16 | |
| 14 | Defer development of a new long-range bomber for the Air Force | -45 | |
| 15 | Cap increases in basic pay for military service members | -18 | |
| 16 | Modify TRICARE fees, cost sharing, and out-of-pocket requirements | -51 | |
| 17 | Reduce spending on international affairs ("foreign aid") by 25 percent | -145 | |
| Category 2 Subtotal | | | |

| Category 3 - Health Care and Social Security | | | |
|---|--|--|--|
| Option Number | Option Title | Effect on 10-Year Deficit (In Billions) | Committee Decision (Write +/- Dollar Value) |
| 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 | -419 | |
| 21 | “Bundle” Medicare’s payments to health care providers | -47 | |
| 22 | Reduce Medicare Advantage bonus payments to private insurance plans | -18 | |
| 23 | Raise premiums for Medicare Parts B and D to cover 35% of program costs | -389 | |
| 24 | Cap the federal Medicaid contribution to states | -703 | |
| 25 | Limit malpractice awards | -64 | |
| 26 | Gradually raise full retirement age for Social Security from 67 to 70 | -28 | |
| 27 | Increase the maximum taxable earnings cap on Social Security payroll tax | -785 | |
| 28 | Use chained CPI to determine COLAs in Social Security and other programs | -202 | |
| 29 | Link initial Social Security benefits to prices instead of wages for higher-earning seniors (progressive price indexing) | -77 | |
| 30 | Increase special minimum Social Security benefit and index it to wage growth | +27 | |
| Category 3 Subtotal | | | |

Category 4 - Taxes and Revenues

| Option Number | Option Title | Effect on 10-Year Deficit (In Billions) | Committee Decision (Write +/- Dollar Value) |
|----------------------------|--|--|--|
| 31 | Eliminate taxes on capital gains and dividends | +1,896 | |
| 32 | Eliminate estate taxes | +265 | |
| 33 | Extend the cuts to the Individual Income Tax from the 2017 tax law | +650 | |
| 34 | Reverse the cuts to the Individual Income Tax from the 2017 tax law | -1,169 | |
| 35 | Increase funding for Internal Revenue Service enforcement | -35 | |
| 36 | Limit the amount of tax-free employer contributions for health care | -256 | |
| 37 | Limit the tax deduction for charity to only apply for donated amounts exceeding 2% of income | -176 | |
| 38 | Eliminate some tax preferences for education expenses | -188 | |
| 39 | Eliminate rule that allows capital gains to escape taxation when inherited | -105 | |
| 40 | Impose tax on financial transactions | -777 | |
| 41 | Increase tax on alcoholic beverages to equalize treatment of different types of alcohol | -83 | |
| 42 | Increase the gas tax by 35 cents and index it to inflation | -515 | |
| Category 4 Subtotal | | | |

In the “Summary of Results” table below, please copy the subtotals from each category to calculate your total impact on the federal deficit over 10 years.

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, 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 | |
|---|--|
| Category | Effect on Deficit (In Billions) |
| Category 1 - General Government Spending - <i>Subtotal</i> | |
| Category 2 - National Security and Defense Spending - <i>Subtotal</i> | |
| Category 3 - Health Care and Social Security - <i>Subtotal</i> | |
| Category 4 - Taxes and Revenues - <i>Subtotal</i> | |
| Sum of Subtotals From All Four Categories | |
| Interest Savings (<i>Sum of Subtotals X 0.15</i>) | |
| Total Effect on 10-Year Deficit (<i>Sum of Subtotals + Interest Savings</i>) | |