Principles & Priorities: Workbook

A Group Exercise in Fiscal Responsibility
from
The Concord Coalition

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 options reduce spending and/or raise revenues, thereby reducing future budget deficits. Other policies, however, would increase spending and/or lower taxes, which would increase deficits.

As you and members of your committee review the options, you should consider:

- Economics -- How will your decisions affect the economy (jobs and wages) 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 -- Will voters support your decisions? Can you defend your decisions and be re-elected?

The Budget Outlook

The federal budget has long suffered from a structural imbalance between revenues and spending, which has led to chronic and structural budget deficits, even during times of relative peace and prosperity. Despite relatively steady economic growth over the last four decades, the structural imbalance persisted and policymakers have compounded the problem with major legislation that cut taxes or increased spending or both. For this reason, deficits are projected to rise dramatically in the coming years. The nonpartisan CBO has projected that deficits will total $20.3 trillion over the next decade (This is called the "baseline" estimate for budget deficits). This projection assumes current law will continue into the future unaltered, including expiration of the 2017 tax cuts for individuals and small businesses.

Composition of FY 2023 Federal Budget (proj.)
Deficit: $1,539 billion

Source: The Congressional Budget Office, *An Update to the Budget Outlook*, May 2023

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Composition of FY 2033 Federal Budget (proj.)
Deficit: $2,852 billion

Source: The Congressional Budget Office, *An Update to the Budget Outlook*, May 2023 THE CONCORD COALITION

The key driver of continued deficits over the next 10 years and beyond is an ongoing fundamental transformation in our society: lower birth rates and the aging of our population, both of which lead to a reduction in the rate of growth in our working age population. When combined with rising health care costs, these changes will cause federal spending on benefit programs like Social Security and Medicare to dramatically rise, but income and payroll tax revenues from a proportionately smaller workforce will fail to keep pace. Growing levels of government borrowing and rising interest rates are also expected to push up federal spending on net interest payments.

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 own personal principles and priorities. Ultimately the majority rules, so you will need to carefully consider the views of your fellow committee members and sharpen your persuasive skills. 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 approximately $12 trillion over the coming decade, before interest savings. If, however, you approve all policies that increase spending or reduce revenue, you would increase the deficit by $4 trillion.

Options with a negative sign (-) will reduce annual deficits by cutting expenditures or raising new revenue. 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 free, universal preschool	*+200*	
2	Provide national, comprehensive paid family and medical leave	*+325*	
3	Provide two years of community college free	*+90*	

4	Increase the maximum Pell grant	*+96*	
5	Eliminate federal subsidies for AMTRAK and other intercity rail systems	*-64*	
6	Reduce subsidies in the crop insurance program	*-28*	
7	Eliminate NASA's Deep Space Exploration Systems budget	*-85*	
8	Reduce funding for certain Grants to State and Local Governments	*-66*	
9	Reduce the annual across-the-board adjustment for federal civilian employees' pay	*-57*	
10	Adhere to Outyear Spending Caps Recommended in The Fiscal Responsibility Act (the 2023 debt limit deal)	*-552*	
		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)**
11	Reduce the Department of Defense's manpower budget	*-995*	

12	Reduce the Department of Defense's procurement and research & development budget	*-91*	
13	Cap increases in basic pay for military service members	*-22*	
14	Introduce TRICARE for Life enrollment fees and out-of-pocket minimums for life	*-48*	
15	Reduce funding for international affairs programs ("foreign aid")	*-148*	
16	Enhance border security (Enact H.R. 2, Secure the Border Act of 2023)	*+6*	
		Category 2 Subtotal	

Continued...

Category 3 - Health Care and Social Security			
Option Number	**Option Title**	**Effect on 10-Year Deficit (In Billions)**	**Committee Decision (Write +/- Dollar Value)**
17	Equalizing Medicare payments regardless of site-of-care	*-217*	
18	Move to a premium support model for Medicare	*-1,875*	
19	Reducing Medicare advantage overpayments	*-207*	
20	Providing dental, vision, and hearing coverage under the Medicare program	*+358*	

21	Increase the premiums paid for Medicare part B	*-448*	
22	Establish caps on federal spending for Medicaid (index caps at CPI +1%)	*-501*	
23	Gradually raise the full retirement age for Social Security	*-121*	
24	Increase the maximum taxable earnings that are subject to Social Security payroll taxes	*-670*	
25	Use an alternative measure of inflation to index Social Security and other mandatory programs	*-257*	
		Category 3 Subtotal	

Category 4 - Taxes and Revenues			
Option Number	**Option Title**	**Effect on 10-Year Deficit (In Billions)**	**Committee Decision (Write +/- Dollar Value)**
26	Increase the tax on long term capital gains and dividends by 2 percentage points **OR** Tax carried interest as ordinary income	*-102* ***OR*** *-12*	
27	Eliminate estate taxes	+406	
28	Extend the 2017 income tax cuts for individuals	*+2,488*	

29	Raise the corporate income tax rate from 21 to 28 percent	*-1,326*	
30	Reduce tax subsidies for employment-based health insurance	*-500*	
31	Eliminate certain tax preferences for education expenses	*-128*	
32	Change the tax treatment of capital gains from sales of inherited assets	*-156*	
33	Impose a tax on financial transactions	*-264*	
34	Increase excise taxes on motor fuels by 15 percent and index them for inflation	*-240*	
35	Impose a value added tax (VAT) **OR** Impose a tax on emissions of greenhouse gases	*-1,950* **OR** *-865*	
36	Require Earned Income Tax Credit and Child Tax Credit Claimants to Have a Social Security Number That Is Valid for Employment	*-25*	
37	Impose a 1.7-cent vehicle miles traveled (VMT) tax on all trucks and cars	*-850*	
		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 annual budget deficits, and they fall 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 - *Subtotal*	
Category 2 - National Security and Defense Spending - *Subtotal*	
Category 3 - Health Care and Social Security - *Subtotal*	
Category 4 - Taxes and Revenues - *Subtotal*	
Sum of Subtotals From All Four Categories	
Interest Savings (*Sum of Subtotals X 0.10*)	
Total Effect on 10-Year Deficit (*Sum of Subtotals + Interest Savings*)	