

Name: \_\_\_\_\_

## The Fiscal Ship

### Handout Packet





## Handout #1

### Background Information on the Federal Budget Outlook

#### *What is the long-term outlook for the federal budget?*

“The long-term outlook for the federal budget has worsened dramatically over the past several years, in the wake of the 2007–2009 recession and slow recovery. Between 2008 and 2012, financial turmoil and a severe drop in economic activity, combined with various policies implemented in response to those conditions, sharply reduced federal revenues and increased spending. As a result, budget deficits rose: They totaled \$5.6 trillion in those five years, and in four of the five years, they were larger relative to the size of the economy than they had been in any year since 1946. Because of the large deficits, federal debt held by the public soared, nearly doubling during the period. It is now equivalent to about 74 percent\* of the economy’s annual output, or gross domestic product (GDP)—a higher percentage than at any point in U.S. history except a seven-year period around World War II.

If current law remained generally unchanged in the future, federal debt held by the public would decline slightly relative to GDP over the next few years, CBO [Congressional Budget Office] projects. After that, however, growing budget deficits—caused mainly by the aging of the population and rising health care costs—would push debt back to, and then above, its current high level. The deficit would grow from less than 3 percent of GDP this year to more than 6 percent in 2040. At that point, 25 years from now, federal debt held by the public would exceed 100 percent of GDP.

Moreover, debt would still be on an upward path relative to the size of the economy. Consequently, the policy changes needed to reduce debt to any given amount would become larger and larger over time....”

Source: Congressional Budget Office, “The 2015 Long-Term Budget Outlook,” June 16, 2015

\*Note that since this was written the federal debt held by the public is now about 75% of GDP

#### *What consequences would a large and growing federal debt have?*

“How long the nation could sustain such growth in federal debt is impossible to predict with any confidence. At some point, investors would begin to doubt the government’s willingness or ability to meet its debt obligations, requiring it to pay much higher interest costs in order to continue borrowing money. Such a fiscal crisis would present policymakers with extremely difficult choices and would probably have a substantial negative impact on the country. Unfortunately, there is no way to predict confidently whether or when such a fiscal crisis might occur in the United States. In particular, as the debt-to-GDP ratio rises, there is no identifiable point indicating that a crisis is likely or imminent. But all else being equal, the larger a government’s debt, the greater the risk of a fiscal crisis.

Even before a crisis occurred, the high and rising debt that CBO projects in the extended baseline would have macroeconomic effects with significant negative consequences for both the economy and the federal budget:

- The large amount of federal borrowing would draw money away from private investment in productive capital over the long term, because the portion of people's savings used to buy government securities would not be available to finance private investment. The result would be a smaller stock of capital, and therefore lower output and income, than would otherwise have been the case, all else being equal. (Despite those reductions, output and income per person, adjusted for inflation, would be higher in the future than they are now, thanks to the continued growth of productivity.)
- Federal spending on interest payments would rise, thus requiring the government to raise taxes, reduce spending for benefits and services, or both to achieve any targets that it might choose for budget deficits and debt.
- The large amount of debt would restrict policymakers' ability to use tax and spending policies to respond to unexpected challenges, such as economic downturns or financial crises. As a result, those challenges would tend to have larger negative effects on the economy and on people's well-being than they would otherwise. The large amount of debt could also compromise national security by constraining defense spending in times of international crisis or by limiting the country's ability to prepare for such a crisis."

Source: Congressional Budget Office, "The 2015 Long-Term Budget Outlook," June 16, 2015

## The Fiscal Ship Governing Goals

Governing goals represent your priorities for government. What's important to you? In order to play the game, you will need to pick up to three governing goals from the list below.

- **Reduce Inequality:** The disparity between Americans who have the most and the least income is growing, mirrored by disparities in education, health, and family structure. You want to narrow the widening gaps in incomes and well-being at the top and the bottom.
- **Strengthen National Defense:** Projections of current policies show defense spending, measured as a share of the economy, falling over the next decade and then plateauing. You'd bolster the U.S. military by providing it with more personnel and more arms. (To reach fiscal sustainability, you'll have to pay for these somehow.)
- **Fight Climate Change:** You want to use government policies to promote a cleaner, healthier environment, reduce greenhouse gas emissions and avoid the damage that could be caused by global climate change.
- **Strengthen Social Safety Net:** You believe it's important for the federal government to give a hand up to those in poverty and protect those at risk of falling down the income ladder when times are tough. You want to expand and protect programs that protect the vulnerable.
- **Tax Cutter:** You believe lower taxes will boost economic growth and want to allow Americans to keep more of what they earn. Your goal is to substantially reduce federal tax revenues as a share of the economy. (To reach fiscal sustainability, you'll have to cut spending, too.)
- **Shrink Government:** You believe that we're better off with a leaner federal government, shifting responsibilities to the private, non-profit and state and local sectors. Spending on general government operations and federal programs (other than health and retirement benefits) is projected under current policy to decline over the next decade. You'd reduce it more.
- **Shield the Elderly:** Under current policy, about 60% of the increase in federal spending over the next decade will go to Social Security, Medicare, Medicaid and other major health programs, much of that for the growing number of people who will be over age 65. You want to protect benefits for senior citizens.
- **Invest in the Future:** You believe in planting seeds today that will be harvested in years to come. You want policies to increase, above what's currently projected, government and private investment in children and young adults and in education, infrastructure and research that will pay off in the future. (To reach fiscal sustainability, you'll have to pay for these somehow.)
- **Fiscal Hawk:** You're not satisfied with restraining the projected increase in the federal debt so that in 25 years it's roughly where it is today, measured as a share of the overall economy. To put the government and the economy on a sounder footing, you want to reduce it substantially below today's levels.
- **Rein in Entitlements:** Spending on retirement, health and other government benefits, much of that for the elderly, account for two-thirds of non-interest spending today and threaten to squeeze out spending on everything else—from equipping soldiers with modern gear to repairing old bridges to pursuing cures for cancer. You want to restrain this spending to make room for other priorities.

## Handout #3

### Your Personal Governing Goals

Instructions: Answer questions #1-3 on your own. Do not write anything in the space for #4 until I provide you with further instructions.

1. Choose up to 3 governing goals from the list provided. List them below.

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2. Why did you choose these goals? Explain below in a short paragraph; be sure to comment on how your personal values influenced your choices.

3. Look at your goals again. Do these goals work in concert with each other in such a way that you will be able to achieve your objectives? (In other words, do you think they balance revenues and expenditures so that you will be able to put the country on a sustainable fiscal path? Are there any inherent contradictions in your chosen goals that put them at odds with one another?) Comment in a short paragraph below.

4. In a "5-minute write" respond to the following questions:
  - a. How were your chosen goals similar to or different from those of your partner? What does this say about similarities or differences in your aspirations and values?
  - b. Do you want to make any changes to your goals after discussing them with your partner? (In particular, think through your partner's feedback on whether your goals will allow you to achieve your objectives. If you do want to make any changes to your goals, make note of your revised goals in question #1.)

## Handout #4

### Playing the Game

Instructions: When instructed to do so, begin playing the game at <http://fiscalship.org>. Remember to use the policy goals that you decided on yesterday. You do not need to write anything below until you are finished with the game and receive further instructions.

1. "5-minute write":



## POLICY OPTIONS ON THE FISCAL SHIP



### ARTS & SCIENCES

- Boost National Science Foundation funding
- Cut National Institutes of Health funding
- Cut National Science Foundation funding
- End human space exploration
- Increase funding for arts and humanities
- Increase NASA budget
- Increase National Institutes of Health budget
- Reduce funding for arts and humanities

### CHILDREN & FAMILIES

- Block grant and cut food stamps
- Expand Earned Income Tax Credit
- Expand housing aid for poor
- Expand the child tax credit
- Increase childcare subsidies
- Paid family leave
- Preschool for four-year-olds
- Tighten eligibility for food stamps

### CORPORATE TAXES

- Cut corporate tax rate, close some loopholes
- Increase corporate tax rate
- Reduce taxes on international profits
- Set minimum tax on foreign profits

### FOOD & AGRICULTURE

- Block grant and cut food stamps
- Double FDA funding
- Reduce farm subsidies
- Tax sugary drinks
- Tighten eligibility for food stamps

### DEFENSE & FOREIGN AFFAIRS

- Build fewer submarines
- Cancel new aircraft carrier construction
- Cut active duty Army by half
- Cut foreign aid
- Expand U.S. Navy fleet
- Increase active duty Army
- Increase defense R&D spending
- Increase foreign aid
- Kill F-35 Joint Strike Fighter

### EDUCATION

- Eliminate student loan subsidies
- Eliminate the Department of Education
- Free tuition at public colleges
- Limit Pell grants to neediest students
- Preschool for four-year-olds
- Slash interest rates on existing student debt
- Two years of community college tuition-free

### ENERGY & ENVIRONMENT

- Double the EPA's budget
- Eliminate renewable fuel subsidies
- Eliminate the EPA
- End tax breaks for fossil fuels
- Extend renewable energy tax credits
- Impose a carbon tax
- Increase the gas tax

### TAXES ON INVESTMENTS

- Cut taxes on investment income
- End tax on capital gains, interest, dividends
- Impose new tax on financial transactions
- Increase tax on capital gains and dividends
- Tax carried interest as ordinary income

SEE REVERSE FOR MORE POLICIES



# POLICY OPTIONS ON THE FISCAL SHIP

## HEALTH

- Boost access to generic drugs
- Boost Medicare Advantage competition
- Bundle Medicare payments for post-acute care
- Cap Medicaid payments to states
- Cap Medicare spending
- Convert Medicare to "premium support"
- Cut National Institutes of Health funding
- Increase Medicare premiums
- Increase National Institutes of Health budget
- Increase taxes on cigarettes
- Means test Medicare
- Raise Medicare eligibility age
- Raise Medicare out-of-pocket costs
- Reduce what Medicare pays for drugs
- Reform malpractice laws
- Repeal Cadillac tax on costly health plans
- Repeal Obamacare's insurance expansions
- Use income taxes to fund Medicare

## INCOME & PAYROLL TAXES

- Reduce income tax rates, consolidate brackets
- Boost taxes on the super rich
- Eliminate cap on wages subject to payroll tax
- Implement a 15% flat income tax
- Increase all income tax rates
- Increase Medicare payroll tax
- Increase Social Security payroll tax

- Lower the inflation adjustment for taxes

- Raise taxes on \$150,000+ folks
- Raise taxes only on \$400,000+ folks
- Use income taxes to fund Medicare
- Use income taxes to fund Social Security

## INFRASTRUCTURE & TRANSPORTATION

- Cut infrastructure spending
- Double subsidies for Amtrak
- Eliminate funding for Amtrak
- Increase infrastructure spending

## LABOR & EMPLOYMENT

- Expand unemployment benefits
- Reduce federal employees' pensions
- Reduce federal employment through attrition
- Slow increases in government pay

## LAW & ORDER

- Cut spending on law enforcement
- Enact immigration reform
- Increase Homeland Security spending
- Reduce Homeland Security spending
- Spend more on law enforcement

## OTHER TAXES

- Eliminate the estate tax
- Extend renewable energy tax credits
- Impose a carbon tax
- Impose a value-added tax
- Increase taxes on cigarettes
- Increase the estate tax
- Increase the gas tax
- Repeal Cadillac tax on costly health plans
- Tax sugary drinks

## SOCIAL SECURITY

- Boost low-wage workers' Social Security
- Boost Social Security benefits for very old
- Cut Social Security COLA
- Increase Social Security eligibility age
- Lower the COLA for all spending programs
- Reduce Social Security benefits
- Use income taxes to fund Social Security

## TAX CREDITS & DEDUCTIONS

- End tax breaks for fossil fuels
- Convert mortgage interest deduction to credit
- Curtail charitable deduction
- Eliminate renewable fuel subsidies
- Eliminate state and local tax deductions
- Expand Earned Income Tax Credit
- Expand the child tax credit
- Raise the standard deduction