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.

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.

Playing the Game

Instructions: For Homework, play the game at http://fiscalship.org. Remember to use the policy goals that you decided on in class. After you have concluded the game please print out your plan.

1. What are the 3 policies you decided on which will raise the most revenue?
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    -
    -
2. What are the 3 policies you adopted which will cut the most spending?
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    -
    -
3. What over aching reforms should the federal government set the budget on a sustainable course in the next 25 years?

4. After going through the game reflect on the policies you chose. Why would these be hard to accomplish?

5. Interactively read the proposed tax policies of Clinton and Trump (below) and then summarize the article and compare their plan to your plan:

The Tax Policy Center reports quantify the dramatic contrast between the latest tax plans of Hillary Clinton and Donald Trump. Clinton has proposed a significant tax increase on high- income households and businesses. Trump's plan, while less ambitious than the version he released in 2015, would still largely benefit high-income households and result in a substantial boost in the federal debt.

Trump's latest plan would reduce federal revenues by $6.2 trillion over the next decade, with nearly half of the tax cuts going to the highest-income one percent of households. Clinton, by contrast, would boost federal revenue by $1.4 trillion over the next decade, with the bottom 80 percent of households receiving tax cuts and the top one percent paying over 90 percent of the net tax increase.

These revenue estimates use traditional budget scoring and exclude macroeconomic effects (dynamic scoring) and changes in interest costs. With added interest, the Trump plan would add about $7.2 trillion to the national debt over the next decade. Because Clinton's tax plan would reduce interest costs, it would trim the debt by $1.6 trillion over the next 10 years (though her spending proposals would likely soak up much of that revenue). TPC will soon release dynamic scores of both plans, which it produces in collaboration with the Penn Wharton Budget Model.

Under Trump's plan, households would receive an average tax cut of about $3,000 in 2017, or 4.1 percent of after-tax income. While all income groups would get a tax cut on average, those in the top 1 percent would enjoy a tax cut of nearly $215,000—a 13.5 percent increase in their after-tax income. Middle-income households would receive a tax cut averaging about $1,000, or 1.8 percent of their after-tax income and low-income households would get a tax reduction of about $100, boosting their after-tax income by 0.8 percent. However, some single parents and large families would pay higher taxes under Trump's proposal than they do today.

Trump would collapse the current seven tax brackets to three—12-25-33 percent. He'd combine the current standard deduction and personal exemptions into a single increased standard deduction of $15,000 for single filers and $30,000 for couples, but eliminate head of household filing status. He'd add a new deduction for child and dependent care, and repeal the alternative minimum tax and the estate tax. He'd also cap itemized deductions and tax capital gains in excess of $5 million at death.
From *Forbes Magazine Oct 11, 2016*

Under the new Republican plan (submitted November 6th) much of Trump's plan remains but the Republicans insist it will help the middle class too. The hypothetical middle class family would get a tax cut of almost $1,200 — for one year. It gets smaller in year two, smaller still in year three, smaller still in year four, and smaller still in year five. It nearly vanishes in the sixth year of the Republican tax plan, and in years seven, eight, nine, and 10 the family would be paying higher taxes than under current law. That tax hike is not only permanent, it actually grows over time because of a change to the inflation indexing of tax brackets.

On average, over the entire 10-year scoring window, the family would get a total tax cut of $3,550. Yet over the same time period, the national debt would grow by $4,644 per person — or about $18,500 for a family of four.

There's nothing wrong with running a budget deficit if you're accomplishing something worthwhile. But to go $18,500 in debt in order to secure a $3,550 tax cut is suspect.
From Vox News Nov 6, 2017

Summary and comparison to your plan: