

Learning About the Federal Budget: “Get a Pencil, You’re Tackling the Deficit!”

Overview

In this lesson, students will learn the basics about the federal budget – what services the federal government provides and how it collects money for those services, various types of fiscal policy and other information - through a short PowerPoint discussion. Students will then be appointed to a special Presidential commission to “tackle the deficit”, deciding whether to raise taxes, cut spending, or a combination of both. Finally, the students will have to defend their commission’s plans at a mock press conference.

Grade

10

NC Essential Standards for Civics & Economics

- CE.C&G.2.1 - Analyze the structures of national, state and local governments in terms of ways they are organized to maintain order, security, welfare of the public and the protection of citizens.
- CE.C&G.2.7 - Analyze contemporary issues and governmental responses at the local, state, and national levels in terms of how they promote the public interest and/or general welfare
- CE.C&G.2.8 - Analyze America’s two-party system in terms of the political and economic views that led to its emergence and the role that political parties play in American politics
- CE.E.3.3 - Analyze organizations in terms of their roles and functions in the United States economy

Materials

- “America’s Sea of Red Ink was Years in the Making” from the NY Times (attached) (optional)
 - <http://www.nytimes.com/2009/06/10/business/economy/10leonhardt.html>
- “America’s Sea of Red Ink was Years in the Making” answer key (attached)
- “The Federal Budget” PowerPoint available at the Database of K-12 Resources (in PDF format):
 - To view this PDF as a projectable presentation, save the file, click “View” in the top menu of the bar of the file and select “Full Screen Mode”.
 - To request an editable PPT version of this presentation, send a request to CarolinaK12@unc.edu
- “The Federal Budget” Guided Notes (attached) (optional)
- “Get a Pencil. You’re Tackling the Deficit” worksheet (attached)
- “Deficit Commission Instructions” handout (attached)
- “Explanation of Spending Options” handout (attached)
- “Explanation of Revenue Options” handout (attached)
- Poster paper
- Colored pencils
- Markers
- Podium and microphone (optional)

Essential Questions:

- What is the deficit?
- What is a surplus?
- Who controls the budget?
- What is a balanced budget?
- What are ways that the US Government can balance its budget?
- What programs does the federal government spend its money on?
- Where does funding for these programs come from?

Duration

- 90+ minutes; can be split over two days
- Time will vary depending on size of class and length of presentations

Student Preparation

Assign the attached NY Times article - "[America's Sea of Red Ink was Years in the Making](#)" – as a reading assignment the night before completing this lesson. Instruct students to write down questions about anything they didn't understand in the article.

Teacher Preparation

To save time, determine student groups and assign student roles before the class begins.

Procedure

Day One

Warm Up: What is the deficit?

1. As a warm up, project slide 2 of the "You Balance the Federal Budget" PowerPoint and divide students into groups of 4 to 6. Inform students that they will remain in these groups for the rest of the class. Instruct the groups to silently view the warm up image and to take mental notes of anything that jumps out at them. At this point, do not answer any questions the students may have. Next, pose the questions below to the class and instruct groups to discuss the questions. After a few minutes of group discussion, open the discussion to the whole class.
 - What do you see in this cartoon?
 - What does it say on the door? What do you think their job is?
 - *Office of Management and Budget's job is to oversee the preparation of the President's proposed budget by evaluating existing programs, assessing funding, and setting funding priorities.*
 - What is the title of the chart?
 - What is a budget deficit?
 - *A deficit is when the government spends more than it collects in revenues.*
 - What is the man standing on? What does that indicate?
 - What is the man doing and why do you think he's doing it?
 - Do you believe that the United States' budget deficit is a major problem facing the US today? Why or why not?
 - What title would you give this cartoon?

Budget Basics

2. Explain to students that they are going to be participating in a short discussion that covers some basic terms and ideas regarding the federal government's finances. They will learn about the ways the federal government is funded and what it does with that funding. Distribute the attached "Budget Basics Guided Notes" handout and instruct students to follow along with the PowerPoint. The additional information and questions listed below can be used to foster a class discussion concerning the federal government's budget and to help student's gain greater understanding of the material. The PowerPoint should be used to foster discussion.

- **Fiscal Policy (slide 3) additional information:**

- **Keynesian Economic Theory**

- Keynesian Economic Theory was developed by British economist John Maynard Keynes. He argued that a mixed economy – predominantly private sector, but with a large role for government and public sector – would help stabilize the economy and help to avert or at least the severity of another Great Depression.
 - Keynesian economic theory guided many of the United States and Europe's economic decisions from the Great Depression until the 1970's with the onset of stagflation (high inflation and high unemployment). With the onset of the 2008 recession, Keynesian economic theories have experienced a revival with economists, such as Paul Krugman, and are reflected

in some of the policies of President Barack Obama (e.g. American Recovery and Reinvestment Act aka “the Stimulus”).

- Sources: <http://krugman.blogs.nytimes.com/>,
http://en.wikipedia.org/wiki/Barack_obama,
<http://www.investopedia.com/terms/k/keynesianeconomics.asp>

- **Supply Side Economic Theory**

- Supply Side Economic Theory, unlike Keynesian theory, isn’t attributed to one economist. The term “supply side” was coined by journalist Jude Wanniski in 1976. Supply Side economists argue that the best way to stimulate economic growth is to lower taxes and remove government regulations from business. This theory is also called the “trickle down” theory because of the claim that if taxes are cut, the top income earners will use their additional money to invest in business and markets, in turn leading to more jobs.
- Examples of Supply Side Economics include Reaganomics - widespread tax cuts, decreased social spending, increased military spending, and the deregulation of domestic markets – and the “Bush Tax Cuts” - the Economic Growth and Tax Relief Reconciliation Act of 2001 and Jobs and Growth Tax Relief Reconciliation Act of 2003.

- Sources: <http://www.nytimes.com/2005/08/31/business/31wanniski.html>,
http://en.wikipedia.org/wiki/Supply-side_economics,
http://en.wikipedia.org/wiki/Trickle-down_economics

- **Fiscal Policy (slide 4) questions:**

- Why do you think unemployment insurance and welfare are called “automatic stabilizers?”
 - *They attempt to stabilize a weak economy from free falling into a recession by automatically kicking in after certain conditions are met (losing one’s job for unemployment benefits).*
- Do you think that the government should provide automatic stabilizers? Why or why not?

- **The Federal Budget (slide 5) questions:**

- Does anyone keep themselves on a budget? Do you think having a personal budget is important? Why or why not?

- **The Federal Budget (slide 5) additional information:**

- The Budget and Accounting Act of 1921 created the modern framework for the federal budget. It was an attempt to streamline the budget process and to bring more accountability to federal spending. The act created the Bureau of the Budget (renamed Office of Management and Budget) and the General Accounting Office (renamed Government Accountability Office) and required the President to submit a budget to Congress before the first Monday in February.

- **Congress and the Budget (slide 6) questions:**

- What are some examples of mandatory spending?
- What are some examples of discretionary spending?

- **Spending (slide 7) additional questions:**

- What is Social Security?
 - *A federal program that provides monthly payments to people who are retired or disabled.*
- What is Medicare?
 - *A federal program that provides health care for the elderly.*
- What is Medicaid?
 - *A federal, state and local program that provides health care for people with low incomes or disabilities.*
- What type of economist – Keynesian or Supply Sider – would support these social programs? Why?

- **Revenue (slide 9) additional information and questions:**

- **Forms and Types of Taxes:**
 - **Progressive Tax:** the tax rate increases as you make more money. The federal government uses a progressive tax rate.
 - **Proportional Tax:** Everyone pays the same percentage of their income. For example: If the tax rate is 10%, someone who makes \$1,000 a year will pay \$100 dollars in taxes, while someone who makes \$10,000 dollars in taxes will pay \$1,000. Also known as a “flat tax”.
 - **Regressive Tax:** this is the opposite of a progressive tax – the percentage you pay goes down the more money you make. Examples include sales taxes and gas taxes because they take a larger portion of one’s total income the less you make.
 - **Payroll Tax:** the tax an employer withholds and/or pays on behalf of their employees based on the wage or salary of the employee.
 - **Excise Tax:** a tax on the production or sale of specific goods. One example would be the federal and state excise taxes on cigarettes.
 - **Estate Tax:** a tax imposed on the transfer of the “taxable estate” (life insurance policy, property, bank accounts, etc.) of a deceased person to someone else via a will. The tax usually doesn’t apply if the estate is left to a spouse or a charity. Commonly referred to as a “death tax” by opponents.
- **Revenue (slide 9) additional questions:**
 - An excise tax is what kind of tax?
 - *Regressive tax because the percentage you pay goes up the less money you make*
 - Which of these forms of taxation should the federal government use to raise revenue? All of them? A combination? Explain your reasoning.
- **Expenditures (slide 10) additional questions:**
 - What is the federal government’s largest expenditure?
 - *Medicaid & Medicare*
 - Why do you think the federal government spends so much on defense?
 - What is the second largest expenditure?
 - *Social Security*
- **Where Do These Deficits Come From (slide 14) additional information:**
 - **Troubled Asset Relief Program (TARP):** TARP was signed into law by President Bush on October 3, 2008 in response to the near collapse of the US financial sector. The intent of TARP is to stabilize the US financial system and prevent a systemic collapse. TARP is colloquially known as the “bank bailouts”, but there are many programs that fall under TARP; some include
 - Making Home Affordable Program
 - Hardest Hit Fund
 - Consumer and Business Lending Initiative
 - Public-Private Investment Program
 - Automotive Industry Financing Program

OK! You Fix the Budget!

3. Inform the groups that they have been selected by President Barack Obama to help solve the budget crisis by being part of a special deficit commission that will recommend cutting or reducing programs and/or increasing taxes. Provide each student in the group with the attached, “Get a Pencil. You’re Tackling the Deficit” handout. Next, provide each group’s “Researcher” with one copy of the attached “Explanation of Spending Options” and “Explanation of Revenue Options” handouts. Provide two different colored pencils to the Secretary. Review the attached instructions handout with the class before allowing groups to begin.

4. Groups should work independently on their posters and presentations for the remainder of the class. They should complete their projects for homework if they do not finish them in class. Inform students that they will have five minutes at the start of the next class to review their projects before presenting.

Day Two

Press Conference

5. Forgo a warm up activity and allow groups five minutes to finalize their presentations and press conference questions. While students are preparing, arrange the room so that the presenting group can face the rest of the class.
 - **Optional Activity:** Cue up clips of a press conference to give students an idea of how the simulation should run. A simple Google search will turn up hundreds of press conferences.
6. After the allotted time, review the instructions for the press conference (see the attached “Deficit Commission Instructions” handout) and review expected behavior for the simulation, noting expectations such as:
 - Remain respectful at all times and encourage one another.
 - Try your best and take the simulation seriously.
 - Listen when others are speaking. Do not discuss your presentation while other groups are presenting.
 - Maintain order and professionalism throughout the hearing, whether you agree with what is being said or not.
 - No name calling, eye rolling, smacking teeth, disruptive comments, etc.
 - Have fun!

Press Conference Format

Chair Presents the Proposal	3 – 5 minutes
Chair and Commission answer reporters’ questions regarding their proposal	5 – 10 minutes

7. Grade students according to the attached rubric while they are presenting, making note of any points that you would like to address at the conclusion of the press conferences.
8. Once all of the groups have presented and defended their proposals, debrief the class by discussing the following questions:
 - Did you find it difficult to defend your views at the press conference?
 - If you could redo the press conference, how would you prepare differently?
 - What spending/revenue option caused the most debate among the group? Why?
 - What option did most groups agree on? Why?
 - Did your group find it easier to cut spending or raise taxes?
 - What group of people in the United States would be most affected by cuts to Social Security and Medicare? Why do you think politicians want to keep this group happy?
 - *Elderly, retired persons, etc. It is important to address their concerns because they vote more consistently as a demographic group than any other. Source: [US Census Bureau](#).*
 - Do you think that the United States can cut defense spending without sacrificing national security? Why or why not?
 - Do you believe that tackling the deficit is an important issue? Why or why not?
 - Should the government cut social spending (i.e. Social Security, Medicare, etc.) during a recession? Why or why not?
 - Should the government raise taxes during a recession? Why or why not?

Additional Activities

- Have students research the “Bowles-Simpson” deficit reduction proposal and then write a short paper critiquing the commission’s conclusions for reducing the deficit. Do students agree or disagree with the changes proposed by the commission? Why or why not?
- Students can complete a similar activity for North Carolina’s budget and then compare and contrast their experiences with the federal budget. What programs were similar? What were different? The game can be found at <http://www.governor.state.nc.us/budgetapp/>

Additional Resources

- “You Fix the Budget” Interactive Online Game (optional, can be used in lieu of the worksheet)
 - <http://www.nytimes.com/interactive/2010/11/13/weekinreview/deficits-graphic.html>
- “The National Commission on Fiscal Responsibility and Reform” Report. Colloquially known as the “Bowles-Simpson” report.
 - http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf

America's Sea of Red Ink Was Years in the Making
By David Leonhardt

There are two basic truths about the enormous deficits that the federal government will run in the coming years.

The first is that President Obama's agenda, ambitious as it may be, is responsible for only a sliver of the deficits, despite what many of his Republican critics are saying. The second is that Mr. Obama does not have a realistic plan for eliminating the deficit, despite what his advisers have suggested.

The New York Times analyzed Congressional Budget Office reports going back almost a decade, with the aim of understanding how the federal government came to be far deeper in debt than it has been since the years just after World War II. This debt will constrain the country's choices for years and could end up doing serious economic damage if foreign lenders become unwilling to finance it.

Mr. Obama — responding to recent signs of skittishness among those lenders — met with 40 members of Congress at the White House on Tuesday and called for the re-enactment of pay-as-you-go rules, requiring Congress to pay for any new programs it passes.

The story of today's deficits starts in January 2001, as President Bill Clinton was leaving office. The Congressional Budget Office estimated then that the government would run an average annual surplus of more than \$800 billion a year from 2009 to 2012. Today, the government is expected to run a \$1.2 trillion annual deficit in those years.

You can think of that roughly \$2 trillion swing as coming from four broad categories: the business cycle, President George W. Bush's policies, policies from the Bush years that are scheduled to expire but that Mr. Obama has chosen to extend, and new policies proposed by Mr. Obama.

The first category — the business cycle — accounts for 37 percent of the \$2 trillion swing. It's a reflection of the fact that both the 2001 recession and the current one reduced tax revenue, required more spending on safety-net programs and changed economists' assumptions about how much in taxes the government would collect in future years.

About 33 percent of the swing stems from new legislation signed by Mr. Bush. That legislation, like his tax cuts and the Medicare prescription drug benefit, not only continue to cost the government but have also increased interest payments on the national debt.

Mr. Obama's main contribution to the deficit is his extension of several Bush policies, like the Iraq war and tax cuts for households making less than \$250,000. Such policies — together with the Wall Street bailout, which was signed by Mr. Bush and supported by Mr. Obama — account for 20 percent of the swing.

About 7 percent comes from the stimulus bill that Mr. Obama signed in February. And only 3 percent comes from Mr. Obama's agenda on health care, education, energy and other areas.

If the analysis is extended further into the future, well beyond 2012, the Obama agenda accounts for only a slightly higher share of the projected deficits.

How can that be? Some of his proposals, like a plan to put a price on carbon emissions, don't cost the government any money. Others would be partly offset by proposed tax increases on the affluent and spending cuts. Congressional and White House aides agree that no large new programs, like an expansion of health insurance, are likely to pass unless they are paid for.

Alan Auerbach, an economist at the University of California, Berkeley, and an author of a widely cited study on the dangers of the current deficits, describes the situation like so: "Bush behaved incredibly irresponsibly for eight years. On the one hand, it might seem unfair for people to blame Obama for not fixing it. On the other hand, he's not fixing it."

"And," he added, "not fixing it is, in a sense, making it worse."

When challenged about the deficit, Mr. Obama and his advisers generally start talking about health care. "There is no way you can put the nation on a sound fiscal course without wringing inefficiencies out of health care," Peter Orszag, the White House budget director, told me.

Outside economists agree. The Medicare budget really is the linchpin of deficit reduction. But there are two problems with leaving the discussion there.

First, even if a health overhaul does pass, it may not include the tough measures needed to bring down spending. Ultimately, the only way to do so is to take money from doctors, drug makers and insurers, and it isn't clear whether Mr. Obama and Congress have the stomach for that fight. So far, they have focused on ideas like preventive care that would do little to cut costs.

Second, even serious health care reform won't be enough. Obama advisers acknowledge as much. They say that changes to the system would probably have a big effect on health spending starting in five or 10 years. The national debt, however, will grow dangerously large much sooner.

Mr. Orszag says the president is committed to a deficit equal to no more than 3 percent of gross domestic product within five to 10 years. The Congressional Budget Office projects of at least 4 percent for most of the next decade. Even that may turn out to be optimistic, since the government usually ends up spending more than it says it will. So Mr. Obama isn't on course to meet his target.

But Congressional Republicans aren't, either. Judd Gregg recently held up a chart on the Senate floor showing that Mr. Obama would increase the deficit — but failed to mention that much of the increase stemmed from extending Bush policies. In fact, unlike Mr. Obama, Republicans favor extending all the Bush tax cuts, which will send the deficit higher.

Republican leaders in the House, meanwhile, announced a plan last week to cut spending by \$75 billion a year. But they made specific suggestions adding up to meager \$5 billion. The remaining \$70 billion was left vague. "The G.O.P. is not serious about cutting down spending," the conservative Cato Institute concluded.

What, then, will happen?

"Things will get worse gradually," Mr. Auerbach predicts, "unless they get worse quickly." Either a solution will be put off, or foreign lenders, spooked by the rising debt, will send interest rates higher and create a crisis.

The solution, though, is no mystery. It will involve some combination of tax increases and spending cuts. And it won't be limited to pay-as-you-go rules, tax increases on somebody else, or a crackdown on waste, fraud and abuse. Your taxes will probably go up, and some government programs you favor will become less generous.

That is the legacy of our trillion-dollar deficits. Erasing them will be one of the great political issues of the coming decade.

Source: http://www.nytimes.com/2009/06/10/business/economy/10leonhardt.html?_r=1&pagewanted=print

After reading the article, answer the following questions:

- 1) As President Clinton was leaving office, what did the Congressional Budget Office (CBO) predict about the budget from 2009 to 2012?

- 2) Today, what is the CBO predicting about the government's finances?

- 3) What is a deficit?

- 4) What are the four main causes of the current deficit problem?
- 5) List one of President Bush's policies that helped contribute to the deficit.
- 6) List one of President Obama's policies that helped contribute to the deficit.
- 7) What is the lynchpin of the deficit reduction? Using your textbook or the internet, explain what the purpose of the program.
- 8) According to the article, what is the solution to the deficit problem? In your opinion, why do you think this will be politically difficult?

America's Sea of Red Ink Was Years in the Making Answer Key

- 1) As President Clinton was leaving office, what did the Congressional Budget Office (CBO) predict about the budget from 2009 to 2012?
That there would be approximately an \$800 billion surplus from 2009 to 2012.
- 2) Today, what is the CBO predicting about the government's finances?
A \$1.2 trillion deficit during the years 2009 to 2012
- 3) What is a deficit?
When the government spends more than it collects.
- 4) What are the four main causes of the current deficit problem?
The business cycle, President George W. Bush's policies, policies from the Bush years that are scheduled to expire but that Mr. Obama has chosen to extend, and new policies proposed by Mr. Obama.
- 5) List one of President Bush's policies that helped contribute to the deficit.
Possible answers: Tax cuts, the Medicare prescription drug benefit, the Iraq War, Wall Street bailout
- 6) List one of President Obama's policies that helped contribute to the deficit.
Possible answers: Stimulus bill, education spending, energy spending, healthcare spending
- 7) What is the lynchpin of the deficit reduction? Using your textbook or the internet, explain what the purpose of the program.
[Reducing] the Medicare budget. Medicare is a social insurance program administered by the United States government, providing health insurance coverage to people who are aged 65 and over, or who meet other special criteria.
- 8) According to the article, what is the solution to the deficit problem? In your opinion, why do you think this will be politically difficult?
It will involve some combination of tax increases and spending cuts. No politician wants to increase taxes and cut services that people depend on.

1. Fiscal Policy

- What is fiscal policy?
 - a government policy for _____ (especially through _____).
 - What are some different theories concerning fiscal policy?
 1. _____: an economic theory that believes it is the _____ job to smooth out the bumps in business cycles. Intervention would come in the form of government _____ and _____ in order to stimulate the economy, and government spending cuts and tax hikes in good times, in order to curb inflation.
 - a. Ex: FDR's " _____ " programs during the Great Depression.
 2. _____: an economic theory that reduction of tax rates encourages more earning, savings, and investment and thereby expands economic activity and the total taxable national income.
 - a. Also called the " _____ theory"
 - b. Ex: Ronald Reagan's " _____ " during the 1980's
- What are _____?
 - Based on _____ ideas, these are government programs that _____ and are intended to keep a _____ in the US.
 1. _____
 2. Welfare payments
 3. _____
 4. Progressive income tax
 5. _____

2. The Federal Budget

- What is a budget?
 - A blueprint of _____.
- What is the federal government's fiscal year?
 - A period from _____ to _____ of the following year.
 1. 2011 fiscal year: October 1, 2010 – September 30, 2011
- Who proposes the budget?
 - The _____ proposes the budget by the first Monday in February (as required by law)

3. Congress and the Budget

- Isn't Congress supposed to control the purse strings? (Article I Sec 8)
 - They do. Once the President proposes a budget, Congress _____ which totals _____ and sets targets on _____.
 - What does Congress spend the revenue on?
 1. _____: spending that doesn't need annual approval
 2. _____: spending that needs to be approved by Congress each year. It is set by the various House and Senate Subcommittees

4. Spending

- **Mandatory Spending**

- _____
- _____
- _____

- _____
- _____

- **Discretionary Spending**

- _____
- Commerce, Justice and Science
- _____
- Energy and Water
- Financial Services
- _____

- Interior and Environment
- _____
- Military Construction and Veterans Affairs
- _____
- Transportation, Housing and Urban Development

5. Appropriations Bills

- Before the government can spend discretionary money, Congress must pass separate appropriations bills.
- These bills follow the normal bill to law process.

6. Revenue

- Where does the money come from?

- _____
 1. _____
 2. _____
 - a. Pays for _____
 3. _____
 4. _____
 - a. _____
 5. Other
 - a. _____
 - b. _____

7. Expenditures

- What does the government spend its money on?

- _____
 1. Departments of Defense and Homeland Security
 - a. _____
- _____
 1. _____
- _____
 1. Pay interest on money the government has borrowed (debt)

8. Managing the Economy

- What is a _____?

- When _____ equals _____.
- Unlike many states, the federal government isn't required to have a balanced budget.
- What is a _____?
 - When the government _____ than it collects.
- What is a _____?
 - When the government _____ than it collects.
- What happens when the government runs a deficit?
 - It must _____.
- How does the government borrow money?
 - It sells _____: contracts to repay the borrowed money, plus interest, at a future date.

9. Where Do These Deficits Come From?

- According to the NY Times:
 - Four broad categories:

<ol style="list-style-type: none"> 1. The _____ <ol style="list-style-type: none"> a. 2001 Recession 2. President _____ <ol style="list-style-type: none"> a. Tax cuts b. Medicare prescription drug coverage c. TARP 	<ol style="list-style-type: none"> 3. Policies from the _____ <ol style="list-style-type: none"> a. Wars in Afghanistan and Iraq b. Extension of tax cuts 4. New policies proposed by _____ <ol style="list-style-type: none"> a. Stimulus bill
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10. _____ Commission

- Officially called the “ _____ ”
- Created by President Obama in early 2010 to identify policies _____ and to achieve _____.
- Chaired by
 - Erskine Bowles, fmr. Chief of Staff for President Clinton and UNC System President
 - Alan Simpson, fmr. Senator
- Released a report on December 1, 2010 which called for:
 - Deep cuts in _____ and _____
 - Gradual increase in federal gasoline tax
 - Limiting tax breaks
 - Increase _____
 - _____ benefit cuts
- Failed to garner enough votes from all 18 commission members to be officially endorsed by the commission.

Name _____

Deficit Commission Instructions



Congratulations! You've been selected by President Barack Obama to be a part of a special commission that will attempt to tackle the US government's deficit. The commission's job is to look at the proposed options – cut spending, raise taxes, or a combination of both – and to choose the best course of action. Be prepared to justify and defend all of your choices to your fellow committee members as well as the country at large via a nationally televised press conference.

Directions

1. Once assigned a role, read steps 1 – 3 of the *Get a Pencil. You're Tackling the Deficit* handout aloud.
2. Review all of your "spending" and "revenue" options and discuss a course of action for each. While the group is reviewing the options, each member should place a "✓" next to options you agree with and an "x" next to options you don't agree with— do not fill in the boxes at the top of the page yet.
3. After reviewing and researching, hold a vote on all the options. Each option should be briefly debated within the group, by weighing the pros and cons. The majority vote decides the group's course of action. In the event of a tie, the Chair's vote counts twice.
4. After the group votes, the Recorder should fill in the large grid at the top of the *Get a Pencil. You're Tackling the Deficit*, reflecting the group's choices. The rest of the group should begin working on the deficit commission poster and press conference prep.
5. The poster should include the following:
 - A creative name for your commission
 - The completed grid from the top of the *Get a Pencil. You're Tackling the Deficit* handout.
 - A section highlighting the dollar amount cut from the deficit.
 - A short paragraph that answers the following question:
 - Which fiscal policy would you use to describe your plan – Keynesian, Supply Side, or a combination of both?
 - Choose the five spending/revenue options that your group feels are the most significant, then:
 - indicate whether the option affects *mandatory spending* or *discretionary spending*.
 - write a short justification (3 – 5 sentences) for each option explaining why your group feels it's important to choose this option. (e.g. "We feel it's important to enact medical malpractice reform because....")
 - Choose one spending and one revenue option that your group chose to ignore and explain why you ignored it.
 - Be sure that the poster is eye catching and easy to read.

Press Conference Instructions

- Format:
 - 3- 5 minute presentation by the commission Chair regarding their proposal poster. No questions will be taken during this time.
 - 5 - 10 minute Q & A session with the entire commission with the rest of the class acting as reporters.
- The Chair's Presentation Should Include:
 - An introduction that lets the country know who you are and why you're on TV holding a press conference.
 - A brief overview of the spending or revenue options chosen by the group.
 - An explanation of why the group chose to ignore one option.
- Q & A Session:
 - The rest of the group should move to the front of the room with the Chair.
 - The Chair will select a reporter to ask a question.
 - If the Chair is unable to answer the question or feels that someone within the group is more qualified to answer the question, the Chair can defer to that person.
- Reporters
 - If your group is not presenting, you're a reporter.
 - Create three questions you would like to ask the presenting groups.
 - Once the Q&A session begins, raise your hand to ask a question and wait for the Chair to call on you before presenting one of your questions.

I) Domestic Programs and Foreign Aid

- **Cut foreign aid in half:** At a time when the United States is facing large deficits, some budget analysts argue that the country should significantly reduce the money it spends helping other countries. Others say that foreign aid already represents a smaller share of the budget here than in other rich countries and that it expands American influence.
- **Eliminate earmarks:** Earmarks are lawmaker-directed spending items, often to finance local projects favored by a member of Congress. Sometimes called 'pork' or 'pork barrel projects'.
- **Eliminate farm subsidies:** Many economists argue that farm subsidies distort the workings of the market and largely flow to big agricultural businesses. As the Congressional Budget Office has noted, advocates of reducing the subsidies argue that doing so "could help small farms indirectly, slowing the rate" of consolidation. Supporters argue that the subsidies help preserve the American agriculture industry.
- **Cut pay of civilian federal workers by 5 percent:** "During the Great Recession, most private-sector employees have seen their wages frozen, and some have even watched wages decline," the chairmen of the deficit panel wrote. "In contrast, federal workers have seen their wages increase." This option would be a one-time 5 percent cut in federal civilian workers' pay; the chairmen called for a three-year freeze on pay, which would have a similar effect.
- **Reduce the federal workforce by 10 percent:** This proposal would reduce the size of the federal work force by 200,000, from its current level of more than 2 million. The chairmen of the fiscal commission noted that the federal work force peaked at about 2.3 million in the late 1960s and fell to a low of 1.8 million in 2000. "Under this proposal, the government could hire two new workers for every three who leave service," the chairmen said. The proposal would not take effect until 2012.
- **Cut 250,000 government contractors:** In the past decade, both the number of federal employees and the number of contractors rose. Recent estimates suggest that contractors outnumber federal employees by millions. The chairmen wrote, "While contractors provide useful services — sometimes at a lower cost than the federal government — their numbers are simply too high in light of the current budget deficit."
- **Other cuts to the federal government:** The chairmen called for a series of smaller cuts, including eliminating some agencies, cutting research funds for fossil fuels, reducing funds for the Smithsonian and the National Park Service, eliminating certain regional subsidies, and eliminating the Office of Safe and Drug-Free Schools.
- **Cut aid to states by 5 percent:** In the past decade, even before the stimulus bill, state aid rose significantly, as a share of the economy. In 2005, it equaled 3.4 percent of gross domestic product, compared with 2.3 percent in 1990 and 3.3 percent in 1980. Cutting state aid, advocates say, would persuade states to spend more efficiently and reduce waste. Opponents worry about the effects on education, poverty and public safety.

II) Military

- **Reduce nuclear arsenal and space spending:** Would reduce number of nuclear warheads to 1,050, from 1,968. Would also reduce the number of Minuteman missiles and funding for nuclear research and development, missile development and space-based missile defense.
- **Reduce military to pre-Iraq War size and further reduce troops in Asia and Europe:** "This option," according to the bipartisan Sustainable Defense Task Force, "would cap routine U.S. military presence in Europe and Asia at 100,000 personnel, which is 26 percent below the current level and 33 percent below the level planned for the future. All told, 50,000 personnel would be withdrawn." The option would also reduce the standing size of the military as the wars in Iraq and Afghanistan wind down.
- **Reduce Navy and Air Force fleets:** Under this option, the Navy would build 48 fewer ships and retire 37 more ships than now scheduled. Overall, the battle fleet would shrink to 230 ships, from 286. In addition, the Air Force would retire two tactical fighter wings and reduce the number of fighter jets it planned to purchase.
- **Cancel or delay some weapons programs:** This option would cancel the purchase of some expensive equipment, like the F35 fighter jet and MV-22 Osprey, with less expensive equipment that the bipartisan Sustainable Defense Task Force judged to

have similar capability. It would delay other purchases. Research and development spending, which the task force considered a relic of the cold war arms race, would be reduced.

- **Reduce noncombat military compensation and overhead:** Would change health-care plan for veterans who had not been wounded in battle. Premiums, which have not risen in a decade, would rise. More veterans would receive health insurance from employer. This option would also take some benefits, like housing allowances, into account when tying military raises to civilian pay raises. Currently, increases in those benefits come on top of pay raises. The military would also reduce the length and frequency of combat tours. No unit or person will be sent to a combat zone for longer than a year, and they will not be sent back involuntarily without spending at least two years at home.
- **Reduce the number of troops in Iraq and Afghanistan to 60,000 by 2015:** Reduce the number of troops in Iraq and Afghanistan to 60,000 by 2015. Today, the United States military has 100,000 troops in Afghanistan and 50,000 in Iraq. The Obama Administration plans to reduce these numbers in coming years but has not specified troop levels. Defense and budget experts say this 60,000 option would be faster than what is now planned. The savings is the difference between the administration's projected spending and the spending under this option.
- **Reduce the number of troops in Iraq and Afghanistan to 30,000 by 2013:** Reducing troops by to 30,000 from 60,000 could save an additional \$20 billion by 2030.

III) Health Care:

- **Enact medical malpractice reform:** Many doctors believe so-called defensive medicine – ordering tests and procedures to avoid lawsuits – is a major reason health costs are so high. This option would begin to reduce the chances of large malpractice verdicts, and supporters believe, also reduce rising medical costs. Opponents say it could reduce doctors' incentives to avoid errors. The savings estimate comes from the Congressional Budget Office.
- **Increase the Medicare eligibility age to 70:** Those who favor raising the eligibility age for Medicare often say that Americans are living longer and should work longer. And, some say, the new health-care bill will allow people in their late 60s without employer-provided insurance to buy a policy through an exchange. Opponents say that low-income workers have experienced the lowest increases in longevity, and they need Medicare the most.
- **Reduce the tax break for employer-provided health insurance:** This option would reduce the tax break for employer-provided health insurance, by slowly adjusting the cap, so that it increases at the rate of economic growth, rather than the growth in health costs – which tends to be significantly faster. Over time, more employer spending on health insurance would be taxed.
- **Cap Medicare growth starting in 2013:** This option would cap the Medicare growth at G.D.P. growth plus 1 percentage point, starting in 2013. Among other things, this would crack down on many hospitals and doctors with the highest costs.

IV) Social Security:

- **Raise the Social Security retirement age to 68:** The increase in longevity has caused some to favor higher eligibility ages for Social Security. This option would gradually raise the age from the currently planned 67 to 68. Supporters say that the change would go a long way toward fixing Social Security's shortfall, by reducing benefits and by encouraging people to work (and thus pay payroll taxes) for longer. Opponents say that longevity increases have been smallest among low-income workers, who need Social Security the most.
- **Reduce Social Security benefits for those with high incomes:** Currently, initial Social Security benefits are determined in a way that allows them to grow with economy-wide wage growth," says the Committee for a Responsible Federal Budget, a private group in Washington. Under this option, workers below the 60th percentile of the lifetime earnings distribution would continue to have their retirement benefits grow over time with average wage increases. But the benefits of top earners would grow more slowly – with inflation – while benefits for workers just above the 60th percentile would grow at a rate between inflation and wage growth.
- **Tighten eligibility for disability:** The costs of the disability insurance program, which is administered by the Social Security Administration, have been rising rapidly. This option would cut disability spending by 5 percent by focusing on states with the loosest standards. Supporters note that growing numbers of workers are classified as disabled, though the average job is less physically taxing. Opponents worry that injured or ill workers with few good job prospects would be harmed.

- **Use an alternate measure for inflation:** Some economists believe that the Consumer Price Index overstates inflation, giving Social Security recipients larger cost-of-living increases than necessary. This option would use a different, lower inflation measure both for Social Security and in the tax code (thus pushing more households into higher brackets over time). Supporters say the lower measure is more accurate. Opponents say it is less accurate for the elderly, who buy a different mix of goods and services than other households.

Explanation of Revenue Options

I) Estate Tax:

- **The Lincoln-Kyl proposal:** For the first time since early in the 20th century, there is no estate tax in 2010 – a feature of the 2001 Bush tax cut. (The tax is scheduled to return in 2011, but this exercise assumes the cut will continue.) A proposal by Senators Jon Kyl, an Arizona Republican, and Blanche Lincoln, an Arkansas Democrat, is the most moderate of the estate-tax options here. It would exempt the first \$5 million from any taxable estate and index this level to inflation over time. Any estate value above \$5 million would be taxed at a 35 percent rate.
- **President Obama's proposal:** President Obama's proposal is more aggressive than Kyl-Lincoln, but would still cut the estate tax when compared to the Clinton years. The Obama plan would exempt the first \$3.5 million from any taxable estate. Any estate above \$3.5 million would be taxed at a 45 percent rate. These are the same provisions that applied in 2009, as part of the 2001 Bush tax cut.
- **Return the estate tax to Clinton-era levels:** Under President Bill Clinton, the estate tax exempted \$1 million from any taxable estate. This level would not grow with inflation over time, subjecting more estates to the tax. The rate would start at 18 percent and climb to 55 percent, as it did in the 1990s. The 55 percent rate would begin at \$3 million. If Congress takes no action, this would become law on Jan. 1, 2011.

II) Investment Taxes:

- **President Obama's proposal:** Capital gains and dividends are now untaxed for couples with incomes below \$68,000. For everyone else, the tax rate is 15 percent. This option, proposed by President Obama, would raise the rate to 20 percent for households making roughly \$250,000 a year and above.
- **Return rates to Clinton-era levels:** This option would return rates to their level under President Bill Clinton: 10 percent on capital gains for low-income households and 20 percent for everyone else, while dividends would again be taxed at the same rate as ordinary income.

III) Income and Employer Taxes

- **Allow expiration for income above \$250,000 a year:** This option would allow the expiration, on Jan. 1, of the Bush tax cuts for the top 2 percent or so of households on the income distribution – those making \$250,000 or more. On average, the change would equal about 2 percent of a given household's pretax income.
- **Allow expiration for income below \$250,000 a year:** This option would allow the expiration, on Jan. 1, of the Bush tax cuts for the bottom 98 percent or so of households on the income distribution – those making \$250,000 or less. On average, the change would equal about 2 percent of a given household's pretax income.
- **Payroll tax: Subject some incomes above \$106,000 to tax:** When the payroll tax – which finances Social Security and Medicare – was created, it covered 90 percent of all income. Today, with a ceiling at \$106,800, it covers closer to 80 percent. This option would gradually raise the ceiling, until 90 percent of income was again subject to the tax.

IV) Tax Reform:

- **Millionaire's tax on income above \$1 million:** Currently, the top tax brackets starts at about \$375,000. In past decades, it started at much higher income level, after inflation is taken into account. This option – which the House passed last year but the Senate did not – would create a new 5.4 percent surtax on income above \$1 million.
- **Eliminate loopholes, reduce rates (Bowles-Simpson plan):** The deficit commission proposed a series of tax overhaul plans. Each one would reduce tax breaks for companies and individuals, while lowering tax rates. On the whole, the plans would raise revenue. One plan would cut all tax breaks other than the child and earned-income tax credits and those for mortgages, health and retirement benefits. The corporate tax would then be cut to 28 percent, from 35 percent, while individual tax rates would be cut for all brackets too.
- **Reduce mortgage deduction and others for high-income households:** The benefits of the mortgage-interest deduction (and several other tax breaks) flow mostly to high-income households – because they tend to have larger mortgages and have marginal income-tax rates. This option would reduce the value of some of those breaks to high-income households.

V) Other New Taxes:

- **National sales tax:** Nearly every other rich country has a tax on consumption, also known as a value-added tax or national sales tax. This option would impose a 5 percent consumption tax, exempting education, housing and charitable giving.

- **Carbon tax:** This option would tax carbon emissions, starting at \$23 per ton of CO₂. The tax rate would increase at a constant annual rate of 5.8 percent, from 2012 through 2050. Consumers would receive a partial rebate.
- **Bank Tax:** This option would tax banks based on the size of their holdings and the perceived riskiness of those holdings. Larger, riskier banks would pay more tax, both to discourage them from taking big risks and to help cover the costs of future financial crises.

Poster Rubric

	5	4	3	2	1
Use of Class Time	Use all available time effectively and did not distract others.	Used most of the available time effectively and did not distract others	Used some of the available time effectively, but occasionally distracted others	Used little of available time effectively and distracted others.	Did not used class time to focus on project or often distracted others.
Spelling and Grammar	No spelling and/or grammatical errors	One to three spelling and/or grammatical errors	Four to seven spelling and/or grammatical errors	Seven to ten spelling and/or grammatical errors	More than ten grammatical errors
Creativity and Attractiveness	The poster is exceptionally attractive in terms of design, layout, and neatness.	The poster is attractive in terms of design, layout and neatness.	The poster is acceptably attractive though it may be a bit messy.	The poster is messy or very poorly designed.	The poster is distractingly messy or very poorly designed. It is not attractive.
Required Elements	The poster includes all required elements as well as additional information.	All required elements are included on the poster.	All but 1 of the required elements are included on the poster.	All but 2 of the required elements are included on the poster.	Several required elements were missing
Group Participation	Everyone in the group participated in creating the poster	Everyone but one person participated in creating the poster	Everyone but two people participated in creating the poster	Everyone but three people participated in creating the posters	Only one person participated in creating the poster.

Press Conference Rubric

	5	4	3	2	1
Presentation Timing	The presentation was between three and five minutes	The presentation was between two and six minutes	The presentation was between one and seven minutes	The presentation was between one and eight minutes	The presentation was not completed
Preparedness	Group is completely prepared and has obviously rehearsed	Group seems fairly prepared, but might have needed more rehearsals	Group is somewhat prepared, but it was clear that rehearsal was lacking	Group is underprepared and it is clear that rehearsal was lacking	Group is completely unprepared for the presentation
Required elements	The presentation included all the required elements – introduction, overview, explanation, all group members participate in Q&A session	The presentation was missing one element	The presentation was missing two elements	The presentation was missing three or more elements	The presentation was not completed
Reporters	Each group member created three questions	One group member didn't create three questions	Two group members didn't create three questions	Three group members didn't create three questions	Four or more group members didn't create three questions
Listens to Other Presenters	Listens intently. Does not make distracting noises or movements.	Listens intently but has one distracting noise or movement.	Sometimes does not appear to be listening but is not distracting.	Sometimes does not appear to be listening and has distracting noises or movements.	Does not appear to be listening at all and is distracting the other presenters