



Lesson 5: Debts, Deficits, and Debasement: Using Public Choice Economics to Understand Public Debt

Lesson Overview

In this lesson, students take on the roles of elected representatives serving on the House Budget Committee. As they work with their committee to determine which of 12 policies to include in the final budget proposal, they face trade-offs between their constituents' desires, their own values, their reelection campaign, and the financial state of the nation. As students weigh the costs and benefits of their choices, they experience the individual decision-making at the heart of public choice and discover why decreasing the national deficit isn't as easy as it sounds.

Key Terms & Economic Concepts

Decision Making	Normative Economic Analysis	Public Choice
Inflation	Positive Economic Analysis	Self Interest
Institutions	Private Choice	

Objectives

Students will be able to:

- Define public choice theory.
- Explain the role of individual decision making in political decisions.
- Identify who bears the costs or receives the benefits of a policy.
- Use the nature of costs and benefits to predict which policies are more likely to pass.
- Predict how a change in rules could change public choice outcomes.

Time Required

1 Class Period (45 minutes)

Voluntary National Content Standards in Economics

CONTENT STANDARD 17

Costs of government policies sometimes exceed benefits. This may occur because of incentives facing voters, government officials, and government employees, because of actions by special interest groups



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that can impose costs on the general public, or because social goals other than economic efficiency are being pursued.

- **Benchmark 1:** Citizens, government employees, and elected officials do not always directly bear the costs of their political decisions. This often leads to policies whose costs outweigh their benefits for society.
- **Benchmark 2:** Incentives exist for political leaders to implement policies that disperse costs widely over large groups of people and benefit relatively small, politically powerful groups of people.
- **Benchmark 3:** Incentives exist for political leaders to favor programs that entail immediate benefits and deferred costs; few incentives favor programs promising immediate costs and deferred benefits, even though the latter programs are sometimes economically more effective than the former programs.

Materials

- Handout 5-1 - 1 copy per $\frac{1}{4}$ of students
- Handout 5-2 - 1 copy per $\frac{1}{4}$ of students
- Handout 5-3 - 1 copy per $\frac{1}{4}$ of students
- Handout 5-4 - 1 copy per $\frac{1}{4}$ of students
- Handout 5-5 - 1 copy per student
- Optional: **Lesson 5 Essential Understandings** (if assigned as a student reading) - 1 copy per student

Activity: Public Choice in Action

Procedures

Day 1

Use **Lesson 5 Essential Understandings** to introduce the main ideas of Public Choice Theory. Or assign **Lesson 5 Essential Understandings** as a student reading before running this activity.

Day 2

1. Divide students in groups of 4 and give each student in each group a different role card (**Handouts 5-1, 5-2, 5-3 and 5-4**). In the case of a group of 3, you can leave out the “Revitalize our Town” role, Handout 5-4.



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2. Give every student a copy of **Handout 5-5**.
3. Explain to students that they are each an elected Representative in Washington D.C. representing constituents from their home state and they are up for reelection next year. They are also members of the House Budget Committee and they have been tasked with finalizing a budget. The 12 policies on their Role Card are the ones on the table for discussion today.
4. Explain that the growing budget deficit has received a lot of attention and your party leaders are committed to reducing the deficit. Each of the policies listed on their role cards has the potential to reduce the deficit immediately or in the long run. Some policies will decrease the deficit by generating more revenue (ex: carbon tax, Medicare premiums). Others will decrease the deficit by cutting spending (ex: reducing active-duty army). Others will actually increase spending (and the deficit) immediately, but with the hopes of seeing a return on that investment in the form of a stronger economy, more tax revenues in the future (ex: infrastructure, education).
5. Give students time to read their role cards individually and then fill out the left side of **Handout 5-5** with the policies that are most important to them and their constituents. There is no minimum or maximum number of policies they have to include on their list. However, to continue serving their district, they have to be re-elected and the “points” assigned to each policy can be thought of as the reputation points they earn with their voters. Their role cards indicate the minimum points needed to be reelected.

ALTERNATIVE: Give students their role cards and **Handout 5-5** the day before and assign Step 5 as homework

6. After students have had a chance to review and prioritize the policies, have them begin their committee discussions wherein they should work together to come up with a proposal for which of the 12 policies should be included in the final budget. Point out that there is an additional point that can be earned or lost if their committee’s proposal increases or decreases overall spending (last row on their role cards).
7. Allow 20 minutes for the committee discussions.
8. Have students calculate their own “points” based on the final policies selected to determine if they can be reelected or not.
9. Have each committee share the policies that they included in the final proposal and the change to overall spending. It is likely that the following policies will show up on many proposals.

- | | |
|--|-----------------------|
| ■ 2. Infrastructure | ■ 8. Teacher Salaries |
| ■ 3. Pell Grant and
Community College | ■ 11. Arts |
| ■ 5. Childcare | ■ 12. NASA |

- Most committee proposals will probably increase overall spending.

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10. Ask students to raise their hands if they earned enough points to be reelected.

11. **Debrief** the activity using the questions that follow.

- Several policies had the potential to reduce the deficit immediately, like imposing a carbon tax, cutting military spending, or increasing medicare premiums. Why weren't those policies included in most proposals? *(Answer: The costs of those policies were great and they fall on organized groups that vote. The benefits to others were small in comparison.)*
- Was anyone able to get ALL of their preferred policies into their committee proposal? Why not? *(Answer: It is unlikely that anyone was able to get all of their policies into the committee proposal. Other people in the committee were likely strongly opposed to the same policies.)*
- What choices did you make and what opportunity costs did you bear in developing a committee proposal that you could all agree on? *(Answer: Most likely, each student had to choose to give up one or more policies, to get others they valued included in the bill.)*
- It is unlikely that any committee will have cut spending, but if they did, ask what it cost them. If no groups cut spending, ask what cutting spending would've cost them. *(Answer: likely their chance at reelection).*
- For committees that increased spending, ask where that money will come from *(Answer: higher taxes, borrowing).*
- Given your experience with this activity, do you think it would be easier to raise taxes or borrow money?
- What is the opportunity cost of borrowing money?
- Thinking about these 12 policies, which ones have immediate benefits and the costs would be borne in the future?
- Which policies would have immediate costs with benefits in the future?
- Which policies have concentrated benefits on relatively small groups and the costs are dispersed over many people?
- Which policies have costs that are concentrated on a relatively small group but the benefits are widely dispersed?
- How do you think the nature of the costs and benefits (immediate, future, concentrated, dispersed) influences which policies politicians are more likely to support?



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- Reflecting on your experience in the committee, how does this inform your understanding of how taxing and spending decisions are made?
- In this activity, you discovered how incentives faced by politicians in the short run affect things like our national debt in the long run. Institutions, or rules of the game also shape and influence choices. If you could change the rules about how congress makes taxing and spending decisions, what changes would you make to improve the fiscal health of the nation? *(Answers will vary. If you assigned **Lesson 5 Essential Understandings** as a student reading before class, students may bring up a balanced budget amendment or sunset clauses. If not, share them as examples and have students predict their impact on political decision making and our national debt.)*

Conclusion

Individuals make choices based on the costs and benefits to them. But with political choices, the decision makers (voters, politicians, government employees, etc) don't bear all of the costs of their choices. This can result in policies that have greater costs to society than benefits. When considering outcomes of public choice, rather than expecting individuals to choose differently given the incentives they face, economics reminds us to consider the institutions and rules of the game that shape those incentives. In the case of growing national debt, the study of Public Choice Economics can help us imagine ways to design better rules around deficit spending and debt finance. New institutions can constrain politicians and bureaucrats so that they don't undermine prosperity and liberty via an ever-growing federal debt.

Resources

- Lemke, Jayme and Jordan Lofthouse. "Debts, Deficits, and Debasement: Using Public Choice Economics to Understand Public Debt." *Foundation for Teaching Economics*. 15 April. 2020, www.fte.org
- The Fiscal Ship. *Hutchins Center on Fiscal & Monetary Policy, Brookings Institute*. <https://fiscalship.org/>
- Ramseur, Jonathan L, and James A Leggett. *Attaching a Price to Greenhouse Gas Emissions with a Carbon Tax or Emissions Fee: Considerations and Potential Impacts*. Congressional Research Service, 22 Mar. 2019, crsreports.congress.gov/product/pdf/R/R45625.
- Labrack, Casey, and Adam Talaber. "CBO's Interactive Force Structure Tool." Congressional Budget Office, 20 May 2021, www.cbo.gov/publication/54351.
- "Raise the Full Retirement Age for Social Security." *Congressional Budget Office*, 13 Dec. 2018, www.cbo.gov/budget-options/54745.



Lesson 5: Debts, Deficits and Debasement

Wittenburg, David, C, David C. Stapleton, and Scott B. Scrivener. "How Raising the Age of Eligibility for Social Security and Medicare Might Affect the Disability Insurance and Medicare Programs."





Lesson 5 Essential Understandings

Introduction

The fact that our current public spending process is putting the federal government in serious debt is clear. Less clear are the *hows* and *whys* of the situation. What are the factors that go into the political decisions that determine the national debt? Why and how do federal policymakers engage in deficit spending? What does the growing national debt mean for the average American? Understanding the answers to these questions is important not only for pundits and policymakers but for all who wish to understand the full impact of the public spending decisions made on our behalf.

Public Choice Theory

Theories and applications from **public choice economics** can be used to address these important questions about the nature and consequences of public debt. Public choice is a sub-discipline within the field of economics that applies the economic way of thinking to decision-making in political contexts. The core of public choice is the positive (rather than normative) analysis of political institutions and their predictable consequences. This analysis focuses on statements of fact based on theory and evidence—it describes the world the way it *is*, regardless of how people might like it to be. From that positive analysis, people can draw normative conclusions about what *should be*, but these implications are not determined by the analysis itself. Public choice analysis may reveal serious flaws with a constitutional rule or a political strategy, but it is ultimately up to people to decide what to do with this information.

The public choice approach starts with three key assumptions. **First**, all people, including political actors, are assumed to be rational, which means they pursue their goals as best they can, given their limitations and the limitations of their environment. Rational people still make mistakes, but they don't intentionally do senseless things. **Second**, all people are assumed to be self-interested. It is important to know that self-interest does not necessarily mean selfish. Self-interest is subjective, which means that each person has their own unique interpretation of what is in their self-interest. **Third**, public choice economists use the scientific assumption of methodological individualism, which simply means that individuals, not groups, are the relevant choosers in social scientific analyses. Although people commonly speak of entire large organizations like "the government" or "the Senate," these organizations are made up of complex rule systems and many individual people who have diverse and sometimes conflicting interests.

The main theoretical alternative to public choice theory is public interest theory. In contrast to the public choice assumptions that individuals are generally rational and self-interested, public interest theory presumes that the driving force behind political decision making is the idea of the public good. Public choice economics is critical of the idea that there is such a thing as a single public good that can be easily identified as a goal for policy. Instead, what is best for one person in a society is not always



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best for all. In the public choice paradigm, politics is a process of muddling along in search of a set of rules and actions that will allow us to coexist peacefully

The application of public choice economics can explain why government officials choose to engage in deficit spending and why this leads to an accumulation of public debt.

Importance of Institutions

Institutions matter. The word institution may bring to mind powerful international organizations and ornate marble buildings. However, when public choice economists talk about institutions, they mean something quite different. Institutions are, in short, the “rules of the game.” Some institutions are formal, like the U.S. Constitution, criminal and civil legal codes, and federal and state regulatory systems. Other institutions are informal and may not be enforced by governments or even written down, like the by-laws of a club or religious association, the internal policies of a company, or the social norms of a community. Different institutional settings, (rules of the game) yield different behaviors from individuals because each institutional setting poses different incentives and constraints.

Public Spending and Private Spending

When it comes to spending, the relevant institutions fall into two general categories; public spending and private spending. Public spending takes place within a centrally directed process of procurement and distribution, whereas private spending takes place within an individually driven process of economic exchange. People behave differently in these two contexts, not because their motivations are different, but because of the institutional differences between the two spheres. In markets, decisions only occur when both the buyer and the seller perceive that they will be better off. Both the seller and the buyer agree to a transaction voluntarily, and both sides of the exchange are made better off because they both get something that they want. Consequently, in the market, decision-makers capture most of the benefits and bear most of the costs of their choices.

The decision-making process in public spending is fundamentally different. In the government sphere, there is no guarantee about quality and price—citizens can’t directly choose the quality or the price of government-provided goods and services. Citizens indirectly pay for any new services through taxes, but both the taxes and the public services provided are shared by everyone. There is no direct link between purchase and consumption. Consequently, the demand for publicly provided goods and services is much more indirect and complicated than with privately provided goods and services. Further, since individuals must pay taxes regardless of whether or not they use or are happy with the way the money is spent, there is no guarantee that the benefits provided justify the cost. By law, government officials have the ability to use force to make people comply with their decisions and rarely bear the full cost if the decision turns out to be a bad one.

The fact that decisions around public spending are governed by such a dramatically different set of institutions than those we are accustomed to in our own dealings in the market means that

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understanding public spending requires a different logical apparatus, one that is designed to understand the mechanics of decision making in the political arena.

Constitutional and Post-Constitutional Analysis

Public choice theory and the study of politics requires at least two levels of analysis; one level is the initial creation of the institutions, or rules of the game, at what J.M. Buchanan called the constitutional level of analysis. The U. S. constitution, the constitution of a state, or the by-laws of a club would be examples of this level of institution where the broad parameters of the organization are set. The second level of the analysis, again in Buchanan's words, is the post-constitutional level. This level looks at individual political actors as they go about attempting to achieve their respective goals within the political system that has already established rules about what behaviors are legal and illegal.

As an example of the distinction between constitutional and post-constitutional activity, consider the relationship between the U.S. Constitution and the agencies that carry out federal regulations. The U.S. Constitution is relatively short and vague. It sets up the general rules for how the federal government operates, and it puts broad constraints on what federal officials can and can't do. The Constitution doesn't spell out specific programs or policies—it outlines the general processes for making specific programs or policies. In the case of federal regulators, the Constitution is considered to have established the authority by which the President can create agencies in order to delegate his power to enforce the laws created by Congress. However, the Constitution is both by design and necessity completely silent on the matter of how particular agencies will operate and what rules they might create in the enforcement of legislation such as the Environmental Protection Act or Drug Enforcement Act.

Financing Government Spending

To finance a government's spending for various programs, government officials have three basic choices: raise taxes, borrow money, or print money.

From the time of the American founding until roughly the mid-twentieth century following the Great Depression, the federal government followed two principles of fiscal responsibility. First, the government should not spend money without imposing taxes. Second, the government should not place future generations in debt by deficit spending that would only provide temporary and short-lived benefits. Tax finance, which is collecting taxes to pay for expenditures, forces citizens to pay when the decision is made, but debt finance postpones payment until later. Financing government spending through debt reduces the financial burdens in the present because it shifts those costs to taxpayers in the future. Policymakers generally believed that it was improper to burden future taxpayers, except in extraordinary events, like wars, natural disasters, or major depressions.



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Public Borrowing Vs. Private Borrowing

If the government borrows money by issuing bonds, it has to pay bondholders and other lenders back. Borrowing money can help government officials achieve their goals in the short run, but debts have to be paid off with interest. Public debt is essentially “kicking the can down the road” to get benefits now and pay for them later. At some point, borrowing is no longer feasible as the governments’ creditworthiness erodes.

If a private person borrows on a credit card and can’t pay it back, their poor decisions only affect them—they incur a personal liability and bear the costs of their choice. However, when government officials make borrowing decisions, the costs are likely to spill over onto everyone in a society. When a government borrows money, each individual citizen is not assigned a specific share of the fiscal liability of the public debt. The citizen may sense that the whole community has a liability, but they don’t feel the same sense of liability they would if it were their own private property on the line. Due to this difference, people behave somewhat less prudently with public debt than private debt. Without a strong fiscal constitution, government decision-makers are likely to borrow more freely because they do not bear the full costs of their choices and because citizens are further removed from the immediate effects of public debt compared to private debt.

Our current institutional arrangements do not require public decision-makers to face the full consequences of their decisions. It is often too easy for the unseen costs of public spending decisions—in particular, the foregone alternative uses of the physical and financial resources spent—to go completely unseen. This is exacerbated by the time inconsistency created by borrowing because when governments borrow, the benefits are immediate and the costs are pushed into the future. This makes it possible for a legislator, or other elected official, to enjoy the praise of having funded a program their constituents’ value without ever having to confront the costs of that spending.

The level Buchanan referred to as the post-constitutional level of political activity is where politics plays out as individual political actors work to accomplish their goals within the confines of established constitutional rules. At this level of day-to-day activity, the human behavior of voters, special interest groups, politicians, and bureaucrats are at the heart of Public Choice analysis

Motivation of Elected Officials

The primary motivation of an elected official is to get elected or reelected. They may have many other motivations, but they can’t do anything, good or bad, if they aren’t in office, which means that being elected or reelected is always the top priority. In order to stay in office, legislators have strong incentives to support programs and policies that provide benefits to the voters in their home districts or states, no matter if those programs and policies might be irresponsible from a national perspective. By providing people in their home districts, states, or political parties with benefits, legislators increase their chances at reelection. In general, voters like to receive benefits from the government, but they don’t like to pay taxes. Thus, politicians have a strong incentive to keep taxes low while also increasing



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spending on various government programs. Without tax revenue to pay for the government programs, governments must resort to deficit spending.

Besides keeping a majority of voters happy, legislators also care about pleasing special interest groups. Special interest groups are often small and made up of people with strong, specific opinions. Special interest groups are important to politicians because those groups can provide funding and support for campaigns and rally voters to support the politicians who support the goals of the special interest group. In other words, special interest groups are effective at applying political pressure and providing political support to the politicians who help them. Thus, by catering to the interest of special interest groups, legislators often help small groups at the expense of everyone else.

Bureaucrats also respond to the incentives and constraints that they face when trying to do their job. One of the biggest incentives bureaucrats face is to maximize their budgets and keep both their department's size and salaries at or above existing levels.

Motivations of Elected Officials

Using the two levels of public choice analysis, we can understand why federal policymakers choose to engage in deficit spending and why they choose to allow such a large national debt.

When given the choice between financing new spending through tax increases or through borrowing or expanding the money supply, politicians will nearly always prefer the latter. Voters do not like paying more in taxes. Tax hikes are unpleasant to voters and therefore costly to any politician who hopes to someday get re-elected. In contrast, borrowing the money to pay for public projects allows politicians to accomplish political goals today, while those in public office ten, twenty, or thirty years down the road have the responsibility of paying the bill.

Debt upon Debt

The first option available to governments who have accumulated more debt than they can service is to take out more debt in order to make the payments on existing debt. This has the effect of pushing the costs associated with current public spending further down the road and on to future generations.

Contrast the fiscal illusion associated with public spending with individual consumers making decisions in the marketplace. A consumer who uses credit cards for ordinary market purchases may have initial misperceptions about cost, but when the bills are due, the consumer will immediately realize the costs of the decisions. The consumer has the opportunity to learn. Maybe they will return the item, or at least make a different decision in the future. With government services, however, there is no equivalent process of learning and adaptation. Taxpayers have weak incentives to invest time and resources to estimate their own tax shares, so it is simply too costly for them to justify becoming better informed. Consequently, taxpayers are likely to continue to live under fiscal illusion for as long as it remains difficult to see the true costs and benefits of government spending.



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In short, debt financing reduces the perceived prices of publicly provided goods and services, and so taxpayers tolerate higher spending levels than they would if fully aware of the long-run costs

If a government becomes unable to pay off the debt by taking on more debt, they may be forced to choose between defaulting on their debts or printing the money they need to make ends meet. Default, including debt restructuring and even bankruptcy, is rare but not unheard of in the U.S. The United States government has restructured or defaulted on debt before, and American towns and cities can file for bankruptcy. Detroit is the largest American city to have taken this route, declaring bankruptcy in 2013 after falling behind on an estimated eighteen to twenty billion dollars of debt. However, this option is usually taken only as a last resort, in part due to the difficulty of obtaining future credit after a bankruptcy.

Printing Money

Governments can also choose to make ends meet by printing money, known as monetization of the debt. Monetizing debt in this way carries with it the risk of inflation. Inflation is the general increase in monetary prices and a fall in the purchasing power of money. In other words, when inflation occurs, a dollar buys less than it used to. When a country's money supply grows at a faster rate than economic growth (the amount of goods and services in an economy), then inflation will result.

Debasement of currency via inflation is also an implicit or hidden tax on money balances. As prices rise and the value of a dollar falls, every dollar held in savings is now worth less than it was before. The effect is the same as if the government had announced a sudden tax on cash reserves. In terms of the fiscal perceptions of citizens, however, inflation does not seem at all equivalent to a tax.

Changing the Rules

If we want better practices around our federal debt, we need new and better rules to overcome the short-run political incentives that politicians and bureaucrats face. For new constitutional rules to break the cycle of deficit spending, accumulating debt, and eventual debasement of the currency, they must change the short-run political incentives that politicians and bureaucrats face and constrain them from making socially harmful choices. The only way out is reform in the rules by which governments are allowed to make spending decisions.

Balanced budget amendments could change the incentives and constraints that policymakers face when choosing how to spend money. Out of all 50 states, 49 have some form of balanced budget rules. In the 1990s, Congress talked about amending the U.S. Constitution to include a provision for a balanced budget. A balanced budget amendment is a budgetary rule that has received a lot of attention over the past 30 years. Balanced budget rules aren't perfect and they often leave room for evasion. Without an effective budgetary rule or norm, budgets will continue to be abused in democratic politics.



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Sunset clauses, also called sunset laws or sunset provisions, are parts of legislation that cause the legislation or regulations to expire on a certain date unless the legislature specifically takes action to renew it. The federal government rarely uses sunset provisions, but many state governments use them regularly. The idea behind the sunset process is to help legislatures “eliminate agencies and laws that have outlived their usefulness and to make administrative and budgetary changes to those that still serve the public interest but have become bloated and inefficient.

Conclusion

National debt is a serious public problem, and many of the proposed solutions to it are just as problematic. Fortunately, as complicated as the situation is, public choice economics can be useful in two ways. First, public choice economics can provide a way of thinking about the logic of public debt that can help us both better understand the consequences of deficit spending and the accumulation of debt. There are strong inducements for politicians to accumulate debt. Elected politicians enjoy spending public money on projects that benefit their constituents, and further, since citizens don't like tax increases, there is a strong incentive to finance those public projects by taking on debt. Unfortunately, this problem is further exacerbated by fiscal illusions that make it easy for citizens to not be fully aware of what is being done in their name. These incentives to accumulate debt are in some ways inherent to the exercise of political power in a democracy.

The study of Public Choice Economics can help us imagine ways to design better rules around deficit spending and debt finance. At the time of America's founding, the Federalists asked the first generation of Americans to use logic and reason to come up with ways to constrain and balance power so that it can be exercised with minimal abuse. Today, we can continue to use reflection and logic to imagine better fiscal and monetary rules. New institutions can constrain politicians and bureaucrats so that they don't undermine prosperity and liberty via an ever-growing federal debt.

Sources

Lemke, Jayme and Jordan Lofthouse. “Debts, Deficits, and Debasement: Using Public Choice Economics to Understand Public Debt.” *Foundation for Teaching Economics*. 15 April. 2020, www.fte.org



Lesson 5 Activity: Public Choice in Action

Handout 5-1: ROLE CARD - Retirement Community

Warm winters and the relatively low cost of living have made your congressional district home to some of the largest retirement communities in the nation. Your constituents are well-informed on political issues and candidates. Your district leads the state in voter turnout. Preserving their hard-earned savings to fund retirement and maintain their lifestyle is of utmost importance to your constituents. **Earn a score greater than 0 to get re-elected.**

Policy	Value to you if it's included in the committee proposal.	Score
<p>1. Increase the Social Security Eligibility Age Impact on Budget Deficit: -\$20 billion Gradually increase the normal retirement age from 67 to 70 and earliest retirement age from 62 to 64</p>	Raising the Social Security age protects the Social Security payments to current retirees. Just don't touch their Social Security. +1 points	
<p>2. Increase infrastructure spending Impact on Budget Deficit: +\$30 billion Washington currently spends about \$120 billion a year on highways, airports, water pipes, buildings, communication, and technology infrastructure. As a share of the economy, that's 4% less than we spent 10 years ago. You'd increase this spending by 25%.</p>	Improved roads would be popular with your constituents, many of whom enjoy RV road trips. +2 points	
<p>3. Expand Pell Grant and Free Community College Impact on Budget Deficit: +\$10 billion You would increase the number of Pell Grant recipients by 11% (1 million students) and provide grants to states to help them eliminate tuition and fees at public two-year institutions</p>	Your constituents think enough is already spent on education. They all paid for their education. Why should others get it free? -1 point	
<p>4. Impose a Wealth Tax Impact on Budget Deficit :-\$50 billion Impose a 2% annual tax on household wealth above \$50 million and a 3% tax on wealth above \$1 billion. Conservative estimates predict this could generate \$50 billion in tax revenue.</p>	Two of your largest political campaign donors would be affected by this tax. They will pull their contributions if you support this tax. -5 points	
<p>5. Increase childcare subsidies Impact on Budget Deficit: +\$10 billion Increase grants to states to make quality, affordable child care available for children three and under living in families with income below 200% of poverty (that is, to families of four with incomes below \$50,000) and nearly triple the number of infants and toddlers served to 1.8 million.</p>	This is not an important issue to your voters. Supporting this could send the message that you're not working for them. -1 point	



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<p>6. Increase Medicare Premiums Impact on Budget Deficit: -\$55 billion You'd increase Medicare premiums by 40%, meaning enrollees' share of Medicare costs would increase from 25% to 35%.</p>	<p>Many of your voters live on fixed incomes and their savings. Medical care is one of their largest expenses already. -5 points</p>	
<p>7. Decrease defense and R&D spending Impact on Budget Deficit: -\$22 billion Pentagon spending to develop new weapons and pursue breakthroughs in warfare has increased by over \$40 billion in the last 6 years to \$109 billion. You'd decrease spending by 20%.</p>	<p>Your voters generally support a strong military. But they would prefer you prioritize healthcare. Plus, spending is too high already. +1 point</p>	
<p>8. Increase Teacher Salaries Impact on Budget Deficit: +\$43 billion Increase teachers' salaries by \$13,500 a year to reduce the pay gap between K-12 teachers and other professionals with similar degrees.</p>	<p>Your constituents think enough is already spent on education. They'll assume you will raise their taxes to pay for this. -1 point</p>	
<p>9. Impose a Carbon Tax Impact on Budget Deficit: -\$50 billion Impose a \$25-per-ton tax on emissions of carbon dioxide from electricity generation, manufacturing, and transportation to improve air quality. You'd raise that tax each year by 2% more than the inflation rate.</p>	<p>This would raise the prices for many things your constituents buy and they have fixed incomes. -1 point</p>	
<p>10. Cut Active Duty Military by 25% Impact on Budget Deficit: -\$20 billion Reduce active-duty Army personnel from the current level of 500,000 to 375,000.</p>	<p>Your constituents support cutting spending, especially if it doesn't affect them. +1 point</p>	
<p>11. Increase Funding for Arts and Humanities Impact on Budget Deficit: +\$2 billion Increase funding for the Smithsonian, public broadcasting, the national endowments for arts and humanities, etc.</p>	<p>Your constituents would appreciate more funding for the arts and humanities. They love frequenting museums, plays, and events during retirement. +2 points</p>	
<p>12. Increase NASA Budget Impact on Budget Deficit: +\$5 billion Increase NASA funding by 25%. The National Aeronautics and Space Administration spends about \$19 billion a year, about one-half of one percent of federal outlays.</p>	<p>Your voters remember the U.S.A. putting a man on the moon. It's a shame NASA has been defunded over the years. +1 point</p>	
<p>Extra Points: +1 if proposal increases spending by less than \$50 billion or +2 if proposal decreases overall spending.</p>		
<p>TOTAL POINTS (Must be greater than 0 to get re-elected)</p>		



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Handout 5-2: ROLE CARD - Military Base

Your congressional district houses a large military base. There are many military families in the community and the local schools and businesses serve the military population. Preserving support for the military and related industries is very important to your constituents. **Earn a score greater than 0 to get re-elected.**

Policy	Value to you if it's included in the committee proposal.	Score
<p>1. Increase the Social Security Eligibility Age Impact on Budget Deficit: -\$20 billion Gradually increase the normal retirement age from 67 to 70 and earliest retirement age from 62 to 64</p>	<p>Your voters don't even know if they'll get Social Security when they retire. Money saved here could be used for Veteran's benefits. +1 point</p>	
<p>2. Increase infrastructure spending Impact on Budget Deficit: +\$30 billion Washington currently spends about \$120 billion a year on highways, airports, water pipes, buildings, communication, and technology infrastructure. As a share of the economy, that's 4% less than we spent 10 years ago. You'd increase this spending by 25%.</p>	<p>This policy could bring high-speed internet to the more rural parts of your district. And who doesn't want better roads? +1 point</p>	
<p>3. Expand Pell Grant and Free Community College Impact on Budget Deficit: +\$10 billion You would increase the number of Pell Grant recipients by 11% (1 million students) and provide grants to states to help them eliminate tuition and fees at public two-year institutions</p>	<p>The G.I.Bill is great for veterans but free community college would help a lot of other people in your district. +1 point</p>	
<p>4. Impose a Wealth Tax Impact on Budget Deficit: -\$50 billion Impose a 2% annual tax on household wealth above \$50 million and a 3% tax on wealth above \$1 billion. Conservative estimates predict this could generate \$50 billion in tax revenue.</p>	<p>There are no billionaires in your district. This would raise revenue without raising taxes on your constituents. +1 point</p>	
<p>5. Increase childcare subsidies Impact on Budget Deficit: +\$10 billion Increase grants to states to make quality, affordable child care available for children three and under living in families with income below 200% of poverty (that is, to families of four with incomes below \$50,000) and nearly triple the number of infants and toddlers served to 1.8 million.</p>	<p>New enlistees can earn just \$20,000 per year. Young single-earner military families would benefit greatly from support for child care. +1 point</p>	
<p>6. Increase Medicare Premiums Impact on Budget Deficit: -\$55 billion You'd increase Medicare premiums by 40%, meaning enrollees' share of Medicare costs would increase from 25% to 35%.</p>	<p>Generating revenue without raising taxes on your constituents is a win-win. +1 point</p>	



Lesson 5 Activity: Public Choice in Action

<p>7. Decrease defense and R&D spending Impact on Budget Deficit: -\$22 billion Pentagon spending to develop new weapons and pursue breakthroughs in warfare has increased by over \$40 billion in the last 6 years to \$109 billion. You'd decrease spending by 20%.</p>	<p>Supporting this bill sends a signal that you don't support a strong military. -5 points</p>	
<p>8. Increase Teacher Salaries Impact on Budget Deficit: +\$43 billion Increase teachers' salaries by \$13,500 a year to reduce the pay gap between K-12 teachers and other professionals with similar degrees.</p>	<p>The teachers union in your state opposed a bill that would allow more school choice for military families. Supporting this bill would send a signal that you support the teachers union more than the military families. -1 point</p>	
<p>9. Impose a Carbon Tax Impact on Budget Deficit: -\$50 billion Impose a \$25-per-ton tax on emissions of carbon dioxide from electricity generation, manufacturing, and transportation to improve air quality. You'd raise that tax each year by 2% more than the inflation rate.</p>	<p>This would raise the prices for many things your constituents buy and they don't earn a lot to begin with. -1 point</p>	
<p>10. Cut Active Duty Military by 25% Impact on Budget Deficit: -\$20 billion Reduce active-duty Army personnel from the current level of 500,000 to 375,000.</p>	<p>Supporting this bill would be political suicide. In fact, the most important thing to your constituents is that this policy doesn't pass. -5 points</p>	
<p>11. Increase Funding for Arts and Humanities Impact on Budget Deficit: +\$2 billion Increase funding for the Smithsonian, public broadcasting, the national endowments for arts and humanities, etc.</p>	<p>As one of your constituents said at a recent town hall, "it's spending on fluff like this that's driving the cuts to military spending." -1 point</p>	
<p>12. Increase NASA Budget Impact on Budget Deficit: +\$5 billion Increase NASA funding by 25%. The National Aeronautics and Space Administration spends about \$19 billion a year, about one-half of one percent of federal outlays.</p>	<p>NASA and the Department of Defense frequently collaborate. This could have spillover benefits to voters in your district. +1 point</p>	
<p>Extra Points: +1 if the final committee proposal decreases overall spending or -1 if it increases overall spending.</p>		
<p>TOTAL POINTS (Must be greater than 0 to get re-elected)</p>		



Lesson 5 Activity: Public Choice in Action

Handout 5-3: ROLE CARD - Families in New Suburb

You live in a growing suburb. New developments with affordable starter-homes are attracting many young families to the area. The growth has also brought traffic congestion and crowded schools. The nearest freeway is 15 miles away but getting there can take 45 minutes on the two-lane roads. The local schools are having a hard time attracting new teachers to the area. **Earn a score greater than 3 to get re-elected.**

Policy	Value to you if it's included in the committee proposal.	Score
<p>1. Increase the Social Security Eligibility Age Impact on Budget Deficit: -\$20 billion Gradually increase the normal retirement age from 67 to 70 and earliest retirement age from 62 to 64</p>	<p>Your voters don't even know if they'll get Social Security when they retire. Money saved here could be used to solve transportation issues in your community today. -1 point</p>	
<p>2. Increase infrastructure spending Impact on Budget Deficit: +\$30 billion Washington currently spends about \$120 billion a year on highways, airports, water pipes, buildings, communication, and technology infrastructure. As a share of the economy, that's 4% less than we spent 10 years ago. You'd increase this spending by 25%.</p>	<p>This policy could extend the freeway to the growing suburbs in your district. +2 points</p>	
<p>3. Expand Pell Grant and Free Community College Impact on Budget Deficit: +\$10 billion You would increase the number of Pell Grant recipients by 11% (1 million students) and provide grants to states to help them eliminate tuition and fees at public two-year institutions</p>	<p>Free community college would directly benefit many people in your district. It would also take some pressure off of young parents that want to save for their childrens' college education. +1 point</p>	
<p>4. Impose a Wealth Tax Impact on Budget Deficit :-\$50 billion Impose a 2% annual tax on household wealth above \$50 million and a 3% tax on wealth above \$1 billion. Conservative estimates predict this could generate \$50 billion in tax revenue.</p>	<p>There are no billionaires in your district. This would raise revenue without raising taxes on your constituents. +1 point</p>	
<p>5. Increase childcare subsidies Impact on Budget Deficit: +\$10 billion Increase grants to states to make quality, affordable child care available for children three and under living in families with income below 200% of poverty (that is, to families of four with incomes below \$50,000) and nearly triple the number of infants and toddlers served to 1.8 million.</p>	<p>There are many families in your district that would benefit from childcare subsidies. This policy might even incentivize the parents to show up and vote. +2 points</p>	



Lesson 5 Activity: Public Choice in Action

<p>6. Increase Medicare Premiums Impact on Budget Deficit: -\$55 billion You'd increase Medicare premiums by 40%, meaning enrollees' share of Medicare costs would increase from 25% to 35%.</p>	<p>Generating revenue without raising taxes on your constituents is a win-win. +1 point</p>	
<p>7. Decrease defense and R&D spending Impact on Budget Deficit: -\$22 billion Pentagon spending to develop new weapons and pursue breakthroughs in warfare has increased by over \$40 billion in the last 6 years to \$109 billion. You'd decrease spending by 20%.</p>	<p>Money saved here could be used to solve transportation and education issues in your own district.. +1 point</p>	
<p>8. Increase Teacher Salaries Impact on Budget Deficit: +\$43 billion Increase teachers' salaries by \$13,500 a year to reduce the pay gap between K-12 teachers and other professionals with similar degrees.</p>	<p>This would really help the local school district attract more teachers and reduce the overcrowding in classrooms. You would also like to secure the support of teachers unions for your re-election campaign. +3 points</p>	
<p>9. Impose a Carbon Tax Impact on Budget Deficit: -\$50 billion Impose a \$25-per-ton tax on emissions of carbon dioxide from electricity generation, manufacturing, and transportation to improve air quality. You'd raise that tax each year by 2% more than the inflation rate.</p>	<p>This would definitely raise gasoline prices. Your constituents have long commutes. -2 points</p>	
<p>10. Cut Active Duty Military by 25% Impact on Budget Deficit: -\$20 billion Reduce active-duty Army personnel from the current level of 500,000 to 375,000.</p>	<p>There are no military bases in your district. Money saved here could be used to support things that directly benefit your constituents.. +1 point</p>	
<p>11. Increase Funding for Arts and Humanities Impact on Budget Deficit: +\$2 billion Increase funding for the Smithsonian, public broadcasting, the national endowments for arts and humanities, etc.</p>	<p>Voter turnout is relatively low in your district. You need to focus on policies that directly benefit them so they will turn out to vote. -1 point</p>	
<p>12. Increase NASA Budget Impact on Budget Deficit: +\$5 billion Increase NASA funding by 25%. NASA spends about \$19 billion a year, about one-half of one percent of federal outlays.</p>	<p>Why support spending on space while your constituents need help on earth? -1 point</p>	
<p>Extra Points: +1 if the final proposal decreases overall spending or -1 if it increases overall spending.</p>		
<p>TOTAL POINTS (Must be greater than 3 to get re-elected)</p>		



Lesson 5 Activity: Public Choice in Action

Handout 5-4: ROLE CARD - Revitalize Our Town

Your district is home to a company that produces components and composite materials for military and space programs. With cuts to NASA funding and military spending, they have laid off 60% percent of their employees. The population of one town has declined by over 40%. The once vibrant main street now has several vacant buildings. The local arts council would like to convert an old building on Main Street into a new modern theater and expand the small Shakespeare festival to increase tourism. Local businesses all support increasing jobs, population growth, and tourism. **Earn 5+ points to get reelected.**

Policy	Value to you if it's included in the committee proposal.	Score
1. Increase the Social Security Eligibility Age (Impact on Budget Deficit: -\$20 billion): Gradually increase the normal retirement age from 67 to 70 and earliest retirement age from 62 to 64	Your working-age constituents don't want to work longer before retiring. -1 point	
2. Increase infrastructure spending (Impact on Budget Deficit: +\$30 billion): Washington currently spends about \$120 billion a year on highways, airports, water pipes, buildings, communication, and technology infrastructure. As a share of the economy, that's 4% less than we spent 10 years ago. You'd increase this spending by 25%.	This policy could bring money to your district to rebuild main street and even provide free Wi-Fi downtown. +2 points	
3. Expand Pell Grant and Free Community College (Impact on Budget Deficit: +\$10 billion): You would increase the number of Pell Grant recipients by 11% (1 million students) and provide grants to states to help them eliminate tuition and fees at public two-year institutions	Pell Grants and free community college would directly benefit displaced workers in your community, giving them the opportunity to retrain for a new career. +1 point	
4. Impose a Wealth Tax (Impact on Budget Deficit: -\$50 billion): Impose 2% annual tax on household wealth above \$50 million and a 3% tax on wealth above \$1 billion. Conservative estimates predict this could generate \$50 billion in tax revenue.	There are no billionaires in your district. This would raise revenue without raising taxes on your constituents. +1 point	
5. Increase childcare subsidies (Impact on Budget Deficit: +\$10 billion): Increase grants to states to make quality, affordable child care available for children three and under living in families with income below 200% of poverty (that is, to families of four with incomes below \$50,000) and nearly triple the number of infants and toddlers served to 1.8 million.	Good paying jobs in your district have been scarce. Many families would benefit from childcare subsidies. +1 point	
6. Increase Medicare Premiums (Impact on Budget Deficit: -\$55 billion): Increase Medicare premiums by 40%, meaning enrollees' share of Medicare costs would increase from 25% to 35%.	Generating revenue without raising taxes on your constituents is a win-win. +1 point	



Lesson 5 Activity: Public Choice in Action

<p>7. Decrease defense and R&D spending (Impact on Budget Deficit: - \$22 billion): Pentagon spending to develop new weapons and pursue breakthroughs in warfare has increased by over \$40 billion in the last 6 years. You'd cut spending by 20%.</p>	<p>Supporting this bill would be political suicide. Cuts in this area would force local companies to lay off more workers. -5 points</p>	
<p>8. Increase Teacher Salaries (Impact on Budget Deficit: +\$43 billion): Increase teachers' salaries by \$13,500 a year to reduce the pay gap between K-12 teachers and other professionals with similar degrees.</p>	<p>Teachers in your district are already paid less than average in the state. The teachers union is organized and they vote! You could use their support for your re-election campaign. +1 point</p>	
<p>9. Impose a Carbon Tax (Impact on Budget Deficit: -\$50 billion): Impose a \$25-per-ton tax on emissions of carbon dioxide from electricity generation, manufacturing, and transportation to improve air quality.. You'd raise that tax each year by 2% more than the inflation rate.</p>	<p>This would raise the prices for many things your constituents buy and they don't earn a lot to begin with. - 1 point</p>	
<p>10. Cut Active Duty Military by 25% (Impact on Budget Deficit: -\$20 billion): Reduce active-duty Army personnel from the current level of 500,000 to 375,000.</p>	<p>Cutting spending would result in even fewer contracts for the major employer in your district. Fewer military contracts means they would need fewer workers.. -5 points</p>	
<p>11. Increase Funding for Arts and Humanities (Impact on Budget Deficit: +\$2 billion): Increase funding for the Smithsonian, public broadcasting, the national endowments for arts and humanities, etc.</p>	<p>Funding from this bill would help build a theater downtown and grow the Shakespear festival to a state-wide attraction +2 points</p>	
<p>12. Increase NASA Budget (Impact on Budget Deficit: +\$5 billion): Increase NASA funding by 25%. NASA spends about \$19 billion a year, about one-half of one percent of federal outlays.</p>	<p>More money for NASA means more jobs for your constituents. +2 points</p>	
<p>Extra Points: +1 if the final proposal decreases overall spending or -1 if it increases overall spending.</p>		
<p>TOTAL POINTS (Must be greater than 5 to get re-elected)</p>		

Handout 5-5

DIRECTIONS: Review the 12 policies on your role card and determine which are most important to you and your constituents. Include those on your proposal on the left. Then after you meet and discuss the policies with your committee, use the proposal on the right to list the policies that your committee is pushing forward to be included in the final budget. NOTE: The score columns are specific to you.

My Proposal

Policies to Include In the Final Budget

#	Policy	Change to Overall Spending (billions)	Score (+ or - points)
	TOTAL	\$	

Committee's Proposal

Policies to Include In the Final Budget

#	Policy	Change to Overall Spending (billions)	Score (+ or - points)
	TOTAL	\$	