**Public Policy Module**

**1. Introduction to the Public Policy**

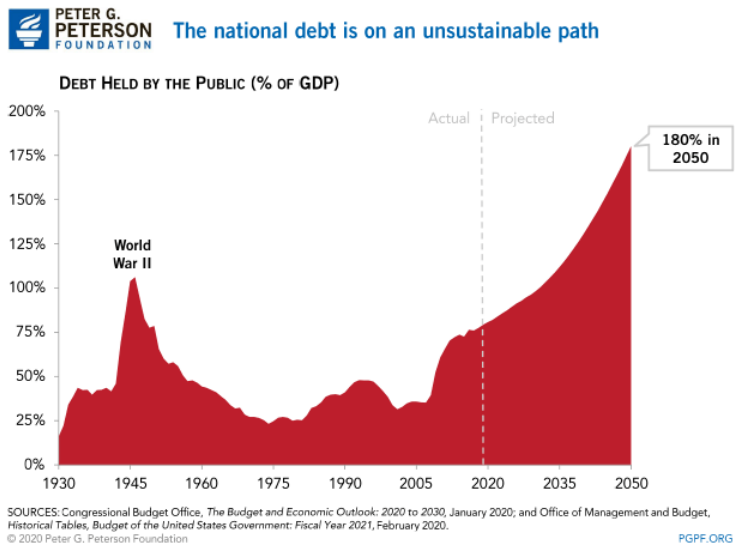
Please read Chapter 16 of our online textbook (http://openstax.org/details/books/american-government-2e/) We already covered most of 16.2 earlier in the semester, so feel free to skim this section.

Make sure you are familiar with the following key terms/concepts:
What is public policy?
How can each branch impact public policy?
What are the functions of Social Security, Medicare, and Medicaid?
Policy advocates and analysts
The policy process (as defined by the textbook)
Laissez faire versus Keynesian economics
Mandatory versus discretionary spending
Regressive and progressive tax rates
What does the Federal Reserve Board do?

**2. Federal Budget**

As of this morning (April 20) the national debt is $24,476,184,000 ($24 trillion). That is $74,249 per U.S. citizen and $197,156 per U.S. taxpayer. This equals 113.84% of our GDP, or in other words, if the entire U.S. economy operated for an entire year and donated everything we produced to the U.S. government, this would not be enough to pay off the national debt. That seems bad.

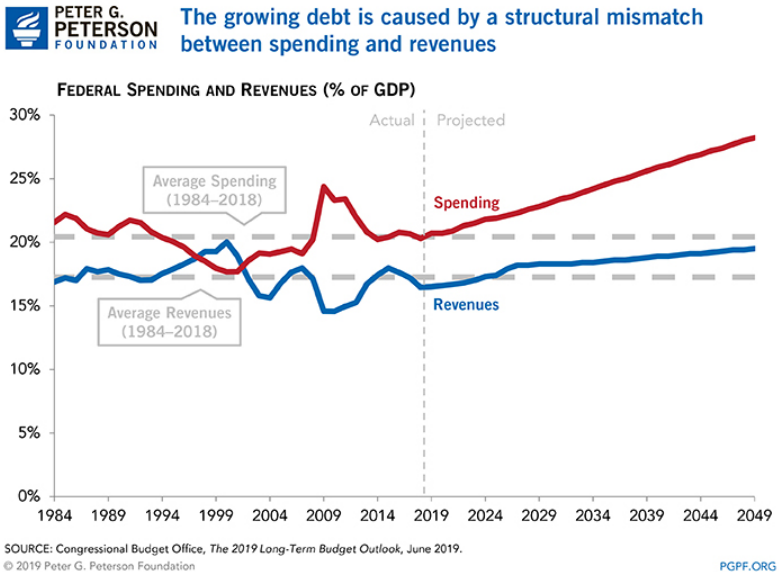
And it is projected to get worse. By 2050, debt is projected to reach 180% of GDP. Wow! That is almost two full years of economic output to pay off the debt. And these projections **do not** include the trillions of dollars (at least $2 trillion some far) we have spent in the last month fighting the corona virus.



Let's look at how we got here and what should be done about it.

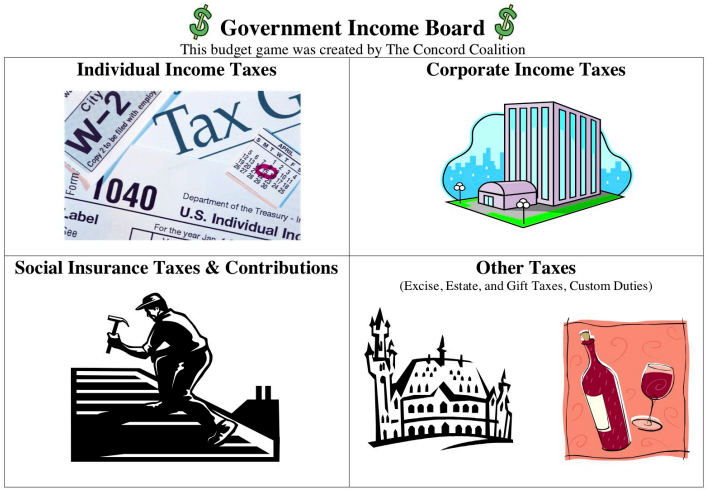
***Revenue and spending***

In some ways the debt is pretty easy to understand. Deficits mean that we are spending more than we make in revenue in a certain year. Debt is the accumulation of all those annual deficits.




To start understanding debts and deficits, we should start by trying to understand where government revenue comes from.

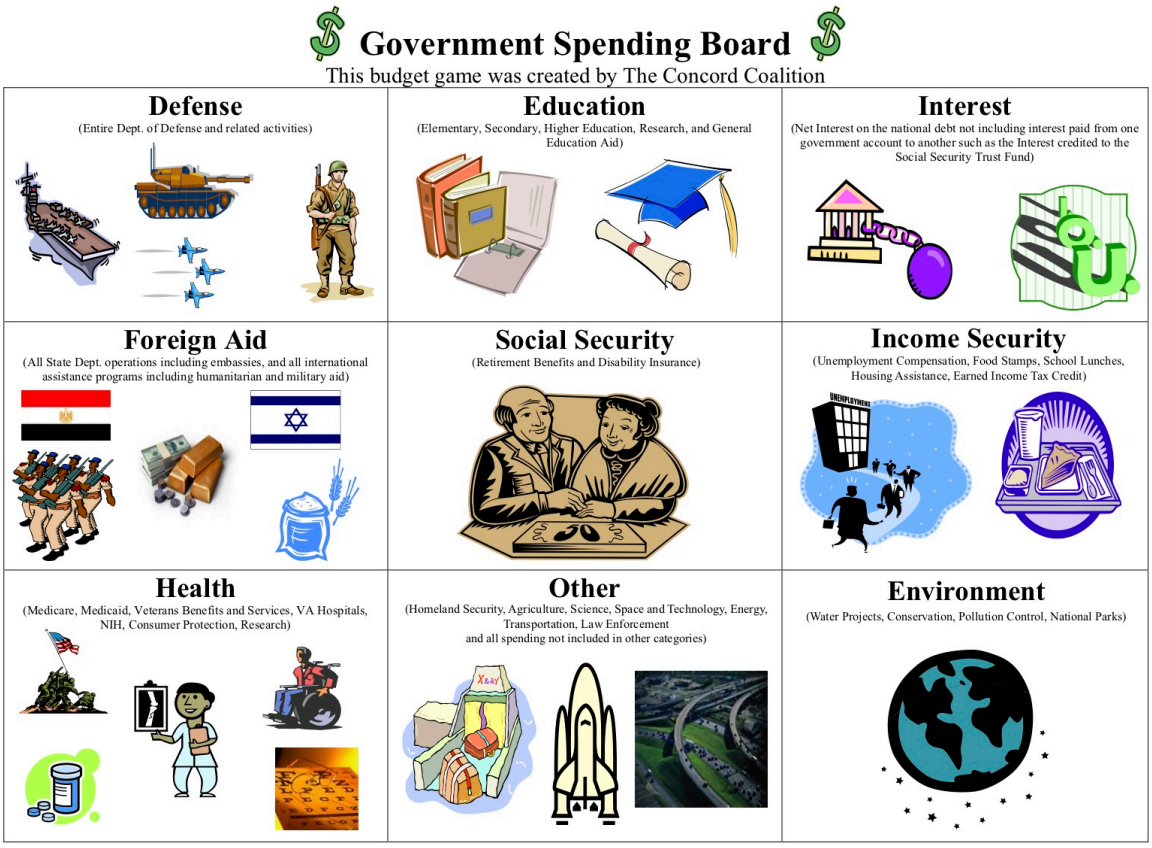
Here is a short exercise to get you thinking about this. For every dollar spent by the federal government, how many cents come from each of these sources. Guess how many cents from every dollar come from each of these sources (i.e. other taxes = 10 cents).



Click this link to see how you did.
spia.uga.edu/faculty_pages/mlynch/teaching/1105/revenue.pdf

This was a little bit of a trick question. The government currently borrows 22 cents out of every dollar spent, so your four categories only add up to 78 cents. The vast majority of revenue comes from income taxes and social insurance taxes (Social Security and Medicare taxes, often labeled FICA on your paycheck).

What about spending? Here is another short exercise to get you thinking about this. For every dollar spent by the federal government, how many cents go to each of the following categories? No tricks here. We spend every cent of each dollar we get.

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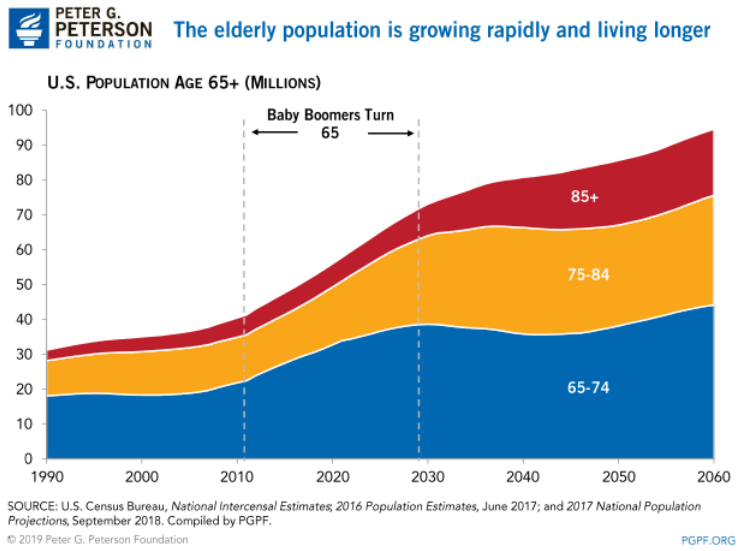
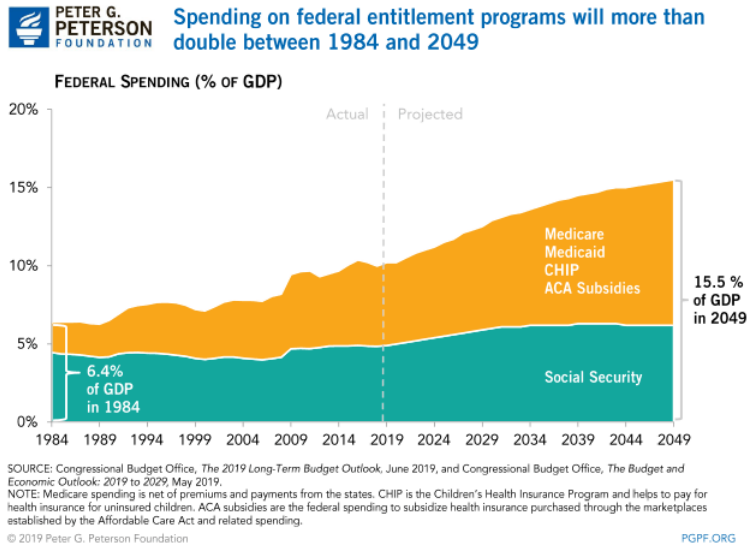
Defense, health care, and Social Security are the big three. Health care is especially concerning, because as the population grows older these programs (see the yellow part of the second chart) become much more expensive.



**Impact of the Federal Debt**
Now that you have a little better idea of where deficits and debt are coming from, what impact does this all have? I have two short readings to help you think about this.

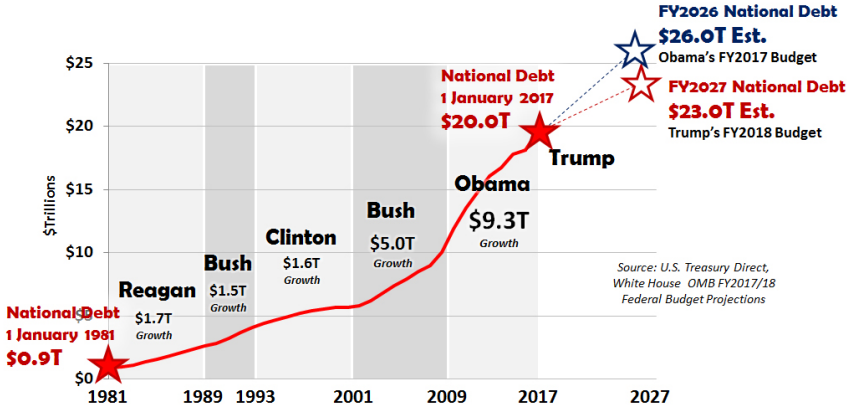
The first (www.crfb.org/papers/why-should-we-worry-about-national-debt) helps explain the negative implications of having a huge federal debt.

The second (https://www.nytimes.com/2020/03/27/upshot/stimulus-national-debt-coronavirus.html) talks about the vitally important role the debt plays in helping the federal government react to emergencies. Not all debt is bad. But when times are good, paying down the debt is probably a good idea.

**Final thought**

Who should we blame for all this?

Both parties are to blame. The national debt almost doubled during George W. Bush's presidency (tax cuts, wars in Iraq and Afghanistan, expansion of Medicare benefits). The national debt almost doubled when Barack Obama was president (response to Great Recession, continued wars). Trump was on pace to add around $1 trillion to the debt this year (tax cuts and increased military spending), **before** the corona virus crisis. The federal government may spend twice as much as it brings in this year, as spending accelerates in response to the corona virus. Also, as Baby Boomers get older, Medicare and Social Security costs will increase even if no one does anything.




The public is to blame, at least in part, because they don't know or care about debt and deficit. People like high levels of spending and low taxes, and politicians are eager to provide them with both. If they asked politicians to be more responsive, politicians would likely be responsive to that.

**Short Assignment – Balance the Budget**

If the problem of debt and deficits is ever going to get addressed, we have to think about what we, as a society, would be willing to give up. Would you be OK with paying higher taxes? What about getting rid of NASA? These are tough issues.

To get you thinking about these issues, I would like you to try your hand at balancing the federal budget. The following website has a nice budget exercise:
www.crfb.org/debtfixer/

**Writing Assignment #3 (worth 10% of semester grade)**

For your final writing assignment of the semester, I would like you to explore one thing that could be done to reduce the federal budget deficit. You will propose a specific way to reduce the federal deficit, explain how it will affect the deficit, and discuss how likely the proposal is to become law. Write a short paper (3-5 pages) that outlines the following:

1. What is your deficit-reducing proposal?
   Pick a budget-reducing proposal from the budget balancing exercise. Research this proposal in more detail. Describe the details of the proposal you choose. I recommend that you explain how any current program you are proposing a change to works, and how your proposal will change that program. Be specific with your proposal and use references where appropriate.

2. What effect will your proposal have?
   Explain how you expect your proposal will affect the budget. Discuss how certain you are about the fiscal impact of your proposal. Use references as necessary.

3. How likely is it that your proposal would become law?
   Who would support your proposal? Who would oppose it? Knowing how difficult it is to pass laws in the United States, assess whether or not your proposal has any chance of becoming law (Would it pass the House? Senate? Would the president veto your proposal? Here is your chance to show off all the bill-becomes-a-law knowledge that you have acquired this semester.)

The assignment will be graded based on its overall quality. Quality of references, quality of analysis, clarity of writing, organization, and grammar will all be considered. The assignment is due April 28.

Let me know if you have any questions.