

The Role of the Government in the Economy: The President's Dilemma

Due Date	Assignments
	<ul style="list-style-type: none"> • 5-Year Fiscal & Monetary Policy Recommendations Charts <u>2020-2024</u> • 1 Page Summary Letter to the President • Group Presentations

5-Year Fiscal & Monetary Policy Recommendations Charts 2020-2024

On the day of your class presentation, your group will turn in one master copy of all five completed recommendation charts for the years 2020-2024 which include the following for EACH YEAR:

- 3-5 specific fiscal policy recommendations (actions, steps) each year that involve either increases/decreases in various taxes and/or increases/decreases in various government spending categories (each increase or decrease must be of a minimum of \$10 billion—i.e. \$10 billion or more)
- Discount rate and open market operations monetary policy recommendations to the Federal Reserve

One Page Summary Letter to the President

On the day of your class presentation, your group will turn in a typed one-page letter (12 point font, single-spaced, Times Roman, one inch margins) to the president which summarizes your group's recommendations. Your letter should start with the following:

To: President Donald Trump
From: Special Task Force of the Council of Economic Advisors

Dear Mr. President,

Your letter must provide the following:

- A **clear summary** of the five year fiscal and monetary policy actions your group recommends
- Discussion of the group's strategy for addressing the inter-related and often conflicting goals of short-term economic growth, Long-term economic growth, reducing the deficit/debt, and controlling inflation.
- An analysis of the pros and cons of your plan, including discussion about what objections there will be to your plan and how you will address those concerns

Group Presentations

Your group will present the details of your plan of action to the class in a Power Point presentation of 7-10 minutes, followed by 5-10 minutes of questioning by Mr. D and students. Your group's presentation will be assessed based upon the following criteria:

- Effective explanation of your plan and accurate use of economic theory and vocabulary
- The viability and practicality of your plan in the real world
- Demonstration of **each group member's** understanding of the problem and the group's solution, including everyone in the group responding to questions
- **The degree to which your presentation grabbed and held the attention of the class**
- Your ability to justify and defend your proposal when questioned about it

Your group's presentation must be **entertaining and informative**. A Power Point that your group puts up on the screen and reads from—don't even think about it—I will ask you to turn it off and give a real presentation. To that end, there are to be **no more than 30 words** on any one slide. Be **interactive and energetic**: use **alpha energy**, provide effective visuals and interesting examples.

Each group member will receive a grade that is based in part on the group's overall effectiveness in working together and in part on the member's individual contribution to the formation of your group's plan and presentation. Do not plan on freeloading off of your group—this will cost you and your group members. If, for example, during the presentation any group member does not satisfy me that they have taken the time to fully understand the group's entire plan, they will be asked to sit down and will receive a zero. During your presentation, when you are asked questions, the answer "that wasn't the part I was responsible for" or "Olivia was supposed to do that part, but she's absent" is not an acceptable answer—you will all be responsible for knowing your entire plan backwards and forwards.



TO: Special Task Force of the Council of Economic Advisors

FROM: President of the United States

RE: Policy Recommendations for Economic Growth & Deficit Reduction

Until two months ago, on the surface the U.S. economy seemed to be doing relatively well. However, even then, underneath the surface problems lingered. GDP growth lagged around 2%. Economists remained concerned about the long term negative effects of a constantly growing national debt. Many feared that if the debt problem is not solved the world's confidence in the U.S. as a credit-worthy nation may decline, which could force the U.S. to pay higher interest rates to encourage investors to buy U.S. Treasury bonds, which will lead to overall increases in interest rates.

Then the coronavirus hit. In the last six weeks, thirty million Americans have applied for unemployment benefits. Economists predict that U.S. GDP contracted by 3.6% in the first quarter of 2020. One million Americans have tested positive for Covid-19 with over 55,000 deaths. The Congress has passed three extremely large spending bills totally nearly \$3 Trillion in an effort to keep the economy afloat.

Even so, we face mounting criticism from many Americans that we are not doing enough to stop this crisis. We are also increasingly hearing fears about the deficit and debt skyrocketing even further out of control. We need to develop an effective fiscal and monetary policy action plan as soon as possible. I have therefore convened this special task force of the Council of Economic Advisors. I am asking you to come up with a vigorous plan of action that attempts to address as many of the following as possible:

- ✓ Dealing with the health crisis
- ✓ Decreasing the deficit
- ✓ Short term economic growth [keeping the circular flow moving]
- ✓ Long term economic growth [think pushing the Production Possibilities Frontier curve to the right]
- ✓ Preventing deflation; with job losses dramatically sucking spending power out of the economy, the typical problem of inflation will not be an issue

Of course, any fiscal policy actions that you propose—whether changes in tax policy or changes in federal government spending—must ultimately be part of legislation passed by Congress. And any monetary policy plans will have to be implemented by the Federal Reserve.

Nevertheless, we owe the American people a decisive plan. I am calling on you to come up with a five year plan of action by next _____. You will then present your plan to me and a panel of representatives of different constituencies. The panel will ask you questions and expect you to defend your plan. Ultimately, if I accept your recommendations, I will use your ideas as the basis for a speech to the nation the following week.

The challenges that we face are daunting. I am counting on you to help figure out a way to get this country back on its feet again.

The President

Death & Taxes Poster Links

<http://www.timeplots.com/collections/catalog/products/death-and-taxes-poster-2014>

<http://visual.ly/death-and-taxes-2014-us-federal-budget>

Some Key Numbers from the U.S. Budget 2020

Tax Revenues

Item	Revenue in BILLIONS of Dollars
Individual Income Taxes	\$1,405 (\$1.405 TRILLION)
Social Security Payroll Taxes	911
Medicare Payroll Taxes	277
Corporate Income Taxes	225
Excise Taxes	
--Alcohol	--10
--Tobacco	--14
--Transportation taxes (taxes on gas & diesel; tolls on interstate bridges & tunnels)	--42
--Airport (taxes on domestic & int'l passenger tickets, tax on aviation fuel)	--16
Custom Duties (Tariffs)	40
Estate & Gift Taxes	17
Overall Projected Total Tax Receipts	\$3,122 Billion (\$3.122 TRILLION)

Government Spending (Major, but not all spending categories)

Agency/Program	Spending in BILLIONS of Dollars
Department of Agriculture	
--Supplemental Nutrition Assistance Program (Food Stamps)	84
--Child Nutrition Programs (National School Breakfast & School Lunch Programs)	20
Department of Commerce	10
Department of Defense	
--Operations & Maintenance (weapons systems, equipment, training, bases, communication, cyber security, etc.)	283
--Military Personnel (military pay)	154
--Procurement (purchasing of all the various goods and services needed by the various branches of the military)	144
--Research, Development, Testing	92
--Military Construction	24
Department of Education	31
Department of Energy	27

Government Spending (Major, but not all spending categories) continued

Agency/Program	Spending in BILLIONS OF \$
Department of Health & Human Services	
--Medicare	629
--Medicaid	419
--National Institute for Health	31

--Centers for Disease Control & Prevention	11
Department of Homeland Security	48
Department of Housing & Urban Development	31
Department of the Interior (manages all public lands such as National Parks, Indian reservations)	12
Department of Labor	11
Department of Justice	28
Department of State	
--Humanitarian Assistance & Int'l Development	23
--Foreign Military Assistance	14
Department of Transportation	
--Federal Aviation Administration	15
--Federal Highway Administration	43
--Federal Transit Administration	11
Department of Veterans Affairs	
--Disability Compensation	56
--Veterans' Pensions	55
--Medical Services	41
--Education Readjustment Benefits	10
Environmental Protection Agency	6
Interest Paid on National Debt—you can't change this one at all—it is the amount being paid to those who own U.S. Treasury bonds	393
National Aeronautics & Space Administration	18
National Intelligence Program (NIP) and the Military Intelligence Program (MIP)	53
Funding for the 16 agencies of the U.S. intelligence community—see https://goo.gl/gXH6Wq	18
Social Security payments: pensions, unemployment, disability	1,042 Billion (\$1.042 TRILLION)
TOTAL PROJECTED SPENDING 2020	\$4,407 Billion (\$4.407 TRILLION)

TOTAL PROJECTED TAX REVENUES 2020	\$3.122 Trillion
TOTAL PROJECTED GOVT SPENDING 2020	\$4.407 Trillion
PROJECTED BUDGET DEFICIT 2020	\$1,285 Billion (\$1.285 Trillion)

Tax Expenditures (tax revenue that the government could potentially collect but does not currently collect because of special treatment under the current tax code)	Amount not collected in billions of \$
Money spent on health care plans by employers (as part of an employee's overall compensation) are not taxed as employee income	148
Income earned from stock dividends & long-term capital gains (profit made from a qualifying investment owned for longer than 12 months and then sold), is not taxed as regular income but taxed at a special tax rate of 15%	110
Ability to deduct from one's taxes the amount spent each year on home mortgage interest payments	90
Ability to deduct from one's taxes the amount spent each year on charitable contributions	37