Nonprofits and the Federal Budget Crisis

By Bob Boisture

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Contents

List of Graphs

List of Figures

Executive Summary

The federal budget is on an unsustainable path and the federal budget process is badly broken. These are the two sides of a crisis that threatens America's future security, prosperity, and social cohesion. If unresolved, the budget crisis will cripple our economy and erode public confidence in our democratic process.

As the backbone of civil society, nonprofits have a duty to try to prevent this. They have a strong self-interest in doing so since the budget crisis threatens their ability to advance their particular missions. If we do not put federal finances back on a sustainable fiscal track, in the years ahead our mounting debt will exacerbate many of the social problems the nonprofit sector is working to ameliorate and will substantially reduce both public and private funding to support this work.

In the current, highly polarized political environment, neither a partisan nor a bipartisan resolution of the budget crisis is likely. The only politically plausible strategy for achieving long-term budget reform is to educate and energize a bloc of centrist voters strong enough to force the parties to move to the center and adopt a bipartisan compromise.

The nonprofit sector is the only sector of our society that has the human and financial resources and the core competencies to lead a large-scale public education and advocacy campaign in support of bipartisan budget reform.

In undertaking this effort the sector will have to face up to and overcome the same short-term thinking, aversion to risk, and ideological polarization that is crippling the broader political process. If the nonprofit sector has the courage to tackle these problems and the resourcefulness to solve them, it will in the process have done much to help the nation as a whole do the same. If the sector does not rise to this challenge, the harm to the country could be profound.

This is not a call for conservatives and progressives within the nonprofit sector to suspend the ideological debate over the size and role of government, but rather a call for them to cooperate in creating an honest and responsible framework for this debate. The breakdown in the budget process has encouraged our representatives at various points to promise larger government without higher taxes or lower taxes without smaller government. America cannot move forward until we have restored budget discipline and can, once again, have an honest debate.

This is a moment of truth for nonprofit leaders. They need to come together across ideological lines and develop, fund, and implement an ambitious effort to achieve bipartisan budget reform.

Nonprofits and the Federal Budget Crisis

By Bob Boisture[i]

Introduction

The federal budget is on an unsustainable path and the federal budget process is badly broken. These are the two sides of a crisis that threatens America's future security, prosperity, and social cohesion. It is a serious mistake to regard this as merely one urgent public problem among many. The budget crisis defines the fiscal frame within which all other public problems must be addressed. Nonprofit leaders are not thinking nearly enough about the profound implications of this problem and what must be done to put federal finances back on a sustainable track.

In a 2010 speech to a group of business leaders, Admiral Mike Mullen, Chairmen of the Joint Chiefs of Staff, made the following statement:

> The single biggest threat to our national security is our debt.[1]

This is the kind of statement that demands our attention—the nation's top general flatly and publicly stating that the top threat to our national security is not a rising China or rogue states with nuclear weapons, but our national debt.

The federal government's unsustainable financial trajectory is also the single biggest threat to the nonprofit sector and the causes the sector seeks to advance, and the central thesis of this paper is that the nonprofit sector may well be the only force in American society that can lead a successful effort to solve this problem.

Despite this, the overwhelming majority of nonprofits are completely disengaged from the debate over federal budget reform, concentrating instead on advocating their particular budget priorities while accepting the breakdown in the overall budget process as a regrettable fact of life. Nonprofits must recognize that they stay on the sidelines at their peril. [2]

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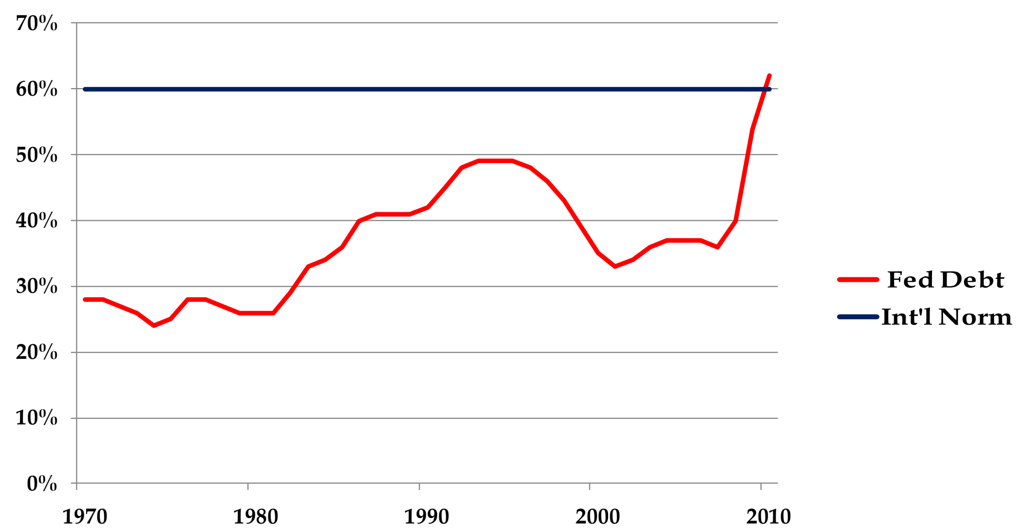
I. Implications of the Projected Growth in the Federal Debt

As a country's debt grows in relation to its economy, annual interest payments consume an ever larger portion of GDP and tax revenue, and become an ever greater drag on the economy. As debt grows beyond what the markets regard as sustainable, investors lose confidence in the government's ability to meet its repayment obligations and begin to demand higher and higher interest rates to compensate for the increasing risk of default.

This may be a gradual process, giving the government considerable time to bring its spending back in line with the growth in tax revenues and the economy. Alternatively, an unexpected political or economic shock like the 2008 financial crisis may cause a sudden loss of market confidence that quickly drives up the government's borrowing cost, forcing large, immediate cuts in spending and/or increases in taxes to regain market confidence and free up the funds required to meet the government's now much larger interest payments.

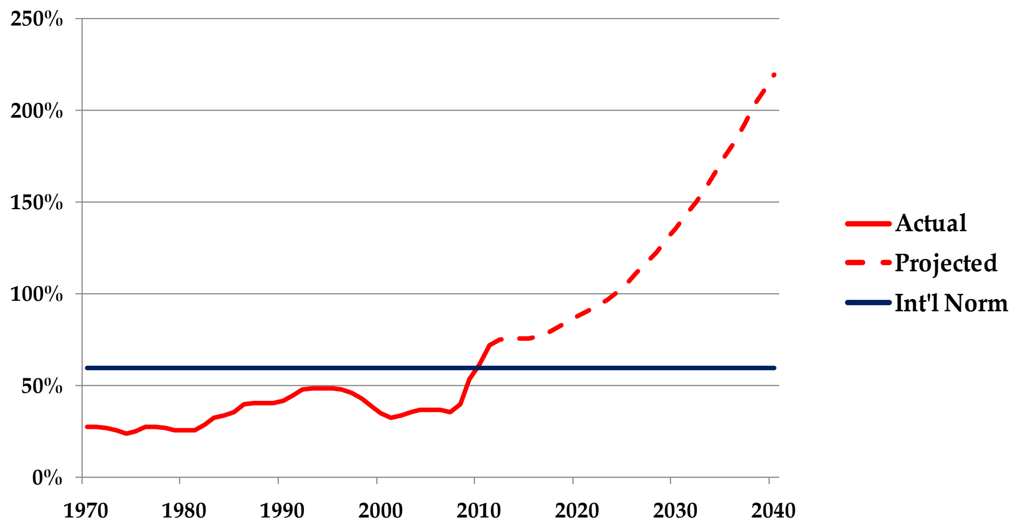
There is broad consensus among economists and policymakers that for advanced economies like the United States, a debt-to-GDP ratio of 60 percent or less is unlikely to have adverse effects on the economy.[3] As graph 1 shows, over the past four decades—until 2009—the United States remained comfortably below this 60 percent threshold.



Graph 1. Federal Debt Held by the Public as a Percentage of GDP: 1970–2010[4]

But if we continue to follow current spending and tax policies, our future will look very different.

Graph 2 shows the Congressional Budget Office's projection of the growth in the national debt between 2010 and 2040, if current tax and spending policies remain in place. [5] As the graph shows, national debt will reach 90 percent of GDP by 2020, and 185 percent of GDP by 2035.



Graph 2. Federal Debt Held by the Public as a Percentage of GDP: 1970–2040[6]

CBO has warned Congress that if we stay on this course, the United States faces a serious risk of an acute debt crisis similar to those experienced by Argentina in 2001 and more recently by Greece and Ireland.[7]

Moreover, even if the United States avoids such a full-blown debt crisis, the federal government cannot indefinitely live so far beyond its means without serious damage to the economy and the country. Without budget reform, the unprecedented level of national debt will increasingly crowd out private investment, slow economic growth, increase unemployment, depress personal incomes, and seriously constrain the federal government's ability to respond to future recessions and international crises.[8] It will also ultimately force drastic cuts in Medicare, Medicaid, Social Security, and every other part of the federal budget. The longer we delay budget reform, the more drastic and wrenching the inevitable retrenchment will be.

All of this has profound implications for the nonprofit sector. First of all, long-term economic stagnation will seriously compound many of the social problems nonprofits are trying to ameliorate. Consider, for example, the implications for the thousands of nonprofits and foundations working to improve the life prospects of low-income children and youth. For years, these organizations have poured tremendous resources into early childhood initiatives, youth development programs, school reform initiatives, and work force readiness programs. But what if, as the result of a faltering economy, there are simply not enough jobs at the end of this road? These nonprofits' investment will have been largely wasted.

Long-term economic stagnation would also dramatically reduce the resources nonprofits have to work with, and not just because of the inevitable cuts in government funding. With less wealth creation, there will be fewer new philanthropists and new foundations. Slower economic growth will depress the value of existing endowments. Finally, lower personal incomes will depress personal giving.

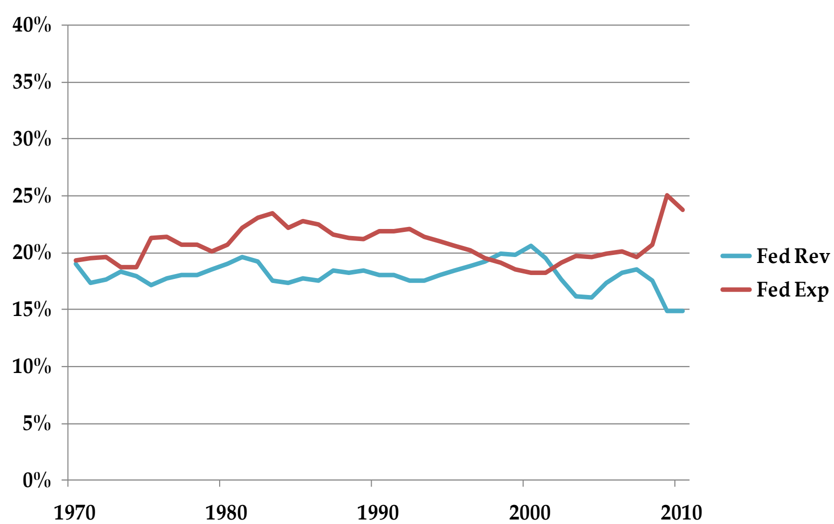
All in all, the hard truth is that without effective budget reform, nonprofits face a grim future of having to do more and more with less and less.

II. The Federal Budget and the National Debt—Past, Present, and Future

The second half of this paper will discuss in some detail the role the nonprofit sector can and should play in addressing the budget crisis. But before turning to this question, it will be useful to review the essential facts that define the crisis.

A. 1970–2010: Historic Trends in Revenue, Expenditures, and Debt

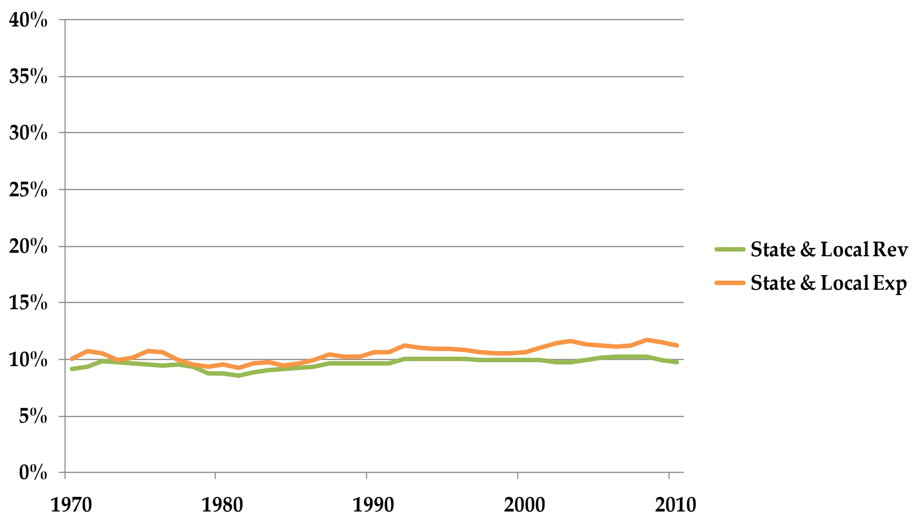
Looking back to establish a historical frame of reference, graph 3 shows federal revenue and expenditure from 1970 to 2010. Until 2008, spending was generally slightly above 20 percent of GDP and revenue somewhat below. The 40 year



Graph 3. Federal Expenditure and Revenue as a Percentage of GDP: 1970–2010[9]

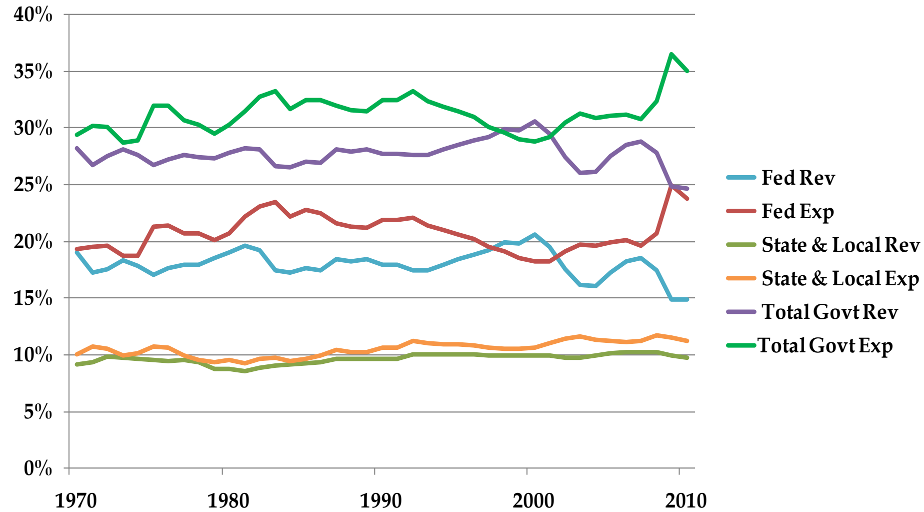
average was 20.6 percent of GDP for spending and 18 percent for revenue. As graph 3 also shows, this changed dramatically with the onset of the financial crisis in 2008. Spending spiked to 25 percent of GDP in 2009, while revenue fell to 14.9 percent, leaving a deficit of 10 percent of GDP. As graph 2 shows (see page 5), three years of these tremendous deficits have almost doubled the federal debt.

Graph 4 adds state and local government budgets to the picture. State and local government revenue and expenditures, taken as a whole, are roughly half the size of the federal government, with expenditures and revenues both in the range of 10 percent of GDP.



Graph 4. Federal Expenditure, Revenue, and Public Debt as a Percentage of GDP: 1970–2010[10]

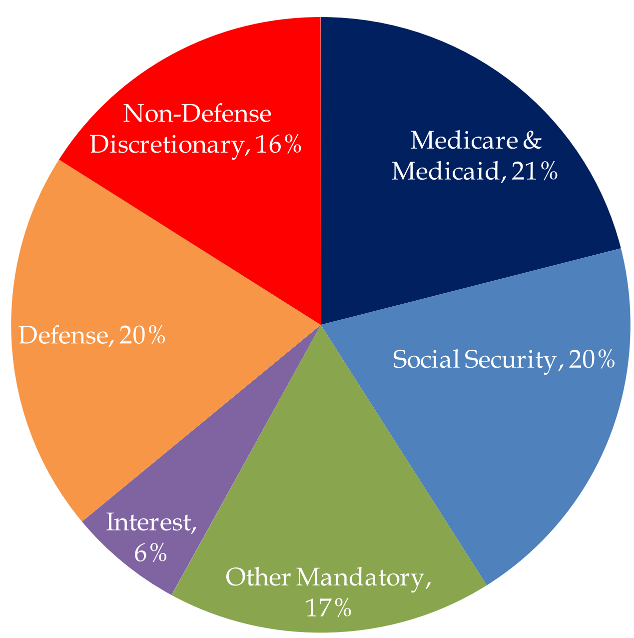
As graph 5 shows, combining all three levels of government, between 1970 and 2008 total federal, state, and local government expenditures were generally modestly above 30 percent of GDP, and total revenue modestly below 30 percent. With the onset of the financial crisis in 2008, total government spending rose to more than 35 percent of GDP while total revenue fell to less than 25 percent.



Graph 5. Federal, State, and Local Government Revenue and Expenditures as a Percentage of GDP: 1970–2010[11]

B. The Current Allocation of Federal Expenditures

Shifting focus from the past to the present (or at least to the federal government's 2010 fiscal year), graph 6 shows the relative size of the major components of current federal expenditures.



Graph 6. Major Components of Federal Expenditures in Fiscal Year 2010[12]

Medicare, Medicaid, and Social Security—the big three entitlement programs—collectively accounted for 41 percent of 2010 federal expenditures. These programs are called "entitlement programs," and the spending on them is commonly referred to as "mandatory spending," because these programs are not dependent on annual appropriations by Congress. Instead, they are funded automatically at whatever level required to pay for the benefit levels that Congress has established

This is also true for other smaller mandatory programs that collectively accounted for another 17 percent of 2010 expenditures. These programs include civilian and military retirement, income support programs, veterans' benefits, agricultural subsidies, and student loans. In the aggregate, these smaller mandatory programs accounted for another 17 percent of 2010 federal expenditures. As the co-chairmen of the National Commission of Fiscal Reform and Responsibility (the Deficit Commission) pointed out in their 2010 report, because these programs are not subject to the discipline of the annual appropriations process, wasteful spending can continue for years without effective oversight.

Before turning to the two big discretionary components of the federal budget, it is important to note that interest on the debt is another component of federal expenditure beyond the reach of the annual Congressional budget process. Indeed, absent a willingness to default, it is completely beyond Congress' control. In 2010, due in part to the Treasury's historically low borrowing costs, interest on the debt accounted for only 6 percent of federal expenditure, or 1.4 percent of GDP. If the federal government remains on its current fiscal course, this will change dramatically over the coming years.

In total, the foregoing mandatory expenditures—those outside the control of the annual appropriations process—accounted for a total of 64 percent of 2010 federal spending, leaving Congress with year-to-year control over only about a third of the budget.

Of this discretionary spending, slightly more than half went to defense, with the remaining 17 percent going to non-defense discretionary programs. This latter category is the part of the budget that provides the lion's share of federal funding for nonprofits. As long as Congress remains deadlocked on major reform to entitlement programs, future cuts in federal expenditures will come very largely from the discretionary third of the budget, which means they will fall disproportionately on the part of the budget that funds nonprofits.

In sum, for 2010 federal expenditures totaled $3.46 trillion, or 23.8 percent of GDP, while federal revenue was only $2.16 trillion, or 14.9 percent of GDP, producing a cavernous deficit of $1.3 trillion, or roughly 9 percent of GDP.

C. 2010–40: Projected Growth in Federal Revenue, Expenditures, and Debt

It gets worse. Graph 7 shows the Congressional Budget Office's projections for future growth in federal revenue and expenditures if current tax and spending policies remain in place.

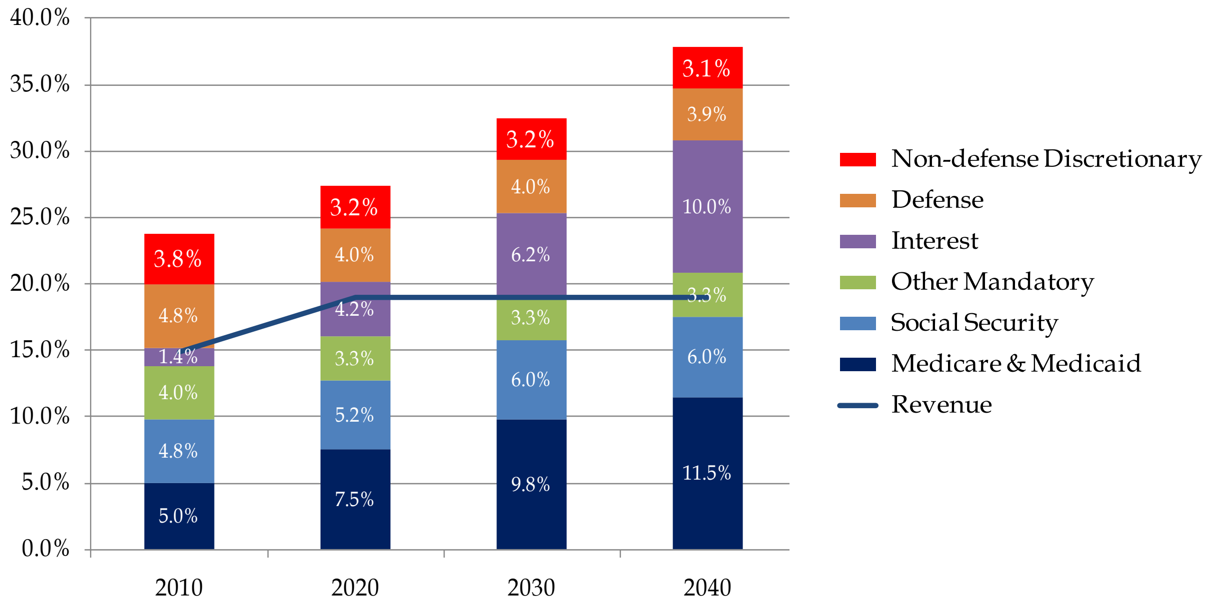
The revenue picture is simple. Under current policies, between now and 2020 revenue will rise to 19 percent of GDP—very much in line with recent history—and will then remain at that level for the next two decades.

By contrast, the story on the expenditure side is one of unrelenting growth.

The big driver is the rapid and continuing growth in Medicare and Medicaid. The projected cost of these two programs alone rises from 5 percent of GDP in 2010, to 11.5 percent in 2040, at which point they would consume 60 percent of projected revenue.

Social Security expenses are also projected to increase as a percentage of GDP, though at a considerably more modest rate—increasing from 4.8 percent of GDP in 2010 to 6 percent in 2040.

Spending on other mandatory program, while increasing substantially in absolute terms, is projected to decline slightly as a percentage of GDP, from 4 percent to 3.3 percent.



Graph 7. CBO Projection of Federal Revenue and Expenditures under Current Policies as a Percentage of GDP: 2010–40[13]

The most sobering and depressing aspect of CBO's projections is the staggering increase in annual interest payments. On our present course, ballooning federal debt would push annual interest payments from 1.4 percent of GDP in 2010, to 10 percent of GDP in 2040.

Finally, defense and non-defense discretionary spending is projected to increase at a rate slightly slower than the growth in GDP, and thus will decline from a total of 8.6 percent of GDP in 2010, to 7 percent of GDP in 2040.

In total, CBO projects that the federal government's current spending policies will push up federal spending from 24 percent of GDP in 2010, to over 37 percent in 2040. Add in state and local government expenditures and total government spending would be nearly half of GDP. The projected 2040 federal deficit would equal 18 percent of GDP, and by 2040 the national debt would equal over 200 percent of GDP. Economists broadly agree that well before the national debt reached this level, the bond markets would demand a radical retrenchment in federal expenditures as the price of continuing to extend credit to the federal government at an interest rate it could afford.

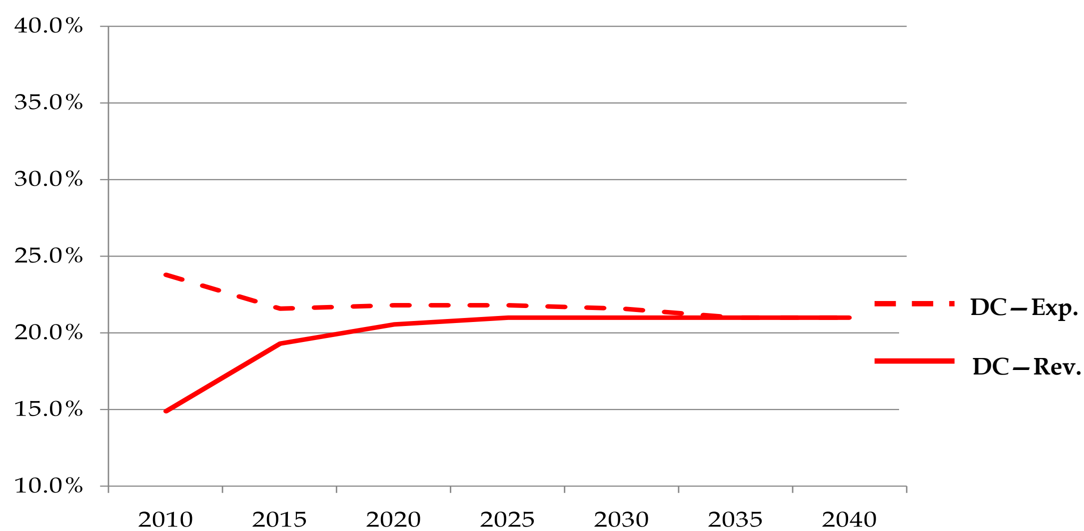
III. Hard Landing or Soft Landing—How Will the Federal Debt Binge End?

Confronted with unsustainable trends like this, Herb Stein, Chairman of the Council of Economic Advisors under Presidents Nixon and Ford, famously said "if something cannot go on forever, it will stop." Economists call it "Stein's Law."[14]

The federal government's debt binge is clearly one of those things that can't go on forever. So the only real question is how and when it will stop. Broadly speaking there are two options—a soft landing (or at least a reasonably controlled landing) brought about through effective budget reform, or a hard landing enforced by the bond markets when investors become unwilling to lend at interest rates the federal government can afford. The economic and social upheaval that has accompanied the Greek debt crisis or that followed Argentina's 2001 default illustrates just how hard a hard landing can be.

Achieving a soft landing option will require us to retake control of our fiscal future through some set of fundamental spending and tax reforms. There is no shortage of detailed plans for how to do this, and it is instructive to take a high level look at three, a middle-of-the-road plan, a conservative plan, and a progressive plan.

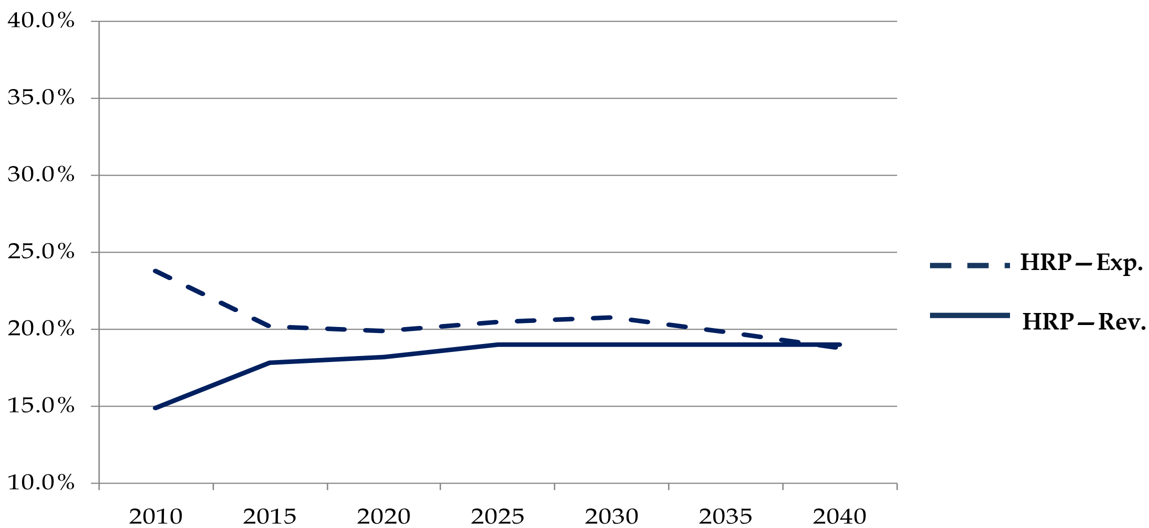
Beginning with middle-of-the-road, graph 8 shows the revenue and expenditure implications of the plan put forward in late 2010 by the bipartisan Deficit Commission appointed by President Obama.[15] Through substantial early spending cuts and tax



Graph 8. Deficit Commission Projected Revenue and Expenditures as a Percentage of GDP: 2010–40[16]

increases this plan would quickly cut the deficit from 10 percent of GDP to 3 percent, and would ultimately eliminate the deficit entirely by bringing expenditures and revenues into balance at 21 percent of GDP. Debt would peak at roughly 75 percent in 2015, and fall to 40 percent of GDP by 2035.[17]

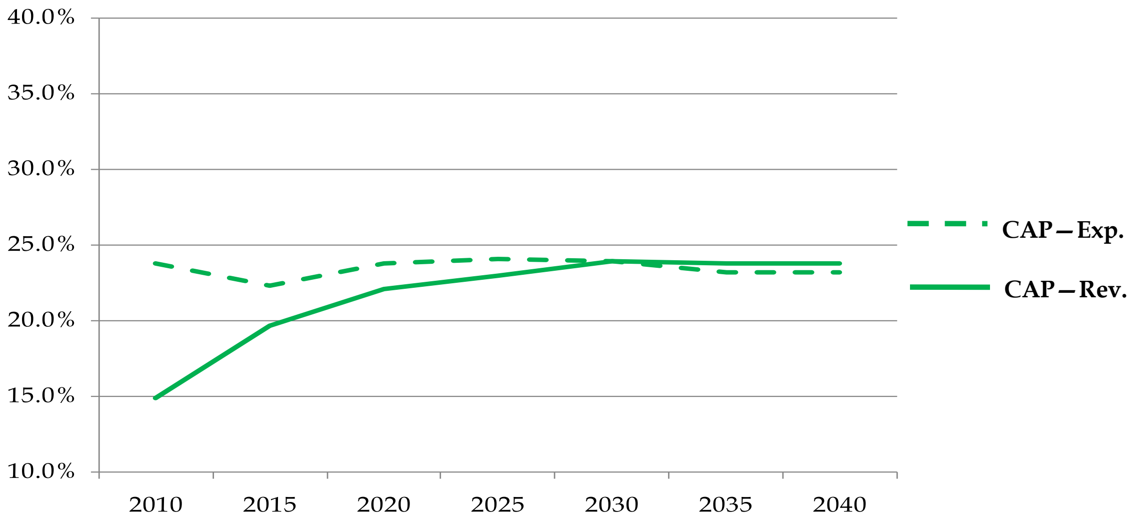
Graph 9 shows the revenue and expenditure implications of the conservative plan proposed in April 2011 by House Budget Committee.[18]



Graph 9. House Republican Plan Projected Revenue and Expenditure as a Percentage of GDP: 2010–40[19]

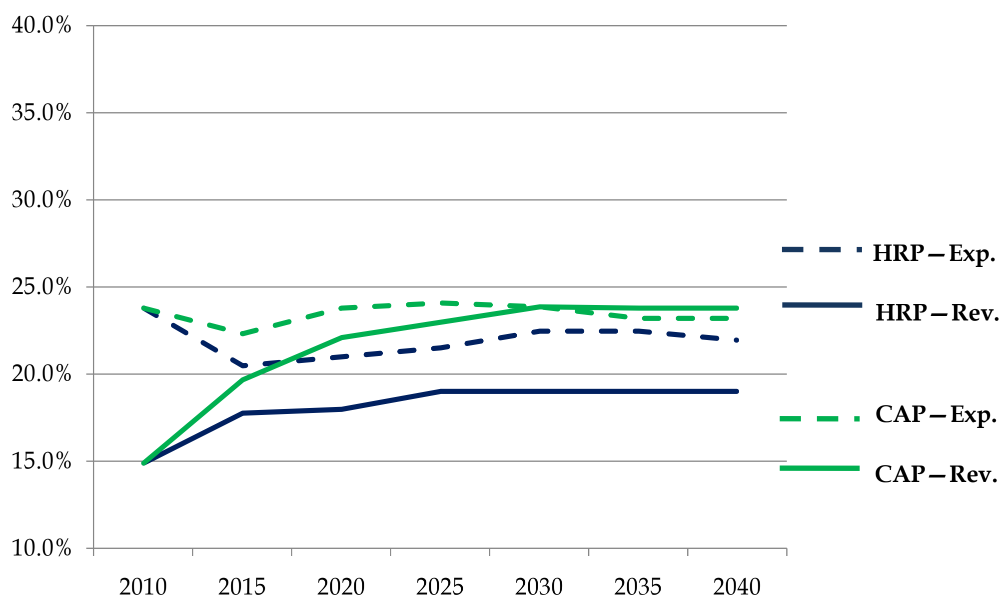
This plan would cap revenues at 19 percent of GDP and bring spending down to 20.75 percent of GDP by 2030, and 18.75 percent of GDP by 2040. Debt would peak at about 75 percent of GDP in 2013, and fall to 48 percent of GDP by 2040.[20]

Finally, from the progressive side, graph 10 shows the revenue and expenditure implications of a plan put forward last year by the Center for American Progress, a prominent progressive think tank.[21] Under the CAP Plan, revenue would increase to nearly 24 percent of GDP by 2030 and remain at that level thereafter, while expenditures would decline only modestly and stabilize at slightly more than 23 percent of GDP by 2035. Debt would peak at 76 percent of GDP in 2016, and would fall to 43 percent of GDP by 2035.[22]



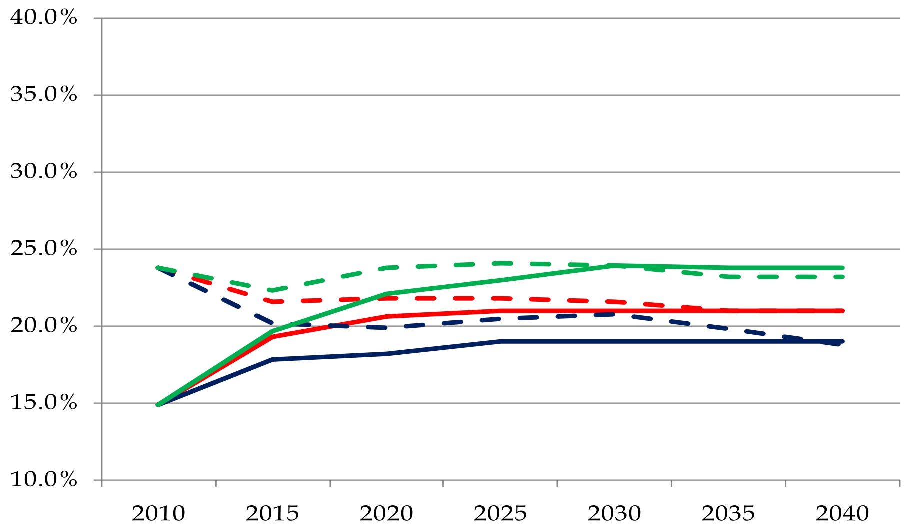
Graph 10. Center for American Progress Plan Projected Revenue and Expenditures: 2010–40[23]

So at the macro level, just how big is the difference between the conservative and progressive visions of budget reform? Graph 11 compares the House Republican and CAP Plans. The difference in the federal government's annual tax take is about five and a half percent of GDP, currently about $825 billion. The difference in spending fluctuates between 3 percent and 4 percent of GDP per year.



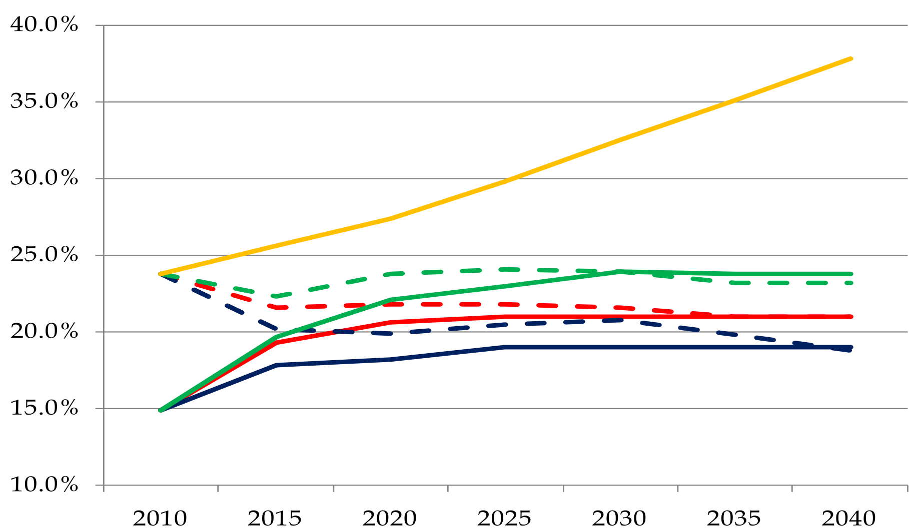
Graph 11. House Republican and Center for American Progress Plans: 2010–40[24]

As shown in graph 12, the Deficit Commission Plan essentially splits the difference on both the tax and spending sides. If the parties accepted this compromise, taxes would be about $400 billion per year higher than the Republicans want, and $400 billion per year less than the Democrats want. This is certainly real money, but it seems a small price for both parties to pay to resolve the budget crisis.



Graph 12. Deficit Commission, House Republican, and Center for American Progress Plans: 2010–40[25]

Finally, as shown in graph 13, when one compares these plans to CBO's projections for growth in spending under current policies, one is struck much more by the plans' similarities than their differences. The fundamental challenge of budget



Graph 13. Deficit Commission, House Republican, and Center for American Progress Plans Compared to CBO Projection for Current Policy: 2010–50[26]

reform is to “flatten the curve”—that is to bring federal spending growth into line with the growth of revenues and of the economy. All three plans would achieve this goal, and all would do so by roughly 2025.

These three plans illustrate the range of soft landing options available today. These same options will not be available at the same price next year. Each year the country puts off getting the budget back under control, the more painful the job becomes. There are two big reasons for this. First, the national debt burden will grow substantially year by year, pushing up the federal government’s annual interest payments. Second, each year we postpone budget reform we get a year closer to the insolvency of Medicare and Social Security, meaning that the inevitable retrenchment in these programs will have to be much more abrupt and painful than if we phased the changes in more gradually over a longer period of time.

IV. 2011: A Case Study in the Breakdown of the Budget Process

Given these facts, why don’t Congress and President Obama act now? Why didn’t they act last year, or the year before that? The answer is that our federal budget process is fundamentally broken. To see just how broken, we need only take a brief look back at 2011.

2011 began with Congress having passed none of the 14 annual appropriations bills required to fund government operations. There was some hope as the year began that President Obama would endorse and advocate the bipartisan plan proposed by his Deficit Commission, but this hope quickly faded in late January when the President proposed another status quo budget.

The first budget crisis of the year came in early April. Only on the eve of a government shut-down did the parties finally agree on a budget deal that cut spending for the remainder of the fiscal year by $38 billion, with almost all of the cuts coming from domestic discretionary spending programs.[27] Standard & Poor’s promptly downgraded its outlook for the credit rating of US government debt from stable to negative.[28]

Also in April, Congressman Paul Ryan unveiled the House Republican's alternative FY 2012 budget discussed above. The House Republican plan included fundamental Medicare reforms. Democrats immediately rejected the plan out of hand.

On a brighter note, through the winter and spring the Senate's bipartisan "Gang of Six" attempted to hammer out a bipartisan plan for fundamental budget reform, with some hope growing in Washington that if they succeeded, their plan might galvanize the Senate to action.

The next crisis, which had been simmering all year, came to a boil in July with the approach of the August 3rd deadline for raising the federal debt ceiling. In mid-July, the Gang of Six finally unveiled its plan, which was promptly endorsed by President Obama. It briefly appeared that President Obama and House Speaker Boehner might agree on and jointly advocate the illusive "grand bargain" on budget reform. But, faced with implacable opposition from rank and file House Republicans, Speaker Boehner soon backed away.

Only on August 3rd did the parties finally agree on a debt ceiling deal, and that deal simply punted all of the tough issues to a new congressional "Supercommittee." The Supercommittee was charged with proposing no later than November 23rd legislation that would cut federal spending by a minimum of $1.2 trillion dollars over ten years. Under the bill, failure by Congress to enact the Supercommittee's proposal would trigger $1.2 billion in automatic cuts to defense and domestic discretionary spending, beginning in 2013. Unimpressed with the debt ceiling deal, on August 5th Standard & Poor's took the unprecedented step of downgrading US government debt.[29]

After weeks of rumor and speculation, on November 21st the Supercommittee announced that it had failed to reach agreement, reopening the whole can of worms that Congress had hoped to avoid until after the 2012 elections. Washington insiders immediately began to speculate about whether Congress would find a way to scale back the automatic spending cuts before 2013.

Finally, the year came to an end with yet another exercise in brinkmanship, with Republicans and Democrats unable to agree until three days before Christmas on a deal to extend employment tax cuts and unemployment benefits scheduled to expire at year end. And even then they could only agree on a two-month extension, ensuring that 2013 would begin with yet another partisan fight.

V. Analyzing the Prospects for Budget Reform

So how do we get out of this mess?

From a political perspective, there are two alternatives—either a partisan solution imposed by one party over the objections of the other, or a bipartisan budget compromise. As summarized in figure 1, this section advances a three-part hypothesis that: (1) in the current political climate, neither a partisan nor a bipartisan solution is likely, (2) no plausible future changes in the political climate are likely to enable either party to impose its partisan solution; and (3) the only politically plausible strategy for achieving long-term budget reform is to educate and energize a bloc of centrist voters strong enough to force the parties to move to the center and adopt a bipartisan compromise.

	One Party Imposes Its Partisan Plan for Budget Reform	**The Parties Agree to a Compromise Plan for Budget Reform**
Current Political Climate	**Case 1: Highly unlikely** ▪ **Divided government makes it hard to consolidate power.** ▪ **Budget reform involves imposing substantial pain.** ▪ **The other party will tell voters there is an easier way. The party in control will lose at the polls.**	**Case 2: Highly unlikely** ▪ **Politicians know that if they urge compromise they will be attacked by the more ideological wings of their party.** ▪ **Not enough politicians are willing to risk a strong primary challenge.**
Plausible Future Political Climate	**Case 3: Highly unlikely** ▪ **Same barriers as above.** ▪ **No political or demographic trends suggest that either party will gain a sufficiently dominant position to impose its partisan plan.**	**Case 4: Difficult but plausible** ▪ **In important respects, public opinion is already favorable to bipartisan reform.** ▪ **Compelling policy and political arguments.** ▪ **Nonprofit sector has capacity to lead successful effort.**

Figure 1: Political Options for Achieving Budget Reform

A. Case 1: Partisan Budget Reform in the Current Political Climate

To force through a partisan plan, one party would have to control the White House and the House and have a filibuster-proof majority in the Senate. In the last thirty-four years, this has happened only once—and then for a period of only six months—when the Democrats briefly achieved a filibuster-proof Senate majority from July 2009 to February 2010. Since the end of World War II, the Republicans have never achieved this dominant political position, and the Democrats have achieved it only during two other brief periods in the 1960s and 70s.[30]

Moreover, even if one party gained this level of control, it is by no means clear that it would use it to impose its vision of budget reform rather than to advance some other more prized policy objective. Real budget reform involves real pain, and a party that unilaterally imposes that pain knows that it is likely to be punished at the polls. It bears noting that the Democrats used their brief 2009–10 filibuster-proof majority to push through health care reform rather than budget reform.

Finally, a partisan solution, even if enacted, is unlikely to be sustainable over time. When, as would inevitably happen, the minority party regained control of the White House and/or one or both houses of Congress, it would almost certainly try to reverse key elements of the other party's partisan budget solution. The Republican's aggressive efforts to repeal major elements of the health care reform legislation illustrate this dynamic.

In sum, in today's political climate, the likelihood of a partisan solution to the budget crisis appears vanishingly small.

B. Case 2: Bipartisan Budget Reform in the Current Political Climate

The current prospects for a bipartisan solution are equally bleak. Politicians who contemplate moving to the center on budget issues can be sure of three things: first, that they will be met with great scientism by the other party, second, that they will face a strong challenge from the more ideological elements within their party, and third, that there is no educated, energized, and organized centrist voting bloc to provide an effective political counterweight to this ideological opposition.

As a result, when a group like the Senate's Gang of Six takes the political risk of proposing a bipartisan reform plan, the plan fails to attract substantial support. The politically expedient option is to stick to the party line, and that is what the great majority of politicians do.

C. Case 3: Partisan Budget Reform in a Plausible Future Political Climate

But what about a change in the political climate? Can we imagine any politically plausible scenario likely to produce either partisan or bipartisan budget reform?

For partisan reform, the answer is clearly "no." There is no historically or politically plausible scenario in which either the Republicans or Democrats will gain and consolidate sufficient power to impose and sustain their partisan version of long-term budget reform. Our system of divided government is designed to make it extremely difficult for one party to achieve and retain this level of dominance, and, as noted above, in recent decades the system has been highly effective in achieving this goal.

There is no reason to expect that this will change. In-depth analyses of voter opinion show no sign that the American electorate is going through a period of fundamental ideological realignment of sufficient magnitude to overcome the constitutional checks-and-balances and give long-term dominance to either Democrats or Republicans.[31] Nor, is it clear that demographic shifts, including the rapid growth in the number of Hispanic voters, will decisively favor either party.

Moreover, the painful political logic of budget reform discussed above will not change. Real budget reform involves real pain, and a party that unilaterally imposes that pain can expect to be punished at the polls.

For all of these reasons, no matter how fervently each party may dream of the day when it can impose its partisan plan for budget reform, it seems very unlikely that that day will ever come.

D. Case 4: Bipartisan Budget Reform in a Plausible Future Political Climate

The only remaining possibility is that the political climate will change in a way that forces the parties to move to the center and agree on bipartisan reform. This would require the emergence of a strong bloc of centrist voters prepared to vote for candidates who support bipartisan reform and against candidates who don't. Such a voting bloc could emerge spontaneously as an expression of mounting voter fear and frustration over continued partisan deadlock. However, given the complexity of budget issues and the ease with which politicians can obscure and demagogue them, this seems unlikely. The more plausible possibility it that such a voting bloc could be brought into being through a large-scale public education campaign.

The central thesis of this paper is that there is a reasonable prospect that such a voting bloc could be brought into being through a large-scale nonpartisan public education campaign led by a broad coalition of nonprofit and business groups.

1. Public Opinion and Budget Reform

In assessing the likelihood that such an effort could succeed, it is useful to begin by analyzing the current state of public opinion. As shown in figure 2, in a number of important respects, the public's current views on budget issues are strongly aligned with the case for bipartisan budget reform:

- In a recent poll, over 80 percent of Americans said that they see the deficit as an important problem that needs to be addressed now.[32] When presented with five potential threats to the economy, more Americans (over 75 percent) said that the national debt was a major threat to the economy than any of the other potential threats presented.[33]
- Nearly three-quarters of Americans believe that Medicare and Social Security are only in "fair" or "poor" financial condition, and a majority believe that both programs need major changes or to be completely rebuilt.[34]

Attitudes Favorable to the Case for Bipartisan Reform	Attitudes Unfavorable to the Case for Bipartisan Reform
▪ The deficit is a major threat to the economy and needs to be addressed now. ▪ Medicare and Social Security are in poor financial condition and in need of major changes. ▪ The deficit should be reduced through a combination of spending cuts and tax increases, with the emphasis on spending cuts. ▪ Politicians should agree to a compromise plan to solve the deficit problem, even it if is a plan they disagree with. ▪ Congress is not doing its job.	▪ High unemployment and rising prices are a greater concern than the deficit. ▪ It is more important to preserve current Medicare and Social Security benefits than to reduce the deficit. ▪ Support for spending cuts in general is not matched by support for cuts in specific programs. ▪ Taxes should be increased for high-income earners but not for the middle class.

Figure 2: Public Opinions Favorable and Unfavorable to Achieving Bipartisan Budget Reform

- Two-thirds of Americans believe the deficit should be reduced through a combination of spending cuts and tax increases. Only 20 percent favor relying only on spending cuts, and only 4 percent favor relying only on tax increases.[35] During the 2011 debates over the deficit and raising the debt ceiling, three out of five Americans said that members of Congress should agree to a compromise, even if it meant accepting a plan they disagreed with.[36]
- Public confidence in and approval of Congress have reached record lows. In a December 2011 Gallup poll, only 11 percent of Americans approved of the way Congress is doing its job.[37]

On the other hand, other aspects of current opinion are less favorable.

- Far more Americans identify unemployment or the economy in general as their top economic concern as opposed to the deficit.[38]
- While Americans are concerned about the future solvency of Medicare and Social Security and believe the programs need to be restructured, three-fifths of Americans believe that it is more important to preserve existing benefit levels than to reduce the deficit.[39]
- Americans' support for spending cuts in general is not matched by their support for cuts to specific programs. In one recent poll, when asked about specific spending cuts, a majority of voters opposed cuts for all significant components of the federal budget except foreign aid.[40]
- While a majority of Americans support increasing taxes on upper-income taxpayers, support is less clear for the broader-based tax increases likely to be required for effective long-term budget reform.[41]

While these views present a major challenge, it is by no means clear that that it is an insurmountable one.

2. Making the Case for Bipartisan Budget Reform

Advocates of bipartisan reform have persuasive arguments on each of these points.

With regard to the relative importance of addressing unemployment or the deficit, budget reform advocates must advance a two-part argument. First, they must explain, as the Deficit Commission did in its report, that the key to budget reform is to adopt and stick with a plan that brings federal spending back in line with growth in

GDP and tax revenues over the medium to long term, *and* that this should be done gradually so as not to undermine the current economic recovery.[42] Second, they must stress that the deficit and the debt, if not brought under control, will themselves become the biggest single threat to future employment growth.[43]

With regard to Medicare and Social Security, budget reform advocates must advance two main points. First, they must explain why current benefit levels are simply unsustainable. Graph 7 (see page 8, above) should be exhibit A, showing as it does that by 2040 Medicare and Medicaid will alone consume 60 percent of all projected federal revenues. Second, advocates should stress that the reforms required to ensure the long-term financial health of Medicare and Social Security can be phased in gradually, and that the sooner we implement reforms, the less drastic they will need to be. [44]

With regard to the need for a combination for broad-based spending cuts and tax increases, the polls tell us that the public already favors, at least in principle, a compromise approach to deficit reduction. The rub comes in convincing the public to accept the real pain involved in real spending cuts and tax increases, and to do so sooner rather than later. Here, budget reform advocates again have facts and logic strongly on their side. They can convincingly demonstrate that current spending and tax policies are unsustainable and will destroy the economy (again, see graph 8). They should also remind the public of the dangers of excessive debt, as dramatically demonstrated by the crash in the housing market and the Euro zone debt crisis. Finally, they should capitalize on the public's frustration with politics as usual by explaining why neither party will ever be able to impose its partisan vision for budget reform.

3. Could it Work?

Taken together, these arguments add up to a compelling case for bipartisan reform. But could they win over enough voters to force the parties to move to make a practical political difference?

The short answer is that no one knows because no one has ever seriously tried. There has never been a large-scale, well-funded, well-designed, nonpartisan effort to educate the American public about these key issues. Given what is at stake for the future of the American economy and American democracy, this is extraordinary, and it needs to change. Just as war is too important to leave to the generals, the federal budget and its impact on the economy and national security are too important to leave to politicians and special interests. To have a functional democracy we must have an informed electorate. On budget issues, the hard truth is that we don't have an informed electorate, and we won't effectively address the budget crisis until we do.

To put a finer—and somewhat less daunting—point on this, it is not necessary to educate and persuade all or even a majority of voters to make bipartisan budget reform a top priority—just enough voters to change the political dynamics of the budget debate and force the parties to move to the center.

Independent voters, along with moderate Democrats and Republicans, are the key, and there are good reasons to think they would respond positively to the arguments presented above. On this point, a report released in December 2012 by the Pew Research Center is worth a brief note. The report is titled: "Frustration with Incumbents Could Hurt Republicans."[45]

The report analyzes data from polls taken over the course of 2011 about how voters perceived the roles Democrats and Republicans had played in the year's budget and debt ceiling fights. The data show that by a 2–1 margin respondents thought that the Republicans had taken more extreme positions and been less willing to compromise. [46] The data also showed a precipitous drop in independent voter's approval of Republicans and their congressional leaders, and a corresponding increase for Democrats.[47]

While correlation is not causation, it seems quite plausible that the Republicans' approval ratings among independents fell precisely because independents perceived Republicans as having been more extreme and less willing to compromise on budget issues. The fact that Republicans came out on the short end this time around is not the point. Next time it may be the Democrats. What is the point is that if a nonpartisan public education campaign could capitalize on and amplify this political dynamic among independents and other centrist voters, it could fundamentally change the political climate and open the door to a bipartisan budget deal.

VI. <u>The Nonprofit Sector and Bipartisan Budget Reform</u>

The final thesis toward which this entire analysis has been building is that the nonprofit sector may be the only force in American society that can lead a successful effort to bring about bipartisan budget reform. The argument can be simply stated.

- Most politicians and most of the media are part of the problem rather than the solution.
- While the business community has a strong interest in supporting budget reform, it lacks the capacity and the credibility to mobilize an effective national campaign.

Only the nonprofit sector has the human and financial resources, the expertise, and the infrastructure to lead a large-scale campaign in support of bipartisan budget reform. If, as argued above, bipartisan reform is the only realistic solution to the budget crisis, nonprofits may well hold the key to that solution.

A. What Nonprofits Bring to the Cause of Bipartisan Budget Reform

The nonprofit sector could bring a number of vital strengths to this effort. Most importantly, nonprofits bring people, relationships, and community. Nonprofits are woven into the fabric of every city and town across America. For tens of millions of Americans, one of their most important ties to their community is their involvement with nonprofits as volunteers, donors, members, or service recipients. Equally important, nonprofits build communities of interest that connect individuals across the nation around their shared commitment to a cause.

These relationships and communities—both geographic and cause-based—provide the context in which nonprofits can engage their constituents in sustained and informed conversations about matters of public concern. By linking these conversations, nonprofits can create community-wide, state-wide, and even national dialogues through which Americans can share their different perspectives on important public issues and work to find common ground. This dialogue is one of the fundamental foundations of civil society.

Nonprofits also bring to the effort core competencies in public education, social marketing, coalition building, advocacy, and rigorous policy analysis. Through national initiatives like MADD’s campaign against drunk driving and the Campaign for Tobacco-Free Kids, nonprofits have demonstrated that they can change the course of public debate and drive legislative action on major public policy issues. Through tens of thousands of less prominent public education and advocacy campaigns, nonprofits every year exert major influence on countless local, state, and federal policy decisions.

In addition to these core competencies, the nonprofit sector has also developed proven models for coming together in broad coalitions to educate and advocate on issues of common interest. Two important features of these coalition models are, first, that they include well-tested funding mechanisms through which private foundations can fund large-scale advocacy campaigns without violating the federal tax law prohibition on foundation funding of lobbying, and second, that they enable public charities to engage in aggressive advocacy without violating the limits on pubic charity lobbying.

Another strength of these coalition models is that they enable coalition members to effectively support the coalition's objective with only a modest commitment of staff time and financial resources. This allows coalition members to maintain their primary focus on their own particular mission-related advocacy objectives.

Finally, foundations—which last year made grants of more than $50 billion—clearly have the resources to fund a major national public education and advocacy campaign without significant diversion of resources from other funding priorities.

B. Barriers to Nonprofit Leadership

These strengths and resources well equip nonprofits to lead an effective national campaign in support of bipartisan budget reform. But to provide that leadership nonprofits will have to overcome some of the same tests of judgment and character that face the nation as a whole.

First, nonprofit leaders must step back from the day-to-day work of their organizations, however urgent and important, and face the facts about the budget crisis. Leaders must acknowledge that nothing less is at stake than the future of the American dream—both the dream of a secure and prosperous future for our children and the dream of a functioning democracy in which the people and their elected representatives have the wisdom and discipline to govern themselves.

Second, nonprofit leaders must have the courage of their convictions about the role of civil society in sustaining a constructive civil discourse and effective democratic institutions. We are regularly and painfully reminded from abroad that healthy democratic institutions are not self-creating or self-sustaining. They arise from and must be sustained by a healthy civil society. When democratic institutions become dysfunctional—as has clearly happened with the federal budget process—the leaders of civil society have a responsibility to engage citizens in a conversation about how to fix the problem.

Third, nonprofits must learn to cooperate and compromise across ideological and partisan lines before they can help the nation to do the same. The nonprofit sector is divided by the same ideological fault lines as the larger society. Too often in the interest of galvanizing their supporters, leaders and organizations distort their opponents' positions and malign their motives. Too seldom do conservatives and progressives come together to respectfully share ideas and search for common ground. Democracy requires maturity, respect, and a willingness to make responsible compromises. If nonprofits are to help the nation restore a constructive civil discourse and put the country's finances back on track, nonprofit leaders must first reestablish a respectful and constructive discourse among themselves.

C. Where and How to Begin

Movements begin with individuals, not organizations. If there is to be a national movement in support of bipartisan budget reform, it will begin when a small number of committed individuals decide to try to make it happen.

Those with the good fortune to be leaders in nonprofit organizations—whether as board members or senior staff—have a particular opportunity and responsibility, both because of their experience, expertise, and relationships, and because they are in a position to try to mobilize the energy and resources of their organizations. By providing critical early leadership and funding, this is an opportunity for smaller foundations and nonprofits to punch far above their weight.

A useful first step would be to form a solidly bipartisan steering committee to oversee the development of a strategic plan for the campaign and to secure the funding required to launch the effort.[48]

Conclusion

Some nonprofit leaders will doubtless argue that the budget reform campaign proposed here is naïve and destined to fail, and that nonprofits should concentrate their limited energy and resources on advancing their particular missions. It is fair to ask these critics several questions.

Do they believe that the federal budget can remain on its current course without disastrous consequences for the country? If so, what are the grounds for their contrarian view?

Are they confident that others will resolve the crisis while nonprofits remain on the sidelines? If so, who do they envision these white knights will be, and how will they overcome the fundamental breakdown in the budget process?

Are they sure that the proposed public education campaign will fail? If so, do they see any other strategy through which the nonprofit sector can help resolve the budget crisis, or are nonprofits condemned to watch helplessly as this slow motion disaster unfolds?

This is a moment of truth for nonprofit leaders. They need to come together across ideological lines and develop, fund, and implement an ambitious effort to achieve bipartisan budget reform.

Notes

[1] Admiral Mike Mullen, "Speech to the Detroit Economic Club," August 26, 2010. http://www.econclub.org/Multimedia/Transcripts/Admiral%20Mullen%20Speech%20082610.pdf.

[2] It bears noting that a small group of nonprofits are already hard at work on the issue of budget reform. This engaged minority includes policy organizations like the Brookings-Urban Tax Policy Center, the Bipartisan Policy Center, the Committee for a Responsible Federal Budget, and the Concord Coalition, as well as foundations like the Peter G. Petersen Foundation and the Pew Charitable Trusts. Their activities include efforts to increase public awareness and understanding of the crisis and the key elements of budget reform, analysis of key policy issues, and support for nonpartisan commissions that have developed comprehensive plans for reform.

[3] Both the IMF and the Euro zone have endorsed the 60 percent norm, and two prominent bipartisan groups have recommended this standard as a touchstone for US budget reform. See, International Monetary Fund, *Fiscal Monitor*, May 14, 2010, 6, http://www.imf.org/external/pubs/ft/fm/2010/fm1001.pdf. The 1992 Maastricht Treaty established so-called "convergence criteria" that countries would be required to meet to join the Euro zone. These criteria include a requirement that the country's debt-to-GDP ratio not exceed 60 percent. See, European Central Bank, *Convergence Criteria*, http://www.ecb.int/ecb/orga/escb/html/convergence-criteria.en.html. See also, Bipartisan Policy Center, *Restoring America's Future: Reviving the Economy, Cutting Spending and Debt, and Creating a Simple, Pro-Growth Tax System*, November 2010, 28–29 (hereafter "BPC, *Restoring America's Future*") http://www.bipartisanpolicy.org/sites/default/files/BPC%20FINAL%20REPORT%20FOR%20PRINTER%2002%2028%2011.pdf; Petersen-Pew Commission on Budget Reform, *Red Ink Rising: A Call to Action to Stem the Mounting Federal Debt*, 14–16, December 2009 (hereafter "Petersen-Pew, *Red Ink Rising*"), http://budgetreform.org/document/red-ink-rising.

[4] Office of Management and Budget, *Fiscal Year 2012 Budget of the United States, Historical Tables*, 26, table 1.3, (hereafter, "OMB, *2012 Historical Tables*") http://www.whitehouse.gov/omb/budget/Historicals.

[5] In recent years, in its analyses of the long-term fiscal outlook for the federal government, the Congressional Budget Office has drawn a clear distinction between the fiscal implications of "current law" versus the implications of "current policy." CBO developed this distinction in recognition of the fact that in recent years Congress has repeatedly deferred the implementation of key tax and spending provisions of current law, including termination of the 2001 and 2003 Bush tax cuts, the substantial increase in the number of taxpayers subject to the Alternative Minimum Tax, and substantial cuts in Medicare payments to physicians. While CBO continues to make projections based on current law (CBO's so-called "baseline scenario") it also makes projections based on the assumption that Congress will continue this practice of deferring implementation of key provisions of current law (CBO's "alternative fiscal scenario"). See, Congressional Budget Office, *CBO's 2011 Long-Term Budget Outlook*, 1–20, June 2011, http://cbo.gov/ftpdocs/122xx/doc12212/06-21-Long-Term_Budget_Outlook.pdf. Most key players in the budget reform debate have adopted the alternative fiscal scenario as the more realistic projection of the federal government's current fiscal trajectory and the more realistic baseline

against which to measure the impact of budget reform proposals. See, e.g., The National Commission on Fiscal Responsibility and Reform, *The Moment of Truth,* 10–11, 63, December 2010 (hereafter, Deficit Commission, *Moment of Truth),* http://www.fiscalcommission.gov/sites/fiscalcommission.gov/files/documents/TheMomentofTruth12_1_2010.pdf. Consistent with this practice, the projections presented in this paper (*see* graphs 2, 7, and 13 and the accompanying text) are based on CBO's alternative fiscal scenario, and thus reflect continuation of current policies rather than current law.

[6] OMB, *2012 Historical Tables*, table 1.3 (1970–2010); Congressional Budget Office, *CBO's 2011 Long-Term Fiscal Outlook,* projections for alternative fiscal scenario, 14, figure 1–2 (2011–2035); BPC, *Restoring America's Future,* 23.

[7] Congressional Budget Office, *Federal Debt and the Risk of a Fiscal Crisis*, July 2010, 3–4, 7–8 (hereafter "CBO, *Fiscal Crisis*") .

[8] CBO, *Fiscal Crisis*, 3–8; Deficit Commission, *Moment of Truth*, 11; BPC, *Restoring America's Future,* 23–25; Pew-Petersen, *Red Ink Rising*, 11–13.

[9] *OMB 2012 Historical Tables*, table 1.3.

[10] *OMB 2012 Historical Tables*, 340, 344, tables 15.1 and 15.3

[11] See sources for graphs 4 and 5.

[12] BPC, Restoring America's Future, 14. *See also, CBO's 2011 Long-Term Fiscal Outlook,* 6, figure 1–1.

[13] BPC, *Restoring America's Future*, 13, based on CBO's "Alternative Fiscal Scenario" constructed from CBO's *August 2010 Budget and Economic Outlook*. The graph in *Restoring America's Future* that provides the basis for graph 7 lumps together other mandatory spending, defense spending, and non-defense discretionary spending. Graph 7 projects these as three separate categories based on the assumption that the relative amounts of spending on these three categories remains the same as in fiscal year 2010.

[14] Stein, Wikipedia, http://en.wikipedia.org/wiki/Herbert_Stein.

[15] Deficit Commission, *Moment of Truth.*

[16] Deficit Commission, *Moment of Truth*, 16, figure 4.

[17] *Id.,* 16, figure 4.

[18] House Committee on the Budget, *The Path to American Prosperity: Restoring America's Promise,* April 2011 (hereafter, *"The House Republican Plan"),* http://budget.house.gov/UploadedFiles/PathToProsperityFY2012.pdf.

[19] *Id.,* graph 1 on page 8, Summary tables S–1 and S–5.

[20] *Id.,* Summary tables S–1 and S–5.

[21] Center for American Progress, *Budgeting for Growth and Prosperity: A Long-term Plan to Balance the Budget, Grow the Economy, and Strengthen the Middle Class,* May 2011 (hereafter, CAP, *"Budgeting for Growth and Prosperity."* Appendix 6, page 68

[22] *Id.* appendix 6, page 68.

[23] *Id.*

[24] See sources for graphs 9 and 10.

[25] See sources for graphs 8, 9, and 10.

[26] See sources for graphs 7, 8, 9, and 10.

[27] Washington Post, *What's Getting Cut in the FY 2011 Budget?*, April 12, 2011, http://www.washingtonpost.com/blogs/federal-eye/post/whats-getting-cut-in-the-fy-2011-budget/2011/04/11/AFMIynLD_blog.html.

[28] Standard and Poor's, *'AAA/A-1+' Rating on United States of America Affirmed; Outlook Revised to Negative*, April 18, 2011, http://www.scribd.com/doc/53490654/Standard-Poor-s-USA-Rating-Outlook-Negative.

[29] Standard and Poor's, *United States of American Long-term Debt Rating Lowered to "AA+" Due to Political Risks, Rising Debt Burden; Outlook Negative*, August 5, 2011. http://www.standardandpoors.com/ratings/articles/en/us/?assetID=1245316529563.

[30] The Democrats also held this dominant position periods from 1963–1966 and 1977–78.

[31] See, e.g., Pew Research Center, *Beyond Red vs. Blue: A Political Typology*, May 2011, http://people-press.org/files/2011/05/Beyond-Red-vs-Blue-The-Political-Typology.pdf, (hereafter: "Pew, *Beyond Red vs. Blue*").

[32] 81 percent of respondents to an April 2011 Pew Research Center-Washington Post poll said that "the federal budget deficit is an important problem that the country must address now," up from 70 percent in December 2010. See, http://people-press.org/2011/04/26/deficit-more-concern-less-optimism/. Similarly, the Pew Research Center's May 2011 in-depth analysis of the electorate reports that 53 percent of voters agreed that "reducing the budget deficit is a top priority this year." Pew, *Beyond Red vs. Blue*, 69, http://people-press.org/files/2011/05/Beyond-Red-vs-Blue-The-Political-Typology.pdf.

[33] Pew Research Center, *Frustration with Congress Could Hurt Republican Incumbents*, 4, December 15, 2011, http://www.people-press.org/2011/12/15/frustration-with-congress-could-hurt-republican-incumbents/.

[34] 74 percent of respondents to a June 2011 poll agreed that Medicare is in only "fair" or "poor" financial shape, and 54 percent agreed that Medicare either "needs to be completely rebuilt" or "needs major

changes." 77 percent and 52 percent of respondents, respectively, expressed the same views with respect to Social Security. Pew Research Center, *Public Wants Changes in Entitlements, Not Changes in Benefits*, 1, July 7, 2011. http://www.people-press.org/2011/07/07/public-wants-changes-in-entitlements-not-change-in-benefits/.

[35] Gallup, *On Deficit, Americans Prefer Spending Cuts, Open to Tax Hikes,* July 13, 2011. 20 percent of respondents said the deficit should be reduced "only" with tax increases, 30 percent said "mostly" with tax increases, 32 percent said "equally" with tax increases and spending cuts", 7 percent said "mostly" with tax increases, and 4 percent said "only" with tax increases. http://www.gallup.com/poll/148472/Deficit-Americans-Prefer-Spending-Cuts-Open-Tax-Hikes.aspx.

[36] 66 percent of respondents to a July 2011 Gallup poll stated that in order to resolve the debt ceiling crisis, members of Congress should "agree to a compromise plan, even if it is a plan you disagree with." This included solid majorities of Democrats, Republicans, and Independents. Gallup, *Americans, Including Republicans, Want Debt Compromise*, July 18, 2011. http://www.gallup.com/poll/148562/Americans-Including-Republicans-Debt-Compromise.aspx. Nearly as large a percentage of respondents to an August 2011 poll stated that the members of the Supercommittee should compromise to reach an agreement. Gallup, *Americans Want New Debt Supercommittee to* Compromise, August 10, 2011. http://www.gallup.com/poll/148919/Americans-New-Debt-Supercommittee-Compromise.aspx.

[37] Gallup, *Congress Ends 2011 With Record-Low 11% Approval*, December 19, 2011. http://www.gallup.com/poll/151628/Congress-Ends-2011-Record-Low-Approval.aspx.

[38] When asked to identify the most important problem facing the country, only 6 percent of respondents to a November 2011 Gallup poll said the federal budget deficit. 36 percent said unemployment, and 30 percent said the economy in general. Gallup, *Jobs, Economy Remain Dominant Concerns for Americans,* November 14, 2011. http://www.gallup.com/poll/150722/Jobs-Economy-Remain-Dominant-Concerns-Americans.aspx.

[39] By a 60 percent to 32 percent margin, respondents to a June 2011 Pew Research Center poll agreed that preserving current benefits is more important than reducing the deficit. Pew, *Beyond Red vs. Blue,* 9.

[40] Gallup, *Federal Budget Deficit,* 1, January 14–16, 2011, http://www.gallup.com/poll/147626/Federal-Budget-Deficit.aspx#1.

[41] Gallup, *Americans Favor Jobs Plan Proposals, Including Taxing Rich,* September 20, 2011. http://www.gallup.com/poll/149567/Americans-Favor-Jobs-Plan-Proposals-Including-Taxing-Rich.aspx. 66 percent of respondents favored increasing taxes on families earning at least $250,000.

[42] Deficit Commission, *Moment of Truth,* 12 and 43**.** As the second of its ten guiding principles, the Deficit Commission stated:

> **Don't disrupt the fragile economic recovery.** We need a comprehensive plan now to reduce the debt over the long term. But budget cuts should start gradually so they don't

interfere with the ongoing economic recovery. Growth is essential to restoring fiscal strength and balance. *Id.,* 12.

[43] *See* text at note 8 and sources cited in note 8.

[44] *See, e.g.***,** Deficit Commission, *Moment of Truth,* 36–43, 48–55.

[45] Pew Research Center, *Frustration with Congress Could Hurt Republican Incumbents*, 4, December 15, 2011, http://www.people-press.org/2011/12/15/frustration-with-congress-could-hurt-republican-incumbents/.

[46] *Id.,* 1, 9.

[47] *Id.,* 8-10**.**

[48] The strategic plan should address at least the following issues:

- Theory of Change. What are the necessary conditions for bipartisan budget reform, the principal barriers to achieving those conditions, and the strategy through which the campaign will overcome those barriers?

- Campaign governance. What governance structures and processes will ensure the independence, integrity, and effectiveness of the campaign and enable the steering committee to provide strong central leadership while simultaneously empowering strong state and local leadership and initiative.

- Organizational structure. What organizational structure is most appropriate for the central organization? What organizational structure will most effectively support the campaign's activities at the state and local level?

- Coalition building strategy. Who are the most important potential coalition partners? How can the campaign most effectively engage the foundation community, the nonprofit community, national nonprofit leadership organizations, and the business community? What existing organizations and coalitions may feel threaten by or in competition with the campaign, and how can the campaign most effectively establish supportive relationships with these entities?

- Research capacity. What research and analysis capacity will be required to support the campaign's public education and advocacy work? To what extent can the campaign rely on or partner with organizations that have existing budget and tax policy expertise?

- Public education strategy. What public education strategy will most effectively support the campaign's theory of change? Who are the key target audiences? How will the campaign identify the messages that will most effectively persuade these audiences to support bipartisan budget reform? What communications vehicles and strategies will most effectively deliver these messages?

- Advocacy strategy. What advocacy strategy will most effectively support the campaign's theory of change? Should the campaign focus exclusively on voter education or should it also directly lobby members of Congress to support bipartisan budget reform? If the latter, how can this be done most effectively, and how much of the campaign's resources should be devoted to this effort?

- Performance metrics and evaluation strategy. What metrics will the campaign use to track progress toward its goal? What data collection and evaluation processes will the campaign use to track and evaluate performance? How will the campaign ensure that evaluation results appropriately inform future decisions?

- Staffing. What staff structure will most effectively support implementation the foregoing strategies? How can the campaign most effectively attract and retain top quality staff?

- Financial and fund-raising model. What level of resources will be required to implement the foregoing strategies? From what sources and through what processes will the campaign secure these resources?