

# *The Illinois Budget Policy* **TOOLBOX**



## Overall Analyses

# *Public Opinion and Political Viability of Budget Tools*

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A natural question about any fiscal plan is what are its political prospects. Here, I ignore legislators and the governor to focus on their bosses, the electorate. A few patterns of public opinion bear on the likely popularity, and prospects for implementation, of the tools in this box.

The observations below do not constitute an exhaustive review of every tool, and they do not imply conclusions of the form “X cannot pass.” Instead, I introduce a few broad points about how supporters or opponents of various options might want to approach the public when crafting their arguments.

A cynical take on the general public’s preferences for budgeting is that Americans like low taxes, high levels of service, and no deficits. This alleged taste for an impossible combination is sometimes harnessed to an elitist argument that the only politically safe way to budget is to ignore or fool the public or, at least, to obscure costs while playing up benefits of programs. However, it is much too glib to place the blame for unrealistic preferences and the consequent need to borrow from future generations solely on the public, whose views on taxes and spending go much deeper than a taste for “low and high,” respectively.

### (1) Survey Says. . . .

In October 2012, Illinois survey respondents were asked to express support or opposition to 14 ideas for addressing the state’s budget situation. Table 1 shows that targeted income-tax increases and reductions in benefits to state employees were viewed much more favorably than cuts in spending on education or Medicaid, or broad tax increases. These conclusions should be regarded with caution, however, even beyond a generic suspicion of surveys and polls.

### (2) Tax the Rich More (than What?)

“Yes, a solid majority favors higher taxes for the rich. That’s been true since the dawn of man.” So wrote Fred Barnes in a 2012 election recap.<sup>1</sup> Commentators on the left and right often agree that raising taxes on the rich is popular, while the risky move for politicians is to hit the middle class with tax hikes. Table 1’s results are not unusual in echoing those views. However, American public opinion on the fairness of tax progressivity is more complicated. First, people consistently and systematically under-estimate the tax burden of the wealthy, so that much support for raising taxes at the top of the income scale rests on a mistaken sense of the status quo. Second, when asked for fair income-tax

<sup>1</sup>Barnes, Fred. (2012, November 19). A setback, not a catastrophe. *The Weekly Standard*, 11-12.

**Table 1: Support or Opposition for Budget Measures, October 2012**

	Strongly support	Support	Not sure	Oppose	Strongly Oppose
Increasing income taxes on those earning \$1 million or more	59%	16%	9%	7%	10%
Increasing income taxes on those earning \$200,000-\$999,999	47	23	10	9	11
Requiring state employees to contribute more into their pensions	29	31	21	12	6
Requiring state employees to contribute more of the cost of their health care	32	21	22	15	10
Increasing revenue from gambling (expanding the state lottery, issuing more casino licenses, allowing slot machines at more venues, etc.)	29	28	22	9	12
Requiring state employees to wait longer to obtain full pension benefits	27	21	20	22	10
Increasing taxes on corporations	26	25	17	17	15
Preventing state employee unions from engaging in collective bargaining for new contracts	25	15	27	14	19
Increasing income taxes on those earning \$100,000-\$200,000	24	25	15	18	17
Freezing or reducing spending on higher education	12	15	24	25	24
Freezing or reducing spending on K-12 education	11	11	20	23	36
Freezing or reducing spending on Medicaid and health care for the poor	8	13	20	27	32
Increasing sales tax rates	1	10	14	37	38
Increasing income taxes on everyone	1	6	12	36	44

*N=300 Illinois registered voters, Hoover California-Plus Survey, YouGov, October 2012 (randomized items ordered by support)*

rates, majorities choose lower rates than the present-day effective average tax rates, and these majorities include those who describe themselves as liberals.<sup>2</sup> Progressives puzzled by widespread support for abolishing the estate tax were flummoxed to find that even when told that it would not apply to them, non-millionaires disliked that tax. Some conclude that ordinary Americans are easily duped, while others blame the left for being out-hustled in the business of framing policy.<sup>3</sup> Whether the vehicle is income tax or luxury sales tax, any plan that aims to curry the public's favor by selectively targeting the rich is at least potentially vulnerable to backlash if opponents can frame debate around comparative burdens, or tap into the general dislike of taxation.

<sup>2</sup>On both claims, see Gaines, Brian J. (2014). *Fair taxes: A public opinion perspective*. University of Illinois manuscript.

<sup>3</sup>See, e.g., Bartels, Larry M. (2005). Homer gets a tax cut: Inequality and public policy in the American mind. *Perspectives on Politics*, 3, 15-31, and Graetz, Michael J. & Shapiro, Ian. (2005). *Death by a thousand cuts: The fight over taxing inherited wealth*. Princeton, NJ: Princeton University Press.

### (3) Spend Less (than What?)

Table 1 suggests that plans to freeze or reduce spending should expect a fairly hostile reaction. However, many under-estimate current levels of education spending, and support for cutting education funding seems fairly malleable.<sup>4</sup>

Generally, majorities agree that government does too much, and also report being unhappy with how tax dollars are spent. However, assembling majorities in favor of specific cuts usually proves difficult.

### (4) Unfamiliarity and Partisan Lenses

As a rule, the public is wary of unfamiliar policies, an instance of the pervasive psychological phenomenon of "default bias." When faced with unfamiliar policies, many rely on a simple heuristic of partisanship: Republicans default to suspicion of new ideas associated with Democrats, and vice versa.

<sup>4</sup>Howell, William G., Peterson, Paul E., & West, Martin. (2009). The persuadable public. *Education Next*, 9, 20-29

Consider, for example, reactions in 2006 when policy makers in Illinois and Indiana began discussing pros and cons of selling or leasing the state lottery.<sup>5</sup> The idea was untested. Indeed, it eventually became clear that selling a state lottery is illegal under federal law, though privatization by long-term lease is not. A poll that year featured a question measuring support for the plan, with the idea randomly described as having been proposed either by “Governor Blagojevich” or “Some.” Either way, the most popular response was “don’t know”, but opposition exceeded support. Moreover, independents and Republicans told that a Democrat had hatched the plan expressed disapproval by 10-20 percentage points more than those given the generic description.<sup>6</sup>

One proposal that seems vulnerable to fear-of-the-unknown and possibly to partisan framing is cap-and-trade. Table 1 offers no clue about its likely reception. Although California’s AB-32 was passed in 2006, it has phased in over years and generated scant media attention outside of that state. Though Democrats outnumber Republicans in Illinois, independents can be a hard sell to plans not viewed as having bipartisan backing. If the carbon-tax plan’s novelty is one strike against support, the perception that it is purely a Democratic scheme could be fatal.

## (5) Go, and Sin (No) More

“Sin” taxes are also absent from Table 1. Raising taxes on cigarettes promises smaller revenue than other plans, but may be an easy sell. As the proportion of the public that smokes has fallen, high taxation of cigarettes has grown in popularity. Even as bans on smoking in public places have reduced smokers’ abilities to harm others, disapproval of smoking tobacco has risen.<sup>7</sup> High cigarette taxes can perhaps be justified in terms of associated health-care costs, but it is difficult to estimate the net fiscal impact of earlier deaths by distinct forms of costly-to-treat illness. Insofar as cigarette taxes appeal as an expression of disapproval, such calculations are irrelevant. Of course, if such taxes are viewed primarily as revenue

<sup>5</sup>Bradbury, Steven G. (2008, October 16). Scope of exemption under federal lottery statutes for lotteries conducted by a state acting under the authority of state law. U.S. Department of Justice, Memorandum Opinion for the Acting Assistant Attorney General, Criminal Division. Available at <http://www.justice.gov/olc/2008/state-conducted-lotteries101608.pdf>

<sup>6</sup>Gaines, Brian J. & Kuklinski, James H. (2007). What odds for the sale of the Illinois State Lottery? *Policy Forum*, 19(3). University of Illinois IGPA.

<sup>7</sup>Pacheco, Julianna. (2011). Trends—Public opinion on smoking and anti-smoking policies. *Public Opinion Quarterly*, 75, 576-592.

producers, the prospect that they might curb the taxed behavior is bad, not good, news, however widespread the distaste for smoking.

Curiously, public attitudes towards other taxed or taxable “sins” has not moved in parallel. Alcohol taxes in the U.S., low by international standards, have fallen over time but remain unpopular. On the basis of associated social costs, alcohol may be more deserving of taxes than smoking or, say, drinking large sodas (which is far from being a unique path to obesity). But that argument has not become common wisdom. Other behaviors with bad social externalities that might be seen as revenue options include gambling, using illegal drugs, and sexual promiscuity. Most of these cases have fairly little policy discussion or information on public opinion. Ongoing experiments with legalization of marijuana in a few states will be watched closely for their actual effects on tax revenues and for associated costs (e.g. from accidents related to driving under the drug’s influence).

Gambling is perhaps a special case, as the public regards current income taxes on lottery winnings to be far in excess of fair levels.<sup>8</sup> Lottery prizes in many other nations are untaxed, and American lottery operators downplay taxes when promoting their goods. But most of the discussion of extra revenue from gambling involves expanding opportunities to gamble, not raising taxes on winnings. Table 1 shows broad approval, but opponents can perhaps tap into fear of the hidden social costs associated with large-scale gambling.

## (6) Yet Another Crisis?

Few non-specialists are able to provide accurate estimates of revenue, spending, and the discrepancies therein. It is probably true, then, that the public does not understand the specifics of fiscal problems in Illinois. Just the same, the scope of the problem is appreciated. The October 2012 survey also asked respondents where they thought their state ranked in terms of “fiscal health, i.e. its level of debt, how balanced its budget is, how much money it has set aside to pay pensions, how easily it can borrow money, and so on.” About two-thirds of Illinois respondents thought that the state ranked between 40th and 50th, and about a third placed Illinois in either 49th or 50th place.

Perhaps unsurprisingly, then, Illinois respondents were also very unlikely to agree that government in

<sup>8</sup>Gaines, Brian J. & Rivers, Douglas. (2012, April 11). What’s a ‘fair’ tax for the mega millionaires? *Wall Street Journal*, A13.

their state provides a good model to follow. More than 70 percent disagreed, most of them strongly. Compared to respondents in Texas, Virginia, and even California, Illinois adults appeared to be pessimistic about their state government's ability to solve problems.

Along with skepticism about politicians and their promises, an additional factor that may work against support for these budgetary tools is fatigue with "crisis" rhetoric. Consider that recent years have seen a parade of situations described as crises and "cliffs," from government shutdowns, disputes over raising the federal debt limit, and the federal sequester, to pension liabilities in Illinois and other states. Inevitably, the public becomes accustomed to extreme language, and, in the absence of collapse in the manner of Greece or Detroit, somewhat nonchalant about dire-sounding statistics.

Consider, furthermore, this press release.

*Governor Pat Quinn today signed into law the most significant public pension reform bill in our nation's history that will save taxpayers billions of dollars while protecting the retirement of state workers.*

*"From the moment I took office, I have worked to overhaul Illinois' pension system to provide relief to taxpayers while protecting the savings of Illinois retirees. This effort was realized when the General Assembly passed a major and unprecedented public pension reform bill, and I am proud to sign it into law. I congratulate House Speaker Michael Madigan and Senate President John Cullerton for their leadership on this crucial issue...." said Governor Quinn.*

That statement was issued in April 2010. An attentive Illinois resident will have heard ample discussion of the continuing pension crisis in the subsequent four years, and noted too yet another law to "save" the state pension fund in 2013. Little surprise, then, that the public is skeptical of "solutions."

Survey data are informative, but not definitive, on public attitudes toward various means of increasing revenue, decreasing spending, and the urgency thereof. In some areas, many remain persuadable, in the sense that their opinions appear to be conditional on the kind of information that circulates in lively policy debates. Many are aware that Illinois is in bad shape, with no easy solution. But proponents of any fiscal tool should be ready to make a case for its potency and for how and why it is different from past policies – which seem not to have worked. •

## Further Reading

Bolsen, Toby, Druckman, James N., & Cook, Fay Lomax. (2014). How frames can undermine support for scientific adaptations: Politicization and the status-quo bias. *Public Opinion Quarterly* (forthcoming). doi: 10.1093/poq/nft044

Kohut, Andrew. (June 14, 2012). Debt and deficit: A public opinion dilemma. Pew Research Center. Available at <http://www.people-press.org/2012/06/14/debt-and-deficit-a-public-opinion-dilemma/>

Caplan, Bryan. (2007). *The myth of the rational voter: Why democracies choose bad policies*. Princeton, NJ: Princeton University Press.

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