

## The FLAT Tax

Although the idea of the flat tax sounds appealing to many Americans, a flat tax would almost certainly be much less progressive than the current national government personal income tax. Many of those who propose a flat tax appear to use anger about the complexity and level of national government taxes as a rationale for changes that would both make the system less progressive overall and reduce the amount of revenue collected.

The main reason that a flat tax would be less progressive is that some categories of what now are considered taxable income would no longer be taxed, especially interest, dividends, capital gains, and possibly other elements. Proponents argue that these have already been taxed at least once and so should not be taxed again. Because these kinds of income occur in much higher proportions among those at the top of the income scale, removing taxes on them would sharply reduce the overall progressivism of the federal personal income tax. This could be partly offset by exempting, for example, the first \$30,000 from personal taxation.

Some, but not all, flat tax proposals set the overall flat tax level relatively low. They do this partly as a way to gain support for overall tax reduction, but in doing so the total amount of revenue available to government is reduced.

# The Tax Tug-of-War:

## Ideology, Self Interest, and Accurate Information

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**T**homas Frank, in his best selling book *What's the Matter with Kansas?* (Henry Holt, 2004), suggests that individuals often make voting decisions not narrowly on the basis of self-interest, but instead on perceptions

of political reality and on the basis of their ideological views. He argues that they make decisions on the basis of the information they have available and that they use their underlying political values to judge and act on that information. Although he does not discuss taxes, his points certainly relate to tax issues. That is, Americans base their opinions about taxes not simply on judgments of self-interest, but also on other considerations.

Three factors appear particularly important in forging an individual's opinions on tax issues:

- Ideology (liberal, conservative, and so on) and the closely-related party identification
- Self interest; for example, how tax changes are likely to affect individual after-tax income
- Information; that is, access to the factual aspects of taxing

Teasing out relationships among these three elements is difficult. The fact that opinions about taxing are swayed by the way pollsters ask questions complicates any conclusion drawn about people's opinions. For

example, questions that provide a choice between lower taxes and larger government almost always produce strong support for lower taxes. However, questions that pose the choice between lower taxes and more spending for such specific programs as education, Social Security, and paying down the national debt generally place tax reduction much lower, often as the least-favored choice.

Moreover, few pollsters ask questions whose answers require knowledge of hard facts, partly because they assume people are less willing to respond to questions that have correct answers instead of asking for opinions. So, researchers have provided us with a lot of data about opinions concerning taxes and spending, but very little about whether the opinions of people with more information differ from the opinions of people with less.

### The Pull of Ideology, the Push of Self Interest, and the Price of Misinformation

Princeton economists Alan Blinder and Alan Krueger, drawing on a 2003 national survey as well as polls I have co-conducted, show that ideology (that is, self-identification as liberal, moderate,

or conservative) is strongly related to opinions about many tax questions. For example, the 1996-97 poll in Oregon showed that 69 percent of conservatives, 58 percent of moderates, and 22 percent of liberals favored the November 1996 Measure 47, which proposed to reduce property taxes and

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limit their increase. Blinder and Krueger also found that "specific knowledge (as opposed to general) does influence opinion on a number of matters." However, in general, people tend to support tax increases that they see as applying to "other people," especially when measured by income. For example, during the 1990s my

## Are Taxes in the US Progressive?

It is very difficult to determine the progressivism of combined national, state, and local taxes because of the wide variances among tax systems. Despite these difficulties, I have (in the table appearing below) estimated the average overall national, state, and local taxes paid by those in each of the five income quintiles (each 20 percent of the popula-

tion) and of the top 1 percent. In doing so, I draw on data from the Congressional Budget Office for federal taxes and on data from the Institute on Taxation and Economic Policy for state and local taxes, both for 2002. Because of various limits in the data, the table should be treated cautiously and the figures recognized as only estimates.

### 2002 PERCENT OF INCOME PAID IN TAXES

2002	Federal personal income taxes	Federal personal income taxes with S.S., Medicare, etc.	US average state and local taxes	US Average TOTAL federal + state, local taxes	Oregon state and local taxes	OREGON TOTAL federal + state, local taxes	Washington state and local taxes	WASHINGTON TOTAL federal + state, local taxes
Lowest 20% (lowest income)	-5.6	5.3	11.4	16.7	9.4	14.7	17.6	22.9
Second 20%	0.4	11.6	10.	21.9	8.9	20.5	12.8	24.4
Middle 20%	3.9	15.0	9.6	24.6	8.1	23.1	11.1	26.1
Fourth 20%	7.3	19.1	8.8	27.9	7.9	27.0	9.1	28.2
Top 20%	15.8	25.4	7.3	32.7	7.1	32.5	6.7	32.1
Top 1% (highest income)	22.8	29.6	5.2	34.8	6.1	35.7	3.2	32.8

CBO data make it clear that the federal personal income tax is progressive. However, Oregon state and local taxes are somewhat regressive, though slightly less regressive than the national average and much less than those of Washington State. However, it is important to emphasize that more than 80 percent of American taxpayers pay more in social insurance taxes, which are overall regressive, than in the somewhat progressive federal personal income taxes.

Nearly all federal tax changes in recent years have reduced personal income taxes but not social insurance taxes. It is also important to note that the effective tax rate at the top one-hundredths of one percent is less high than might be expected from both political rhetoric and from basic tax tables.

David Cay Johnston emphasizes in his book *Perfectly Legal* that estimates of percentages of income paid in federal taxes are based only on income reported and that changes in the federal tax system since the early 1980s sharply reduce the proportion of income reported by the wealthy. As a result, he and other analysts suggest that estimates overstate the income paid in taxes by those with very high incomes.

It is important to keep in mind that as we decrease federal income taxes, tax burdens for social programs and basic infrastructure, for example roads and bridges, may be passed down to state and local governments, which tend to utilize more regressive taxes to raise revenue.

colleague Brent Steel and I conducted a survey in which a much larger share of low and middle-income Oregonians than of upper-income respondents supported increases in state income taxes for those with high incomes. Support also tends to be relatively high for "sin taxes" (most commonly on alcohol and tobacco), probably because a decreasing percentage of the population indulges in these "sins."

While people's choices usually reinforce their ideological orientation, when ideology and self-interest conflict, it is not always clear which element will win. For example, a Southern California conservative who almost always opposes government spending might very well accept government help after an earthquake.

Paradoxically, national studies have shown widespread support for tax changes that appear

to oppose self-interest. In these cases people appear to misperceive both their self-interest and the specific characteristics of the proposed changes. For example, Joel Slemrod, a University of Michigan economist, analyzed data from the 2002 National Public Radio, Kaiser Foundation, and Harvard Kennedy School Survey and found widespread support for abolishing the progressive national personal income

tax and replacing it by the much less progressive, somewhat deceptively named, "flat tax," even though this would actually increase the tax rate for many of the respondents.

Slemrod, who is co-author of *Taxing Ourselves: A Citizen's Guide to the Debate over Taxes*, also found widespread support for abolishing "the most progressive of all federal taxes, the estate and gift tax." In the NPR/Kaiser/Harvard

## Views of Waste, Measure 47, and a Sales Tax

In 1996 we conducted an Oregon survey which showed that support of Measure 47, which “cut and capped” property taxes, was strongly related to views of government waste. When we organized respondent groups according to their average assumptions, a clear correlation emerged. We found that among those participants who estimated government waste to be the lowest, only 29 percent favored Measure 47. Seventy-five percent of those among the group with the highest estimates of waste (estimates of 36 percent) voted for the measure. This was also the only group that answered incorrectly all three of the information questions included in the survey. The three information questions asked were: what is the largest source of revenue for state budgets, the largest ongoing expenditure, and Oregon’s ranking among states (with a margin of error of 10 places) for personal income and local taxes.

A 1992 survey we conducted also showed that accurate information on tax and budget topics correlated significantly with people’s ideas about taxes: 19 percent of those with low information, 25 percent of those with middle-levels of information, and 36 percent of those with high-levels of information favored a limited sales tax.

*(Passage of Measure 47 dramatically affected both the Oregon Health Plan and the structure for funding education in the state—Ed)*

2002 survey, 60 percent favored eliminating the estate tax, and of those, 69 percent believed it might affect them someday, even though the federal estate tax in 2000 applied to less than two percent of estates and the value at which it applied was already being raised. Slemrod’s analysis and the NPR/Kaiser/Harvard 2002 survey both suggest that support for these changes is based on a fundamental misunderstanding of the national tax system.

It appears that a lack of information reduces the ability of many people to reconcile their self-interest with their opinions. Partly to examine this possibility, beginning in 1992 my colleague, Brent Steel, and I began includ-

ing at least two information questions in statewide surveys in Oregon. The answers to date support this conclusion about information and opinions. One of the questions asked for the largest category of state government spending (the correct answer is education) and the other asked for the largest category of state government revenue (the state personal income tax). Although more people knew the answer to the second question than the first, in the most recent survey (2002), only 17 percent of respondents correctly answered both questions. This lack of understanding of simple facts does not deter people from having strong opinions about the type

of services government should provide, who should pay more taxes, who should pay less, and who is responsible for waste in government spending.

### The Great Disconnect: Reconciling Taxing and Spending through Perceptions of Waste

In the 1995-96 Oregon survey respondents were asked to indicate for 12 categories whether state spending should be increased, kept the same, or decreased. In all instances except “welfare,” a majority favored at least keeping spending the same, and for six of the categories, at least 50 percent favored an increase. Many of those same respondents also indicated that they thought that overall state taxes should be reduced. People want to increase spending for X and Y, and reduce welfare spending by getting rid of waste.

An interesting relationship between opinion and degree of accurate information appears when asking about waste: In a 1996-97 survey we asked people to name the largest Oregon state government spending category, the largest source of state rev-

Those with no correct answers to this simple survey estimated on average that waste was 36 percent of the budget; those with one correct answer estimated 25 percent; two correct, 18 percent; and people who got all three correct estimated waste to be only 7 percent. While there was no direct way to address a “correct” answer about the amount of waste, the relationship between information and perceptions of waste was highly significant.

Some Oregon surveys early in the 1990s asked for judgments of waste in national, state, local, and school district spending. Waste estimates fell with level of government, so estimates of waste were highest at the national level and lowest at the local and school-district level. People often assume that the larger and more distant government at the national level creates more waste. The pattern could also reflect that many respondents believe they have more opportunity to monitor and so prevent waste in local governments and school districts.

The results of surveys on people’s attitudes toward spending represent a central paradox in social science study

## National studies have shown widespread support for tax changes that appear to oppose the self-interest of those who favor them.

enue, as well as Oregon’s ranking among the states for state and local taxes as percent of income. The answer to the last question is either the bottom ten or bottom twenty. *(Please see the sidebar “Views of Waste, Measure 47, and a Sales Tax” —Ed)*

of American politics and culture. Americans are ideologically conservative—that is, we don’t like government—but operationally liberal—that is, we like specific government programs. How do people reconcile this conflict between the desires for lower taxes and larger government

## Public Opinion about the Fairness of Taxes

In 2003 a Gallup poll pointed out that the results that year represented the “fewest complaints in four decades that taxes are too high.” Judgments about the worst tax vary, but polls commonly illustrate that the property tax, a state and local tax, is the least popular, with the national government personal income tax next. Oregonians generally share this view, as confirmed in polls about which taxes should be reduced; in the 1996-97 poll 61 percent indicated property taxes should be reduced, much more than any other state or local tax.

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benefits? The idea that government waste runs rampant appears to explain this great disconnect.

### Who Knows What

It is very important to recognize that accurate information about taxes is not distributed equally throughout the population. The NPR study classified 49 percent of its respondents with household incomes below \$150,000 in the “low knowledge about taxes category.” Only 14 percent of those with higher incomes fell in this category. The study classified 53 percent of upper-income respondents in the high-knowledge category. Only 16 percent of those with lower incomes displayed a high knowledge of tax issues.

A small but important example of this tax information gap in Oregon is that some people benefiting from the Oregon Health Plan nevertheless voted against Measure 30 in 2004, which levied an income tax that would have retained crucial funding for the Oregon Health Plan—even though the cost would have been borne by those with higher incomes. Many people are not familiar with tax terms such as regressive and progressive. Information about such terms and the ideas behind a flat tax or a consumption tax is a strategically vital resource that various sides in state and national tax debates spin in attempts to sway public

opinion. While a person’s ideology (their view of what government should and should not do) is relatively fixed, the information base from which his or her opinions are developed can be expanded. It is not surprising, for example, that those who currently are best informed about taxes—those near the top of the income scale—are in the best position to influence decisions about those taxes.

### Conclusion

Tax issues are complex and data is often limited, inconclusive, or seemingly contradictory. Journalists and schools are probably the most important means for educating the public about these issues, though both face serious limitations in doing so.

Journalists often do not understand taxing and spending and many openly state that they find economic issues both confusing and boring. Even those journalists who understand taxes find them difficult to present within the confines of current media standards of operation. As a result, much journalistic presentation of taxes devolves into the standard “horse-race” format: Will President Bush “win” in his tax proposals or will the Democrats in Congress defeat them? Journalists should do more to inform the public about these important issues. This requires improvement in the information available to journalists.

Schools could do much more to inform future voters and journalists about taxing and spending. Materials about taxing and spending at all levels of government should be core components of education curricula, given the centrality of these issues in a democratic society. However, this would require current and future educators to also become more informed about these topics.

Under such circumstances, we now depend on the willingness of individuals to act in their self interest and learn about government taxing and spending.

Authors note: Many books and other sources are available on the subject of taxing and spending, as the references for this analysis show. These resources can be accessed at [www.oregonfuture.org](http://www.oregonfuture.org). I also have placed on the web a brief introduction to the use of political information, including tax issues as an extended example. It is available at [http://oregonstate.edu/Dept/pol\\_sci/fac/sahr/polinfo.pdf](http://oregonstate.edu/Dept/pol_sci/fac/sahr/polinfo.pdf).



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He is working on a book on politics and media, especially the relative success of various groups and individuals in using the media to their advantage, and is continuing his analyses of the inter-relationship among presidents, public opinion, and media coverage of such complex issues as national government taxing and spending.