

Program for Public Consultation

Consulting the People on Public Policy

How the American Public Would Deal with the Budget Deficit

**A Study by the Program for Public Consultation and
Knowledge Networks**

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**THE PROGRAM FOR PUBLIC CONSULTATION IS A JOINT PROGRAM OF
THE CENTER ON POLICY ATTITUDES
AND THE SCHOOL OF PUBLIC POLICY, UNIVERSITY OF MARYLAND**

The Program for Public Consultation seeks to improve democratic governance by helping governments consult their citizenry on the key public policy issues the government faces. Unlike standard polls, in public consultations respondents are presented information that helps simulate the issues and tradeoffs faced by policymakers. PPC has been established to develop the methods and theory of public consultation and to conduct public consultations. PPC is a joint program of the Center on Policy Attitudes and the School of Public Policy at the University of Maryland

The Center on Policy Attitudes (COPA) was established in 1992 with the purpose of giving public opinion a greater voice in the public policy process. COPA conducts in-depth studies of public opinion that include polls, focus groups and interviews. It integrates its findings together with those of other organizations. In addition to PPC, COPA has a joint program with the Center for International and Security Studies at the University of Maryland called the Program on International Policy Attitudes.

School of Public Policy, University of Maryland (College Park) is one of the nation's leading graduate programs devoted to the study of public policy, management and international affairs. It is the only policy school in the Washington area that is embedded in a major research university and combines both domestic and international policy studies under one roof.

Knowledge Networks is a polling, social science, and market research firm based in Menlo Park, California. Knowledge Networks uses a large-scale nationwide research panel which is randomly selected from the national population of households having telephones and is subsequently provided internet access for the completion of surveys (and thus is not limited to those who already have internet access).

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INTRODUCTION

There is substantial debate about whether in the short term the federal government should put a higher priority on reducing the deficit or on maintaining spending to keep the economy growing. However, there is little debate that it is critical for the United States to address its budget deficit within the next few years and that policymakers need to work now to develop a plan for doing so.

The President established his National Commission on Fiscal Responsibility and Reform to address this question, using the year 2015 as a focus of their attention. Though the Commission as a whole was not able to come to consensus, the Chairs of the Commission Erskine Bowles and Alan Simpson issued a plan in December 2010 which gained the agreement of 11 of the 18 members. Several other commissions issued their plans around the same time, including those of the Bipartisan Policy Center and the Committee for a Responsible Federal Budget.

The question arises: how would the American public approach the challenge of America's budget deficit? Numerous polls show that Americans are quite concerned about the deficit. A December CNN poll found that 68 percent say they worry about the federal deficit a lot, and the same number said reducing it should be at least a very important goal for the government.

However, existing polls provide little insight into how Americans would actually deal with the problem that policymakers face.

Indeed, existing polling gives the impression that, when it comes to the budget, the American public is simply a mass of incoherent and irrational feelings. Despite their concern about the deficit when the Chicago Council on Global Affairs asked Americans in June 2010 whether they wanted to expand, cut back, or keep the same a number of government programs, majorities favored expanding education (58%), health care (58%), Social Security (55%), improvements to public infrastructure (52%), and Homeland Security (51%). A plurality favored keeping intelligence gathering and defense the same. The only areas a majority favored cutting back were economic aid and military aid (both 60%)--but numerous polls have found that this attitude is heavily driven by an overestimate of how much the US spends on foreign aid, and that few find the actual level of foreign aid objectionable.

Americans show little appetite for increasing taxes. When asked by CBS in January whether they would prefer to deal with the deficit by cutting spending or increasing taxes, only 9% said increasing taxes, while 77% preferred cutting spending. Similarly CNN found 71% favored a legislative agenda that would reduce the size of the government.

But in the same CNN poll, when asked whether they thought it was important to cut a number of programs so as to reduce the budget deficit, or to prevent significant cuts, majorities opposed significant cuts to Social Security (78%), education (75%), Medicare (81%), Veterans benefits (85%), Medicaid (70%), assistance to unemployed workers (61%), and infrastructure programs (61%). Views were divided on cutting defense. The only programs for which majorities were ready to take action to reduce the deficit were welfare (56%), retirement benefits for government workers (61%) and aid to foreign countries (81%).

The problem here is that each question is asked in isolation. It is as if we were to ask some one "Would you like to have some cake?," which would probably elicit a positive response. We could then ask "Would you like to eat some cake?" which would also probably elicit a positive response, and could lead us to say "So you want to have your cake and eat it too?"

It is not surprising that most Americans do not like the idea of increasing taxes and react negatively to cutting spending on most specific programs while also thinking that balancing the budget is desirable. Each poll question asks for a separate response.

This does not mean that Americans do not understand that these various responses are at odds with each other. Indeed when CBS in December 2010 asked, “Do you think it is possible for the federal government to balance its budget without increasing taxes, or do you think some taxes will have to be increased?” 65% said taxes will have to be increased and 79% said that “some government services will have to be cut.”

The important question then is: what would happen if Americans were to actually sit down and be presented a budget and given the opportunity to make choices and tradeoffs in a single framework, rather than responding to isolated questions?

How the Study Was Conducted

The purpose of this study was to give a representative sample of Americans the chance to deal with the problem of the budget in such an integrated framework, one in which they would make tradeoffs. The goal was to have respondents face the kinds of challenges that policymakers face when making a budget. In this way we can see whether Americans are able to deal with such a challenge, and whether they in fact know what their value priorities are.

Developing the Questionnaire

To this end, the Program for Public Consultation worked with staff of the President’s Fiscal Commission to develop a budget process. The goal was to make the process accurate, but also simple enough for people to grasp. The goal was also to break budget items down in ways that they would find engaging in terms of their values. As for the Fiscal Commission and other deficit commissions, the focus was on the year 2015.

There are a variety of ways to quantify the federal budget deficit. For our purposes we first separated out Social Security and Medicare, as these areas each have their own dedicated revenue source; we then dealt with each of them in terms of their revenue sources and costs. We also separated out and chose not to deal with Medicaid, because its funding is a complex mix of federal and state funding. Dealing with it was beyond the scope of our resources, as it would require different formulations for respondents in different states.

This left the discretionary budget and a few relatively small mandatory items, all of which are supported by general revenues. We presented this to respondents as the “Main Budget,” with a projected deficit of \$625 billion for the year 2015. This mostly discretionary budget was divided into 31 line items. Respondents were presented this budget and allowed to decrease or increase each line item as they saw fit, getting constant feedback on the effect of their decisions on the deficit.

They were then presented a series of options for modifying general revenues. These included modifying existing taxes including individual income taxes, corporate income taxes, the estate tax, alcohol taxes, and the tax on carried interest; as well as the possibility of instituting new taxes on carbon emissions, sugary drinks, and on sales (essentially a Value Added Tax). This list of possible revenue sources and the options presented for each source were largely determined by which options we were able to get scored--i.e., to quantify the effect of the option on federal revenues in 2015. Presenting such scoring was indispensable, as the essence of the budget exercise is that the

respondent is making trade-offs in developing a budget, not simply responding to revenue options in isolation.

In presenting income taxes, respondents were presented the effective income tax rate--i.e., the actual percentage of income paid after deductions, credits, special treatment for types of incomes, and varying marginal rates. However, because deductions and special treatments (also sometimes called 'tax expenditures') are a central part of some proposals for dealing with the deficit, we had a separate sample evaluate each of these options separately.

Respondents were also asked to address Social Security. It was explained to them that while Social Security is a key fiscal challenge in the long run, it is not a significant part of the short term budget deficit. It is when the baby-boom generation begins to retire that it will become a major problem. They were then presented a list of options for dealing with this problem.

Fortunately, we were able to draw on a recent study the Congressional Budget Office that included a set of options for addressing the anticipated Social Security shortfall, scored in terms of how much of the shortfall each one would cover. Respondents were presented nine key options and given the opportunity to resolve the shortfall, receiving input as they went along on how much the shortfall they had resolved.

Afterwards each option was also evaluated separately in terms of whether it was acceptable, just tolerable, or not tolerable.

Medicare is another major factor in the federal budget deficit, projected at \$400 billion for 2015. For Medicare, we were not able to get a comprehensive list of scored options for dealing with the problem. In the wake of the new health care law, this work has not yet been done. Thus for this section we were not able to have respondents conduct an exercise within which they could essentially 'solve' the problem. We were limited to having respondents evaluate separate options in terms of whether it would be acceptable, tolerable or not tolerable.

For a full discussion of the study's sources in modeling aspects of the budget and the deficit, see the Appendix: Notes on Sources.

Fielding the Questionnaire

Naturally the best method for dealing with this budget process was not to conduct a telephone survey, but to present the process over the internet so that respondents could see the interconnection between the different elements of the budgeting process and take as much time as they needed to develop their own budget. We worked with KnowledgePanel®, a probability-based panel designed to be representative of the U.S. population. Initially, participants are chosen scientifically by a random selection of telephone numbers and residential addresses. Persons in selected households are then invited by telephone or by mail to participate in the web-enabled KnowledgePanel®. For those who agree to participate, but do not already have internet access, Knowledge Networks provides a laptop and ISP connection. More technical information is available at <http://www.knowledgenetworks.com/ganp/reviewer-info.html>.

The survey was conducted in two waves. The first was conducted over October 8-22, 2010 with a sample of 1,250 respondents. Questions were presented to separate half samples, giving a margin of error of about +/- 3.9%. The second wave was conducted over December 18-29, 2010 with a sample of 793 respondents, giving a margin of error of +/- 3.5%.

Summary of Findings

The key findings of the study were:

1. DISCRETIONARY BUDGET AND GENERAL REVENUES

1A. Spending on the Discretionary Budget

Respondents were presented 31 of the major areas of the discretionary federal budget, as projected for the year 2015, and were given a chance to increase or decrease each item as they saw fit. Seventy-six percent reduced spending overall, with the average respondent making net cuts of \$145.7 billion. By far the largest cuts were to defense spending (which constituted the majority of all cuts), followed by intelligence, military operations in Afghanistan and Iraq, and the federal highway system—all of which were cut by at least half of respondents. Some items were increased: especially job training, aid to higher education, and energy conservation and renewables.6

1B. General Revenues

Though other polls have found that, in principle, Americans want to cut spending more than they want to increase taxes, when given the chance to make their own budget, they increase taxes by a greater amount than they cut spending. Ninety-one percent increased taxes, and on average respondents made increases averaging \$292 billion. The biggest source of new revenues was from income taxes on those with incomes over \$100,000, which were increased by a majority and produced an average of \$143 billion in revenue. 12

1C. Overall Results for Discretionary Budget and General Revenues

Combining the average net reduction to spending and the average net increases to revenues, the average respondent cut the 2015 deficit for the discretionary budget by 70 percent. One third of reductions came from net reductions in spending, while two thirds came from increased revenues. ..25

2. EVALUATION OF TAX EXPENDITURES: SPECIAL TREATMENTS AND SPECIFIC TAX DEDUCTIONS

2A. Capital Gains and Dividends

For 2015 individual income taxes, a majority favored raising the maximum tax rate for both capital gains and dividends back to the 20% that was in place before the Bush tax cuts.27

2B. Specific Individual Income Tax Deductions

Asked whether they found the elimination or reduction of certain tax deductions acceptable, just tolerable or not tolerable, in most cases a majority found them at least tolerable--though clearly they were not welcome, as a majority never labeled them acceptable. Options deemed at least tolerable included reducing the deductibility of home mortgage interest, eliminating the exclusion of income earned overseas, reducing the benefit of ‘cafeteria plans’ and eliminating the child tax credit to children 13 and under. However, less than half found it tolerable to completely eliminate the child tax credit.29

2C. Corporate Tax Deductions

A majority found it acceptable to repeal tax deductions specific to oil and gas companies and a very large majority found this at least tolerable. While a majority did not find the following steps acceptable, a large majority found them just tolerable: repealing the deduction for goods sold with domestically produced contents, and repealing the deduction for income from sales in other countries.33

3. SOCIAL SECURITY

When presented a series of possible steps for resolving the projected shortfall in Social Security, a majority of respondents endorsed taking enough steps to resolve the problem. This was the case though a majority also chose to add to the problem by increasing benefits to low-income retirees. Options that were chosen by large majorities were to raise the limit on wages subject to the payroll tax to at least \$156,000 and to increase the retirement age to at least 68. Preferences were more mixed when selecting other options for covering the shortfall.

Asked to evaluate each option separately, no option was rated as acceptable by a majority, but large majorities rated as at least just tolerable: increasing the payroll tax rate, completely eliminating the limit on wages subject to the payroll tax, recalculating downward the inflation rate for the benefits of new beneficiaries, and doing the same for cost-of-living increases for all benefits. Views were divided on whether it would be tolerable to lower benefits for new beneficiaries. A majority rejected as not tolerable a gradual rise in the full retirement age to 70. 35

4. MEDICARE

Because the effect of the new health care law on the future of Medicare has not been fully analyzed, the fiscal effect of possible changes has not been quantified or 'scored.' Thus it was not possible to do an exercise in which respondents could more or less resolve the Medicare deficit. However, it was possible to have respondents evaluate a series of options for reducing that deficit. While none of the proposals were viewed positively, a majority did find it at least tolerable to raise the payroll tax rate by 1 percentage point, while views were divided on raising it 2 percentage points; to raise Medicare premiums by 40%, but not to double them; to gradually raise the age of eligibility to 68, but not to 70; and to reduce payments to doctors by 5%, but not more, or to freeze payments to doctors if healthcare costs continue to rise. 42

FINDINGS

1. DISCRETIONARY BUDGET AND GENERAL REVENUES

1A. Spending on the Discretionary Budget

Respondents were presented 31 of the major areas of the discretionary federal budget, as projected for the year 2015, and were given a chance to increase or decrease each item as they saw fit. Seventy-six percent reduced spending overall, with the average respondent making net cuts of \$145.7 billion. By far the largest cuts were to defense spending (which constituted the majority of all cuts), followed by intelligence, military operations in Afghanistan and Iraq, and the federal highway system—all of which were cut by at least half of respondents. Some items were increased: especially job training, aid to higher education, and energy conservation and renewables.

Respondents were first asked to deal with 31 items of the discretionary federal budget. The discretionary budget is that which Congress normally appropriates and votes on annually.

Respondents were shown the Office of Management and Budget’s projection of the 2015 allocation for each area. For a few items, the budgeted amount presented included some spending that is mandatory, though it is paid for out of general revenues, as well as discretionary spending. These included veterans’ benefits, farm subsidies, and the federal highway system.

The 31 areas offered are shown in the questionnaire offered separately with this report. The order of the items was randomized, though groups of areas were always presented together. Areas were generally given descriptions of up to 25 words (these descriptions can be found in the questionnaire). The amount budgeted for all of the areas included was \$1.355 trillion.

They were also presented the projected deficit for this portion of the budget--\$625 billion. This amount excluded deficits associated with Social Security, Medicare, and Medicaid. Social Security and Medicare have their own dedicated funding sources and were dealt with elsewhere in the study. Medicaid funding is a set of relationships between states and the federal government that were too complex to offer respondents within this study. (For a full discussion on the calculation of the \$625 billion figure, see Appendix: Notes on Sources.)

For each budget area, to the right of the amount was an empty box. Respondents were asked to fill in their preferred level of spending for that item--a number that was higher, lower, or the same compared to the presented number.

At the bottom respondents were shown the amount of the deficit, which changed as they increased or decreased the amount budgeted for each area, thus giving the respondents constant feedback on the effect of their choices on the deficit.

About three quarters of respondents (76%) reduced spending overall, while 17% increased it overall and 8% kept it the same.

Averaging all respondents’ choices, they cut spending by \$145.7 billion. There were, of course, differences in the ways that people distributed these cuts, which will be examined below.

Average Spending Changes (in billions)	
Average Total Cut	-\$168.7B
Average Total Increased	+\$23.0B
Average Net Change	-\$145.7B

Another much more conservative way of measuring the exercise’s outcome would be to calculate only those changes to the budget that were made by a majority of respondents who answered—much as if respondents were a body that could only agree on a change if a majority voting agreed to that amount . If less than a majority increased or decreased an item, then the item was regarded as having been unchanged. If a majority decreased it, the amount recorded would only be the amount that at least 51% reduced it to, even though some of them may have cut it further. The same would apply for increases. If this method is followed, the net cuts to spending in the exercise are considerably less--\$87 billion.

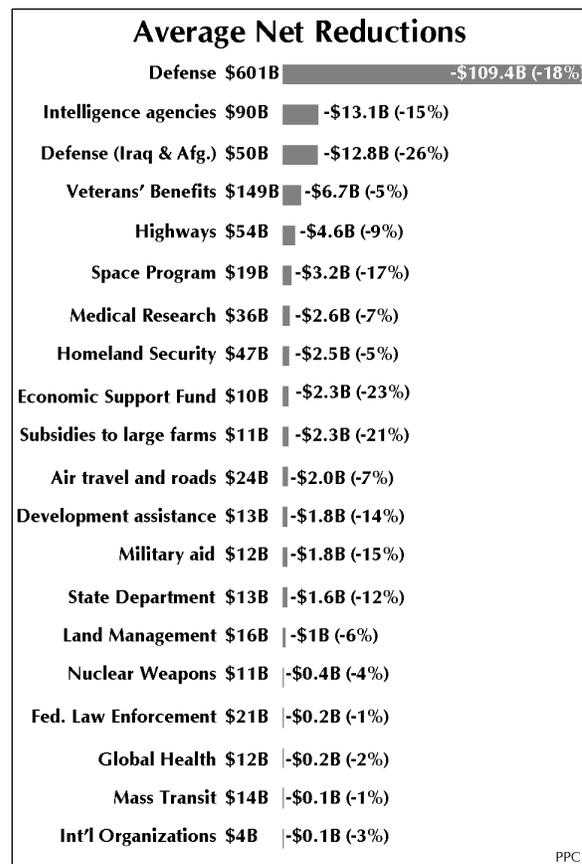
For this report as a whole, average responses are used as the primary method to describe public preferences. Averages have the merit of incorporating each individual’s responses equally in an all-inclusive whole. Also, the majority-vote method may under-represent the changes respondents are willing to make, or would have been willing to make if they knew how the majority had voted. Because cutting the deficit was an apparent goal, if a respondent were to find that the amount they could cut one in area was limited by a more reluctant majority, to meet his or her goals relative to the deficit he or she might choose to cut more deeply in some other area. With a number of people making such adjustments more areas with majority cuts might have emerged.

What Was Cut

The largest cuts included those to defense (\$109.4 billion), intelligence (\$13.1 billion), military operations in Afghanistan and Iraq (\$12.8 billion), and the space program (\$3.2 billion)—all of which were cut by majorities—and the federal highway system (\$4.6 billion), which was cut by half. Veterans’ benefits also received a substantial average cut (\$6.7 billion), though it was cut by less than half of respondents.

The biggest average cuts in percentage terms were to military operations in Afghanistan and Iraq (a 26% cut); the Economic Support Fund, which respondents were told provides “economic development aid to countries of strategic concern to the U.S., such as Afghanistan, Pakistan and Egypt” (23%); subsidies to agricultural corporations with large farms (21%); the defense budget for regular operations (18%); the space program (17%); and military aid (15%).

If we analyze responses by using the majority-vote method described at the beginning of this section, the largest budget cuts were to defense (\$51 billion); military operations in Afghanistan and Iraq (\$10 billion); the intelligence agencies (\$5 billion); the space program (\$4 billion); and the State Department (\$3 billion).



Some areas had large majorities of respondents choosing to make cuts in their funding. The largest majorities cutting were for subsidies to agricultural corporations (70%); development assistance (67%); the space program (66%); the defense budget (64%); the Economic Support Fund (63%); and military aid (63%).

Spending on American International Power

Overall, the pattern of cuts seems to emphasize reducing funds for the instruments of American international power. This includes spending directly related to the military and security:

- defense (\$109.4 billion),
- operations in Afghanistan and Iraq (\$12.8 billion),
- the intelligence agencies (13.1 billion).

It also includes forms of aid that were explicitly specified as serving US strategic interests:

- the Economic Support Fund, defined as “Economic development aid to countries of strategic concern to the US, such as Afghanistan, Pakistan and Egypt” (\$2.3 billion)
- military aid (\$1.8 bill).

This cluster of areas accounts for \$139.4 billion, or 96% of all net cuts.

What Was Increased

No items were increased by majorities, but on average several items did get substantial increases. On average job training was more than doubled from \$4 to \$9.2 billion; energy conservation and renewable resources was doubled from \$3 to \$6.3 billion; and higher education funding (primarily financial aid for college students) was nearly doubled from \$5 to \$9.6 billion. Elementary and secondary education also got substantial increases, from \$30 to 32.7 billion.

Average Net Increases	
Job Training	\$4B +\$5.2B
Higher Education	\$5B +\$4.6B
Energy Conservation / Renewable Energy	\$3B +\$3.3B
Elementary/Secondary Education	\$30B +\$2.7B
Subsidies to Small Farms	\$3B +\$2.0B
Pollution control	\$9B +\$1.5B
Special Education	\$14B +\$1.4B
Humanitarian Assistance	\$6B +\$1.1B
Science	\$17B +\$0.9B
Housing Programs	\$45B +\$0.2B
Federal Prison System	\$9B +\$0.1B

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Foreign Aid

International aid programs were presented to respondents as five different budgeted areas, including humanitarian assistance, development assistance, global health, the Economic Support Fund, and military aid. The total 2015 budget for international aid programs was \$53 billion. Respondents made a net average cut of \$5 billion--a cut of 9.4%.

However, there was substantial variation in specific areas. As mentioned, substantial cuts were made to programs with strategic objectives: the Economic Support Fund (cut \$2.3 billion or 23%) and military aid (cut \$1.8 billion or 15%). However, programs with a more altruistic purpose did much better. Humanitarian assistance was actually increased (\$1.1 billion or 18%), and global health was lightly nicked (\$0.2 billion or 2%), though development assistance received a bit more in cuts (\$1.8 billion or 14%). Combined, altruistic programs were cut just \$0.9 billion or 3%.

Furthermore, it is important to note that these cuts may have been influenced by misperceptions about what amount of the federal budget actually goes to foreign aid. It appears that many respondents assumed that there were substantial amounts of foreign aid hidden in some other areas of the budget. At the very end of the questionnaire respondents were asked to estimate “about what percentage of the federal budget goes to foreign aid.” The median response was 15%—far more than the actual amount of 1%. Even as a percentage of the items presented in the exercise as part of the discretionary budget, all of the aid areas listed represented only 3.9% of the total. Asked what percentage of the budget they thought it should be, the median respondent said 5%—far more than the amount they actually budgeted as a percentage of the budget as a whole, and substantially more than the amount that they budgeted as a percentage of the presented discretionary budget.

This inquiry was prompted by the fact that numerous previous studies have shown that Americans vastly overestimate the amount of foreign aid. The median respondent tends to estimate that foreign aid is 20-25% of the budget and to say that it should be 10%.¹ The fact that in this study the median estimate was 15% suggests that the exercise had some impact on their assumptions, but only a limited amount.

Variation by Political Affiliation

On average, respondents of all partisan affiliations made substantial cuts. Interestingly, independents made the deepest cuts on average (\$195.5 billion), followed by Democrats (\$157.3 billion). Republicans made the lowest level of cuts (\$100.7 billion). Those very sympathetic to the Tea Party were also relatively low in their cuts (\$100.0 billion). While there were partisan differences in the magnitude of changes proposed, there was remarkable agreement on which areas should be increased or decreased. People living in red and blue congressional districts (based on the 2010 election outcome) were remarkably similar in the magnitude and focus of cuts.

It is striking that no group—Republican, Democrat, or independents—on average acted in ways that fit their respective media stereotypes. It might be assumed that Republicans would cut the most; Democrats would cut the least or even increase spending; and that independents would be in between. But on the contrary:

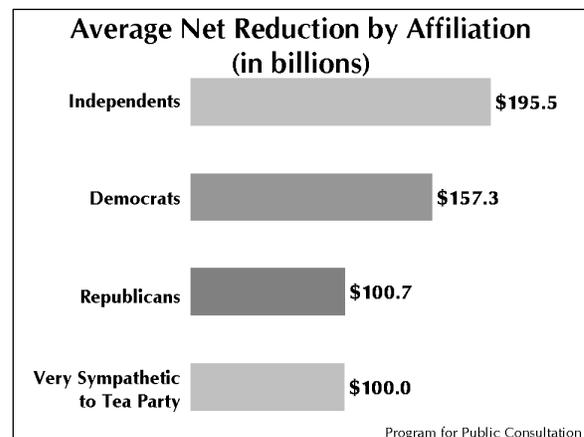
--Republicans cut spending the least, though still considerably (\$100.7 billion, or 7.4%)

--Democrats cut spending more than Republicans (\$157.3 billion, or 11.6%)

--Independents cut spending substantially more than either Republicans or Democrats (\$195.5 billion or 14.4%).

Those “Very Sympathetic” to the Tea Party

Because Tea Party leaders have put a great deal of emphasis on cutting government spending, it is of particular interest how Tea Party sympathizers deal with the budget. Respondents were asked near the end of the interview session, “How sympathetic are you to the Tea Party movement—very



¹ See “American Public Vastly Overestimates Amount of U.S. Foreign Aid,” WorldPublicOpinion.org, November 29, 2010.
<http://www.worldpublicopinion.org/pipa/articles/brunitedstatescanadara/670.php?nid=&id=&pnt=670&lb=>

sympathetic, somewhat sympathetic, not very sympathetic, or not at all sympathetic?” Thirty-three percent said they were somewhat sympathetic, and another 14% said they were very sympathetic to the Tea Party movement.

Overall, those very sympathetic to the Tea Party cut spending about the same amount as did those who identified themselves as Republicans. While Republicans cut spending by \$100.7 billion, strong Tea Party sympathizers cut it \$100.0 billion.

However, this is not because all Tea Party sympathizers were Republican. Seventy-six percent were Republicans, 14% were Democrats and 10% were independents.

Also, there were differences between how Republicans and Tea Party sympathizers budgeted. On 19 areas, Tea Party sympathizers budgeted at lower levels than did Republicans—but on 12 areas they did not, and in 8 areas they increased spending and exceeded Republican budget levels (for science, humanitarian aid, job training, the three areas of education, agricultural subsidies for small farmers, and nuclear weapons spending).

Areas Cut

While there were variations by party identification in the results, the degree of agreement is probably more noteworthy. Among a total of 31 areas, on average Republicans, Democrats and independents agreed on 22 areas—that is, all three groups agreed on whether to cut, increase or maintain funding . In 9 other areas there was dissensus.

On many individual items, Republicans cut slightly more than Democrats, but not as much as independents cut. Republicans cut defense-related spending significantly less than the other groups, which was the most important factor in their cutting less overall.

Where Democrats made spending increases, most of these were not spectacular. In the case of job training, Democrats did increase funding from \$4 to \$9.2 billion, but were outdone by independents, who increased it to \$14.4 billion. While all groups cut defense, independents cut defense more than other groups (by \$154.1 billion), Democrats by a little less (\$131 billion), while Republicans cut it only \$56 billion).

Areas of Partisan Consensus	
All Groups Cut	All Groups Increased
Highway system	Humanitarian assistance
Air travel and railroads	Pollution control

Space program	Job training
Medical research	Energy conservation/ renewable resources
Development assistance	Elementary and secondary education
Economic Support Fund	Special education for students with disabilities
Military aid	Higher education
State Department	Agricultural subsidies to small farmers
Veterans' benefits	
Subsidies to agricultural corporations with large farms	All Groups Maintained (Did Not Change More than \$0.2B):
Defense	Federal prison system
Military operations in Afghanistan and Iraq	
Intelligence agencies	

Areas of Partisan Difference				
Only Republicans cut	Only Republicans Increased	Only Democrats increased	Only Democrats cut	Only Independents increased
Mass transit	Homeland security	Housing programs	Nuclear weapons	Science
Global health			Federal law enforcement	Federal law enforcement
International organizations				Land management

Comparing “Red Districts” and “Blue Districts”

Based on the degree of polarization among Congressional representatives, one might have the impression that there are substantial variations between their constituents. However, this did not prove to be the case.

Respondents were classified by their Congressional district, and then grouped according to whether their House Congressional districts had voted Republican or voted Democrat in the 2010 election. Thus we have a picture of how those living in “Red Districts” and in “Blue Districts” handled the budget exercise.

Agreement between red and blue districts is even higher than the level of agreement (discussed above) among Republicans, Democrats and independents. Among a total of 31 areas of the discretionary budget, red districts and blue districts agreed on 27 areas—that is, all three groups cut, increased or maintained funding on average, all going in the same direction. In just 4 other areas, red districts and blue districts differed: red districts cut on average while blue districts either increased or maintained funding. These were: mass transit, science, and global health (all increased by blue districts); and federal law enforcement (maintained by blue districts, cut slightly by red districts).

On average, red districts made spending cuts totaling \$140.6 billion, while blue districts made cuts totaling \$153.4 billion—a difference of \$12.8 billion.

1B. General Revenues

Though other polls have found that, in principle, Americans want to cut spending more than they want to increase taxes, when given the chance to make their own budget, they increase taxes by a greater amount than they cut spending. Ninety-one percent increased taxes, and on average respondents made increases averaging \$291.6 billion. The biggest source of new revenues was from income taxes on those with incomes over \$100,000, which were increased by a majority and produced an average of \$143 billion in revenue.

Most polling over the last year has shown that when Americans think about how to reduce the deficit, they prefer spending cuts over tax increases. In July 2010, BBC/GlobeScan/PIPA found that 64% preferred “cutting spending on government services, including ones you use” over increasing taxes (23%) as an “approach to reducing the United States’ deficit and debt.”

Similarly, 52% told a Quinnipiac University poll (March 2010) that in dealing with the problem, there should be more spending cuts than tax increases; only 12% said there should be more tax increases, while 29% said the two should be equal. In the same poll, though 42% said both methods should be used, a higher 49% wanted only to cut spending. More recently (December 2010), ABC/Washington Post found 60% preferring “a combination of both,” but in the same question 36% thought cutting spending was “the best way to reduce the federal budget deficit,” while only 2% thought increasing taxes was the best way.

However, when respondents were faced with the actual process of making a budget, and first went through the spending areas looking for cuts and still found they had a deficit, an overwhelming majority of 91% increased taxes.

Overall, on average respondents increased revenues by \$291.6 billion. This figure is based on the conservative assumption that those who did not answer a question about taxes were expressing a preference for *not* raising the taxes discussed in that question. (If instead the standard method is followed—to exclude non-responses from the average—then revenues were raised \$340 billion in the exercise.)

Another way of measuring the responses is to use the ‘majority-rule’ method (described in section 1A above). In this method, all tax increases that do not get support from a majority of those giving an answer are simply excluded. Tax increases supported by a majority are included, but the amount of increase is limited to the level that the majority of respondents endorse (ignoring the fact that some people are ready to go even higher). This majority-endorsed level is then applied in full. Using this method, the total amount of increased tax revenue generated is a bit lower, at \$259.4 billion.

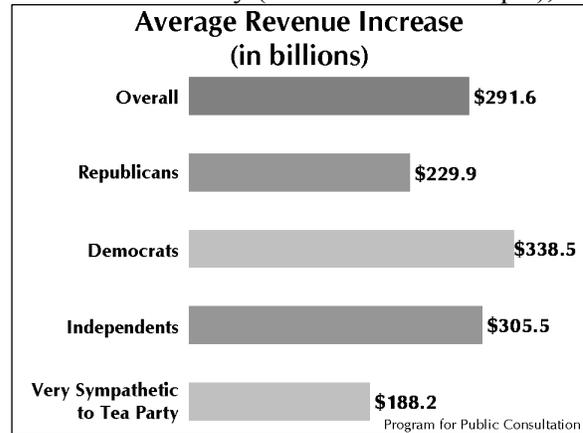
But, here again, this may not provide a complete picture of the public’s readiness to accept tax increases. For example, a small number of respondents endorsed a VAT. For this group, the VAT generated a very large portion of the amount of tax increase they endorsed—31%. Were these respondents to find that the VAT option was not available, they might well decide to be more ready to increase some other tax to a higher level or support a tax with minority support and thus increase the amount of taxing supported by a majority.

Overall, our assumption is that attitudes about taxes are more likely to be driven by broader concern about the deficit than by attitudes about one type of tax over another. Thus this report will put the most emphasis on the *averages* of positions on taxes.

Variations by Party Affiliation

As would normally be expected, Republicans raised taxes and revenues the least, Democrats the most, and independents were in between the two. That said, it should be noted that Republicans raised taxes significantly in the exercise—by \$230 billion (\$125 billion of this amount was in individual income taxes). Democrats raised taxes by a higher \$339 billion (\$178 billion in individual income taxes), and independents fell in between at \$306 billion (\$161 billion in individual income taxes).

Those who described themselves as “very sympathetic” to the Tea Party (14% of the full sample), as would be expected, raised taxes and revenues less than Republicans in general, and less than Democrats and independents. Even so, on average, Tea Party sympathizers found a quite substantial \$188.2 billion in additional revenues to reduce the deficit (\$105.2 billion in individual income taxes).



Variations by “Red Districts” and “Blue Districts”

Overall, red districts and blue districts were very similar in the ways that they increased revenues. It must be remembered that both types of districts contain many who are independents or have weak party affiliations, and so this need not come as a surprise. What is surprising is that red districts on average increased revenues slightly more than did blue districts on average.

On average, red districts increased revenues by \$295.5 billion, of which \$155.9 billion came from increases to individual income taxes. Blue districts increased revenues by \$286.4 billion, of which \$153.6 billion came from individual income taxes. In red districts, more respondents increased effective tax rates on incomes over \$500,000, as well as some other taxes.

While this is certainly counterintuitive, there is an explanation. There are somewhat more independents in red districts than in blue districts (25% and 19%, respectively). In the exercise overall, independents tended to both cut spending more and increase taxes more than Republicans did. Red districts raised about the same amount of revenue from income taxes as blue districts did, but they were more inclined to seek revenue from corporate taxes and excise taxes than were blue districts.

Income Tax

By far the lion’s share of revenue increases were from increases in income taxes—the most progressive form of taxation. These increases were also heavily weighted to the upper income brackets.

Respondents were shown the *effective tax rates* for different income brackets and told: “These are lower than a person’s marginal tax bracket, which you may have heard about. The effective tax rate is the percentage of income people actually pay after exemptions, credits and deductions.” So, within the exercise, respondents were not asked to deal with the various deductions (though a different sample was asked detailed questions about a number of these). Rather, respondents were selecting the *outcome* in tax burden for each of 8 income brackets. For each bracket, they could choose to:

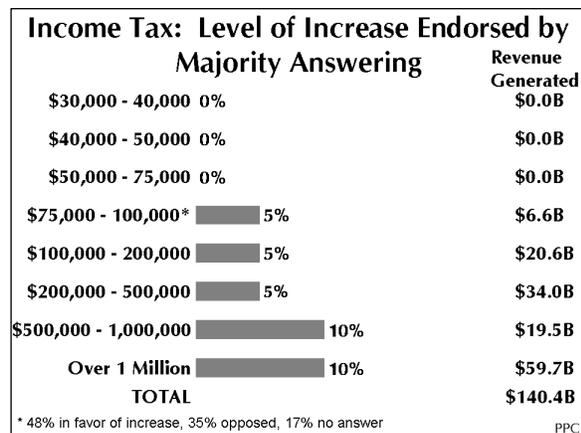
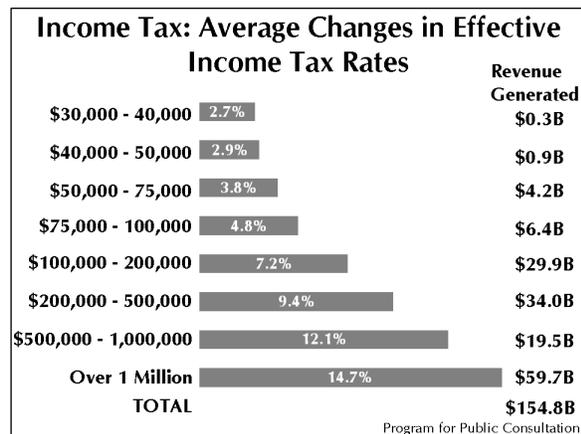
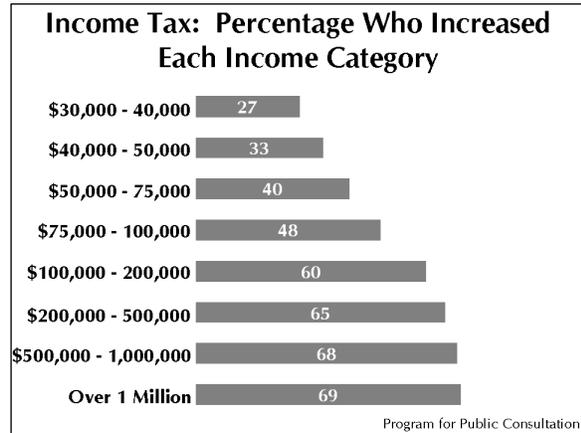
- Have the Bush-era tax cuts extended for 2015
- Increase the *effective* tax rate from that level by: 5%, 10%, 20%, or 30%

The lowest income bracket presented was \$30-40,000, because (as respondents were told), while those with less income pay payroll taxes, they typically pay little or no income tax and are not a significant factor from a revenue standpoint.

When all responses for each bracket are averaged, the total amount of new revenue generated was \$154.8 billion. (As stated above, any respondent who did not reply was considered as preferring the status quo, i.e. having the Bush-era tax cuts in force for 2015.)

Though respondents were shown that effective income tax rates are quite progressive, respondents made them even more progressive. On average, taxes were increased by just 2.7% for the \$30-40,000 bracket, rising with each bracket, and an increase of 14.7% for those with an income of \$1 million or more.

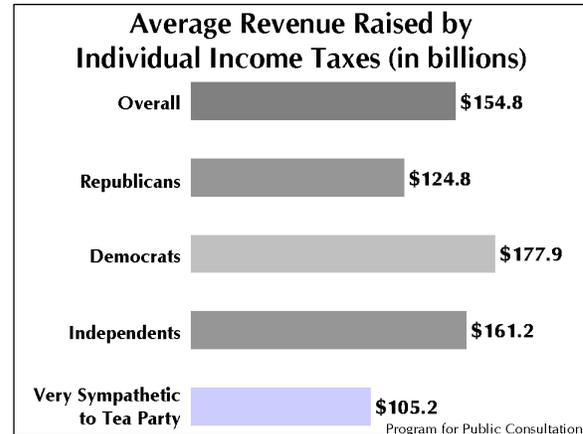
Applying the ‘majority-rule’ method, the majority of those who took a position kept the Bush-era tax cuts for earnings from \$30,000 to \$75,000. A majority of those who took a position chose increases of 5% or more on earnings above \$75,000 (48% in favor, 35% opposed); \$100,000 (60%); and above \$200,000 (65%). A majority increased taxes 10% or more on earnings above \$500,000 (54%) and \$1 million or more (59%).



Variation by Political Affiliation

As would be expected, on average Democrats made the greatest increase in revenue from individual income taxes (\$177.9 billion), followed by independents (\$161.2 billion). Even so, on average Republicans made a significant \$124.8 billion increase.

All three groups were similar in how they treated those with incomes from \$30,000 to \$75,000. On average, Republicans increased effective tax rates by a range of 2.4% to 3.3%; Democrats by 2.7% to 4.1%; and independents by 2.9% to 4.2%. For earnings levels above this, Republicans made lesser average increases than did the other two groups in each case. For earnings above \$1 million, Republicans increased the effective rate by 12.2%; Democrats by 16.8%; and independents by 15%.



We can also examine the results in terms of what majorities within each party affiliation chose. For incomes from \$30,000 to \$50,000, majorities of Republicans, Democrats and independents who took a position chose to extend the tax cuts. At the \$50,000-75,000 level Republicans opposed increases, while Democrats and independents were divided. At the \$75-100,000 level Republicans were divided, while Democrats and independents favored at least a 5% increase. For incomes from \$100,000-200,000 Republicans favored a 5% increase, as did independents, while Democrats divided between a 5% or a 10% increase. At the \$500,000-1 million level Republicans divided between a 5 and 10% increase, while the rest favored a 10% increase. Above \$1 million all groups favored a 10% increase.

Those who described themselves as “very sympathetic to the Tea Party” on average increased revenue from individual income taxes by \$105.2 billion--\$19.6 billion less than Republicans in general, but still a significant amount. For earnings levels between \$30,000 and \$75,000, this group increased effective tax rates by a range of 2.8% to 3.2%. For earnings above \$1 million, Tea Party sympathizers increased the effective rate by 10.4%. They were divided about increasing rates in the \$100-200,000 range, favored at least 5% increases above that and were divided about whether to increase 5 or 10% for those over \$1 million.

Variation by Income

It is natural to assume that when people are making assessments of what taxes they prefer, their attitudes must be heavily influenced by how that tax will affect them. If this were to be the case, we would expect to find that people would favor increases in other income categories from their own.

While there were some effects in this direction, they were very slight. Interestingly, it seems that low-income people tend to be a bit more demanding of low-income people, while high income people tend to think that they are the only ones who should have their rates raised.

0-\$25,000: This group was the least progressive, showing a higher than average tendency to tax those with lower income and a slightly lower than average tendency to tax the high end.

February 3, 2011

\$25-50,000: While a majority opposed increases for their category, they were just slightly higher than average in their support for an increase for \$40-50,000 incomes. A plurality favored increases starting at \$50-75,000, and majorities favored them at higher levels.

\$50-75,000: Majorities opposed increases for all categories below and including their own and were significantly lower than average in support for raising taxes on their own category. Interestingly, they showed the lowest level of support for all categories above their own, though a majority favored increases for those over \$100,000. In general, they were the most averse to tax increases.

\$75-100,000: While this group opposed increases for incomes below \$50,000 and were divided on the \$50-75,000 level, a plurality favored increases to their category and strong majorities favored increases above that level.

\$100,000 plus: This group had the largest majorities opposing increases to those with income lower than themselves. A majority, though slightly less than average than the whole sample, favored increases for the \$100-200,000 level, and large, and above average, majorities favored increases for higher levels.

Thus it appears that among Americans whose incomes are only somewhat above the median household income², there is significant willingness to accept an income tax increase—in a context where they are shown a wide range of information and can make choices that spread the burden across other groups as well.

Corporate Taxes

Almost two thirds of respondents made some increase to the average tax rate paid on net income (prior to exemptions, credits, or deductions) by corporations through income taxes. (The tax data available did not permit the modeling of average tax rates at differing levels of corporate earnings.) The issue was introduced to respondents as follows:

As you may know, corporations or businesses also pay a tax on their profits. This screen shows the *average tax rate* for corporations. Just like individuals, corporations have exemptions, credits and other deductions that are applied to their profits before calculating their income tax. The percentage of their profits that they actually pay is on average 14.7%. You will now have an opportunity to adjust this rate.

Averaging all responses, respondents increased the average tax rate for corporations by 8%--thus raising it from 14.7% to 15.9% and generating

Corporate Taxes

Just like individuals, corporations have exemptions, credits and other deductions that are applied to their profits before calculating their income tax. The percentage of their profits that they actually pay is on average 14.7%. You will now have an opportunity to adjust this rate.

Income from Corporate Earnings	Current average corporate tax rate	New Rate			
		5%	10%	20%	30%
		-----increase-----			
Average tax rate on corporate profits	14.7%	15.4%	16.2%	17.6%	19.1%
Deficit reduction	--	\$16.5B	\$33B	\$66B	\$99B

Percentage who increased rate 65

Average rate increase 8.0% \$26.3B

PPC

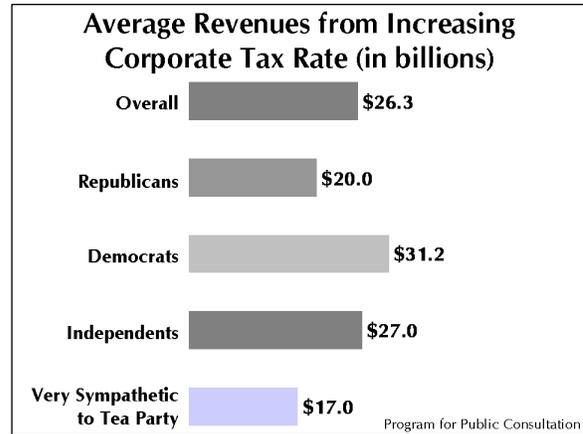
² Figures are not yet available for the current post-recession period, though work is in progress on the wealth of data collected by the 2010 US census. One comparison is given by the household median income for 2009: \$49,777.

\$26.3 billion in new revenue.

Using the majority-rule method, the average tax rate for corporations was raised by 5% (generating \$16.5 billion). This position was shared by 65%; 38% preferred to take the increase higher (by 10 percent, 20%; by 20 percent, 9%; and by 30 percent, 9%). Thirty-five percent of respondents either selected no change in the current average rate (22%) or did not answer (13%).

Republicans raised an average of \$20.0 billion; Democrats, \$31.2 billion; and independents, \$27.0 billion. Those very sympathetic to the Tea Party raised \$17.0 billion on average.

Majorities among Republicans, Democrats and independents all supported a higher average corporate tax rate. Among Republicans, 57% supported at least a 5% increase in the average tax rate, with 32% supporting higher levels. Among Democrats, 69% supported at least a 5% increase, with 42% supporting higher levels. Among independents, 68% supported at least a 5% increase, with 42% supporting higher levels.



Among strong Tea Party sympathizers only a plurality of 49% favored increasing corporate taxes.

Respondents in red districts raised an average of \$28.1 billion, while those in blue districts raised a bit less at \$24.0 billion in new revenues. As discussed above, while it is surprising that red districts should raise more revenue, this is due in part to the higher percentage of independents living in red districts. Also, red districts were slightly more inclined than blue districts to look to excise taxes to generate extra revenue.

Estate Tax

This study was fielded before the compromise tax plan was passed in December 2010, which established an estate tax that applies only to estates worth over \$5 million and has a top tax rate of 35%.

This study offered respondents three options: the form just discussed, which is now law; a return to the then most-recent version of the tax that was in place in 2009 and which was scored as the status-quo position; and a return to the tax that was in place in 2001.

The problem was presented to respondents in this way:

As you may know, the estate tax is paid by heirs when they inherit an estate valued above a certain amount. In 2001 this tax was temporarily reduced. There is now a discussion about what the estate tax should be. Three key options are shown below, with the revenue effect on the projected deficit.

- A return to the tax that was in place in 2001: A tax only on estates valued over \$1 million, ranging from 18% to 55%
- A continuation of the tax that was in place in 2009: A tax only on estates valued over \$3.5 million, ranging from 18% to 45%

--A reduction of the estate tax: A tax only on estates valued over \$5 million, ranging from 18% to 35%

The first option was shown as producing \$21 billion in extra revenue. The second option was shown as producing no extra revenue (scored at \$0), and the third option as adding \$9 billion to the deficit.

Interestingly, in light of later developments, only 15% wanted the version of the tax that excludes estates of \$5 million or less. Seventy-seven percent chose either the 2001 version of the estate tax (43%) or the 2009 version (34%).

On average respondents' choices generated \$7.8 billion in new revenue from the estate tax. Using the current law as a baseline, this amount would be substantially higher—\$16.1 billion.

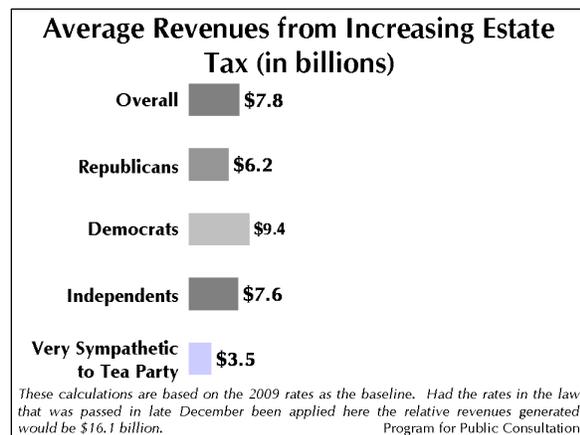
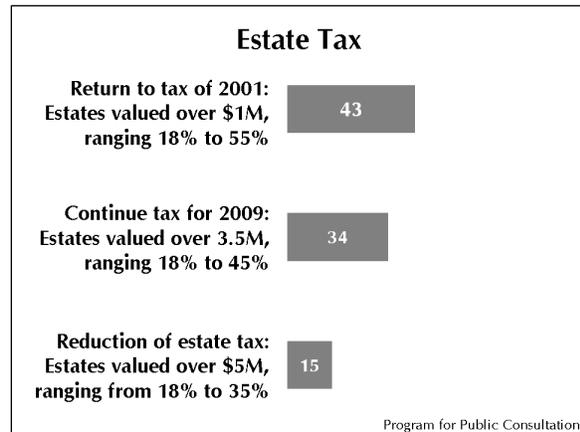
Using the majority-preference method, a 77% majority supported at least the 2009 version of the tax—but in the exercise, this is not scored to produce new revenue because it was the most recent version of the tax at the time the study was fielded.

On average Republicans generated \$6.2 billion; Democrats, \$9.4 billion; and independents, \$7.6 billion. Those very sympathetic to the Tea Party generated just \$3.5 billion on average.

Surprisingly, the differences by party affiliation on the estate tax were mild. Among Republicans, 76% chose either the 2009 version (39%) or the 2001 version (37%); only 17% chose the version that passed. Among Democrats, 79% chose either the 2009 version (30%) or the 2001 version (49%); only 11% chose the version that passed.

And among independents, 77% chose either the 2009 version (33%) or the 2001 version (43%); only 17% chose the version that passed. Among Tea Party sympathizers, two thirds (68%) did choose either the 2009 version of the estate tax (41%) or the 2001 version (27%), while 25% chose the new version passed by Congress.

The average revenue in red districts was \$8.4 billion; in blue districts it was \$6.9 billion.



Alcohol Tax

A source of greater excise tax revenue that has been proposed is the rationalizing and raising of the alcohol tax. The issue was presented to respondents this way:

Currently alcoholic drinks carry a federal tax of 8 cents per ounce of alcohol in wine, 10 cents per ounce in beer, and 21 cents per ounce in spirits, such as whisky or vodka. Here are some options for raising this tax, with the extra revenue they would raise.

They were then offered the options of keeping this tax the same, taxing all alcoholic drinks at the same rate of 25 cents per ounce of alcohol (raising \$6 billion), or making this uniform rate 50 cents per ounce of alcohol (raising \$12 billion).

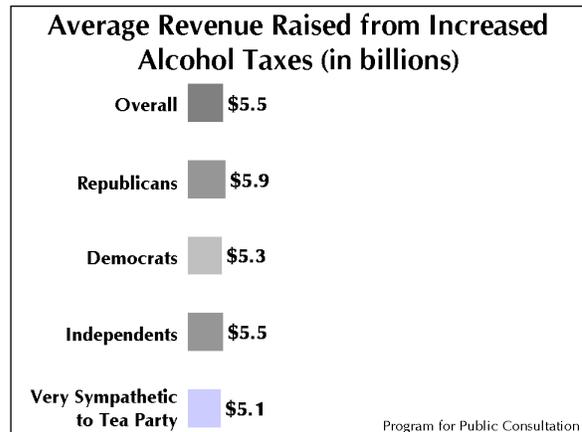
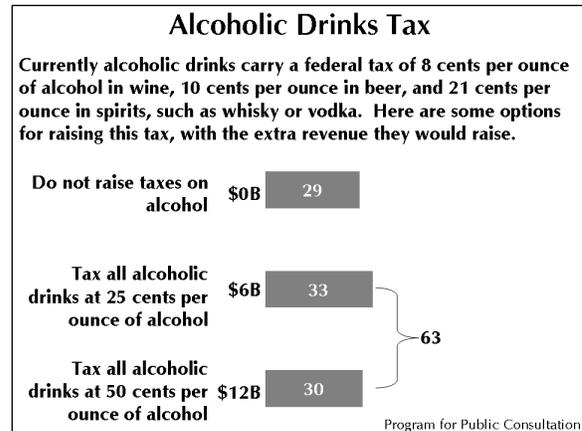
On average, respondents raised \$5.5 billion in extra excise revenues on alcoholic drinks. Over three in five (63%) did raise alcohol taxes. Thirty-seven percent either did not want to raise this tax (29%) or did not answer (8%).

All political groups raised similar amounts of additional revenue through increasing this excise tax. Republicans raised an average of \$5.9 billion by increasing this tax; Democrats, \$5.3 billion; and independents, \$5.5 billion. Those very sympathetic to the Tea Party raised an average of \$5.1 billion (56% of this group raised the alcohol tax).

Using the majority-preference method, \$6 billion in extra revenue was raised, with 63% of respondents supporting a uniform tax of at least 25 cents per ounce of alcohol. Thirty percent preferred a 50-cent level.

Majorities of Republicans, Democrats and independents all supported a uniform and higher alcohol tax, though independents were a little more doubtful. Sixty-six percent of Republicans, 62% of Democrats, and 59% of independents were in favor, as were 56% of those very sympathetic to the Tea Party.

Respondents in red districts raised \$5.8 billion in new revenue through the alcohol tax, while those in blue districts raised \$5.2 billion.



Carbon Tax

Respondents were presented the carbon tax as follows:

Another possibility is to impose a tax on carbon dioxide content of fuels. This would also have the benefit of prompting people and corporations to make changes, such as using alternative forms of energy, which would lower carbon dioxide emissions, and counter climate change.

Both plans shown assume that half the cost would be borne by corporations and half by consumers.

Respondents were offered three options: no carbon tax; a carbon tax “that will increase energy costs about \$6 per month per person and also lower carbon dioxide emissions by about 12.5%”; and a carbon tax “that will increase energy costs about \$12 per month per person and also lower carbon dioxide emissions by about 25%.” They were told the lower carbon tax would produce extra revenue of \$57 billion; the higher carbon tax would produce \$114 billion.

On average, respondents raised \$35.6 billion through a carbon tax. Forty-nine percent selected a carbon tax, with 36% selecting the lower tax and 13% the higher tax, while 42% were opposed.

Using the majority-rule method, the majority of those taking a position favored a carbon tax of at least \$6 a month, generating \$57 billion.

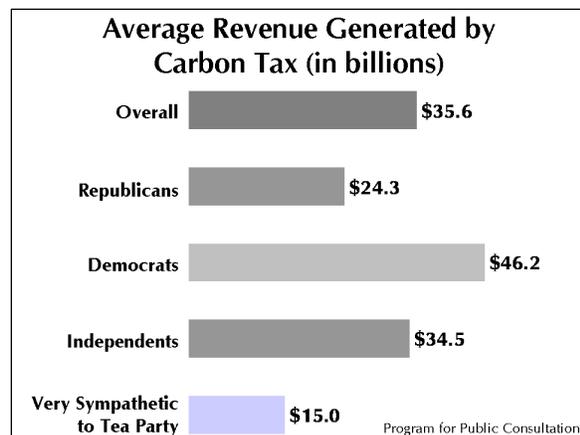
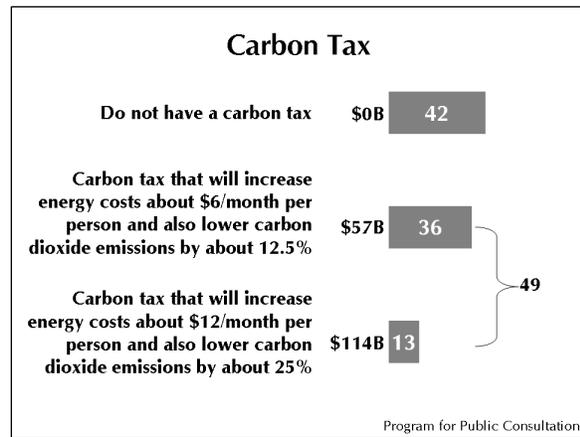
The partisan content of the issue—higher than for many of the other proposals tested—is visible in the wider differences by party. Republicans raised \$24.3 billion; Democrats, \$46.2 billion; and independents, \$34.5 billion. Among those very sympathetic to the Tea Party there was an average of \$15.0 billion raised.

Thirty-six percent of Republicans selected a carbon tax, and 7% selected the higher tax. Sixty-four percent of Democrats—28 points more than Republicans—selected a carbon tax, and 18% selected the higher tax. Forty-four percent of independents selected a carbon tax (16% the higher version), while 56% either selected not to have one (49%) or did not answer (7%). Among strong Tea Party sympathizers 69% opposed a carbon tax.

Respondents in red districts on average raised \$36.8 billion; in blue districts the average was \$33.8 billion.

Financial Crisis Responsibility Fee

In early 2010 the Obama administration proposed a “financial crisis responsibility fee” on large banks as a way of handling its obligation, under the statute that established the Troubled Asset Relief



Program (TARP), to offer a plan “that recoups from the financial industry an amount equal to the shortfall in order to ensure that the Troubled Asset Relief Program does not add to the deficit or national debt.”³ The idea was presented to respondents as follows:

A possible source of revenue is to impose what is called a “financial crisis responsibility fee” on large banks and financial institutions (with assets over \$50 billion) to help compensate for the costs generated by the recent banking crisis. The way this would work is that, for every million dollars that a large bank loans, it would pay \$150 to the US Treasury.

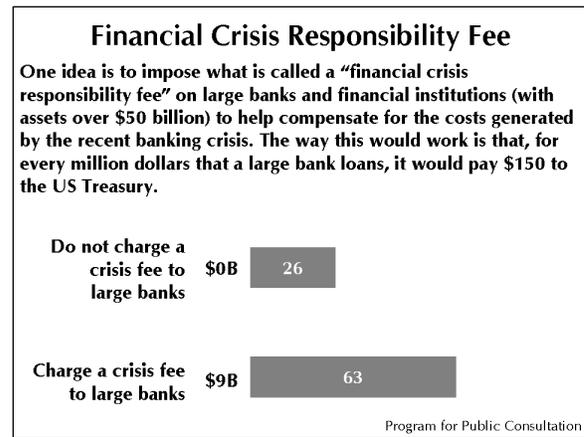
Respondents were asked whether or not they wanted to charge this fee, and told that it would raise \$9 billion in revenue.

Over three in five chose to impose the responsibility fee on large banks. On average, the amount raised was \$5.7 billion. A 63% majority raised \$9 billion; 37% either disagreed (26%) or did not answer (11%).

Among Republicans, the average was \$5.2 billion; among Democrats, \$5.9 billion; and among independents, \$6.0 billion. Among those very sympathetic to the Tea Party, the average amount was \$4.3 billion.

Majorities among Republicans, Democrats and independents supporting the responsibility fee were all substantial. It was chosen by 57% of Republicans, 65% of Democrats and 67% of independents. A plurality of strong Tea Party sympathizers favored it (47% favor, 41% oppose).

Respondents in Red Districts on average raised \$5.9 billion from the responsibility fee, while those in Blue Districts raised \$5.3 billion.



Taxing Carried Interest

³ For a description of the proposal, see http://www.whitehouse.gov/sites/default/files/financial_responsibility_fee_fact_sheet.pdf

In the course of developing new legislation to regulate the financial sector, there was some discussion of increasing the taxation of “carried interest,” a primary form of compensation for hedge fund managers. The issue was introduced to respondents as follows:

As you may know, managers of private investment funds, such as hedge funds, are paid in part by giving them a percentage of the profits of the firm though they have not invested money that is at risk. Currently this income is taxed at the same level as dividends or capital gains—that is, with a top rate of 15%. One proposal is to tax this compensation (called “carried interest”) like ordinary income, such as wages. To do this would raise \$1.5 billion in extra revenue in 2015.

Respondents were asked to choose between the status quo and taxing carried interest as ordinary income. Three in five (60%) selected the latter, generating an average of \$0.9 billion in revenue. This average did not vary by party identification. Among those very sympathetic to the Tea Party, the average response generated \$0.8 billion.

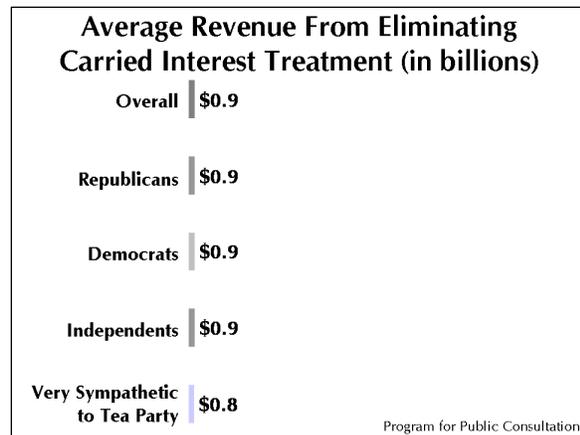
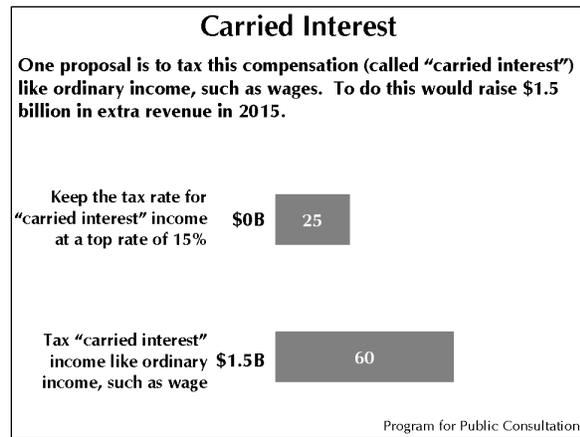
Clear majorities of Republicans, Democrats and independents all supported taxing carried interest like regular income. Fifty-eight percent of Republicans, 61% of Democrats, and 62% of independents chose this option. A 55% majority of those sympathetic to the Tea Party supported the higher tax.

In red districts, respondents raised \$1.0 billion in new revenue; in blue districts, they raised \$0.8 billion.

Value Added Tax

One idea for raising revenue which has received considerable discussion is a national consumption tax or VAT (value-added tax), similar to those that are part of the tax structure in the European Union, Canada, Mexico and many other countries. This idea was rejected by a majority of respondents, but among the minority that selected it, it played a major role in generating revenue for them.

The proposal was presented as follows:



Another idea is to raise revenue with a national sales tax or Value-Added Tax [VAT] on many purchases. Food, housing, health care and education would not be subject to the tax. Here are some options, with the extra revenue they would raise.

Respondents were offered four options: no national sales tax; or three possible levels—2.5%, raising \$89 billion; 5%, raising \$175 billion; or 10%, raising \$332 billion.

Averaging all responses, respondents raised \$44.9 billion in revenue through a VAT. Of the third of respondents (34%) who did select a VAT, most (23% of the full sample) picked the 2.5% rate, while 7% picked the 5% rate and 4% the 10% rate.

Among the 34 percent who did select a VAT, this played a prominent role in the revenue they generated. For this group overall, the VAT generated 31% of all their new revenue.

Using the majority-rule method, no revenue was raised through a VAT, as it was rejected by 58%.

For Republicans, the average amount generated was \$33.7 billion; for Democrats, \$50.7 billion; and for independents, \$52.1 billion. Those very sympathetic to the Tea Party raised \$32.3 billion on average.

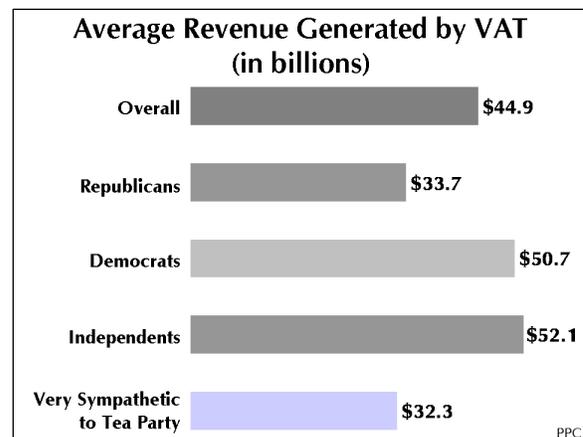
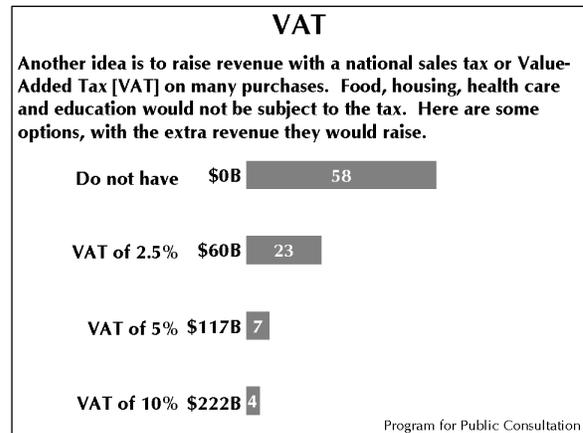
For all groups, these amounts were driven by minority support. Across Republicans, Democrats, and independents, majorities in every group rejected a VAT (66%, 51%, and 61% respectively).

Respondents in red districts on average raised \$43.3 billion through a VAT; in blue districts, this was \$46.9 billion.

Tax on Sugary Drinks

Another idea to raise revenue that has been proposed is to tax sugary drinks, which currently have no excise tax laid upon them. Respondents were told:

Another idea is to tax sugary drinks, such as some soft drinks. This would also have the benefit of discouraging excessive consumption of such drinks, which have been linked to obesity.



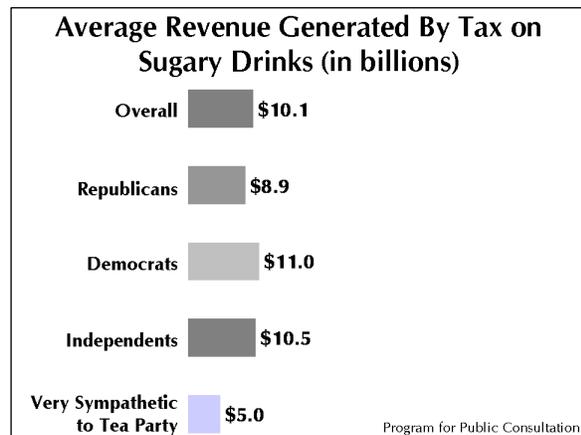
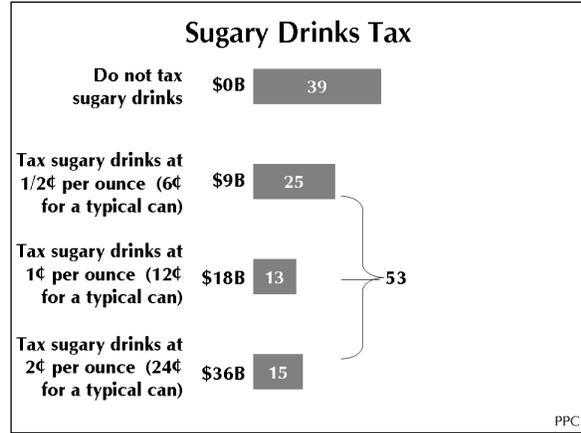
Respondents were offered four options: to keep the status quo, with no excise tax on sugary drinks; or to tax them at ½ cent per ounce (6 cents for a typical 12 oz. can); 1 cent (12 cents a can); or 2 cents (24 cents a can). These options would raise \$9, \$18, and \$36 billion respectively

Using the majority-rule method, a modest majority--53%--chose to at least create the excise tax at ½ cent per ounce, raising \$9 billion. Twenty-nine percent wanted a higher tax—at 1 cent per ounce (13%) or 2 cents per ounce (15%). Forty-seven percent either selected the status quo (39%) or did not answer (8%).

On average, respondents implemented a tax and raised \$10.1 billion. Republicans raised an average of \$8.9 billion, Democrats \$11.0 billion, and independents \$10.5 billion. Those very sympathetic to the Tea Party raised an average of \$5.0 billion.

Attitudes were quite similar among Republicans, Democrats and independents, with modest majorities of each (52-54%) willing to create an excise tax on sugary drinks. Fewer Republicans, however, chose levels above ½ per ounce (24%, compared to 32% of Democrats and 30% of independents). Among Tea Party sympathizers, two thirds (66%) chose not to create this excise tax.

In red districts, respondents raised \$10.4 billion on average; in blue districts this was \$9.7 billion.



Revenues				
	Average Change	Percent Who Increased	Percent Who Did Not Increase	Majority Rule
Increase income taxes	\$154.8B	75%	15%	\$160.4B
Increase corporate tax rate	\$26.3B	65%	22%	\$16.5B
Estate Tax*	\$7.8B (\$16.1B)	43% (77%)	49% (15%)	\$0B (\$9.0B)
Alcohol taxes	\$5.5B	63%	29%	\$6.0B
Carbon Tax	\$35.6B	49%	42%	\$57.0B
Financial Crisis Responsibility Fee	\$5.7B	63%	26%	\$9.0B
Taxing carried interest	\$0.9B	60%	25%	\$1.5B
VAT	\$44.9B	34%	58%	\$0B
Sugary Drinks	\$10.1B	53%	39%	\$9.0B
TOTAL	\$291.6B			\$259.4B

* Figures in parentheses include those who chose "A continuation of the tax that was in place in 2009: A tax only on estates valued over \$3.5 million, ranging from 18% to 45%." With the recent changes in the estate tax, the choice of the 2009 tax level now raises extra revenues. However, this amount is not included in the total.

1C. Overall Results for Discretionary Budget and General Revenue

Combining the average net reduction to spending and the average net increases to revenues, the average respondent cut the 2015 deficit for the discretionary budget by 70 percent. One third of reductions came from net reductions in spending, while two thirds came from increased revenues.

Combining the average \$145.7 billion net reduction in spending and the \$291.6 billion net increase in revenue, on average respondents cut the deficit by \$437.3 billion. This represents a cut of 70% for the discretionary budget's part of the 2015 deficit--\$625 billion (expenses and receipts for Social Security and Medicare are excluded). This leaves a residual deficit for the discretionary budget of \$187.7 billion.

Average net change in spending	-\$145.7B
Average net change in revenues	\$291.6B
Total reduction in deficit	\$437.3B
Main budget deficit	\$625.0B
Residual deficit	\$187.7B

Using the majority-rule method, majorities agreed to specific spending reductions of \$87 billion and specific revenue increases of \$256 billion, resulting in a net reduction of \$343 billion—or 55% of the discretionary budget’s part of the 2015 deficit.

Variations by Political Affiliation

The study made separate calculations of the average deficit reductions achieved by Republicans, Democrats, independents, and those very sympathetic to the Tea Party. Interestingly, independents on average made the greatest total deficit reduction--\$501 billion, or 80% of the discretionary budget’s part of the 2015 deficit. Independents also found the most spending cuts to make (\$195.5 billion). Independents had a residual deficit of \$124 billion.

Democrats were second after independents in achieving deficit reduction, arriving at a total of \$495.8 billion (a 79% reduction). Democrats on average were willing to increase revenues the most (\$338.5 billion). The residual deficit was \$129.2 billion.

Republicans ranked third in achieving deficit reduction on average, with a total of \$330.6 billion (a 53% reduction). Republicans cut less spending than did independents or Democrats (\$100.7 billion) and raised less extra revenue as well (\$229.9 billion). The residual deficit was \$294.4 billion.

Finally, those very sympathetic to the Tea Party were the group that achieved the least deficit reduction—though this was a still substantial \$288.2 billion. This group’s average cuts to spending were, at \$100 billion, lower than those of Democrats and independents. Tea Party sympathizers were the group least likely to raise taxes—although they did find \$100.0 billion in new revenue. Their residual deficit was \$336.6 billion.

	Republicans	Democrats	Independents	Tea Party Very Sympathetic
Average net change in spending	-\$100.7B	-\$157.3B	-\$195.5B	\$100B
Average net change in revenues	+\$229.9B	+\$338.5B	+\$305.5B	\$188.2B
Total reduction in deficit	\$330.6B	\$495.8B	\$501B	\$288.2B
Main budget deficit	\$625.0B	\$625.0B	\$625.0B	\$625.0B
Residual deficit	\$294.4B	\$129.2B	\$124B	\$336.8B

Red Districts and Blue Districts

The overall budgets of red districts and blue districts were strikingly homogeneous. Red districts reduced the discretionary budget's part of the 2015 deficit by \$436.1 billion, while blue districts reduced it by \$439.8 billion. Both amounts were less than Democrats' and independents' averages, while being more than Republicans' and Tea Party sympathizers' averages.

In both their cuts to spending and increases to revenues, red districts and blue districts were different by only \$9-13 billion (see table). Their residual deficits were nearly the same at \$188.9 billion for red districts and 185.2 billion for blue districts.

	Red Districts	Blue Districts
Average net change in spending	-\$140.6B	-\$153.4B
Average net change in revenues	+\$295.5B	+\$286.4
Total reduction in deficit	\$436.1	\$439.8B
Main budget deficit	\$625.0B	\$625.0B
Residual deficit	\$188.9B	\$185.2B

2. EVALUATION OF TAX EXPENDITURES: SPECIAL TREATMENTS AND SPECIFIC TAX DEDUCTIONS

In the budget exercise described in the preceding sections individual income taxes were presented in terms of the *effective tax rates*. Thus these rates already included the effects of special treatment for capital gains and dividends, and for various deductions.

However, we also wanted to know how people felt about specific special treatments and deductions. To avoid any double-counting, we presented possible changes in these rules to a separate sample. The questions included information about how much money would be saved by eliminating the special treatment or deduction, but respondents considered each item on its own—not in the larger context of a budget exercise.

2A. Capital Gains and Dividends

For 2015 individual income taxes, a majority favored raising the maximum tax rate for both capital gains and dividends back to the 20% that was in place before the Bush tax cuts.

The tax cuts that were established under the Bush administration temporarily reduced the tax rate on capital gains and dividends from 20% to 15%. At the time of the survey these were scheduled to revert to 20% in 2011--though the Obama administration and Republican leadership agreed by December 2010 to extend the temporary tax cuts on capital gains and dividends for two more years. Interestingly, when presented this issue, only minorities thought the tax cut should be in effect in 2015.

The question about capital gains was presented to respondents as follows:

As you may know, income from stocks—capital gains and dividends—is taxed separately from other kinds of income and at a maximum rate that can be substantially lower than the tax on ordinary income.

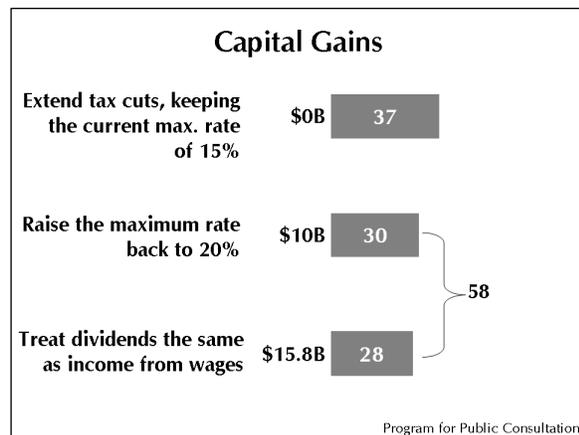
The 2001 and 2003 temporary tax cuts lowered this rate from 20% to 15%. The temporary tax cuts on these kinds of income will expire in 2011.

Here are options for taxing *capital gains* with the new revenues they would raise. These rates would apply to profits from selling stock held for a least one year.

Respondents were offered three options:

- to extend the tax cuts on capital gains to 2015,
- to raise the maximum rate back to 20 percent, which would raise \$10 billion in revenue
- to treat capital gains the same as income from wages, which would raise \$15.8 billion in revenue.

Fifty-eight percent wanted to either return to the 20% rate (30%) or go farther and treat dividends the same as wage income (28%). Thirty-seven percent preferred to extend the tax cuts.



Majorities of Democrats and independents rejected extending the tax cut on capital gains to 2015, while Republicans were divided. Among Democrats, 37% preferred the 20 percent rate while 28% wanted to treat capital gains like regular income from wages; 31% wanted to extend the tax cut. Among independents, 28% wanted the 20 percent rate, but a larger 36% wanted to treat capital gains like regular income; 28% preferred to extend the tax cut. Among Republicans, 49% wanted to extend the tax cut to 2015, while 46% wanted to either return the rate to 20 percent (23%) or to treat capital gains like income from wages (23%). However, among those very sympathetic to the Tea Party, a large 68% wanted to continue the tax cut on capital gains.

In both red districts and blue districts, only minorities wanted to extend the tax cut on capital gains: 39% in red districts and 34% in blue districts. In red districts 57% preferred to either raise the rate back to 20 percent (26%) or tax capital gains like wage income (31%). In blue districts, 59% wanted to either raise the rate to 20 percent (36%) or tax capital gains like wage income (23%).

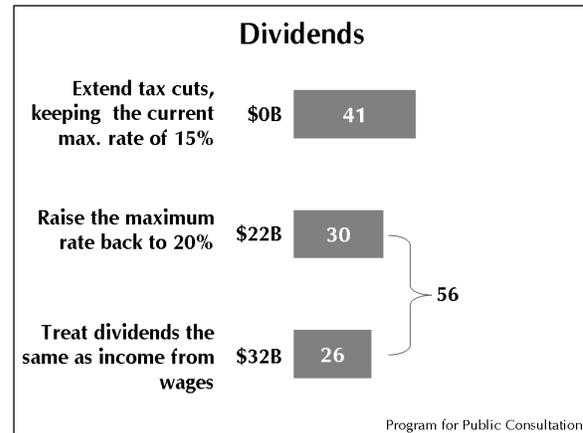
Dividends

On dividends, there was slightly more sentiment for extending the tax cut to 2015 than there was regarding capital gains—but this was still a minority view. The majority preference was to at least return to the 20 percent rate that preceded the temporary tax cut on dividend income.

The question on dividends closely followed the form of that for capital gains (see above). Respondents were told that to extend the tax cuts would raise no new revenue; to raise the maximum rate back to 20% would raise \$22 billion; and to treat dividends the same as wage income would raise \$32 billion.

A 56% majority wanted to at least return the maximum rate to 20 percent; 26% wanted to go further and treat dividends the same as income from wages. Forty-one percent wanted to extend the tax cuts and keep the 15 percent maximum rate—slightly higher than the 37% who took this position about capital gains.

As with capital gains, Democrats and independents wanted to raise tax rates on dividend income, while Republicans were roughly divided. Among Democrats, 65% wanted to either return to the 20 percent rate (37%) or treat dividends like wage income (28%); 34% wanted to extend the tax cut. Among independents, 56% wanted to either return to the 20 percent rate (25%) or treat dividends like wage income (31%). Among Republicans, half (50%) wanted to extend the tax cut; 45% preferred to either return to the 20 percent rate (24%) or to treat dividends like wages (21%). Among those very sympathetic to the Tea Party, a large 71% wanted to extend the tax cut on dividends.



In red districts, a 57% majority preferred either to return to the 20 percent rate (29%) or treat dividends like wage income (28%); 41% wanted to extend the tax cut. In blue districts, a 56% majority wanted either to return to the 20 percent rate (32%) or to treat dividends like wage income (24%); 40% wanted to extend the tax cut.

2B. Specific Individual Income Tax Deductions

Asked whether they found the elimination or reduction of certain tax deductions acceptable, just tolerable or not tolerable, in most cases a majority found them at least tolerable—though clearly they were not welcome, as a majority never labeled them acceptable. Options deemed at least tolerable included reducing the deductibility of home mortgage interest, eliminating the exclusion of income earned overseas, reducing the benefit of ‘cafeteria plans’ and eliminating the child tax credit for children over 13. However, less than half found it tolerable to completely eliminate the child tax credit.

A separate sample that was never exposed to the budget exercise (reported in sections 1 and 2) was asked about a range of tax expenditures that have received much discussion as key issues in any reform of the tax code. Respondents were told at the beginning that they would be asked a series of questions “about changes in federal taxes that would help to lower the federal budget deficit by raising revenue.” In all questions, respondents were informed of how much extra revenue, if any, each choice offered has been estimated to raise in 2015.

Mortgage interest

The home mortgage interest deduction has received considerable attention in the current debate over tax expenditures, in part because of concerns that it may have been one factor in the home mortgage crisis that became acute in 2008, by encouraging homebuyers to take on higher mortgages.

Respondents were asked about two proposals: one would limit the amount of deductible interest to \$25,000 a year; the other would scale down the percentage that could be deducted until it was 50% of

interest in 2015. For each proposal, respondents could say whether they found it “acceptable,” “just tolerable,” “tolerable only if delayed until 2015,” or “not tolerable.” These options were provided (rather than, say, “favor” or “oppose”) to take into account that respondents may not be enthusiastic about a choice that they may still select as something necessary.

The topic was introduced in this way:

As you may know, people who are paying off a home mortgage are able to deduct the interest payments on the loan from their total income when they prepare their income taxes. This deduction affects about 30% of Americans--those who itemize their deductions. In most cases, these are persons with incomes higher than the average.

One proposal is to limit the amount of mortgage interest that can be deducted to \$25,000 a year. This means that those whose deductions would be affected would be people with mortgages of \$500,000 or more. If enacted, this would raise \$4 billion in extra revenue in 2011 and \$8 billion in 2015.

Just 19% found this was not tolerable. A majority of 75% found this proposal acceptable (42%), just tolerable (25%), or tolerable if delayed until 2015 (8%).

Among independents a lesser majority (62%) found the proposal at least tolerable; 22% called it not tolerable (15% did not answer). Among those very sympathetic to the Tea Party, 55% found it tolerable. Republicans and Democrats, though, hardly varied from the full sample.

All respondents were then offered a more stringent proposal:

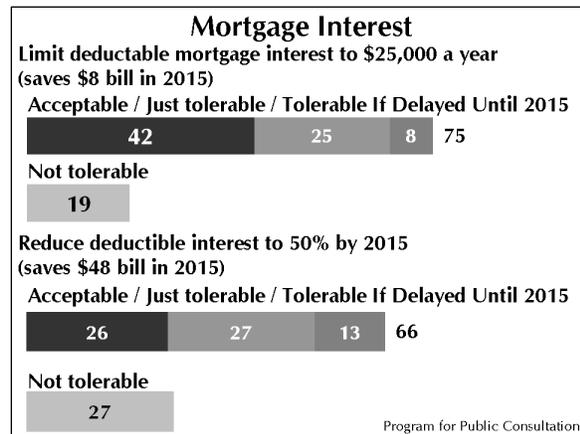
Another proposal is to reduce the amount of interest that can be deducted from 100% to 90% in 2011, and down to 50% by 2015. If enacted, this would raise \$8 billion in extra revenue in 2011 and \$48 billion in 2015.

A smaller majority of 66% found this proposal acceptable (26%), just tolerable (27%) or tolerable only if delayed until 2015 (13%). A quarter (27%) said it was not tolerable.

Again, independents had the smallest majority who felt the proposal was tolerable—57%. Republicans were at 61% and Democrats at 75%. Among those very sympathetic to the Tea Party, a 54% majority said the proposal was not tolerable.

Those with higher incomes are more likely to benefit from the mortgage deduction, as currently structured, than those with lower incomes. Thus it is noteworthy that among respondents with incomes above \$100,000, support for changing the mortgage deduction was higher, on both proposals, than it was in the full sample.

On the proposal to limit the deductible amount to \$25,000, 56% of those with incomes above \$100,000 found this acceptable, and 82% found it at least eventually tolerable. Interestingly, in all



income groups, the minorities who found the proposal *not* tolerable were within a narrow 17-22% range. Thus on this proposal there was surprisingly little variation across income groups.

The more stringent proposal got a different reception. Here again, a high 71% of those with incomes above \$100,000 found it at least eventually tolerable. However, 35% of those in the \$50-75,000 range, and 49% of those in the \$75-100,000 range, said the more stringent proposal was not tolerable.

Child tax credit

The child tax credit is subtracted directly from taxes owed and thus has a significant impact on the tax bill of those with dependents under 17, especially if their incomes are above poverty levels but below \$110,000 (above which the credit phases out). At the same time, it is a significant tax expenditure and ending it would raise a large amount of new revenue.

The issue was put to respondents in this way:

Another proposal is to change tax benefits that are based on having children. Currently taxpayers can claim a credit of \$1,000 for each child under 17. If the child tax credit were repealed, this would raise \$33 billion in extra revenue in 2011 and \$45 billion in 2015.

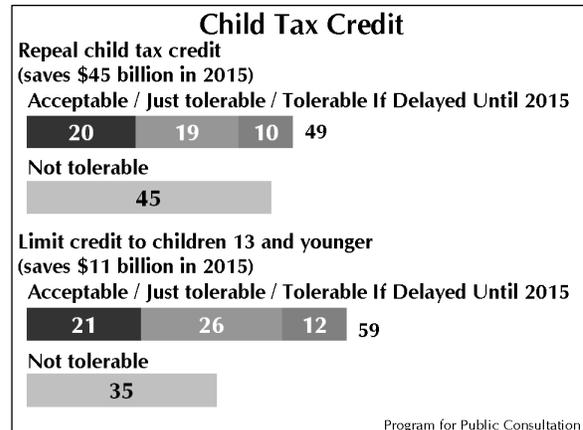
Respondents were roughly divided, though a slim plurality thought repealing the tax credit was at least tolerable if delayed until 2015. Forty-five percent expressed clear opposition and called it not tolerable. Forty-nine percent said the change would be acceptable (20%), just tolerable (19%), or tolerable only if delayed until 2015 (10%).

The 45% who completely rejected ending the child tax credit were then asked about a less stringent proposal: the credit would remain in place only for children from birth through 13 years of age. This group was asked:

What if the proposal limited the child tax credit to children age 13 and younger? If enacted, this would raise \$8 billion in extra revenue in 2011 and \$11 billion in 2015.

Most who answered (35% of the full sample) thought this limitation not tolerable. Ten percent found this step at least tolerable if delayed until 2015. Thus, together with those who tolerated the more stringent proposal, 59% could find this limitation of the child tax credit tolerable if delayed until 2015.

Republicans were distinctly more negative about repealing the child tax credit: 53% of them said it was not tolerable, compared to 41% of Democrats and 39% of independents. Among those very sympathetic to the Tea Party, 69% said ending the child tax credit was not tolerable; 24% said it was tolerable if delayed until 2015.



On limiting the credit to children 13 and younger, there was apparent majority toleration across party lines (with the addition of those finding repeal tolerable). Fifty-six percent of Republicans, 64% of

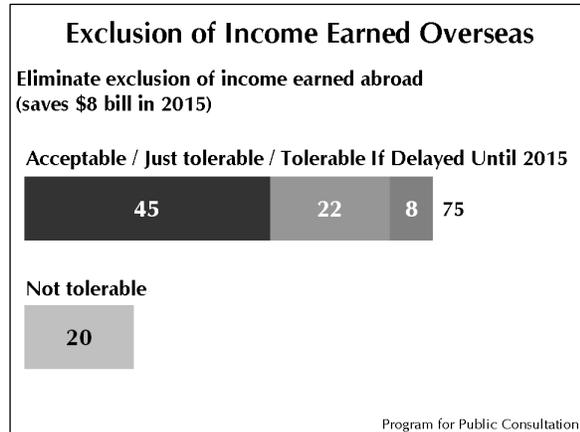
Democrats, 54% of independents, but only 37% of Tea Party sympathizers saw limiting the credit as tolerable if delayed until 2015.

Exclusion of Income Earned Overseas

A tax expenditure that has been debated sporadically over decades is the exclusion of income earned in foreign countries. Originally set up to make it easier for Americans to live abroad and conduct trade, it has at times been criticized for providing excessive tax relief to expatriates who live in less expensive countries.

The issue was introduced to respondents in the following way:

As you may know, when American citizens work in another country for a year or more, the first \$91,400 that they earn is not taxable. One idea is to remove that exclusion and tax such income. Enacting this would raise \$1 billion in extra revenue in 2011 and \$7 billion in 2015.



Only a fifth (20%) found the idea not tolerable. A large majority of 75% thought this change would be at least eventually tolerable. Forty-five percent found it acceptable, 22% just tolerable, and 8% tolerable with a delay.

Republicans were slightly more enthusiastic about this change than were Democrats and independents, with 52% of them saying it was acceptable. There was hardly any variation by party among those calling it not tolerable. Among those very sympathetic to the Tea Party, 63% found the change at least eventually tolerable.

Cafeteria Plans

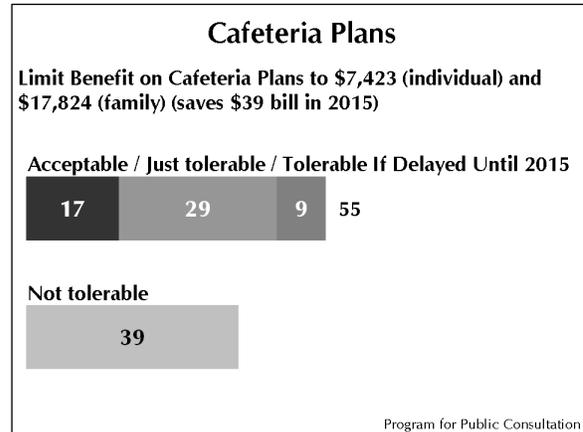
Another tax expenditure—cafeteria plans—were set up so that employers could offer employees the ability to make more of their health expenditures tax deductible. The issue was put to respondents as follows:

As you may know, currently employers can set up a plan so that employees do not pay tax on income that they spend on medical expenses not covered by health insurance, such as co-pays, eyeglasses, hearing aids, or alternative healing methods. Care for children and dependents can also be included in such plans. (These are sometimes called “cafeteria plans.”) One idea is to make part of such income taxable.

In one proposal, any plan that an employer provided a single worker that was worth more than \$7,423 a year would be taxed above that level—so if the plan was worth \$8,423, \$1,000 of it would be taxable. For a family’s plan, any amount above \$17,824 would be taxable. Enacting this would raise \$30 billion in extra revenue in 2011 and \$39 billion in 2015.

Four in ten (39%) said the change was not tolerable. A modest majority of 55% thought this change would at least be eventually tolerable. Seventeen percent called it acceptable, 29% just tolerable, and 9% tolerable only if delayed.

Independents were clearly the most reluctant to limit the exception for cafeteria plans, with just 46% saying it was at least tolerable if delayed until 2015 (not tolerable: 40%). Both Republicans' and Democrats' responses were similar to those of the whole sample. Those very sympathetic to the Tea Party were divided on the issue, with 47% saying the change was not tolerable and 46% saying it was at least tolerable if delayed.



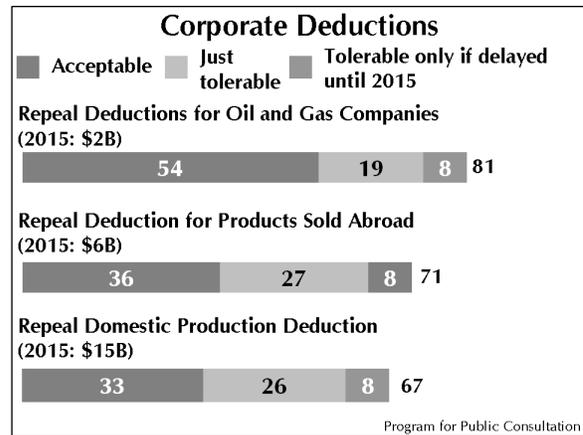
2C. Corporate Tax Deductions

A majority found it acceptable to repeal tax deductions specific to oil and gas companies and a very large majority found this at least tolerable. While majorities did not find the following steps acceptable, large majorities found them just tolerable: repealing the deduction for goods sold with domestically produced contents, and repealing the deduction for income from sales in other countries.

Oil and Gas Company Deductions

On the corporate tax side of revenues, one area that often receives attention is tax deductions specific to oil and gas companies. This tax expenditure was introduced to respondents as follows:

Currently there are certain tax deductions that only oil and gas companies receive when they prepare their corporate income taxes. One proposal is to repeal these targeted tax deductions. Enacting this would raise \$2 billion in extra revenue in 2011 and \$2 billion in 2015.



Only 13% viewed such a change as not tolerable and an unusual 54% deemed it acceptable. A high 81% thought this change would be at least eventually tolerable if (54% acceptable, 19% just tolerable, 8% tolerable in 2015).

Majorities of both Republicans (55%) and Democrats (63%) said it was acceptable to end these deductions. Independents were a little more dubious (37% acceptable, 23% just tolerable, 6% only tolerable if delayed). Most of those very sympathetic to the Tea Party (72%) found the change at least tolerable if delayed until 2015; 39% of them found it acceptable.

Domestic Content Deduction

The domestic content deduction has the purpose of rewarding manufacturing activity within the United States. The issue was presented to respondents in this way:

As you may know, if a corporation can establish that 20% of a product was made in the United States, it can deduct 9% of the sale of the product when it prepares its income taxes. This deduction benefits many kinds of industries—both those that are completely based in the United States, and those with some of their manufacturing operations abroad. It also benefits extractive industries in the US, such as oil, gas, coal and other mining. One proposal is to repeal this deduction.

Enacting this change would raise \$11 billion in extra revenue in 2011 and \$15 billion in 2015.

About a quarter (27%) said it was not tolerable. Two thirds (67%) saw this proposal as eventually tolerable with 33% calling it acceptable, 26% just tolerable, and 8% only tolerable if delayed to 2015.

Majorities of Republicans (65%), Democrats (76%), and independents (58%) all saw this measure as at least eventually tolerable. Among those very sympathetic to the Tea Party, 50% found it at least eventually tolerable, but 44% said it was not tolerable.

Foreign Sales Deduction

Finally, respondents were asked about the foreign sales deduction, which allows profits from sales abroad to be partially deducted. This deduction was introduced to respondents as follows:

As you may know, when a corporation sells a US product in another country, half of the income from that sale can be deducted from the corporation's taxable income and thus reduces its taxes. One proposal is to repeal this deduction.

Enacting this change would raise \$4 billion in 2011 and \$6 billion in 2015.

Seventy-one percent thought this change was at least eventually tolerable: 36% said it was acceptable, 27% just tolerable, and 8% tolerable if delayed. About a fifth (22%) said the change was not tolerable.

Majorities of Republicans (70%), Democrats (79%), and independents (60%) all thought the change at least eventually tolerable. This was also true of 56% of those very sympathetic to the Tea Party.

3. SOCIAL SECURITY

When presented a series of possible steps for resolving the projected shortfall in Social Security, a majority of respondents endorsed taking enough steps to resolve the problem. This was the case though a majority also chose to add to the problem by increasing benefits to low-income retirees. Options that were chosen by large majorities were to raise the limit on wages subject to the payroll tax to at least \$156,000 and to increase the retirement age to at least 68. Preferences were more mixed when selecting other options for covering the shortfall.

Asked to evaluate each option separately, no option was rated as acceptable by a majority, but large majorities rated as at least just tolerable: increasing the payroll tax rate, completely eliminating the limit on wages subject to the payroll tax, recalculating downward the inflation rate for the benefits of new beneficiaries, and doing the same for cost-of-living increases for all benefits. Views were divided on whether it would be tolerable to lower benefits for new beneficiaries. A majority rejected as not tolerable a gradual rise in the full retirement age to 70.

Preceding sections have dealt with the part of the deficit that is primarily driven by the gap between discretionary spending and general revenues. But of course policy concerns about the deficit are much broader. The long-term viability of Social Security is another fundamental issue in the country's overall fiscal picture.

Unlike the discretionary budget/general revenue deficit, which is a year-to-year problem, the Social Security problem is one that looms in the future as the baby boom generation retires and drives up demands for benefits, creating a shortfall. It is also different in that it is a delimited problem that exists for some years and then declines.

In developing an exercise for addressing the shortfall, we were fortunately able to rely on a recent, major study from the Congressional Budget Office (*Social Security Policy Options*, July 2010). The CBO scored a series of different options for covering this shortfall. The yardstick used was the CBO's estimate that:

The resources dedicated to financing the program over the next 75 years fall short of the benefits that will be owed to beneficiaries by about 0.6 percent of GDP. That figure is the amount by which the Social Security payroll tax would have to be raised or scheduled benefits reduced for the system's revenues to be sufficient to cover scheduled benefits. In other words, to bring the program into actuarial balance over the 75 years, payroll taxes would have to be increased immediately by 0.6 percent of GDP and kept at that higher rate, or scheduled benefits would have to be reduced by an equivalent amount, or some combination of those changes and others would have to be implemented.⁴

Each of the options' impacts was scored in terms of percent of GDP; thus an option scored at 0.3% of GDP was rated as solving half the problem and one scored at 0.6% as solving the full problem.

Options were scored on the assumption that the Bush-era tax cuts would be terminated as scheduled. Because this appeared uncertain when we were developing the exercise, we presciently made the assumption that the tax cuts would be continued. This made the requirements for meeting the shortfall more stringent, increasing it to 0.8% of GDP. For example: when CBO scored an option at 0.2% of GDP, it was rating the option as covering 33% of the 0.6% of GDP required. But for this

⁴ The report is available at http://www.cbo.gov/ftpdocs/115xx/doc11580/07-01-SSOptions_forWeb.pdf
The quotation is from the Summary, page x.

study, an option scored at 0.2% of GDP was presented to respondents as covering a lesser 25% of the needed amount.

In the exercise respondents were presented nine options for addressing the shortfall that were scored as having substantial effects and that have been prominent in discussion of the issue. For each option, respondents saw what percentage effect it would have on the overall problem.

The problem was introduced to respondents in this way:

As you may know, there is a long-term problem with Social Security. Based on current projections, in about 25 years, Social Security will not have enough revenues to pay the benefits that it is currently scheduled to pay. This is mostly because an exceptionally large number of Americans, often known as “the baby boom generation,” will have reached the retirement age and revenues from workers will be inadequate to cover the costs of providing benefits. It is projected that eventually this situation will improve.

To cover this period of shortfall, the government has to start taking steps to either reduce the costs of the Social Security program, increase its revenues, or both. The amount of the shortfall that is not covered would have to be borrowed and then repaid by future generations.

All nine options were shown to respondents at once, on a single screen, so they could easily compare them. As they made choices, they saw a running total of what percentage of the problem they had solved.

One option that made the problem harder to solve was an increase in the minimum benefit for the poorest recipients. This option has received serious attention in discussions of the shortfall, because if the incomes of the elderly most likely to fall below the poverty line are stabilized, this offers some flexibility in considering other modifications to Social Security. Increasing the minimum benefit was scored by the CBO and was included in the President’s Fiscal Commission’s plan. If respondents were unable to solve 100% of the problem, they were offered all nine options again.

After the exercise, respondents were once again presented the options and asked to rate each option as acceptable, just tolerable, or not tolerable.

Raising Limit on Wages Subject to Payroll Tax

Two of the options offered let respondents alter the upper limit on wages that are subject to the Social Security payroll tax. Respondents read that

Currently the Social Security payroll tax is limited to wages below \$106,000 a year. This could be changed to EITHER:
--Raise the limit to \$156,000 per year (solves 25% of shortfall) OR
--Eliminate the limit so that all wages are included (solves 75% of shortfall)

Respondents could select one or neither of these two options.

Sixty-nine percent chose to either raise the limit to at least \$156,000, while 38% went further and eliminated the limit entirely.

There was strikingly little difference by party affiliation. Majorities of Republicans, Democrats, independents, and those very sympathetic to the Tea Party (63-71%) all chose to at least raise the limit, and 36-40% chose to eliminate it.

One might expect that attitudes about raising the level of income subject to the payroll tax would be highly related to income; however, this was not the case. Those with income over \$100,000 were not significantly different from the sample overall. The only notable variation was that those with incomes of \$50-75,000 were a bit more likely to eliminate the limit entirely (47%).

The only notable variation by age was that those 60 and over were more willing to eliminate the limit entirely (46%).

Raising Retirement Age

Two of the options offered to respondents allowed them to raise the full retirement age. These were presented as follows:

Currently, the full retirement age is rising 2 months per year so that it will be 67 by the year 2027. This has no effect on those already retired. Here are two options for continuing to raise the retirement age. EITHER:

- Continue to gradually raise the full retirement age only for people who turn 68 in 2034 (solves 12.5% of shortfall), OR
- Continue to gradually raise the full retirement age until it reaches 70 in 2048 (solves 37.5% of shortfall)

Sixty-six percent of respondents chose to raise the retirement age at least to 68. Twenty-two percent chose to continue gradually until age 70 is reached.

Seventy percent of both Republicans and independents chose to gradually raise the retirement age to some degree, as did 63% of Democrats. Republicans were highest (48%) in choosing to raise the age to 68; independents were highest (30%) in choosing to raise it to 70.

The only notable variation by age was that people 60 and over, who would themselves not be affected by this change, were a bit more willing to raise the retirement age at least to 68 (74%).

Those with income over \$100,000 were a bit more ready to raise the age to 70 (31%), perhaps because they felt more capable of handling it financially.

Recalculating the Effect of Inflation

One approach that has received much discussion is to calculate inflation on a different basis than the current one, so that benefits would increase less rapidly. Respondents were offered two distinct options in this area, and could select none, either, or both.

The first—which concerns **starting benefits**—was presented as follows:

Currently the benefits for people starting to receive Social Security are recalculated each year based on the inflation rate of wages. Instead, this could be based on the inflation rate of prices, which tends to be a bit lower. (solves 25% of shortfall)

Forty-nine percent of respondents selected this option. Fifty-two percent of Republicans and independents picked it, compared to 47% of Democrats; those very sympathetic to the Tea Party fell in between.

Those with income under \$25,000 were less willing (42%) than those with incomes over \$100,000 (54%).

Those 60 and over were least willing to accept this (41%). They would be the group least affected.

The second option concerns **COLAs** (cost-of-living adjustments), and was explained this way:

Currently the annual cost-of-living increases for all benefits (COLAs) is based on the inflation rate for a fixed set of goods. If instead this calculation also reflected changes in what people buy, the COLA increase would be a bit lower. (solves 25% of shortfall)

Forty-two percent selected this option. Republicans were slightly more inclined to pick it (45%) than Democrats and Tea Party sympathizers (both 41%) or independents (39%).

Increase the Payroll Tax Rate

A very direct approach to funding Social Security is to increase the rate of its dedicated tax—the payroll tax. This option was presented to respondents as follows:

Increase the payroll tax paid to Social Security 0.1% each year for the next 20 years, thus gradually raising the employee's share from the current 6.2% to 7.2% of the employee's income. The employers' share would go up the same amount. (solves 75% of shortfall)

Thirty-eight percent of respondents selected this option. It was used considerably more by independents to build their solutions: 46% of independents chose it, compared to 36% of Republicans and 37% of Democrats, as well as 35% of those very sympathetic to the Tea Party.

Those in the \$75-100,000 income range were a bit less inclined to choose this option (28%). Interestingly, those with incomes below \$75,000—whose disposable income would be more affected—were slightly more likely to choose this option (38-44%).

Reducing Starting Benefits

Another very direct approach to the problem of funding Social Security is to reduce the benefits that new retirees will receive. This option was described to respondents as follows:

Reduce the starting level of benefits for newly retiring people 0.5% each year until that level is 25% lower than the current starting level of benefits. (solves 50% of shortfall)

Only 19% selected this option, though it had the merit of solving half the problem. There was no significant difference by party affiliation; however, those very sympathetic to the Tea Party were a little more likely (27%) to select the option.

Those age 45-59 were the least inclined to pick this option (12%).

Raising the Minimum Benefit

They were also offered an option that would increase the shortfall by raising the minimum benefit. As mentioned, this option was proposed by the leaders of the President’s Fiscal Commission.

This was presented to respondents as follows:

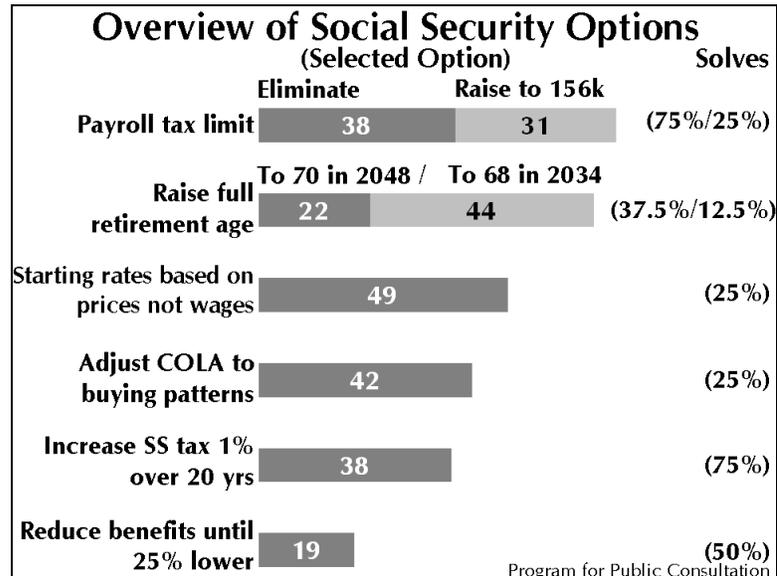
Another proposal is to raise benefits for low-income beneficiaries, which would increase the Social Security shortfall. Currently, the minimum Social Security benefit is approximately \$760 a month. There is a proposal to increase this amount for people, who have worked for more than 10 years during their lifetime, depending on how many years they have worked. For example, someone who has worked more than 30 years would have a minimum benefit of \$1,170 a month. (reduces solution by 25%)

A modest majority (52%) chose to add this raise in benefits in low-income beneficiaries to their overall package.

In this case there was a sharp difference by party affiliation. Independents were the most likely to raise the minimum benefit (66%), followed by Democrats (58%), Republicans (37%), and those very sympathetic to the Tea Party (32%).

Not surprisingly, this selection was highly related to income. Those with incomes below \$25,000 were very likely to pick it (64%). Those with income in the \$75-100,000 range were the least likely to select it (33%).

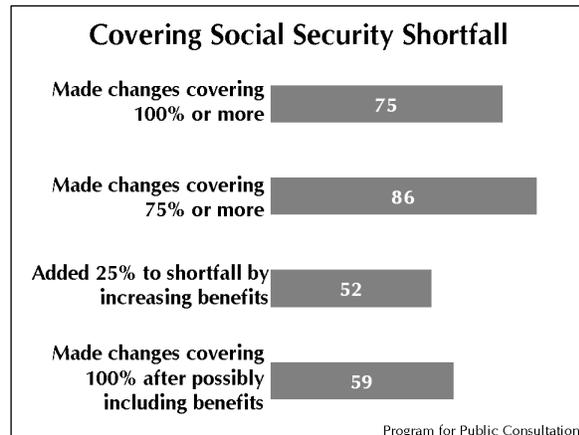
Those who fell below 100% in their solution to the shortfall were then re-shown all the options for covering the shortfall and given the opportunity to revise their choices if they wished.



Overall Results for Social Security Exercise

Three quarters of respondents—75%--were able to select options that covered 100 percent or more of the shortfall. As mentioned, 52% chose to increase the minimum benefit. Fifteen percent fully covered the shortfall and then chose to increase the minimum benefit, but did not succeed in covering the resulting gap.

Thus, by the end of the exercise, three in five (59%) had covered the shortfall. This group includes 43% of the full sample whom *both* solved the shortfall and raised the minimum benefit.



Using the less stringent standard that CBO used (following then-current law), assuming that the Bush-era tax cuts are not extended indefinitely, 86% completely covered the shortfall.

Majorities of Republicans, Democrats and independents covered all of the Social Security shortfall (67% of Republicans, 55% of Democrats, and 56% of independents). Sixty-nine percent of those very sympathetic to the Tea Party also covered the shortfall.

Among different age groups, those over 60 did best (66%), followed by those 18 to 29 (61%). Interestingly, those on the verge of retirement, aged 45 to 59—including much of the baby-boomer generation—did least well, with a modest 53% solving the problem.

Evaluating Each Option Independently

After the exercise, respondents were asked to rate each option separately, not in the context of solving the shortfall. For each option they were asked whether it was acceptable, just tolerable, or not tolerable.

Interestingly, though in the exercise majorities selected a type of option (changing the upper limit on income subject to the payroll tax, increasing the age of eligibility), no single option was rated as acceptable by a majority. However, six of the eight options were rated as at least just tolerable by a majority. What this suggests is that the process of resolving the Social Security shortfall is quite difficult. Most people will build a solution by making a sufficient number of choices when asked to do so, but most do not feel comfortable enough with each choice to go as far as calling it “acceptable.”

The options that got the highest level of acceptable ratings were for raising the limits on income subject to the Social Security payroll tax. Raising it to \$156,000 was seen as acceptable by 50%; completely eliminating it was viewed this way by 49%. Large majorities found these at least just tolerable--83% and 78% respectively. Respondents with incomes in the \$50-100,000 range were notably more positive about eliminating the limit (55-57% acceptable).

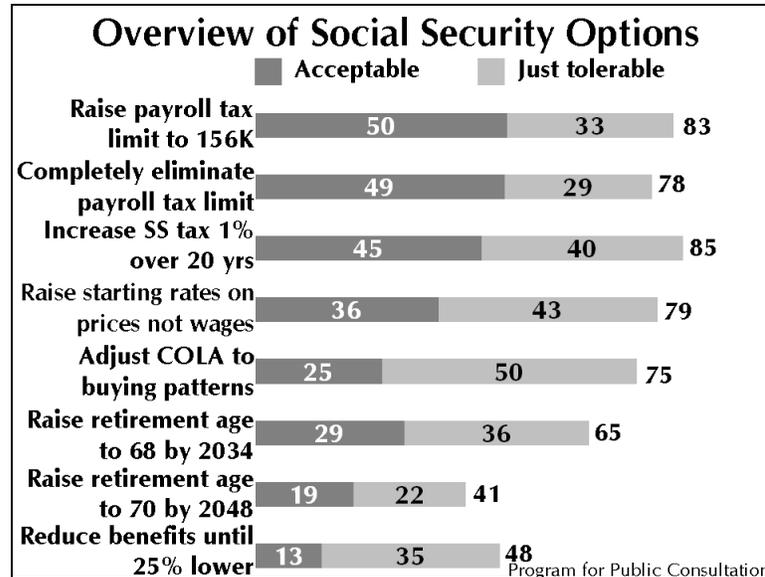
Raising the Social Security payroll tax 1 percentage point over 20 years was seen as acceptable by 45%, and as at least tolerable by 85%.

When asked after the exercise about calculating starting benefits based on the inflation rate of prices, 36% said this was acceptable and another 43% called it just tolerable; 20% said it was not tolerable. Openness to this option rose with income: thus 22% of those with incomes up to \$25,000 found it acceptable, while 52% of those with incomes above \$100,000 found it acceptable.

There was less comfort with recalculating COLAs. Twenty-five percent found it acceptable and 50% just tolerable; 23% said it was not tolerable.

Raising the full retirement age to 68 was acceptable to 29%, just tolerable to 36%, and not tolerable to 33%. Raising it to 70, however, was not tolerable to a 57% majority (acceptable 19%, just tolerable 22%).

Only 13% thought gradually reducing new retirees' benefits was an acceptable option; 35% called it just tolerable, and half (50%) said it was not tolerable. Respondents with incomes above \$100,000 stood out in this regard, with 63% calling the option not tolerable.



4. MEDICARE

Because the effect of the new health care law on the future of Medicare has not been fully analyzed, the fiscal effect of possible changes has not been quantified or ‘scored.’ Thus it was not possible to do an exercise in which respondents could more or less resolve the Medicare deficit. However, it was possible to have respondents evaluate a series of options for reducing that deficit. While none of the proposals were viewed positively, a majority did find it at least tolerable to raise the payroll tax rate by 1 percentage point, while views were divided on raising it 2 percentage points; to raise Medicare premiums by 40%, but not to double them; to gradually raise the age of eligibility to 68, but not to 70; and to reduce payments to doctors by 5%, but not more, or to freeze payments to doctors if healthcare costs continue to rise.

The Medicare program is currently running a major deficit. Payroll taxes dedicated to Medicare are projected to fall short of costs by \$300 billion in 2011 and \$450 billion in 2015. At some point in the future, the Medicare Trust Fund will thus be depleted.

Numerous options for addressing this Medicare deficit have been proposed. Some of these have been scored by the Congressional Budget Office so that it was possible to present these to respondents in terms of their revenue impact.⁵ However, because the effect of the new health care law (the Affordable Care Act) has not been fully analyzed, some of these options have not yet been scored.

Thus it was not possible to do a full budgeting exercise in which respondents could more or less resolve the deficit. However, it was possible to ask respondents to evaluate various options separately and to ask whether they found them acceptable, just tolerable or not tolerable. Since, in many cases, they were not able to see the positive effect of their decisions quantified in terms of deficit reduction, it may have been more difficult for respondents to endorse them.

The issue was presented to respondents in the following way:

Another source of deficit spending is Medicare, which is the program that provides healthcare for senior citizens. Medicare is primarily supported by a special payroll tax. In the year 2011 there will be a deficit for the program of \$300 billion and it is expected that this will grow to \$450 billion in 2015, though it is possible that some measures of the new healthcare law will make it somewhat less than that.

There are a number of steps that could be taken to reduce the Medicare deficit. For each one, please select whether you find the idea acceptable, just tolerable or not tolerable.

There were then presented a series of possible steps. In some cases respondents were presented the options in terms of 2011 as well as 2015. The presentation here focuses entirely on the year 2015. The exception was for the option of raising the payroll tax; the only scored option available was in terms of 2013, which was presented.

As we will see, no option was seen as “acceptable” by a majority, indicating that all of the options were not viewed positively. Nonetheless, in most cases, a significant number regarded them as “just tolerable,” which, combined with those who deemed them acceptable, constituted a majority finding them at least tolerable. This suggests that the American public is reluctant to make the changes

⁵ See *Budget Options, Volume 1: Health Care* (December 2008), at <http://www.cbo.gov/ftpdocs/99xx/doc9925/12-18-HealthOptions.pdf>

necessary to deal with the Medicare deficit and is unlikely to support them spontaneously. However, in a context in which they receive more information about the available options, a majority will grudgingly consent to them.

Increasing the Payroll Tax for Medicare

A key approach to lessen Medicare’s deficit is to increase its dedicated payroll tax. Unlike Social Security, Medicare’s payroll tax has no upper wage limit, and a higher payroll tax for high income levels is already set to begin in two years. Respondents were told about this planned increase and presented the option (scored) of increasing it further as follows:

Currently all wage-earners pay a payroll tax of 1.45% on all their wages, with the employer paying 1.45% as well. Starting in 2013 wages over \$200,000 will be taxed at 2.35%.

One idea is to increase the payroll tax by 1 percentage point on all wages in 2013. Most people would then pay 2.45%, while those earning over \$200,000 would pay 3.35%. This would generate \$68 billion in revenue.

A large 79% found this approach either acceptable (33%) or just tolerable (46%). Only 20% said this would not be tolerable.

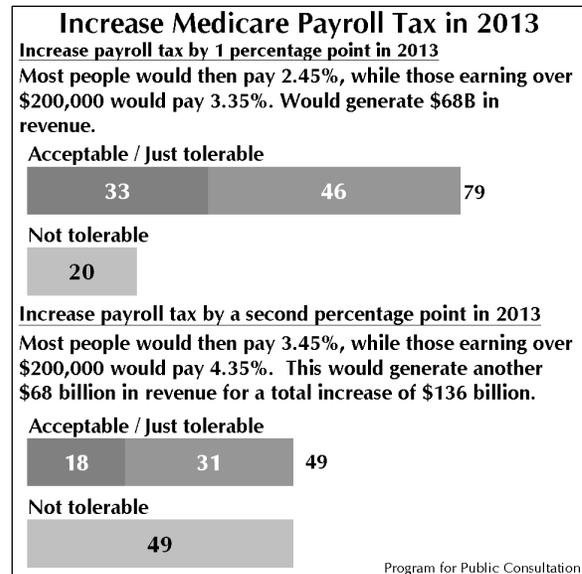
Those that found the 1 percentage point increase at least tolerable were also asked about increasing yet another point as follows:

Another idea is to increase the payroll tax a second percentage point. Most people would then pay 3.45%, while those earning over \$200,000 would pay 4.35%. This would generate another \$68 billion in revenue for a total increase of \$136 billion.

Forty-nine percent of the full sample thought this would be acceptable (18%) or just tolerable (31%), while 29% said it would not be tolerable; thus 49% of the full sample rejected the 2-percentage-point raise as not tolerable.

Democrats were the most likely to find the 1-percentage-point raise either acceptable or tolerable (84%, acceptable 38%), followed by independents (81%, acceptable 27%) and Republicans (71%, acceptable 29%). Republicans had the largest number calling it not tolerable (27%). Tea Partiers had the lowest percentage finding it tolerable (66%).

For the 2-percentage point raise, Democrats were the group most willing to consider it at 56% (acceptable, 18%). A modest majority of independents found it tolerable (51%; acceptable, 25%), but majorities of Republicans (59%) and Tea Party sympathizers (51%) found it not tolerable.



Views varied strongly by income; those with high incomes were more resistant to this option. Those with incomes below \$50,000 were more tolerant of a one-point increase (81-84%) than were those with incomes over \$100,000 (70%). For the two-point increase, majorities of those under \$50,000 tolerated the idea (53-55%), while only 37% of those over \$100,000 did so.

There were no significant effects by age.

Increasing Medicare Premiums

An increase in Medicare premiums is a step that has been discussed in most of the comprehensive treatments of Medicare’s role in the deficit problem, and it is one that has been scored. Currently premiums cover 25% of the cost of the Part B Medicare program. To increase this coverage to 35% would require increasing premiums by 40%. To cover 50% of the cost of the program would require doubling premiums.

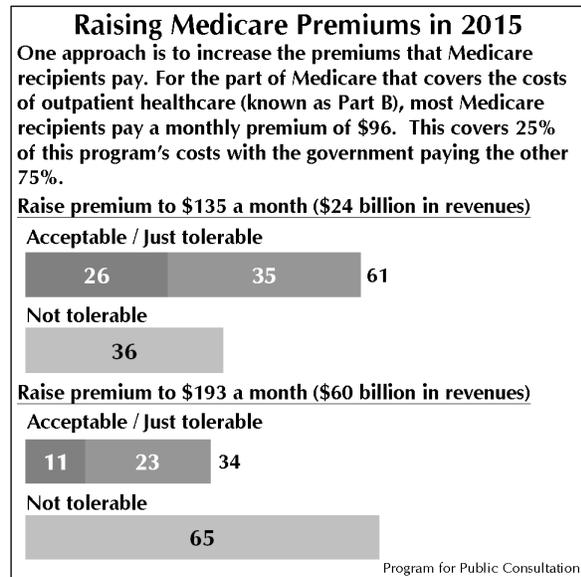
Respondents were first asked about increasing premiums to increase coverage to 35% of the cost, as follows:

One approach is to increase the premiums that Medicare recipients pay. For the part of Medicare that covers the costs of outpatient healthcare (known as Part B), most Medicare recipients pay a monthly premium of \$96. This covers 25% of this program’s costs, with the government paying the other 75%. One possibility is to raise this monthly premium so that it covers 35% of the program costs. This would raise the monthly premium to \$135. This would generate revenue of an extra \$24 billion a year.

Respondents were asked whether taking this step in 2015 was acceptable, just tolerable, or not tolerable. Sixty-one percent said this premium increase was either acceptable (26%) or just tolerable (35%). Thirty-six percent called it not tolerable.

Those who had thought an increase to \$135 was at least tolerable were then asked about raising premiums to cover 50% of the program, which would require increasing premiums to \$193. They were told that this would generate \$60 billion in revenue.

Only 34% of the full sample saw a premium of \$193 in 2015 as acceptable (11%) or just tolerable (23%), while 29% said it was not tolerable (in addition to the 36% who said that the lesser increase was not tolerable).



Republicans were most open to raising the premium to \$135, with 68% finding this acceptable (32%) or tolerable (36%); Democrats were less so with 59% (23% acceptable), and independents least with 53% (24% acceptable). Only 33-34% across all groups found an increase to \$193 acceptable or tolerable. Those very sympathetic to the Tea Party answered no differently than Republicans.

Respondents with lower incomes were most resistant to raising the premium: of those with incomes up to \$50,000, 42-45% said the option was not tolerable, compared to 17% of those with incomes above \$100,000. However, in all categories more found it tolerable than not. Among those with incomes over \$100,000, nearly half (48%) found it acceptable and a slight majority found doubling premiums at least tolerable.

Attitudes varied sharply by age. Among those 60 and over who would feel the impact of a premium increase most immediately, 46% called an increase to \$135 not tolerable, while among those 18 to 29, 72% viewed it as tolerable. Among those 18-29 a slight majority (52%) even found doubling premiums tolerable, while only 16% of those 60 and over did.

Raising the Eligibility Age for Medicare

One of the most frequently discussed remedies for Medicare’s fiscal problems is to raise the age of eligibility for Medicare. It was presented to respondents this way:

Another idea to address the long-term problem of Medicare is to raise the age at which people would be eligible for it. The current age people are eligible for Medicare is 65. One proposal would increase the age of eligibility by 2 months every year until it reaches age 68 in 2034. What is your view of this idea?

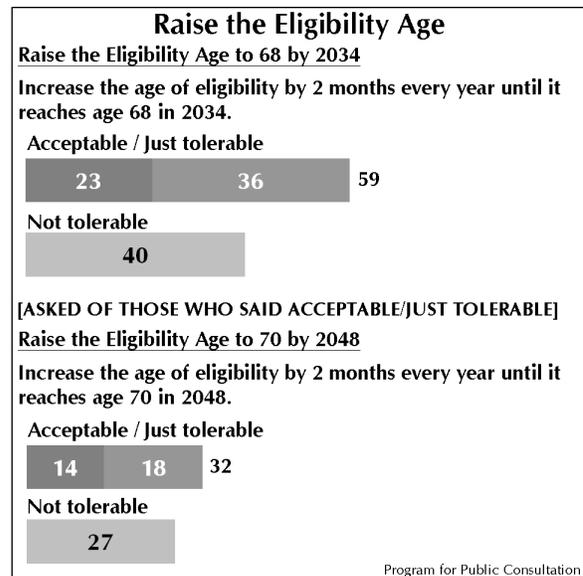
Fifty-nine percent said this was either acceptable (23%) or just tolerable (36%). However, 40% said this change was not tolerable.

Those who thought that gradually increasing the age of eligibility to 68 was at least tolerable were asked about a further increase—to keep lifting it by two months every year until it reaches age 70 in 2048. Just 32% called it acceptable (14%) or tolerable (18%).

Democrats were less willing than Republicans to tolerate an increase to age 68 for eligibility: 55% called it at least tolerable, compared to 64% of Republicans and 60% of independents. On the increase to age 70, both Democrats and Republicans had low numbers saying it was at least tolerable (30-31%), though independents were a bit higher (41%). Tea Party sympathizers were highest in their willingness to tolerate raising the age to 68 (68%), and to 70 (38%).

Tolerance for raising the age to 68 was lowest among those earning up to \$25,000 (53%), rising progressively to 72% for those earning over \$100,000.

There were no significant effects by age.



Reducing or Freezing Payments to Doctors

Another key approach to addressing the Medicare deficit is to reduce or freeze payments to doctors. From 2002 to the present, Congress has regularly waived a formula in current law that would decrease Medicare payments to doctors. The issue was introduced to respondents this way:

As you may know, current law mandates that if Medicare spending ever exceeds revenues, there should be a decrease in Medicare payments to doctors. However, though Medicare spending has exceeded revenues for some years now, Congress has prevented this law from taking effect by extending the current payment system.

Respondents were also presented the debate about this issue as follows:

Some say such a decline in doctor payments would lead to lower quality of care and that some doctors would refuse to take Medicare patients. Others say reducing these payments is the only way to reduce the skyrocketing costs of Medicare and would extend the life of Medicare into the future.

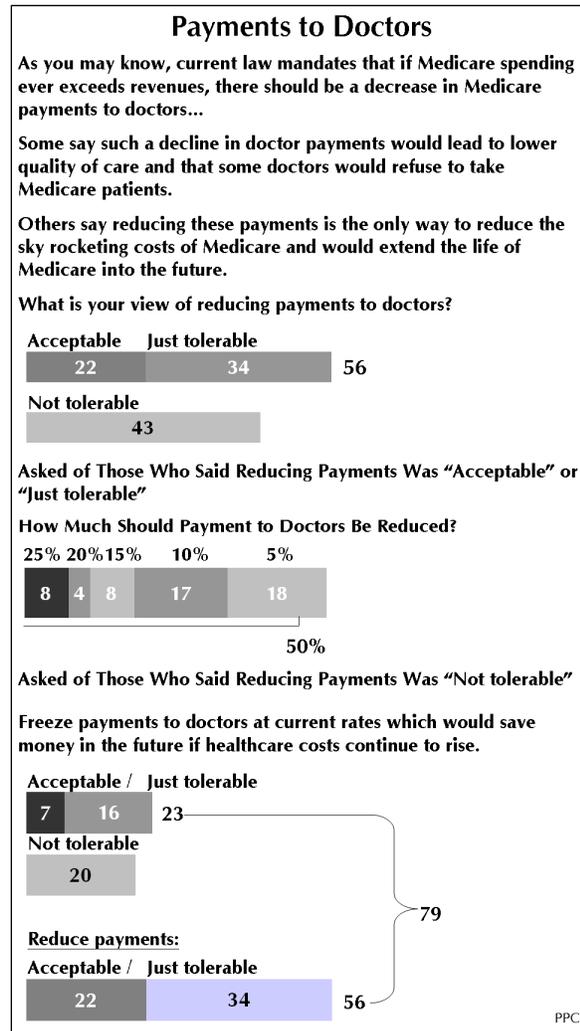
They were then asked, “What is your view of reducing payments to doctors?” Fifty-six percent found this acceptable (22%) or just tolerable (34%).

Those who found it acceptable or tolerable were then asked, “How much do you think payments to doctors should be reduced?” Fifty-five percent of the full sample said the reduction in payments should be at least 5 percent; 37% said it should be at least 10 percent.

Another possibility would be to freeze payment levels to doctors. The fiscal responsibility commission chairs’ report has proposed a freeze on payments through 2013, followed by a 1% reduction in 2014, and then instituting a new payment formula in 2015 that would be based on outcomes rather than the prevailing fee-for-service structure.

Respondents who in the previous set of questions said that reducing payments was not tolerable (43%) were asked about a freeze instead as follows:

Another idea is to freeze payments to doctors at current rates which would save money in the future if healthcare costs continue to rise. What is your view of this idea?

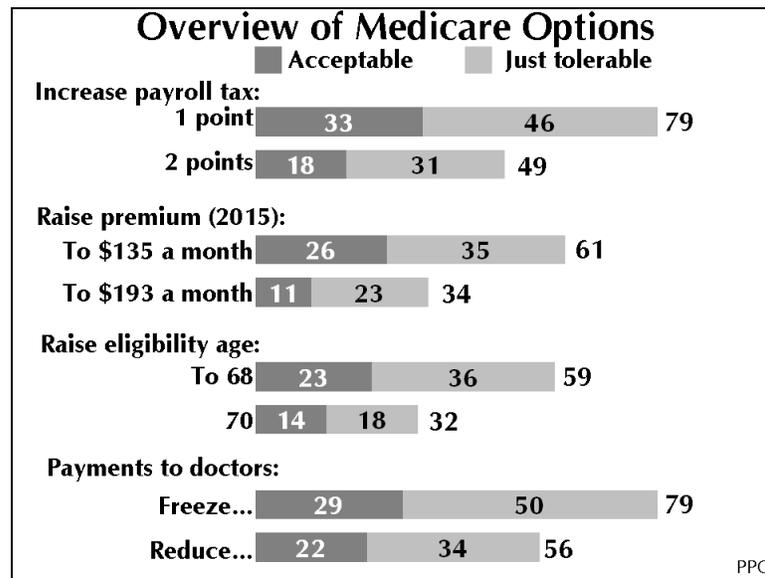


Just over half of these—23% of the full sample--thought a freeze was acceptable (7%) or tolerable (16%). Thus, including those who tolerated reductions, 79% of the full sample thought that at least a freeze in payments to doctors was a tolerable option.

There were significant partisan differences to these questions. On the question of reducing payments to doctors 52% of Republicans said it was not tolerable, compared to 37% of Democrats and 39% of independents. However, only 21% of Republicans completely rejected a freeze in payments—so 79% of Republicans could at least tolerate a freeze. Thirty-one percent of those very sympathetic to the Tea Party rejected both reductions and a freeze, while 68% of them could at least tolerate a freeze.

High-income respondents were most resistant to reducing payments to doctors, with 52% of this group calling the option not tolerable as compared to 43% overall. Other income groups did not differ.

Support for reductions diminished with age. While those 18-29 years old were far more likely to say that reductions were tolerable (68%), those 60 and over were divided—perhaps because they more immediately anticipated the effects on their own accessibility to doctors.



APPENDIX 1: COMPARING THE PUBLIC'S BUDGET TO THE VARIOUS EXPERT COMMISSIONS

In the closing months of 2010, three different groups all offered extensive plans for reducing the federal budget deficit. These were:

--The President's Fiscal Commission (the National Commission on Fiscal Responsibility and Reform), which was created by President Obama early in 2010 and charged with identifying policies to improve the fiscal situation in the medium term--specifically, to propose recommendations designed to balance the budget, excluding interest payments on the debt, by 2015. The Fiscal Commission made a proposal in December 2010 that was endorsed by 11 out of 18 of its members.

--The Bipartisan Policy Center's Debt Reduction Task Force (BPC), which was a bipartisan group including a number of former federal officials, chaired by former Senate Budget Committee Chairman Pete Domenici and former White House Budget Director Alice Rivlin. Its proposal (titled *Restoring America's Future*) was released in November 2010.

--Under the aegis of the Committee for a Responsible Federal Budget (CFRB), Maya MacGuineas and William Galston also proposed a deficit reduction plan. While less detailed than the other two, it provides an overview that is further fleshed out by a series of papers on various areas of the budget by different experts (the "Let's Get Specific" papers).

These plans—serious, comprehensive, and proposing very significant deficit reductions—offer benchmarks for comparing how a representative sample of the public performed, when facing the same difficult tradeoffs as the experts. In all cases the commissions put an emphasis on the year 2015, which was the focus of the Fiscal Commission, and the numbers discussed below are based on plans for that year.

Spending cuts. The public's average cut of \$146 billion from (primarily) the discretionary budget) is quite close to the \$140 billion proposed by the CFRB (which found, in addition, \$75 billion in cuts to make from entitlement programs). These are more modest than the cuts (primarily discretionary spending) proposed by the Fiscal Commission (\$205 billion) and the Bipartisan Policy Center task force (\$234 billion).

The public and all of the commissions cut substantially from security spending, but the public cut the most—both in absolute terms and as a proportion of all cuts from discretionary spending. The public cut \$136 billion from security-related spending which was 93% of all cuts. The Fiscal Commission cut equally from security and non-security areas (which implies a cut of \$102.5 billion from each), while the BPC task force cut \$114 billion from security and \$120 billion from non-security areas. CFRB cut \$80 billion from security, which was 57% of cuts to discretionary spending. .

The public, CFRB, and BPC all cut farm subsidies.

CFRB and the BPC task force both put an emphasis on freezing spending at 2011 levels in order to obtain their 2015 reductions. The Fiscal Commission underlined reducing the federal work force through attrition and eliminating earmarks (though it did not present these as covering the reduction amount).

Non-Payroll Revenue Increases The public generated \$292 billion in new revenues. The Fiscal Commission did not specify the amount, but provided details on its approach. The CFRB specified an increase of \$400 billion, but provided few details on how it would achieve this. BPC specified \$319 billion, with nearly all of this coming from a sales tax or VAT.

Income taxes. The public differed from the three commissions in its willingness to use income taxes to raise new revenues. It found \$190 billion in this way: \$155 billion in individual income taxes, notably on the upper end of the income scale; \$8 billion in estate taxes; and \$26 billion in corporate income taxes. This considerably exceeded the one commission report that gave an explicit figure: the BPC task force's \$43 billion. The BPC's figure was based on a massive reduction of tax expenditures (\$397 billion), plus eliminating special treatment of capital gains and dividends (\$29 billion), which was mostly, but not entirely, balanced by a lowering of marginal tax rates. The Fiscal Commission proposed following the same strategy—greatly reducing tax expenditures, eliminating special treatment of capital gains and dividends, and cutting marginal rates—but did not specify any dollar amounts.

Other taxes. The public on average proposed a modest carbon tax that would raise \$36 billion. CFRB proposed a robust carbon tax (\$200 billion, with \$100 billion offset by a payroll tax reduction), while the Fiscal Commission proposed a hike in the gas tax with an unspecified yield in extra revenues.

Both the public and the BPC task force proposed rationalizing and raising the alcohol tax (\$6 billion). Likewise, the public on average chose a new excise tax on sugary drinks that would raise \$10 billion, and the BPC task force did so as well, at a higher level (\$17 billion).

The BPC task force proposed a robust VAT that would yield \$345 billion, while the two other commissions did not propose a VAT. The public on average favored a modest VAT, yielding \$45 billion, but this was not supported by a majority.

In addition to these, the public favored enacting a financial crisis responsibility fee for large banks (\$6 billion) and ending the special treatment of carried interest for hedge fund managers (\$1 billion).

Tax expenditures. The Fiscal Commission and the BPC task force called for reducing the deduction for home mortgage interest. Less than half of the public found this idea acceptable, but a large majority said it would be at least tolerable.

The Fiscal Commission proposed eliminating all business tax expenditures. The public was presented some of these (see section 3) and had varied reactions. A majority said it was acceptable to end deductions that are specific to oil and gas companies. The public was more dubious about ending the domestic content deduction and the foreign sales deduction, though majorities thought these steps would be tolerable.

The BPC task force proposed phasing out the tax exclusion of health benefits. This option was not tested with the public; however, when asked about a ceiling on the exclusion of cafeteria plans, only a small minority found this acceptable, but a modest majority said it would be tolerable.

The Fiscal Commission and the BPC favored eliminating the special treatment for capital gains and dividends. A majority of the public favored raising the tax on capital gains and dividends from 15 to 20%.

APPENDIX 2: NOTES ON SOURCES

The Main/Discretionary Budget. In developing what we presented to the respondent as the “main budget,” all items were from the discretionary budget. However, for veterans’ benefits, agricultural subsidies and federal highways, we also included spending that is technically mandatory, as this provides the most complete picture of the level of public investment in that area. All spending areas that receive *dedicated revenue streams* (Social Security, Medicare, unemployment insurance) were excluded from the main budget. Medicaid receives a mix of state and federal funding and was also excluded. The 2015 budget projections for each spending item are from Office of Management and Budget, “The Budget for Fiscal Year 2011,” released February 2010.⁶ Where more detail was required, budget proposals of relevant agencies were consulted. In some cases it was necessary to consult individual analysts in those agencies for clarification.

Deficit Related to Main/Discretionary Budget. Respondents dealt with a projected 2015 deficit for the main or discretionary budget of \$625 billion. This deficit was calculated from OMB baseline projections for 2015 by eliminating both outlays and receipts of Social Security, Medicare, and unemployment insurance (see table).

Effective Individual Income Tax Rates. The presentation of effective individual income tax rates and their revenue consequences (scoring) was made possible by the kind assistance of the Tax Policy Center. All figures are based on Table T08-0082, Current-Law Distribution of Federal Taxes By Cash Income Level, 2010 (All Tax Units), available at www.taxpolicycenter.org. Revenue consequences of specific percentage increases in effective tax rates were extrapolated from this 2010 historical data, compiled by the Urban-Brookings Tax Policy Center Microsimulation Model.

Average Tax Rate for Corporations. The aim was to present respondents with the average amount that corporations pay on their profits, not the marginal rates. The figure shown to respondents was derived from the Internal Revenue Service: Returns of Active Corporations (Table 5—Selected Balance Sheets, Income Statement, and Tax Items, by Sector, by Size of Business Receipts, Tax Year 2007). The figure is the percentage of net income (i.e., prior to any exemptions, credits or other deductions) paid in taxes across all corporations.

Capital Gains and Dividends. The proposals shown to respondents were derived from estimates made available by the Tax Policy Center. As TPC’s estimates combined capital gains and dividends, we consulted Treasury Department estimates that provided separate figures for capital gains and dividends (see T10-0188, Department of the Treasury Revenue Estimates for Extension of 2001 and 2003 Tax Cuts and the Administration’s High-Income Tax Proposals, available at www.taxpolicycenter.org). The ratios between revenues from capital gains and from dividends were then applied to the TPC estimates for each year.

⁶ See <http://www.whitehouse.gov/sites/default/files/omb/budget/fy2011/assets/budget.pdf>

Other Specific Taxes, Deductions and Fees. Thirteen poll questions not covered in the paragraphs above asked respondents' views on specific taxes, deductions and fees. For specific taxes and fees, these questions presented:

- a financial crisis responsibility fee (for banks with assets over \$50 billion)
- possible changes to the tax rate for carried interest
- a carbon tax
- possible changes to the excise tax on alcoholic drinks
- an excise tax on sugary drinks
- a national sales tax or VAT
- future levels for the estate tax

They also presented possible changes to the following deductions and exclusions:

- the home mortgage deduction
- the child tax deduction
- the overseas income exclusion
- current tax benefits for cafeteria plans
- deductions specific to oil and gas companies
- the inventory sales source rule for exports
- the domestic production deduction

For each of these items, the proposed levels and revenue consequences presented to respondents were made available by the Tax Policy Center.

Social Security. The policy options and scoring of the problem are from CBO's July 2010 report, "Social Security Policy Options".⁷ In CBO's modeling, the Social Security gap was calculated as 0.6% of GDP and each option was scored in tenths of a percentage point of GDP. We used a higher 0.8% of GDP as the gap. The rationale was to represent the conditions for solving the problem if all Bush-period tax cuts were made permanent. Thus respondents dealt with the problem at a more challenging level than the one set by CBO.

Medicare. The policy options presented are from CBO's December 2008 study, "Budget Options, Vol. 1: Health Care."⁸ Because the effect of the health care law (Patient Protection and Affordable Care Act) have not been analyzed it was not possible to present respondents with a comprehensive set of scored options such that they could perform a budget exercise. However, some of CBO's scored options were unaffected by the passage of the law, and could be presented to respondents with both an individual cost and an estimated revenue gain.

⁷ See <http://www.cbo.gov/doc.cfm?index=11580>.

⁸ See <http://www.cbo.gov/doc.cfm?index=9925>.

**BASE CALCULATION OF FIGURE:
PROJECTED 2015 DEFICIT RELATED TO THE DISCRETIONARY BUDGET
OF \$625 BILLION**

From:

<http://www.whitehouse.gov/omb/budget/fy2011/assets/tables.pdf>

Table S-3. Baseline Projection of Current Policy by Category
Years 2009-2020

2015

Total outlays		\$4,400B
Minus Social Security outlays	-\$894B	\$3,506
Minus Medicare outlays	-\$654B	\$2,852
Total receipts		\$3,417B
Minus Social Security payroll taxes	-\$854B	\$2,563B
Minus Medicare payroll taxes	-\$250B	\$2,313B
Minus employment insurance receipts and other retirement receipts	-\$86B	\$2,227B
Outlays without Social Security and Medicare		\$2,852B
Receipts without Social Security, Medicare, unemployment insurance, and other retirement		\$2,227B
Resulting deficit		-\$625B

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