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DO MISPERCEPTIONS GUIDE THE TAX POLICY DEBATE?

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DISCUSSANTS:

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Thursday, December 16, 2003

[TRANSCRIPT PRODUCED FROM A TAPE RECORDING]

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P R O C E E D I N G S

MR. GALE: Good morning. I'd like to welcome you to this event on misperceptions in tax policy. For those of you who don't know me, I'm Bill Gale. I'm a senior fellow here. I'm also co-director of the Tax Policy Center. The TPC is a joint venture of the Urban Institute and the Brookings Institution. You can learn all about us at www.taxpolicycenter.org. In particular, you can download copies of the papers from today's presentation, and you can sign up for our electronic newsletter, which will tell you about other events, and also check out our publications, et cetera.

One of the goals of the Tax Policy Center is to inform and advance the debate on tax policy. That is, we are premised on the view that information matters and that more information will lead ultimately to better public policy. Today's topic on the role of misperceptions in tax policy is therefore particularly relevant to our mission, but it's also fascinating from a research and a policy perspective. The one safe prediction I'm willing to make on today's events is that this will not be the last thing that you hear about the role of misperceptions in tax policy. Rather, we're sort of at the beginning of the discussion and the debate rather than the end. But you should always remember that you heard it here first.

We have a very distinguished group of speakers. The bios are in the handout, so I'll just briefly introduce them. Joel Slemrod is one of the leading public finance economists in the country and is based at the University of Michigan. Larry Bartels is one of the leading political scientists and is based at Princeton. Their work will be discussed by Tom Mann, my colleague here at Brookings, and Rudy Penner, former CBO director, currently at the Urban Institute and, of course, part of the Tax Policy Center.

In terms of the timing, we're going to ask the speakers to keep to about 20 minutes each and the discussants to 10 minutes each, and then we'll open the floor for questions.

Before we start, though, I should issue sort of a slight clarification of the nature of the event. When I originally proposed this event to Steve Smith, our communications director, we had what in the movie "Cool Hand Luke" was referred to as a failure to communicate. And that is, Steve thought that I was proposing to bring Joel and Larry here as examples of the role of ignorance in tax policy. And so I said, no, if we wanted examples of that, we could get people right here from Washington, D.C. We didn't need to go all around the country. In fact, Joel and Larry are two of the wisest and most sophisticated analysts of tax issues. And just to be clear, they will be analyzing the role of misperceptions, not demonstrating the role of misperceptions.

So let me thank the speakers in advance for keeping the time limits. I'll be down there and won't be able to enforce with the usual rigor. But I look forward to a very interesting conversation, and we'll start with Larry Bartels.

MR. BARTELS: I'll just stand down here, if that's okay. But if people in back can't hear me, raise your hand or something and I'll try to talk a little bit louder.

Here's the title of the paper I'm going to talk about this morning. And in case you have to leave early, here's both the explanation for the title and the executive summary.

MR. BARTELS: The puzzle that I want to address is about the impressive level of public support that we've observed for tax cuts in the U.S. over the last couple of years. It's especially striking given the overall economic context of significantly increasing political inequality, and especially impressive in the context of significantly increasing inequality over the past 20 or 30 years, given that the rich have become richer so much faster than the rest of the population. It's striking that people are willing to support public policies that produce additional upward redistribution in an era when most of the other developed countries in the world are doing the best they can to mitigate the exogenous economic developments that have produced increasing economic inequality around the globe.

So why is it that Americans like the idea of tax cuts? Well, one possibility that's talked about is that they just don't care very much about inequality. Another is that they don't realize that this has happened, that inequality has increased significantly over the past 20 or 30 years. The data that I'm going to analyze come from the national elections study conducted in 2002, just before and after the mid-term elections. And we were able to ask a battery of questions on that survey about people's perceptions about inequality and about public policies related to taxes and inequality.

One of the things we found from that study is that people actually have a pretty good awareness of the increasing level of economic inequality in the U.S. So we asked a question whether the differences in income between rich people and poor people had increased, decreased, or stayed about the same over the last 20 years. And about 75 percent of the public recognize that economic inequality had increased. So it's not that they don't understand it.

There is some failure to draw any moral implications from that. So we went on to ask these people whether they thought that was a good or a bad thing, and it was striking that many of the people who recognized that economic inequality had increased hadn't thought about whether it was a good or bad thing. That's a kind of striking non-finding, but one that will be echoed in some of the other things that I'll talk about today.

But let me turn to the data about people's support for tax cuts. One question we asked was about repealing the estate tax. There were two versions of this. One was worded to talk about the estate tax and the other was worded to talk about the death tax. Maybe not surprisingly, given the political origins of those terms, the death tax wording produced a little bit more support for repeal than the estate tax wording--but not a great deal. The striking finding here is that there is overwhelming support for repealing the estate tax no matter what you call it. So if you look in the estate tax wording, it's almost 70 percent favor repealing it; with the death tax wording, it's actually a little bit more than 70 percent.

Well, why is that? It seems kind of striking, especially in this case because the incidence of the tax is so concentrated at the very top of the income distribution. Why is it that these people, who are recognizing and in many cases regretting that economic inequality has increased, are supporting a policy that would exacerbate that trend?

So one of the things we did is to look at variations in support for repealing the estate tax as a function of people's political characteristics and values. So if you look at the top row there, in the total sample, as I said, about 70 percent favor repealing, about 25 percent oppose repeal.

If you look at people with family incomes below $50,000, about 66 percent favor repealing the estate tax. Those are people who have virtually no chance of ever being in a position to pay the tax themselves.

If you look at people who want to spend more money on government programs, which is the vast majority of the survey respondents, 68 percent want to repeal the estate tax.

If you look at people who, in response to that pair of questions that I described a moment ago, say that the difference in incomes between rich people and poor people has increased over the last 20 years and say that's a bad thing, 66 percent of them want to repeal the estate tax.

If you look at people who say that government policies contribute to inequality in income, 67 percent want to repeal the estate tax.

People who say that the rich pay less than they should in federal taxes, 68 percent want to repeal the estate tax.

And then my favorite, if you look at people with family incomes below $50,000, who want to spend more on government programs, and say that the difference in income between the rich and the poor has increased, and say that that's a bad thing, and say that government policy contributes to differences in income, and say that rich people pay less than they should in federal income taxes--66 percent of them want to repeal the estate tax.

There was also a question in the survey about the 2001 tax cut; that is, the cut that had already happened at the time of the survey last fall. As you may recall, Congress passed--or, in alternative wording, President Bush signed--a big tax cut last year. Did you favor or oppose the tax cut or is this something you haven't thought about? For reasons that aren't entirely clear to me, this question included that key phrase that the other question didn't include, "or is this something you haven't thought about?" And so, again, you see very strong support for the tax cut. No matter how it's worded there's about a 2-1 margin of support to opposition. But that little phrase "or is this something that you haven't thought about?" appealed to over 40 percent of the sample. So we're talking about a policy here whose consequences are reckoned in trillions of dollars, and 40 percent of the public haven't thought about whether they're for it or against it.

Well, this is obviously a complicated set of problems and policy issues, and one that people have only a limited grasp of. So the question is to figure out what it is they are thinking about when they form views about these kinds of policies, to the extent that they do. And so I looked at support for the Bush tax cut as a function of a variety of characteristics of people. You can see the list of explanatory variables here that I'm going to use to try and account for their support or opposition for the tax cut.

The ones that turn out to have a pretty significant impact are, reading up from about the middle, Republican Party identification. Republicans are a good deal more likely than Democrats to favor the tax cut. That's not surprising. Conservatives are a good deal more likely than liberals to favor that tax cut. That's not surprising.

People who want to spend more on government programs are more likely to favor the tax cuts--that is kind of peculiar, but a pretty consistent finding.

And then, if you skip up to the very top row, one of the most important explanatory variables in accounting for support or opposition is people's own tax burden, whether they think they are asked to pay too much or too little or about the right amount in federal taxes. Since responses to that question, not surprisingly, are pretty strongly skewed in the direction of people thinking that they pay too much, there is a significant net level of support for tax cuts due to the fact that people are largely basing their responses on their attitudes about their own tax burden. But kind of surprisingly, if you look down to the second row, you see that their attitudes about the tax burden of rich people has no effect at all on their views about this policy, nor does their view about the burden of taxes on poor people. So it's not attitudes about taxes in general that seem to matter here, but specifically attitudes about their own taxes. And so I want to refer to this as a case of unenlightened self-interest.

Why unenlightened? Well, unenlightened because the Bush tax cut was so heavily targeted toward the top of the income distribution that people's views about the tax burdens of the rich ought sensibly to have figured in an important way in their attitudes about the policy. And unlike the responses to the question about their own tax burden, the responses to the question about the tax burden of the rich are skewed in the other direction. So it isn't the case that people just like the rich and are happy to let them get away with whatever they can. A large proportion of them say that the rich pay too little in federal taxes. In spite of that feeling, it has no impact on their view about this particular tax cut, which was heavily skewed to the rich.

Here's a similar kind of pattern for another tax cut that's even more heavily skewed to the rich, repealing the estate tax. So this was the same question that I showed you their preferences for a moment ago, but not looking again at the bases of those preferences.

Again, Republicans are a good deal more likely than Democrats to support repealing the estate tax. Conservatives are a good deal more likely than liberals to favor repeal. Again peculiarly, people who want to spend more on government programs are more eager to repeal the estate tax than other people are. Again, attitudes about the tax burdens of the poor and the rich have no impact at all on people's views. What matters significantly here, again, is their attitude about their own tax burden. So here we have a group of people about 2 percent of whom, at most, would ever be subject to the estate tax, who are evaluating the tax largely on the basis of their attitudes about their own tax burdens.

Well, all of that seems a little odd and depressing, so one question we might ask is whether an education campaign of some sort would change people's views in a way that would bring them better into line with what economists believe about the incidence of taxes and the kinds of factors that should matter in people's levels of support or opposition. Well, we can't run an education campaign as part of the survey, but what we do is to measure people's existing levels of political information and look at variations in views as a function of political information, on the idea that the more-informed people are likely to better represent the views that other people would have if they became better informed.

And so here's a little bit of analysis that looks at variations in perceptions about inequality as a function of political information. So this political-information variable is scored from 0 at the very bottom, to 1 at the very top. And the question is how does it affect people's perceptions about economic inequality.

In the first column, the response that I'm looking at is to that question about whether the difference in incomes between rich people and poor people has increased over the last 20 years. And you see that there's a pretty powerful positive effect there. People who are more informed are more likely to recognize that important economic fact.

In the second column are responses to the question about whether that's a good thing or a bad thing, among people who do recognize that economic inequality has increased. And there you see an even stronger positive effect; that is, people who are better informed in general about politics are also much more likely to say that growing economic inequality is a bad thing. They're also more likely to realize that economic inequality has broader political and social consequences. So, for example, in response to a question about poor people getting a fair trial, they're much more likely to say that the poor are unlikely to get a fair trial.

There are also differences in their responses to the policy questions that we looked at. First, not surprisingly, people who are better informed are vastly more likely to have an opinion about the Bush tax cut. So we're looking here, moving political information from a minimum value of 0 to a maximum value of 1, and people at the bottom of the information distribution are virtually certain to say they haven't thought about whether the tax cut is a good thing or a bad thing, people at the top of the information distribution are virtually certain to have an opinion one way or the other. Better informed people are also more likely to perceive the issue as important.

But then, in the last column, what's striking is that people who are better informed are much less likely to favor the tax cut themselves. So there's a very powerful information effect here. People at the bottom of the information distribution are virtually certain to favor the tax cut. People at the top of the information distribution split about 50-50 between support and opposition.

So that's an instance in which it looks as though more political information would probably shift people's policy views in a pretty powerful way.

That turns out not to the be case, though, for repealing the estate tax. The first column here shows the same kind of analysis that I just showed you in the last column of the other table, but now looking at responses about the estate tax question. And you see that in that case, political information has virtually no effect. People at the top of the information distribution are just as likely on average as people at the bottom of the information distribution to favor repealing the estate tax -- until we break them up into two groups on the basis of their responses to those questions that I described to you about economic inequality.

The subset of these respondents who say that the difference in income between the rich and the poor has increased over the last 20 years and who say that's a bad thing are represented in the second column, and then the slightly larger number of people who either say that the income gap has not increased or say that it's increased but don't seem to mind it are in the last column. And you see there that we get strong political information effects, but in exactly opposite directions.

Among people who have both a factual and a normative or moral basis for bringing their attitudes about inequality to bear on this policy, you see that information makes them much less likely to favor repealing the estate tax. Again, the difference going from one end of the political information scale to the other is virtually equivalent to the difference between being entirely certain to support repeal or being 50-50 between supporting and opposing it.

On the other hand, among people who either don't recognize that income inequality has increased or don't particularly care that it's increased, you see that the effect of political information is exactly the opposite. In most cases, the better informed people are the ones who are most in favor of repeal. The less informed people not only lack political information in general but also lack information about this particular policy issue, and they basically don't know what to do. And so their expressions are mostly of confusion rather than a policy preference or opposition.

So it looks here as though political information would not have any very big effect on average, although it would help to sort people in ways that would produce policy views that are more consistent with their underlying values.

In summary, I just want to read you a little bit of a column that Jonathan Alter published in Newsweek around the time of the discussion of the next round of Bush tax cuts, last spring. He said, "Even if the tax cuts help stimulate a modest recovery, we've dug ourselves a deep hole. Explaining all this politically is a bank shot, to use a billiards term. It requires trusting the voters with complexity. Will they see that their new $400 child credits are chump change compared with all the new fee hikes and service cuts? Will they understand that they're paying more in state and local taxes so that a guy with a Jaguar putting up a McMansion down the block can pay less in federal taxes? Will they connect those 30 kids cramming their child's classroom to decisions in faraway Washington?"

The answer to these questions suggested by my analysis is, "not likely."

MR. GALE: Not only a very good paper, but he finished on time.

MR. SLEMROD: After I wrote the first line of my slides, I realized I really didn't mean to say "ignorance." I meant to say "misperceptions." And I don't like to say "ignorance" because it makes it sound like I think I know everything there is to know about the tax system, but the poor ignorant voters don't. There are a lot of things I don't understand about the tax system and the effect of the tax system.

And I also know well that, even though I have 70 undergraduates for 14 weeks every year to teach them about the tax system, at the end of those 14 weeks I find that I have not conveyed nearly as much as I hoped to have conveyed about the tax system. In fact, the most frustrating misconception that undergraduates bring to the class and often leave with the class is what a graduated income tax system means. Sixty percent of undergraduates come in thinking that when you jump from one bracket to the next, your tax liability takes a discrete jump. And although I spend a lot of time in class explaining that that's true, after 14 weeks about 30 percent of my students believe that.

But I do want to talk about whether bad policies prevail because of voter misperceptions. Traditionally, this notion is not taken very seriously by economists, which I am, who stress that the best approximation is that people and voters behave rationally and aren't subject to systematic misperceptions and systematic irrational behavior.

There are, certainly, exceptions, though. Twenty-five years ago, in a very influential book, Buchanan and Wagner argued that complex tax structures induce voters to underestimate their total tax burden, and a debt financing of government expenditure causes people to underestimate their true eventual tax burden, and both complex indirect tax structures and debt financing, therefore, lead to too much government. That is, if people understood, Buchanan and Wager argued, what the true cost of government was, they would vote for less government.

Recently, though, the notion that people's behavior deviates systematically from rationality, something which every psychologist would say is a complete no-brainer, is being taken seriously in economics. You probably know that the John Bates Clark award given to the most outstanding economist under the age of 40 was given to Matthew Rabin, a Berkeley economist who has written about the importance of taking seriously systematic deviations of behavior from rationality. And another leading economist, also at Berkeley, has recently suggested that people make systematic, predictable errors regarding government policies. And he gave a few examples: that people systematically neglect the long-term consequences of government policy; they under-weight general equilibrium effects relative to direct effects--so if a policy affects prices, they will not take that into account; and people over-emphasize the ability to deal with a problem that has arisen recently relative to other likely problems.

Now again, I want to say that even economists who have spent their lifetime thinking about tax issues have trouble understanding the general equilibrium effects of many policies relative to the direct effects. We, after studying the issue for at least half a century, aren't sure about the general equilibrium incidence of the corporation income tax. So I don't mean to say, again, that I understand this and voters and everyone else doesn't.

So the paper that has been distributed investigates the relative importance of one particular misconception, that the existing income tax is not progressive, and how that belief, that is widely held, explains public support for three different and apparently regressive tax reforms. And the three that I look at are the flat tax proposed by Hall and Rabushka and embraced by Steve Forbes and Dick Armey and others; a national retail sales tax--both of these are as replacements for the existing income tax; and third, abolishing the estate tax, although I won't talk too much about that, partly because Larry has spent a lot of time on that.

Fifty-three percent of Americans would dump the existing income tax for a flat tax. Thirty-nine percent would dump the existing income tax for a national retail sales tax. And eighty-two percent would abolish the estate tax. According to expert opinion, each of these three reforms would move the tax burden in a regressive way; that is, move it away from high-income people toward middle and, in the case of the retail sales tax, particularly toward the lower-income families. And the data that I used to do this analysis is from a survey done earlier this year by National Public Radio, Kaiser, and the Kennedy School of Government at Harvard. It was a telephone survey of over a thousand adults, over 70 tax-related questions plus a battery of demographic questions. And the results that I'll talk about are either just cross-tabs or linear probability multiple regression analyses. I'll spare you the details this morning and tell you the bottom line.

Results. The first thing is that support--now I'm going to use the following abbreviations. FT is the Hall-Rabushka flat tax; RST is a national retail sales tax.

The first result is that support for either of these two reforms is strongly related with a belief that the current tax system is unfair. Thinking that the current tax system is unfair increases the probability of supporting the flat tax by about 18 percent, and the probability of supporting a retail sales tax by about 10 percent. To understand how that would affect the overall average support, you need to know that about a half of all respondents said they think the current tax system is unfair. So that means that the probability of supporting a flat tax as a replacement for the income tax goes up by 18 percent if you believe that; since about half of people believe that, that increases overall support by almost 10 percent.

This result and all the ones that I'm going to talk about are all based on analyses that hold constant age group, gender, race, education level, and income group. So this statement and all the ones that will follow say that believing the current tax system is unfair, holding constant your age group, your gender, your race, your education, income level, makes you 18 percent more likely to favor dumping the income tax for a flat tax.

Well, what underlies that the current tax system is unfair? I've already told you that that's an important element and an important determinant of why people would want to replace the existing income tax with one of these more regressive alternatives. What underlies the belief that the current tax system is unfair? What do people think of when they think it's unfair?

Well, one thing that underlies this belief is feeling that any group pays more tax than their fair share. So one of the set of questions on this survey is, Do you think members of each of these following groups pays more tax than is their fair share: high-income people, middle-income people, low-income people? So answering yes to any of those three questions makes you more likely to think the existing tax system is unfair. Although it's interesting that thinking that low-income people pay too much, more than their fair share, contributes about only half as much as thinking that high-income people or middle-income people pay more than their fair share.

The second thing that contributes to this belief is believing that high-income people pay too little tax. Believing that middle-income people pay too little tax doesn't contribute to a sense of unfairness. Believing that low-income people pay too little doesn't contributed to a sense of unfairness. But believing that high-income people pay too little, pay less than their fair share, does contribute to a sense of unfairness.

So my conclusion is that the sense of unfairness about taxes has two separate sources. One is that taxes are generally too high. And second, that high-income people are not paying their fair share. Now, you can see the mystery unfolding. If a sense of unfairness comes in part from thinking that high-income people pay too little, pay less than their fair share, why is it that large fractions of people are willing to dump the graduated progressive income tax for a less progressive or regressive alternative, such as the flat tax or the retail sales tax?

Well, what is the role of misconceptions? Here is the bottom line for an interesting thing I think I've uncovered in this study, and that is many people believe--in contradiction to what most experts believe to be true, many people believe that moving from the current income tax to either a flat tax or to a retail sales tax would result in high-income people paying more tax than under the current system. Moving to a retail sales tax--almost no expert thinks that's true. And moving to a flat tax, I'd say that statement is--there are a few more people who would say that, but not many more.

So how many people believe this? About the flat tax, 41 percent of people think high-income people would pay more under a flat tax. So one rate of tax and, by the way, taking out capital income from the tax base--the flat tax does both of those things, the Hall-Rabushka flat tax. I know that, many of you know that, but 41 percent of Americans say that high-income people would pay more tax; less than that think they would pay less.

For a retail sales tax, even more surprising to me is that 41 percent of people say that high-income people would pay more tax if we dumped the progressive income tax in favor of a national retail sales tax, and only 26 percent think high-income people would pay less.

Both of these things, as I said, run counter to what nearly all tax experts believe to be true.

Well, what is the source of this apparent misconception? Well, there's two things it could be due to. After all, this is a description of the change in tax burden from the current tax system to a new tax system. So if there's a misconception, it could be about the current tax system. It could be about one of these alternatives. Or it could be about both. The survey evidence suggests that the former, that is, a misconception about the current tax system, is key to the misconception about the change in the distribution of tax burden from switching from the income tax to one of these alternatives.

And here is the basic evidence for this and for which the rest of the paper is based. A majority of Americans believe that under the current tax system middle income people pay a higher fraction of their income in tax than high-income people do. I'll say it one more time, because this is key to what follows. A majority--a slight majority, but a majority of people think that under the current income tax, the average tax rate--that is, taxes divided by income--is higher for middle-income people than for high-income people. This is inconsistent with a progressive tax system and it is inconsistent with the truth as we know it.

So this misconception, this particular misconception, that the current tax system is not progressive in the way I just described, has a very strong association with support for regressive tax reforms. So what I do is I do a linear probability multiple regression analysis. I'm trying to explain why people support dumping the income tax for either a flat tax or a retail sales tax. As explanatory variables I have the demographic variables I already mentioned--income group, age group, gender, race. Then I say, holding those things constant, what's the relationship between misperceiving the progressivity of the current tax system, how does that explain whether you support dumping it? And the answer is, believing the current tax system is regressive--inappropriately, in my opinion--increases the probability of favoring a flat tax by 24 percent. So that is a very large, quantitatively large association between the belief that the current tax system is regressive and whether you want to dump the income tax.

So a lot of people want to dump the income tax, apparently, because they think it's not progressive. I don't know whether it's because they think it's not progressive enough, but it's because they don't think it's progressive. The same is true, with slightly lower magnitude, for the retail sales tax. Believing the current system is regressive increases the probability of supporting a retail sales tax by 18 percent.

Now, if you weight these results by the fraction of people who hold these beliefs, you find that if it weren't for this misperception, the overall support for a flat tax, which is now at about 53 percent, would be only 42 percent. It goes--if you just could eliminate that misperception and change nothing else, you go from a slight majority in favor to only 42 percent in favor. And support for dumping the income tax for a retail sales tax drops by 8 percent, from 39 to 31 percent.

Let me say a little bit about who holds this misconception. So now, again, this misconception is about the progressivity of the current income tax system. Is it less-educated people? That's true for the retail sales tax. So the question is whether the retail sales tax would increase the tax burden for high-income people. That's true for the retail sales tax, but education level isn't related to that belief for the flat tax. There are several questions about general tax knowledge. How well people do on these questions is unrelated to this particular misperception. There are questions about whether you trust the government to do what is right. And that is related to this misperception about the flat tax, but not related to the misperception about the retail sales tax.

So before we conclude that the voters are ignorant and we experts are right, let me just take a moment to talk about could we be wrong--"we," and I'll include myself in the set of experts for purposes of this slide--and everybody else be correct?

First of all, let me say that the people who assessed the distributional burden of the current income tax, such as the Congressional Budget Office, they would have to be way, way off for this misperception to be not a misperception but a correct perception. In their latest study, the CBO put the average tax rate--so tax is divided by income--for the top decile at about 20 percent and for the middle quintile at about 5 percent. So a majority of people think these numbers are reversed, that this average tax rate for the middle group should be higher. So that is a big, big mistake.

Now, it is true that the CBO makes no adjustment for tax evasion. So maybe it's that people out in the real world understand that rich people don't pay their taxes and middle-income people actually have to pay it, it's withheld by their employers. Now, the IRS has studied this question, and based on admittedly out-of-date and imperfect analysis, but the best analysis around, it suggests that the opposite is true, that evasion rates--it's not about avoidance now--evasion rates for high-income people are actually lower than for others. So the IRS doesn't think that this could even change the relative magnitude of the 19.7 and 5. And remember that neither the flat tax nor the retail sales tax would end tax evasion as we know it. If it's just that high-income people can get expert advice to avoid--in this case, evade--taxes, my guess is they'll still have the best-paid advice if we have a flat tax.

Many experts who favor this kind of tax reform intimate that the current tax system is regressive. For example, my good friend and collaborator, Ed McCaffrey, in his book advocating dumping the income tax for a progressive consumption tax, says that for the rich people the income tax is voluntary. And so if you are not an expert but you read books by some experts, in particular books by experts who want to dump the income tax, you might think this was true.

Let me say a little bit about the estate tax, but just quickly, because Larry covered it and my data is in part the same data Larry used, so I don't have radically different conclusions. In this survey, 82 percent of people favor eliminating it, but 49 percent of people say that most families have to pay it. Now, we know that it's about 2 percent of people are lucky enough, not to die, but to die wealthy enough to have the estate tax liability. So this 50 percent is about a factor of 25 too high.

If you do the same sort of analysis I did for the income tax reform--that is, look at the contribution of this misperception, that most families have to pay the estate tax, to support for abolishing the estate tax--it turns out that, unlike income tax reform, getting rid of this misperception would not get rid of the majority in favor of eliminating the estate tax. This is consistent with what Larry was talking about. In fact, the analysis suggests if you got rid of this misperception, the proportion who favor eliminating the estate tax would fall; would fall from a big majority of 82 percent to a still pretty big majority of 72 percent. There is something about a tax paid upon death that people don't like, even people who understand they personally will never have to pay the tax. So majority support for elimination of the estate tax survives eliminating this misconception, unlike the case for the flat tax and the retail sales tax.

So let me conclude, summarize what I think this exercise has taught me, at least.

So our first conclusion is that this survey reveals a widely held apparent misconception --I think it's a misconception--about the progressivity of the existing income tax system. A majority of Americans think that lower-income people have a higher average tax burden than high-income people. That's one. Two is that this misconception contributes strongly to support for replacing the income tax, with either a flat tax or a national retail sales tax. Finally, though, I want to point out that this study is about only one misconception that people have about the income tax and the progressivity implications of replacing it with a flat tax or the retail sales tax.

I'm quite sure that there are lots of misconceptions about taxation--even for those people who have taken an undergraduate public finance course at the University of Michigan--for which I'm partly responsible. There are probably misconceptions about what a flat tax would do to marginal tax rates and what it would do for the incentive to work and the incentive for firms to invest.

So the economic tradeoffs between progressivity and economic growth--well, people I'm sure have misconceptions, but in this case, we don't know the right answer. So I don't want to leave you with that this is the only misconception in the world, and I understand what would happen if we could correct this and therefore everyone would understand everything about taxation. That's not at all what I want to say.

So on that note I'll stop.

MR. MANN: I have no slides. I never have slides.

This occasion is an important and valuable one, because it calls attention to two new important data sets dealing with inequality and tax policy: the 2002 National

Elections Study, which has an unusually large number of items dealing with these issues, and the Kaiser Family Fund-Kennedy School-NPR Study in 2003 on tax policy. In fact, an issue of the Brookings Review had an initial report of some of the marginal responses to the items in the Kaiser Study. And Larry himself, in another piece, contributed to that issue in a way that I will argue is really quite relevant to the broad discussion.

Secondly, we have two very wise and sophisticated analyses of these new data sets in papers by Larry and Joel. I'm not going to go through the technical aspects, but as best as I can tell, this is very high-quality work, and I think it's well worth turning our attention to the substance of their findings and the implications for democracy and policymaking, rather than kibitz about the particular methods that they use.

So, two new important data sets, two wise analyses of these data leading to very discouraging results from the perspective of democratic theorists or champions of popular rule or democratic deliberation.

The evidence and findings that Larry and Joel report on public opinion on taxes and inequality is sobering. I was struck by measures of inattention on matters that profoundly affect the well-being of citizens—struck by the lack of information that seemed critical for making any kind of informed judgments about the desirability of public policies. I was again struck by, when the public thought they had information, it was incorrect information, or the misperceptions about tax policies; and, of course, struck by the inability to link even accurate perceptions of inequality to public policy preferences that would seem to be sensible or logically consistent. I thought--the one thing I carried away in reading both papers was the term "unenlightened self-interest."

That's Larry's term and I think it's an unusually helpful one in thinking about this whole matter.

It actually gets worse, folks. Something we haven't discussed—or Larry and Joel haven't discussed here—but a broader problem that Larry points to in his piece in the Brookings Review. As he puts it, the fluidity and contingency of attitudes make it impossible to discern meaningful public preferences on issues of public policy. This is the issue of framing. It's a familiar one to psychologists, the problem of context dependency. The examples are legion on how, even on issues of enormous importance to citizens--certainly with respect to tax policy, but it's true of abortion--differential framing of questions can produce fundamentally different patterns of responses in public opinion surveys.

All of which, along with the findings of these two papers, point to the limits of political education and democratic deliberation. One, you know, take Joel's findings. It is true that eliminating misperceptions about the progressivity of the current tax system would reduce support for a retail sales tax and a flat tax. It does so, certainly, in a statistically significant fashion but leaves substantial support beyond that, and its impact on the estate tax is roughly at the margin. So Larry demonstrates in other ways how increases in information and exercises of democratic deliberation would be unlikely to lead to the kind of desirable, rational result that we might expect or hope for.

Now, there are critics who disagree with this line of analysis and argumentation. They believe there are rational, low-information shortcuts available to citizens; that we don't all have to spend a huge amount of our time learning about public policy issues; that, blessedly, in America we have the freedom not to do that, to allocate our time in different ways; and that fortunately, the political system provides some of the shortcuts that make it possible for people to act in rational ways, at least in elections.

Party helps; the whole notion of referendums on the performance of the economy of the country more generally; sort of personal assessments of candidates gleaned in the short-term around elections provide some cues that end up being helpful in that regard. But it--and I acknowledge all of that, and I think there's much to be said for Sam Popkin's "The Reasoning Voter" and the low-information ways of achieving democratic accountability. But the reality of these papers comes to the fore when we're really talking about policymaking between elections and our tendency, our proclivity in American democracy to constantly take polls to see what the public wants so presumably we know what to do, what policies to enact.

The reality is that's not a very productive exercise. What we find is mainly what we're looking for in many cases, that public opinion is subject to manipulation, to framing, to shaping, to use by political elites, and that the underlying reality is that tax policy, like many other policies, is a game for politicians, interest groups, and activists, and that, in many cases, they are relatively free of public constraint to approach their policy goals in ways that the broad public places little constraint, and the constraints are to be found, if you will, in the more traditional notion of interest group pluralism.

They're among the activists in our policymaking now. There obviously is an asymmetry in the public constraints. Cutting taxes of all kinds for politicians is easier than raising them, and the structure of information, and misinformation and inattention, the results in both Larry and Joe's papers suggest that. Think of it, though, as acquiescence rather than public demand. There was little evidence at the beginning of this administration of any public demand for tax cuts.

What we found was, sort of, acquiescence and nominal support after the fact, meaning that presidents and other political elites have enormous flexibility to pursue policies and to do good things or bad things, and it's interesting in that regard to think of Bush 41, Clinton, and Bush 43, and their particular approaches to tax policy, all of which suggest to me that looking at public opinion on taxes is much less productive than looking at party ideologies, at elite debate, and that policy analysis on taxes is really important because, in the end, the actual consequences of policies can come back to bite politicians in elections and, to the extent those can be forecast accurately in policy analysis, it makes sense for, at some point, politicians to pay attention to them.

Unfortunately, the time line is oftentimes such that, in Ed Tufte's terms, the political control of the economy creates incentives for incumbent administrations to engage in policies that are politically helpful in the short run but quite destructive in the long run.

Final point, which goes to the estate tax. I was blown away by the findings, although I'd seen them before. I loved Larry's Table 5, especially the summing all of those qualities, finding those people that had every reason to oppose the repeal of the estate tax and finding that in fact they favor them was indeed very sobering. And seeing that the perceptions dealt with only a small part of this led me to believe there still is something here in the whole notion of the possibility of economic mobility. And it's almost the lottery mentality of Americans. And, remember, Larry said it was striking how people at the lower end of the income scale were overwhelmingly supportive of repealing the estate tax.

You know, all you have to do is look at the work of the Congressional Black Caucus on this and the sentiment of African Americans in looking at working-class Democrats and you begin to see, the very people who seem to be hurt by this policy are the ones with whom the American dream of striking it rich--more likely through the lottery than through occupational mobility--nonetheless exists. So the very people who support more active government, big government-spending programs naturally also favor repealing the estate tax. They want government to help them now, but in case they get lucky and strike it rich, they want to make sure the government doesn't take it away from them.

Thank you.

MR. PENNER: Well, there's little doubt that the public is very badly informed about federal tax policy. I don't think that's because they're stupid, as the title and conclusion of the Bartels paper would imply, but rather that, as political scientists would say, they're rationally ignorant. Not much is to be gained from learning about the intricacies of federal tax policy since the ordinary citizen has so little opportunity to influence it.

I can't cite specific polls to prove my point, but people who know a lot about polls, and my own experience, suggests that people are indeed more knowledgeable about state and local tax burdens. I think they think they have more of a political chance to influence them and can influence them by where they choose to live.

Now, I learned Joe's main point a very long time ago. Jerry Brown was running for president, in in a long-past election, and he favored a flat tax. I thought that a curiosity for a liberal, but soon after I was on a talk show that had nothing to do with the flat tax, but as so often happens in talk shows, the people started calling in about it. The vast majority of callers favored the flat tax, and it was quickly apparent that they thought it fairer than our current tax system. It wasn't apparent why, though, but I thought old Jerry was on to something here. He was actually young Jerry at the time.

[Laughter.]

MR. PENNER: I also thought at first they thought it unfair, maybe because they thought the current system exploited the rich too much, but as the program went on, it became crystal clear that they favored it for the very reason that Joel wrote about.They thought a flat tax would be more progressive than what we have. It seemed that everybody had an uncle or a cousin or knew somebody who had more income than they did, but paid less in taxes.

Now, Joel says that we experts know that the income tax is highly progressive and that the public is misinformed. Distribution tables tell us that. But what do distribution tables really tell us? I think they're extremely misleading for a great variety of reasons, but one of the reasons is that they disguise a vast range of tax burdens at every income level.

In 1999, the average income tax burden in the middle quintile was $1,780, but 43.8 percent of those in the quintile had burdens greater than $2,230 or 25-percent higher, while 32.3 percent had burdens less than $1,340 or 25-percent lower. In other words, only 25-percent of the taxpayers in the quintile were within 25 percent of the average burden.

And the erratic nature of the tax burden meant that 4.6 million in the third quintile paid more than $3,000 in taxes, while 5.6 million in the fourth quintile paid less than that amount. Over 3 million in the fourth quintile paid more than $7,500, while more than 4 million in the fifth quintile paid less.

So, in fact, it's highly probable that everybody knows somebody who has a higher income, but pays less in taxes.

Now, an important reason for this diversity is that we really don't have an income tax system at all, and I think we mislead people by calling it that. A pure income tax would tax saving and investment too heavily for the taste of most policymakers, and Democratic and Republican Congresses alike have, over the ages, provided tax concessions on saving and investment.

Now, the very act of compiling distribution tables using income as a classifier is misleading to the extent that it is not the Congress's real revealed preference to have an income tax at all. The Congress instead prefers what a Brookings conference a number of years ago called an uneasy compromise between income and consumption taxation.

When the public says, by quite a large margin, that a sales tax would be fairer than the current income tax, I would like to think that's because they think consumption is a fairer base for taxation because I happen to think that, but I'm afraid it is, as Joel says, because they think that whether measured with respect to consumption or income, it would be more progressive.

Although there is much polling evidence that the public favors less inequality, all things equal, it's a very big jump to go from there to say that the public believes that government should do something about inequality. There are polls that bear directly on this question that aren't cited in the papers. For example, the National Opinion Research Center has, for a number of years, asked people what they think of the statement "It is the responsibility of government to reduce the differences in income between people with high incomes and those with low incomes."

In 2000, only 33 percent strongly or somewhat agreed with that statement, 25 percent neither agreed nor disagreed, and 40 percent disagreed somewhat or disagreed strongly. And there have been little differences in the results of that poll since it was first taken in 1985.

Well, why would people prefer equality, but not think that government should reduce inequality? I think there are two possible reasons for this result:

One, they might think that if government tried, they'd screw it up--a healthy skepticism. Joel finds that lack of trust in government does explain some of the support for a flat tax.

But there is, as I said, a distinct philosophical difference between thinking it would be nice if income and consumption were distributed more equally and believing that government should have carte blanche in taking resources away from the very rich if the rich obtain those resources in a morally permissible manner.

Now, although the public more generally does not feel that the rich pay their fair share of taxes, their responses suggest that their view of a fair tax burden would be quite low compared to what people actually pay.

When asked in '95 Roper Center-Reader's Digest Poll what the highest combined federal, state and local tax burden should be that would be fair to impose on a family of four with $200,000 of income, the mean response was 27 percent of income, while the median was 25 percent.

Polls that I have seen lead to a somewhat different result from Bartels', about how much the public is misinformed about who would benefit from estate tax reductions.

A Gallup-CNN-USA Today poll in 2000 showed 60 percent in favor of eliminating the estate tax, even though only 17 percent thought that they would benefit personally. I would guess that 17 percent is not that big an exaggeration in that about 2 percent of estates are taxed or were taxed under the old law and each decedent has numerous heirs who are intensely interested in the tax. I know that I have seven who will be directly influenced by how much my humble estate is taxed.

The estate tax is structured so horribly that it's hard to love. I doubt if the public is well informed about its intricacies, but I think they know that it's horribly unfair. A Brookings volume a few years back called it a voluntary tax. If the public were interested in preventing dynastic accumulations of wealth--and it's not clear whether they are or not-- a progressive inheritance tax would make more sense if you could structure it in a way that was free of loopholes.

If they are interested in taxing previously untaxed income, then doing what the Canadians did a few years back I think makes more sense than our new law that will have carryover cost basis. The Canadians got rid of their estate tax because it was as unpopular there as it is here, and just deemed capital gains to be realized at death.

Curiously, congressional opponents of estate tax elimination have not brought forth such options. They prefer to raise exemptions and lower rates so that fewer people will be affected less severely by what would remain to be a very unfair tax.

Well, is there any way to summarize the major implications of the two papers before us? Certainly, it is right to argue that the public is abysmally informed about the details of tax policy. Learning about the marital adventures of J.Lo is much more fun, and you can only absorb so much.

[Laughter.]

MR. PENNER: Would a better-informed public favor more progressive policies than those enacted since 2000? As Bartels's differing results show for the income and estate tax, that is far from clear. I am dubious that they would even favor a more progressive income tax alone or even income over consumption as a base if they had a more profound understanding of the issues. After all, so-called tax experts disagree on such points.

My own conclusion from electoral results, polls, and discussions with politicians and ordinary folks is that people have a disdain for government power. The burden of proof is on those who'd like to seize more money for government, whether they are seizing it from the rich or the poor.

Conversely, tax-cutters have an enormous advantage in the political struggle, whether they are cutting taxes for the rich or the poor. The overall size of the tax burden seems to me to be a first-order issue. The way it's distributed seems to me to be a second-order issue.

Now, hostility to government was not always as intense as it is today. I don't think the government's reputation ever recovered from the social policy screw-ups of the Great Society and the coincident foreign policy screw-ups of the Vietnam War. I'm not really sure what it would take to restore confidence in government, but I know with certainty that we're a long way from it.

Thank you.

MR. GALE: While we're getting set up, let me just note that they changed the sign. It used to say "Brookings: Fair and Balanced."

[Laughter.]

MR. GALE: While we're getting set up, let me just note the next Tax Policy Center event is on January 16th, where Rudy will talk in more detail on his views of searching for a just tax system, a fair tax system. We'll have discussant comments from Joe Thorndike of Tax Analysts, who is one of the most prominent, if not the only, tax historian, and Jethro Holly [ph], who is the director of computer modeling at the Tax Policy Center, talking about our distributional estimates.

In any case, we've heard lots of commentary. Let's turn to the floor and get questions. Please be sure your comment is framed as a question. And please speak into the mike.

QUESTION: Tim Kane [sp] from the Joint Economic Committee. Joel, I was curious about your research in this survey, and I couldn't find this answer. Basically, the question Rudy asked, we have a badly informed public, I wonder if that means not that they're ill-informed or poorly informed but that they're informed badly. Who's telling them that the current tax code is regressive? And I thought that might be, frankly, a Democratic position. And I didn't see a political variable that these attitudes are weighted more towards Democrats or Republicans, and I wonder if that was in the survey or if you know of any research along those lines.

MR. SLEMROD: Well I--if it is in the survey, I haven't investigated the answer to your question, which is a good one. So I'll go back and find out. I think it's probably in the survey, and in two months I should have the answer to that.

I certainly agree that there are people, maybe that should know better, who certainly suggest that the tax system's not progressive. I gave an example of people who favored dumping the income tax, and often an argument will be that the rich get away with murder. So there's no question that there are advocates of changing the income tax who would like to give this impression.

QUESTION: Bob Williams of the Congressional Budget Office. A couple of questions for Larry, and perhaps Joel will want to answer them, too. Larry, you said one of the variables that was important was the political information variable, but you didn't tell us how you measured that and what that means. If you could give us more information on that, it would be helpful.

And secondly, how much do we understand about how much people understand about what they're talking about? Do they understand, for example, how large a retail sales tax rate would have to be to draw the same amount of revenues as we're currently drawing, so to replace it, it's not a 5 percent tax like they're used to at the state level, it's something much larger than that; or how much they understand the various tax acts that have been enacted and what their effects are on individuals.

MR. BARTELS: I think the answer to your last question is that they don't understand very much about those kinds of details, especially when they have to do with numbers and magnitudes. So for example, if people think that 25 percent is a fair overall tax burden, they also think that the level of government services, that already consume much more than that of total national income, ought to be increased rather than decreased. And they don't make that kind of connection, either.

With respect to political information, the way this is measured in the survey is to have interviewer who's talked to these people over the course of about an hour rate their overall level of political information on the basis of responses to all kinds of questions, not only about these issues but about other issues as well. And because the survey is conducted in two parts--before and after the election--what is actually done is to use the level of political information in the other survey as a measure to explain policy preferences in each part of the survey, just to avoid the possibility that the interviewers are basing their assessments on responses to these questions specifically.

MR. SLEMROD: Can I jump in there? So on the survey that I know about, there are seven questions about what do you know about the tax system. The first few are to give terms and they ask whether you've heard the term and know what it means, heard the term but don't know what it means, and not heard the term. But it's never checked, when they say they know what it means, that if they got it right.

[Laughter.]

MR. SLEMROD: So just for example, one of the terms is "progressive tax." So 21 percent say they've heard the term and know what it means; 23 percent, they've heard the term but don't know what it means; and 56 percent say they've never heard the term.

Let me just say, one other question we think there's a right answer to: Compared with the citizens of Western European countries, do you think Americans pay a higher percentage of their income taxes, lower, or about the same? Now, on average, the right answer to that question is that Americans pay less. Twenty-one percent of people think it's the other way around--higher, and 30 percent think it's smaller, and about half say they don't know. So there's a question which is related to the other things we've been talking about, that people just don't get the basic facts about the relative tax burden in the U.S. versus other countries.

QUESTION: Well, some of this is about maybe questions for future surveys and some maybe things that are in this current survey. Let me take the second one first. The tax cut favored--and I think Rudy made a point of this--the tax cut favored certain kinds of families much more than others. If you were single without children, you didn't get much from the tax cut, but if you were a married couple with children, you go a lot. So if you have that kind of demographic data in the survey, it would be interesting to see whether--I mean, I suspect that it's probably not important, because it looks like people don't know what is in the tax bill, but you could check it and see if that--because there were some moderate income people who did very well in the 2001 tax cut.

The other is, has anybody ever thought of just asking people why they hold these views? I mean, if I were going to ask about the estate tax, I guess I'd have a question that said, okay, why do you want to repeal the estate tax--because you think it's badly designed or-- Maybe--my guess is that a lot of people would say it's not nice to tax people when somebody dies, because people are grieving. I mean, I think that's an emotional thing that a lot of people might hold. Or maybe it's because they really want to win the lottery. I just think--why not just ask people why they think things? Maybe there's no survey that's done that, but--

MR. SLEMROD: Actually, the survey asked exactly that question. For those who favored eliminating it, "why do you favor?" And there are four reasons given, and you could say more than one if you wanted to: "The money was already taxed once and it shouldn't be taxed again"--92 percent said that was a reason eliminating it. "It affects too many people"--62 percent said that was a reason. "That it might affect you some day"--69 percent said that was a reason. And "it might force the sale of small businesses and family farms"--74 percent said that was the reason.

I guess that settles that, right?

MR. PENNER: Well, you know, there is really a big problem, though, in that responses differ so much between different polls. I've seen polls that suggest that only about 30 percent think they'll ever be rich--and I don't know what they mean by "rich." The response differs quite a bit if you ask them if they think they'll ever be wealthy. And I have no idea why the response differs.

MR. MANN: But Rudy, that's precisely the point about the, sort of, fragility, instability of public attitudes and public preferences. We assume, from your comment, that there is a reality out there and that we have--our problem is some polls measure it more accurately than others. The alternative is there is relatively little reality for most Americans, and the responses they give are very much determined by the particular way in which the item is framed.

All of which goes back to the broader point that we almost reify public opinion. I noticed some in our discussions that the--you know, what Washington does, Washington elites engage in a battle to say the public's on their side. The public's hostile to government, the public supports more government spending. And then you sort of look for items in marginal responses and surveys that indicate that.

I guess what I carry away from these papers is that there really is less there in the way of public preferences. That's why the framers gave us a republican form of government, not a plebiscitary form, and much of the work has to be done within the policy-making community.

MR. GALE: I wonder if any of these surveys have questions asking how many people think that they're going to die.

[Laughter.]

MR. GALE: Way in the back?

QUESTION: Stephen Cole [sp], Center on Policy Attitudes. Generally when people are asked questions about information, they tend to cluster a bit around the correct answer. If there's a heavy skewing off of the correct answer--though there may be big standard deviations--usually it suggests that they're actually getting some information that they're somehow misinterpreting, or they're actually being misinformed rather than informed. Why would that--what would that be in this particular case? Well, the rich--they may hear a lot of stories about some rich people who don't pay any taxes at all, and from this they conclude that the system is unfair. In general, taxes should be lower because they hear that the government misuses funds so heavily. They think 50 percent of the money that goes to the government is wasted, and so that suggests the taxes should be lower.

These aren't, I don't think, really irrational responses. They also hear stories about some sad family that lost the family farm because of the estate tax. And so from these stories they hear, they construct certain constructs or certain images of the consequences. And those are not necessarily--those, again, are not irrational responses. The public does not have a kind of perverse tendency to get it wrong.

MR. GALE: Can you focus on a question at this stage?

QUESTION: Yes. So the question is have you done any kind of content analysis of the stimuli that people are getting, related to these tax issues? What are the stories that they hear on CNN, on Fox, on ABC about taxes that they could logically put together to create some of these concepts that they have?

MR. BARTELS: I haven't done any analysis of that kind, but I think your point is well taken. I would just point to an example from a different policy area, a terrific book written by my Princeton colleague Marty Gilens about why Americans hate welfare, where he did a content analysis of media coverage of poverty over a period of years and found that it was heavily skewed, by comparison with the actual incidence of poverty, in the direction of portraying poor people as African American. And as a result, people's racial prejudices figures heavily in their views about that particular sort of policy--especially when it was called "welfare," rather than being called something like "assistance to the poor," which called up very different and more positive images.

QUESTION: I'm Jim Burne [sp] of Community Development publications, and I've been carefully watching my dear friend Tom Field, the president of Tax Analysts here, for a depression attack in the wake of this whole discussion.

I'm interested in the priorities of all of you. I was the original editor of Tax Notes, but I went on to Forbes magazine and I wrote a cover story on taxes, and I had to fight for every line of that thing. Finally, midway through this argument, the editor at the time said, "Jim, isn't what you're all about is neatness?" And isn't there an element of that in all of us here who care about tax policy--is that there's a need for neatness that we don't find in this system, and maybe there are higher policies. And certainly the worst consequence, in my feeling, in these tax cuts is certainly the threat of the long-range deficits.

You know, as economists and political scientists, what are your priorities? Where does rotten tax policy fit into the overall economic scheme of things?

MR. SLEMROD: Well, I'll speak for myself. I have absolutely no perspective with which to answer that question. Since my whole professional life has been spent thinking about taxes, I have to rely on survey results to understand how important people think taxes are. Maybe, Larry, you know the answers to that.

MR. BARTELS: I don't, really. I mean, I have very little expertise about tax policy specifically, and came to this question more from the direction that Tom laid out in his discussion, which is to think about complex policy issues and what it is that people value and know about them that might reasonably be taken as a basis for policy without taking literally everything they say about whether they're for or against some specific policy that they don't really understand.

Just to come back to Rudy Penner's point at the beginning of his comments, I didn't mean to imply that people are stupid. I think in general people aren't stupid, but what they are is ignorant about the kinds of things that we as analysts think they should know and care and lot about because we know and care a lot about them. But, you know, the moment anybody asks me anything about baseball or rock music, it becomes immediately clear to me that there's a big difference between being stupid and being ignorant.

: Along those lines, I think the result that speaks most directly to your question is the result--I can't remember which paper now--that showed that people's own tax situation was a big determinant of whether they favored--I guess Larry's paper--whether they favored tax cuts, rather than their thinking about the whole-- people may not get the geekiness of the complexity of the whole system, but they understand their own situation and they seem to form opinions about the tax system very strongly based on their own situation--which suggests that they are ignoring lots of other information.

MR. MANN: But you're really getting at--the question is: What's most important: the incidence or the distribution of tax burden, the relative level of progressivity or regressivity on the one hand; and the—presumably—the match between the revenues generated by the tax system and the public expenditures that the political system has deemed the appropriate level. And I'd say these papers are more about the former. And if I were to rank problems right now, I'd say the latter is higher, by far. I mean, we had a situation where our tax policy was made slightly more progressive by Bush 41 and Clinton in the interest of dealing with the second problem. Now we have

Bush 43 and our tax system, relative to those, has been made less progressive at the cost of deeply worsening the second problem.

MR. GALE: Two more. Let's see, Gene and then --

QUESTION: Two quick questions. One, I wonder if, first, our language itself isn't confusing. In particular, I think Joel used the term "fairness." And as you know, "fairness" conveys both issues of horizontal equity, or equal justice, and vertical equity. And I think Rudy got to that a little bit in his comments, saying a lot of people are noticing really horizontal inequities in some sense, and that's what they're objecting to. And then so they buy into some reform they think is going to get at that. And I wonder if it's just--if our language there, using terms like "fairness," really isn't misleading. Because we mean a lot of things by the term "fairness."

The second question is whether in the end the results of these studies don't show that in fact the income tax is a very conservative instrument of policy. Because one conclusion that I've had over the years is the income tax is conservative not only because it has all these zero brackets, which wasn't the issue at hand, but also because it's very visible. And the very visible taxes are often the ones that the public objects to the most. And here I might disagree slightly with Rudy, who says people understand well that's state and local taxes. If you look at business taxes at the state and local level, I mean, businesses are zapped 47 ways of Sunday. And the corporate income tax is probably one of the smaller items relative to franchise taxes and turnover taxes and everything else that are quite invisible.

And so the question here is whether visibility isn't also a variable that needs to be analyzed.

MR. SLEMROD: Oh, I agree. It comes back to the Buchanan and Wagner book of 25 years ago, who claimed that complex and indirect--which is your example--taxes are not perceived as a burden. And they argue it leads to too much government because people underestimate the true cost of government programs.

MR. PENNER: Well, going back to a previous question, I think visibility obviously has a lot to do with neatness. And neatness, I think, is a good thing. I don't think it's healthy when you see so many of our taxpayers resorting to H&R Block even for relatively simple forms, or to TurboTax. I'm not even sure what marginal bracket I'm in anymore since the advent of TurboTax. I think that is a real problem.

MR. GALE: Last question here?

QUESTION: Thank you. I'm Edward Cowan [sp]. I'm an independent editor and writer and a retired New York Times economics correspondent. I have a comment and I have a question.

The comment is this. Professor Bartels opened up talking about increasing economic inequality, which raises the question how do you feel about inequality? I think the correct answer to that is, well, how much inequality? If it's slight, it's inevitable; if it's profound, then you need to ask a further question: What is the situation of the people at the bottom? How poor are they? Because if they're doing pretty well, maybe the situation of the people at the top isn't so troublesome. And I think that's the essential question. I personally don't worry so much about the inequality per se as about the situation of the people at the bottom and whether it is improving. I think that's the essential question or aspect of inequality, that I want to look at anyway. I think inequality per se is not something one can intelligently take a position on. You need to know more.

My question for the authors is this. And I want to say your papers are interesting and they reveal some very interesting, provocative, curious anomalies or inconsistencies, if you will. Gives rise to this question: Do these inconsistencies or anomalies tell us that there is a dichotomy between what people feel is the correct answer, what the American ethos is and what they should say; and how they really feel, especially with respect to their own tax situation?

MR. BARTELS: Let me respond to the first part of the question since I'm not sure what the answer to the second part of the question is. You're right to point out that inequality is a very abstract concept and that people have difficulty wrestling with it. It's not clear to me, though, that for most people what happens at the very bottom is of primary importance. Again, the signals are quite mixed. On one hand, people will give responses in surveys that seem to indicate a good deal of concern for the poor and their fate; on the other hand, as I showed in my analysis, their attitudes about the tax burdens of the poor have no effect at all on their policy preferences with regard to things like taxes, that are obviously quite relevant.

One way to gauge what's actually happened is by comparison with the past and to look at changes in poverty rates over time and that kind of thing. Another is to look by comparison with other countries. I think the data are pretty good in showing both that poverty has increased slightly in spite of overall economic growth, and that the United States has more people who are absolutely poorer than other countries do, in spite of being wealthier on average. So both of those factors suggest that if there's lots of public support for helping out poor people, that somehow it hasn't been translated into actual policy.

Now, one explanation for that, as Rudy mentioned, is that people may distrust the government's ability to do that. I think there's something important to that, but I think it's kind of ironic because this really is something that we have observed the government doing pretty successfully. It's not at all obvious to me that the government knows how to keep our neighborhoods safe or protect us from terrorists or clean up the environment, but one thing it's pretty good at doing is writing checks. If you think about the history of public policy over the past half century, one of the great successes has been the Social Security program, which has written lots of checks to people who were formerly poor and who aren't in the poor group anymore.

And so the fact that general distrust of government programs spills over into this area that seems to me to be less relevant is kind of striking.

MR. GALE: All right. Thank you all very much for a most interesting discussion.