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Voice Of the People

CITIZEN CABINET INITIATIVE

How the American People Would Change the U.S. Federal Budget

A survey of the National Citizen Cabinet

Conducted by the Program for Public Consultation, School of Public Policy, University of Maryland

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INTRODUCTION

In 2011, in response to a ballooning of the Federal budget deficit, Congress passed the Budget Control Act that established annual spending caps for gradually reducing the deficit, with specific caps for defense and non-defense spending. The Act also specifies that if Congress fails to agree on spending that falls under these caps and does not specify offsets from revenue sources, automatic across-the-board cuts—called 'sequestration'—would go into effect to force compliance with the caps. As intended, the prospect of such sequestration cuts have given rise to resistance across the federal government and in the public at large, since such cuts would be completely unselective and show a failure to agree on priorities.

In February 2015, President Obama proposed a FY2016 discretionary budget that exceeded the sequester caps by $38 billion in national defense and $37 billion in non-defense areas. His budget, however, did call for a variety of revenue increases to offset these spending increases. This proposed budget was met with a highly polarized response in Congress. Until the recent budget deal that was crafted in the wake of House Speaker Boehner's decision to give up his position, it was unclear how the Congress would come to resolution.

Voice of the People seeks to use innovative methods for giving the public a meaningful voice on the issues that Congress is facing. Thus it sponsored a Citizen Cabinet survey that sought to give the public an opportunity to give a meaningful and informed response on the FY2016 budget.

Standard polling on budgetary matters tends to be inadequate for eliciting a meaningful response. While polls show that majorities would like to reduce the deficit, when asked in separate questions whether respondents would prefer to see taxes raised they rarely say yes—naturally they would prefer to find a way for that to not occur. Similarly, they express little enthusiasm for spending cuts. The problem is that each of these questions is asked in isolation, rather than having the respondent deal with the budget in a holistic problem- solving mode.

Citizen Cabinet surveys take a different approach that goes beyond isolated reactions. They take respondents through a 'policymaking simulation' that seeks to put them in the shoes of a policymaker by giving respondents a background briefing, presenting arguments for and against policy options, and then finally making their recommendations in a context that may require that they deal with tradeoffs. Another unique feature is that the content is fully vetted for accuracy and balance with Congressional staffers from both parties as well other experts.

The Policymaking Simulation

The policymaking simulation was developed by the Program for Public Consultation of the School of Public Policy at the University of Maryland. It was vetted with both Democratic and Republican Congressional staffers for the budget committees of the House of Representatives and the Senate to ensure accuracy and balance, and to ensure that the arguments presented were indeed the strongest ones in play in the Congressional discourse.

The source for all spending items was the president's budget as published by the Office of Management and Budget. On the revenue side, most proposals were ones that have been scored by the Congressional Budget Office; a few were drawn from the OMB document.

Respondents were initially told that they would be dealing with the discretionary budget and General Revenues. They were also told about the projected budget deficit and that this amount is projected to be $535 billion for 2016. However, since some of this deficit is related to Social Security and Medicare, which have their own dedicated taxes, the focus for this policymaking simulation would be on the deficit related to the rest of the budget, which is a total of $394 billion.

They were then given more information about the deficit. They were presented a trendline of the amount of the deficit as a percentage of GDP from 1940 to the present, and a trendline showing the amount of debt held by the public as a percentage of GDP going back to 1940.

Respondents were then asked to evaluate three pairs of arguments that are often made in regard to the budget and asked how convincing each one was to them. One pair argued for and against the urgency of reducing the deficit. Another pair argued for and against the importance of reducing the size of government. Another pair argued for and against the importance of making public investments.

Next respondents were presented the discretionary budget. Respondents were shown 31 line items of the budget, with a brief description of what they include and the amount proposed in the President's FY2016 budget. For several areas that include mandatory spending this amount was included as well, as this is the clearest representation of the amount of public spending going to these priorities.

Respondents were told that they could specify their recommended spending levels for each line item, either increasing it, decreasing it, or leaving it the same. A bubble containing the amount of the deficit (initially $394 billion) followed them as they scrolled though the line items and went down or up with each change they made.

Next, respondents were told that they would deal with general revenues. But first they evaluated pairs of arguments on three issues: whether it is important to reduce taxes; whether taxes should be made more progressive; and whether taxes should be used to discourage certain problematic behaviors such as smoking or pollution.

They then turned to specific revenue sources and were given the opportunity to generate increased revenues, and in some cases to reduce them. Once again the bubble with the residual deficit followed them, going down or up in responses to changes made.

The first revenue source explored was for personal income taxes. The effective tax rate for different income brackets was presented together with the total amount of revenue generated. Respondents were then given the opportunity to increase or decrease the effective tax rates for each income bracket.

A similar process was applied for corporate taxes, though there was only one effective tax rate presented—19.2%. Respondents could increase or decrease this effective tax rate.

Two revenue options that were included in the president's budget were also included: increasing the top tax rate for dividends and capital gains from 23.8 to 28 percent, and charging a fee to large banks that have large amounts of uninsured debt.

Other revenue options presented were a carbon tax proposal modeled by the Congressional Budget Office, eliminating the special tax for carried interest, charging a tax for financial transactions, increasing the tax on alcoholic drinks, instituting a tax on sugary drinks and charging a capital gains tax on bequests.

Methodology

The survey was conducted September 17-October 28 with a panel consisting of a probability-based representative sample of 1,271 adult registered voters (margin of error: 2.7%). The panel was recruited by Nielsen Scarborough from its larger probability-based national panel. Responses were weighted by age, income, gender, education, and race with benchmarks from the Census' 2014 Current Population Survey of Registered Voters.

SUMMARY OF FINDINGS

Overview

Given an opportunity to modify the proposed FY2016 federal budget and adopt possible revenue increases, majorities made changes that reduced the deficit by $279.6 billion. Though they were not asked to try to address the limits of the Budget Control Act (which triggers sequestration in the event of overages), these changes would more than eliminate the $75 billion overage of the president's proposed FY2016 budget.

The changes on which Republicans and Democrats converged yielded $9.3 billion in spending cuts and $63.9 billion in revenue increases, for a total of $73.2 billion in deficit reduction—enough to eliminate most, but not all, of the sequester overages.

Assessment of General Arguments on the Budget

The arguments that it is critical to cut the deficit, that government should be smaller, and that the private market is better than government at investing in the future, were found convincing by large majorities; overwhelming majorities of Republicans concurred, but so did 47-72 percent of Democrats. The counter arguments that cutting the deficit should not be hurried in light of the still-recovering economy, that cutting government should not be pursued as an end in itself and that public investments are critical for the future, were also found convincing by large majorities; overwhelming majorities of Democrats concurred, but so did 44-60 percent of Republicans.

SPENDING

Specific Changes to Discretionary Spending

Presented the discretionary budget broken into 31 line items and given the opportunity to make changes, a majority reduced spending by $60 billion or more. The largest reduction was to national defense, which a majority reduced by $38 billion, including regular operations, intelligence, and nuclear weapons. Six billion was also cut for operations in Afghanistan and Iraq. Other areas cut by $2-4 billion were subsidies to agricultural corporations, military aid and the space program. A majority of Republicans cut $49.3 billion, while a majority of Democrats cut $52 billion.

REVENUE

Assessment of Arguments on Taxes

Two thirds found convincing the argument that tax cuts can stimulate economic growth (overwhelmingly among Republicans, a sight majority of Democrats), but equally large majorities found convincing the argument that it would be unwise to cut taxes with a major deficit still in place (overwhelming among Democrats, a slight majority of Republicans).

Three quarters found convincing the argument that the wealthy have not been paying their fair share of taxes (including nearly six in ten Republicans as well as nine in ten Democrats), while only half found convincing the argument that the wealthy already pay a lot and create jobs (two thirds of Republicans, one third of Democrats).

Two thirds found convincing the argument that it makes sense to use taxes to discourage people from doing things that are harmful and creates costs for society (including eight in ten Democrats and a slight majority of Republicans), while slightly fewer found convincing the argument that government should not be in the business of trying to regulate behavior (three quarters of Republicans, half of Democrats).

Revenue Changes with Bipartisan Support

Capital Gains and Dividends
A large bipartisan majority of two in three approved of the proposal in the president's budget to raise the top tax rate on capital gains and dividends from 23.8 to 28 percent. This generated $22 billion in revenue.

Fee on Uninsured Debt
A very large bipartisan majority of three in four approved of a proposal in the president's budget for imposing a fee of seven-tenths of one percent on the uninsured debt of very large financial institutions that have taken on large amounts of such debt, in an effort to discourage them from taking on high levels of risk, as well as to generate revenue. This fee generated $6 billion in revenue.

Personal Income Tax Rates
Respondents were given the opportunity to increase or decrease effective personal income tax rates by specific amounts. Large bipartisan majorities increased income tax rates 5% for those with incomes over $200,000, generating $34.1 billion. A bare overall majority (that did not include Republicans) also increased income taxes by 10% for those with incomes over $1,000,000, for an additional $15.3 billion in revenue, for a total of $49.4 billion.

Carried Interest
A very large bipartisan majority—three in four—approved of taxing 'carried interest' compensation to managers of private investment funds, such as hedge funds, as ordinary income. This would generate $1.8 billion in revenue.

Revenue Increases Recommended by Overall Majority, but Not Republicans

Carbon Tax
The largest change in revenue overall was from a new carbon tax, based on a proposal modeled by the Congressional Budget Office. A substantial majority recommended a tax on the amount of carbon dioxide that would increase energy costs approximately $5 a month per person and generate $100 billion in revenue. This proposal was not supported by a majority of Republicans.

Corporate Income Tax
Respondents were given the opportunity to increase or decrease corporate income tax rates by specific amounts. A bare majority recommended a 5% increase in corporate taxes, generating $18 billion in revenue. This did not include a majority of Republicans.

Tax on Sugary Drinks
A majority recommended a tax of half a cent per ounce on sugary drinks, generating $9 billion in revenue. A bare majority of Republicans did not support this proposal.

Alcohol Tax
A majority recommended an increase in the alcohol tax to 25 cents per ounce for all drinks, generating $6.4 billion. A bare majority of Republicans did not support this proposal.

Financial Transactions Tax
A majority recommended a tax of 0.01 percent on trades of stocks, bonds, and derivatives, generating $7.0 billion in revenue. A modest majority of Republicans did not support the proposal.

Revenues Not Supported by a Majority

Capital Gains on Bequests
Three in five rejected a proposal to apply the capital gains tax to bequests after the first $100,000, which would have generated $2 billion. Only a bare majority of Democrats were supportive while Republican and independents had substantial majorities opposed.

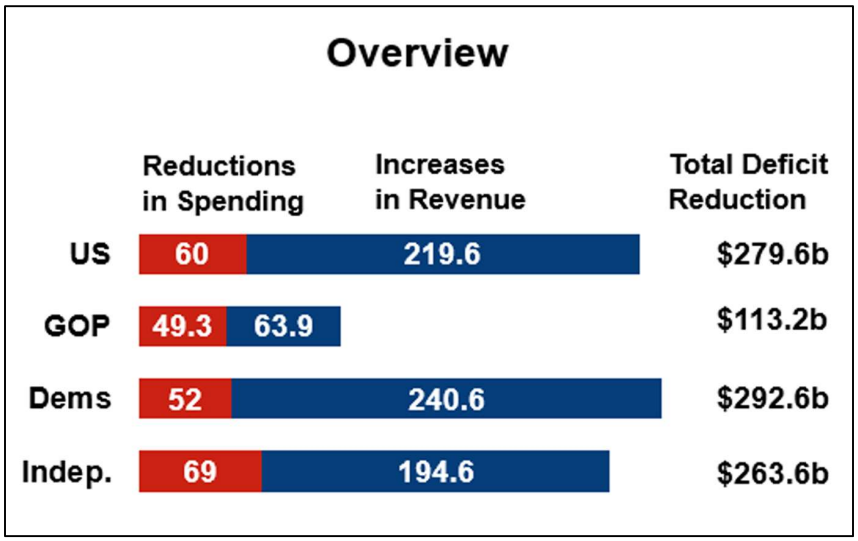
FINDINGS

OVERVIEW

Given an opportunity to modify the proposed FY2016 federal budget and adopt possible revenue increases, majorities made changes that reduced the deficit by $279.6 billion. Though they were not asked to try to address the limits of the Budget Control Act (which triggers sequestration in the event of overages), these changes would more than eliminate the $75 billion overage of the president's proposed FY2016 budget.

The changes on which Republicans and Democrats converged yielded $9.3 billion in spending cuts and $63.9 billion in revenue increases, for a total of $73.2 billion in deficit reduction—enough to eliminate most, but not all, of the sequester overages.

As they went through the simulation, majorities made changes that reduced the deficit by $279.6 billion by cutting $60 billion in spending and increasing revenues $219.6 billion. There were substantial variations by party:



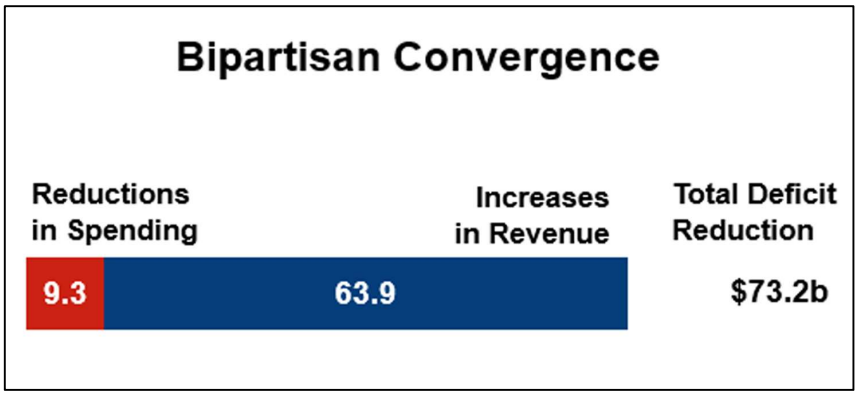
- Republicans reduced the deficit by $113.2 billion by cutting $49.3 billion in spending and increasing revenues $63.9 billion.

- Democrats reduced the deficit by a higher $292.6 billion, cutting $52 billion in spending (similar to the Republican level) while increasing revenues much more, by $240.6 billion.

- Independents were in between, reducing the deficit by $263.6 billion. However, they had the highest level of spending cuts ($69 billion), plus increases to revenues of $194.6 billion.

Bipartisan Convergence

While Republicans and Democrats differed significantly in many areas, majorities did converge on steps that would reduce the deficit by $73.2 billion--which would nearly cover the $75 billion by which the administration's budget exceeded the sequester caps of the Budget Control Act.



Convergences between Republicans and Democrats were more significant on the revenue side than on the spending side. On the revenue side, $63.9 billion in new revenues were found in common between Republicans and Democrats. On spending, Republicans and Democrats converged on $9.3 billion in reductions.

Assessment of General Arguments on the Budget

The arguments that it is critical to cut the deficit, that government should be smaller, and that the private market is better than government at investing in the future, were found convincing by large majorities; overwhelming majorities of Republicans concurred, but so did 47-72% of Democrats. The counter-arguments that cutting the deficit should not be hurried in light of the still-recovering economy, that cutting government should not be pursued as an end in itself and that public investments are critical for the future, were also found convincing by large majorities; overwhelming majorities of Democrats concurred, but so did 44-60% of Republicans.

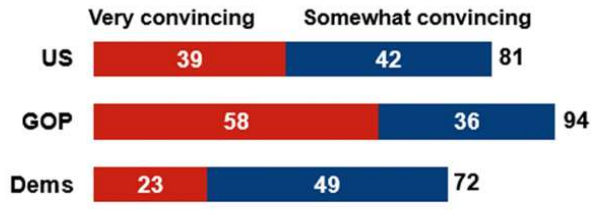
Before beginning to work with the numbers in the budget and revenue proposals, respondents were presented a background briefing on some of the issues surrounding the Federal budget and asked to assess competing arguments on the issues that are prevalent in the political discourse on the budget. These issues center on several key questions:

- How high a priority it should be to reduce the deficit
- The size of the federal government and how active it should be
- How important is it for the government to spend money on public investments

Whether Deficit Reduction Should be a High Priority

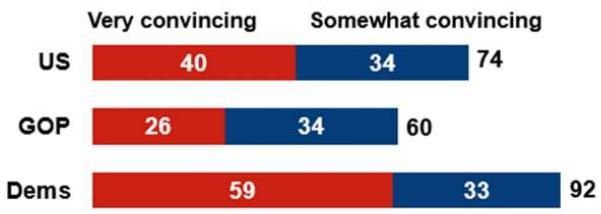
High Priority

We have been running huge deficits for years now, putting the national debt on a path to unsustainable heights. The debt held by the public is $13 trillion—three quarters of the size of the entire U.S. economy, and the Congressional Budget Office projects it will grow over the next decade. This debt is dragging down our economy. Uncertainty over taxes, inflation, and interest rates is hurting investment and this hurts job creation. We need to make reducing the deficit our first priority.



Not So High a Priority

It is important to reduce the deficit, but the deficit has already come down by more than half since 2009, and the reason is that more people are working and paying taxes. The most important thing right now is making sure that the economic recovery continues and that unemployment continues to go down. There are still many needs to be met and crucial investments to be made for our future that will create jobs. Cutting spending too sharply will throw people out of work and reduce tax revenues. Our first priority should be putting more people back to work.



The Importance of Reducing the Budget Deficit

To introduce the issue of the budget deficit respondents were presented two graphs putting the deficit into historical perspective:

- Deficits as a percentage of Gross Domestic Product (GDP), 1940-2015
- Debt held by the public as a percentage of GDP, 1940-2015

Thus they saw in the first graph that the deficit as a percentage of GDP has been falling since 2009 – but the second graph showed them that the national debt, as a percentage of GDP, has continued to rise. Respondents then assessed an argument declaring that reducing the deficit should be a top priority (see box). Four in five (81%) found it convincing (39% very). Virtually all Republicans (94%) thought so, but the argument also got a good reception among Democrats (72%).

The counter-argument called the deficit important, but said it should be put it in the wider context of sustaining the economic recovery (see box). Three in four found this argument convincing (40% very), including majorities in both parties. A smaller number of Republicans but still a majority found this convincing (60%), while almost all Democrats found it convincing (92%, 59% very).

The Size of Government

Respondents were first presented a graph showing how federal spending as a percentage of GDP has changed from 1940 to 2015. They were told that "based on the proposed 2016 federal budget, the entire federal government would represent 21% of the economy."

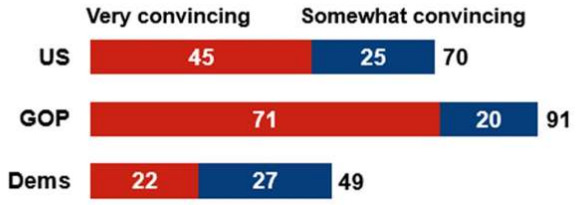
They then assessed an argument in favor of smaller government (see box). This was found convincing by seven in ten overall (45% very). An overwhelming 91% of Republicans found it convincing (71% very), as did half of Democrats (49%).

The counter-argument stressed that the federal government has been a larger share of the US economy in the past than it is now, and reminded respondents of the various services it provides. It did a bit less well than the prior argument, with two in three (64%) finding it convincing (29% very). A majority of Republicans found it unconvincing (56%), while almost nine in ten Democrats (86%) found it convincing.

Views on Government

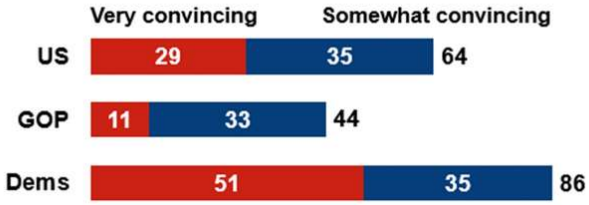
Government as a Problem

Too often, people think government is the solution, when it really is the problem. The federal government is susceptible to waste, fraud, and abuse. We've all seen how government can fail, whether by spending too much money or imposing heavy-handed regulations. Too often it gets involved in things that are best left to the private sector.



Government as Valuable

We shouldn't just cut government for its own sake. As a share of the economy, these days the federal government is at about the average for the last four decades and a bit smaller than it was under Ronald Reagan. More importantly, the government does many necessary things and we cannot just assume that the private sector will take care of them. People in government work to make sure that our food, air, and water are safe; that we have national parks; that we will be secure when we retire; that our airplanes are safe; and that we are protected from threats from abroad.



Public Investment

The last broad issue before respondents tackled the spending numbers concerned putting government money into public investments, "such as scientific and medical research, development of new sources of energy, development and maintenance of transportation infrastructure, and educating the population which provides the workforce."

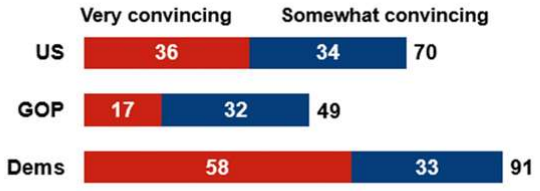
The pro argument held that "investing in the future…can bring big returns later on" and that corporations are necessarily profit-driven and cannot be counted on to deliver public goods. Seven in ten found this convincing (36% very), as did 91% of Democrats, but the argument divided Republicans (50% convincing, 49% unconvincing).

The counter-argument declared that the private sector is better than government at investing in the future, and that government attempts deflect capital from innovation in the private sector. This got almost as high a rating as the pro argument—68% convincing (37% very). Nine in ten Republicans found it convincing, but so did 47% of Democrats.

Public Investment

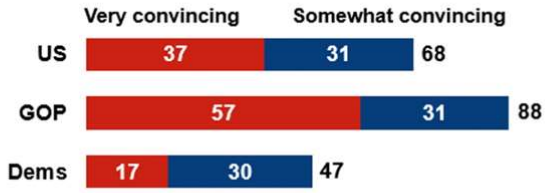
Good Idea

When making up a budget, we should be sure to not scrimp on investing in the future, which can bring big returns later on. Investments in scientific discoveries, medical breakthroughs, and new sources of energy, upgrading the work force, and improving our transportation infrastructure are key for America to be prosperous, and to compete with rising nations in the decades to come. We cannot count on corporations seeking short-term profits to provide these public goods. Furthermore, such investments create good jobs in the short run, as well as a higher quality of life in the long run.



Private Sector Better

Investment in the future is important, but the private sector is much better at it than government. The government is inefficient and wasteful. And when government officials "invest" taxpayers' money they think more about what is good for their short-term political interests than the long-term interests of the country. Thus there is no coherent and stable plan. Furthermore, when the government spends money on its pet projects, this pulls capital away from the private sector; those resources would be better left free for the natural innovation that responds to market demand.



SPENDING

Specific Changes to Discretionary Spending

Presented the discretionary budget broken into 31 line items and given the opportunity to make changes, a majority reduced spending by $60 billion or more. The largest reduction was to national defense, which a majority reduced by $38 billion, including regular operations, intelligence, and nuclear weapons. Six billion was also cut for operations in Afghanistan and Iraq. Other areas cut by $2-4 billion were subsidies to agricultural corporations, military aid and the space program. A majority of Republicans cut $49.3 billion, while a majority of Democrats cut $52 billion.

In the full sample, out of the $1,284 billion[1] shown respondents as the proposed discretionary budget, majorities cut $60 billion—a trim of 4.7 percent. Of the 31 spending categories, majorities left 17 unchanged. No category received an increase.

Of the $60 billion that was cut, over half ($38 billion) came from national defense. Thirty-four billion came from the base budget of the Defense Department; $3 billion from the intelligence agencies; and $1 billion from nuclear weapons spending at the Department of Energy. Outside the realm of the Budget Control Act, Overseas Contingency Operations (OCO), which covers operations in Afghanistan and Iraq, was cut by $6 billion.

The remaining $16 billion in reductions were spread widely, led by a cut to subsidies for agricultural corporations and farm equipment manufacturers—$4 billion (a 44 percent cut). Land management and conservation was cut by $2 billion. In the sciences, the space program was cut $2 billion and medical research $1 billion. Federal administration of justice for the enforcement of federal laws received a $1 billion cut.

While majorities made some reductions in the international affairs budget, only military aid was cut more than $1 billion (at $2 billion). Slight cuts of $1 billion were applied to the State Department, the Economic Support Fund for strategic countries, development assistance, and global health. Funding for humanitarian assistance and the UN and UN peacekeeping were left unchanged.

Bipartisan Convergence

While Republicans and Democrats differed significantly in many areas, majorities in both parties did converge on $9.3 billion in reductions—the most prominent being a $3 billion cut to subsidies to agricultural corporations. On defense, they converged on modest cuts to OCO ($1 billion) and the intelligence agencies ($2 billion). In international affairs, they converged on cuts of $1 billion each to military aid, aid to strategic countries, and the State Department. And both were willing to nick the Justice Department's budget by $0.3 billion.

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[1] The Office of Management and Budget's 2016 budget document gives a proposed discretionary spending total of $1,194 billion. The simulation showed respondents a slightly higher $1,284 billion, because without including mandatory spending in a few categories, respondents would get a highly misleading picture of the government's activity. Most notably, veterans' benefits would have appeared extremely low.

DISCRETIONARY SPENDING
Changes Made by Majorities

Budget Areas Modified by Majorities	FY 2016 President's Budget (billions)	National Citizen Cabinet	Republi-cans	Demo-crats	Indepen-dents
Reduced by majorities in both parties					
Operations in Afghanistan and Iraq	51	-6	-1	-11	-6
Subsidies to agricultural corporations	9	-4	-4	-3	-4
Defense intelligence	53	-3	-2	-3	-3
Military aid	7	-2	-1	-2	-2
ESF: aid to countries of strategic interest	6	-1	-2	-1	-2
Federal enforcement of federal laws	24	-1	-0.3	-2	-2
State Department	11	-1	-1	-1	-1
Total:	**161**	**-18**	**-11.3**	**-23**	**-20**
Reduced by majority overall and one party					
Defense: general operations	534	-34	0	-34	-34
Space program	18	-2	-3	0	-2
Environment: land management	17	-2	-2	0	-2
Medical research	33	-1	-3	0	-3
Development assistance	11	-1	-4	0	-1
Global health: medical aid	8	-1	-3	0	-2
Defense: nuclear weapons	19	-1	0	-1	-1
Total:	**640**	**-42**	**-15**	**-35**	**-45**
Not reduced by majority overall, but changed by majority in one or more parties					
Housing for elderly and low-income	46	0	-6	0	-1
Homeland Security	48	0	0	-3	-1
Science	13	0	-3	0	-1
UN and UN peacekeeping	4	0	-2	0	-1
Transportation: mass transit	20	0	-2	0	0
Education: K-12	32	0	-2	+1	0
Transportation: highways	53	0	-1	0	0
Higher education	28	0	-3	+2	0
Humanitarian assistance	6	0	-1	0	0
Environment: pollution	9	0	-1	+1	0
Job training	7	0	-1	+1	0
Energy: alternatives, efficiency	3	0	-1	+2	0
Special education: students with disabilities	13	0	0	+1	0
Subsidies to small farmers	3	0	0	+1	0
Total:	**285**	**0**	**-23**	**+6**	**-4**

Areas presented, but not modified:
Transportation: air travel and railroads; Federal prison system; Veteran's benefits

Republicans' Changes to Discretionary Spending

Among Republicans, majorities cut $49.3 billion—a trim of 3.8 percent. No category received an increase, and all but 8 of the 31 categories were reduced to some degree.

Unlike the full sample, only $2 billion of Republicans' cuts came from national defense. Republicans cut the intelligence agencies by $2 billion, leaving the base defense budget and nuclear weapons at the same levels. Overseas Contingency Operations were cut by $1 billion. As a partial consequence, Republicans cut $10.7 billion less than the full sample did, and $2.7 billion less than Democrats.

Republican majorities made their largest single reduction to housing programs ($6 billion), followed by a $4 billion cut to subsidies for agricultural corporations, identical to the full sample. All three science categories (science in general, the space program, medical research) were cut by $3 billion each. Republicans cut land management by $2 billion and environmental regulation by $1 billion.

Republican majorities also cut the international affairs budget, especially development assistance ($4 billion) and global health ($3 billion). The UN and UN peacekeeping, and aid to strategic countries were cut by $2 billion each. The State Department, military aid, and humanitarian assistance all received cuts of $1 billion each.

In transportation, Republican majorities cut mass transit ($2 billion) and highways ($1 billion), but not air and rail. In education, Republicans cut higher education ($3 billion) and K-12 education ($2 billion), along with job training ($1 billion). They also cut renewable energy and energy efficiency by $1 billion.

Democrats' Changes to Discretionary Spending

Democratic majorities made $61 billion in cuts, but unlike either the full sample or Republicans, they also made some spending increases, totaling $9 billion. Thus their net reduction in discretionary spending was $52 billion.

Democrats made cuts totaling $38 billion to national defense. Acting just as the full sample did, $34 billion was cut from the base budget of DoD, $3 billion from intelligence agencies, and $1 billion from nuclear weapons. More unusually, Democrats reduced OCO by $11 billion—a 22 percent cut, about twice that of the full sample.

Democrats also cut subsidies to agricultural corporations ($3 billion), the Department of Justice ($2 billion), and Homeland Security ($3 billion).

In the international affairs budget, Democrats, like the rest of the sample, made cuts to military aid ($2 billion), aid to strategic countries ($1 billion) and the State Department ($1 billion). However, they preserved funding for humanitarian assistance, development assistance, global health and the UN.

Democrats increased every aspect of education: higher education ($2 billion); K-12 and special education ($1 billion each); and job training ($ 1 billion). And they made minor increases in several other areas: renewable energy and efficiency (up $2 billion); the environment and pollution control (up $1 billion); and subsidies to farms smaller than 500 acres (up $1 billion).

REVENUE

Assessment of Arguments on Taxes

Two thirds found convincing the argument that tax cuts can stimulate economic growth (overwhelmingly among Republicans, a slight majority of Democrats), but equally large majorities found convincing the argument that it would be unwise to cut taxes with a major deficit still in place (overwhelming among Democrats, a slight majority of Republicans).

Three quarters found convincing the argument that the wealthy have not been paying their fair share of taxes (including nearly six in ten Republicans as well as nine in ten Democrats), while only half found convincing the argument that the wealthy already pay a lot and create jobs (two thirds of Republicans, one third of Democrats).

Two thirds found convincing the argument that it makes sense to use taxes to discourage people from doing things that are harmful and creates costs for society (including eight in ten Democrats and a slight majority of Republicans), while slightly fewer found convincing the argument that government should not be in the business of trying to regulate behavior (three quarters of Republicans, half of Democrats).

Before beginning to assess options for revenues, respondents assessed broad arguments on the proper role of taxes. They rated a pair of arguments each on:

- Whether it is important to reduce taxes
- What the income tax rate should be for people with very high incomes
- Whether taxes should be used to discourage certain things that create costs for society (tobacco, alcohol, pollutants)

Tax Reduction

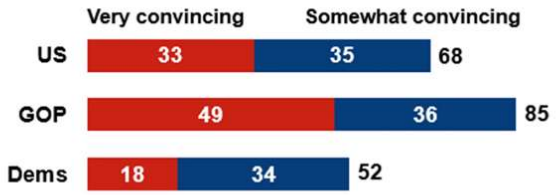
Respondents first assessed an argument that tax cuts stimulate economic growth, mentioning times in the 1960s and 1990s when tax reductions were followed by economic expansion (see box). About two thirds (68%) found this argument convincing (33% very), as did 85% of Republicans. A modest majority of Democrats were also sympathetic to it (52% convincing, 47% unconvincing).

Respondents then read a counter-argument that declared "we still have a major deficit," and pointed to other times in past decades when taxes were higher but this was accompanied by economic growth. This con argument did just about as well, with its reception practically a mirror image—66% found it convincing, as did 84% of Democrats and 52% of Republicans (48% unconvincing).

Reducing Taxes

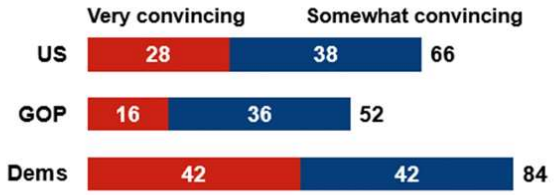
Pro

For the economy to grow, it is important to reduce tax rates. There have been numerous cases when taxes were cut and the economy grew: under Kennedy in the 1960s, or when capital gains went down in 1997. All across the country businesses are being held back by high taxes from growing and creating more jobs. This makes investors hesitate from investing, because they are not confident they will get a good return. All this dampens the economy. Lower tax rates will energize the economy and free up the natural vitality of our system.



Con

We still have a major deficit—it would be unwise and shortsighted to cut taxes, as this would add to the debt. It is a myth that lower taxes necessarily help the economy. In the 1950s and '60s taxes were far higher--yet the economy boomed and was better than at any time since. After 2001, when taxes were cut, the economy did not perform as well as in the 1990s when they were higher. What is most important is that we have a realistic and balanced approach that considers what we really need from government and what taxes are needed to pay for it.



Increasing Taxes on High Incomes

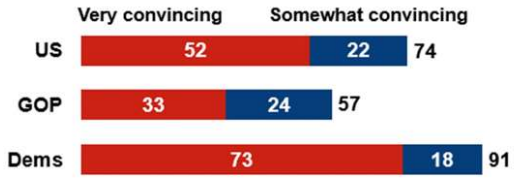
The pro argument respondents assessed proposed higher income taxes for the top levels, saying this is justified by increased inequality (see box). This argument did very well, with 74% finding it convincing and a 52% majority very convincing. A clear majority of Republicans found it convincing (57%; unconvincing, 43%). Democrats were almost unanimous on it (91% convincing).

The rebuttal pointed out that higher-income people got a new tax increase just recently, and went on to make the case that such people can create jobs and should not be discouraged from doing so at a time when recovery from the recession is still ongoing. This argument was not very successful, leaving respondents essentially divided (51% unconvincing, 49% convincing). It was convincing to 68% of Republicans, but only 33% of Democrats.

Increasing Taxes on High Incomes

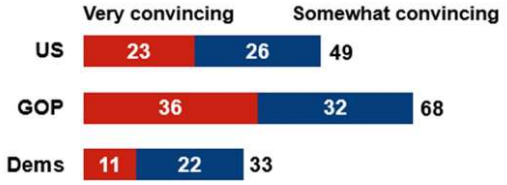
Pro

Over the last several decades, the wealth of most Americans has barely grown at all, even though Americans workers have become far more productive. Meanwhile, the wealth of the people in the top brackets has grown by leaps and bounds, so that the top 1% now has more wealth than the entire bottom 80%. A key reason is that taxes on upper incomes have been cut and are far lower than they were just decades ago, as well as being lower than they are in most developed democracies. It's great that the wealthy have succeeded, but it is only fair that they pay their share—and they can afford it.



Con

The people in the top already pay a lot. In reality, the one in ten who are best off are paying two-thirds of the amount the federal government collects in income tax—and the top tax rate already went up in 2013. Furthermore, people with high incomes play an important role in the economy. Because they are the ones that have amassed capital, they can take the risk to create new businesses that hire people. With the economy still recovering, this is no time to pursue more 'soak the rich' policies. We want to encourage them to invest and create jobs.



Using Taxes as Disincentives

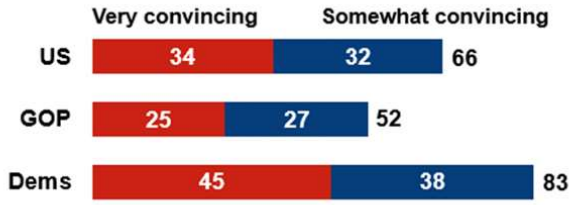
The last pair of arguments began with one praising taxes used as disincentives for activities that create costs to society, such as high taxes on cigarettes, and pointed out that such taxes lighten the tax burden of citizens as a whole (see box). This was found convincing by two thirds (66%, 34% very), including a modest majority of Republicans (52%). Four in five Democrats found it convincing (83%).

The con argument that followed invoked the "nanny state" as something to be avoided, and argued that these kinds of taxes fall disproportionately on people with low or modest incomes. This argument did only slightly less well, with 63% finding it convincing (35% very). Among Republicans it was very well received (75% convincing; 48% very), while Democrats were divided (51% unconvincing, 49% convincing).

Using Taxes as Disincentives

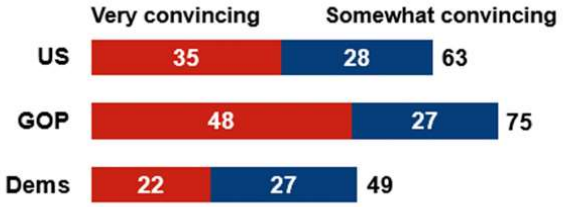
Pro

Let's face it: taxes are no fun. So, it makes sense to use taxes to discourage things that can be harmful and create costs for society that taxpayers end up paying for. Tobacco should be taxed to discourage smoking and reduce related healthcare costs. Alcohol should be taxed to discourage excessive drinking and reduce drunk driving accidents. Pollution should be taxed to discourage things that hurt the environment and public health, and to encourage alternatives. Every dollar raised this way is a dollar that doesn't have to be taken out of working people's paychecks.



Con

Government should not be in the business of trying to regulate people's behavior through taxes. That leads to a nanny state, imposing its ideas about personal virtue on individuals, and poking into our private affairs. It also can mean imposing more taxes on people with modest incomes: for example, making someone who has a long commute pay more to get to work. Also this kind of thing makes the tax code much more complex and favors some industries over others. We should use the tax code to raise revenues in the most efficient, pro-growth way.



REVENUE CHANGES WITH BIPARTISAN SUPPORT

Capital Gains and Dividends

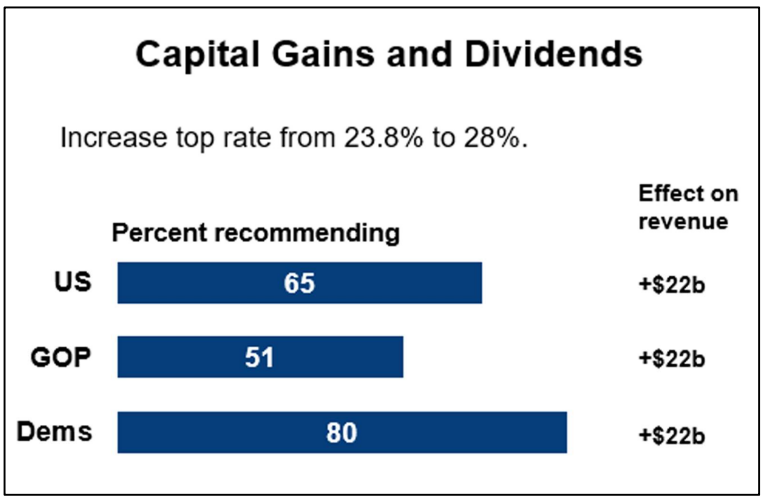
A large bipartisan majority of two in three approved of the proposal in the president's budget to raise the top tax rate on capital gains and dividends from 23.8 to 28 percent. This generated $22 billion in revenue.

Respondents were told about that the plan in the president's proposed budget as follows:

> As you may know, income from capital gains and dividends is taxed separately than other kinds of income (such as income from wages and salaries). **Capital gains** are profits from the

sale of certain types of investments, such as property or shares of stock. **Dividends** are profits distributed to a company's shareholders.

Currently, the top capital gains and dividends tax rate is 23.8 percent, which is lower than taxes on ordinary income from wages and salaries. The president's budget calls for an increase in capital gains and dividend taxes for high-income earners. The new top tax rate would rise from 23.8 percent to 28 percent.



This proposal would only affect high-income earners:

- Married couples making $500,000 or more
- Single persons earning $430,000 or more.

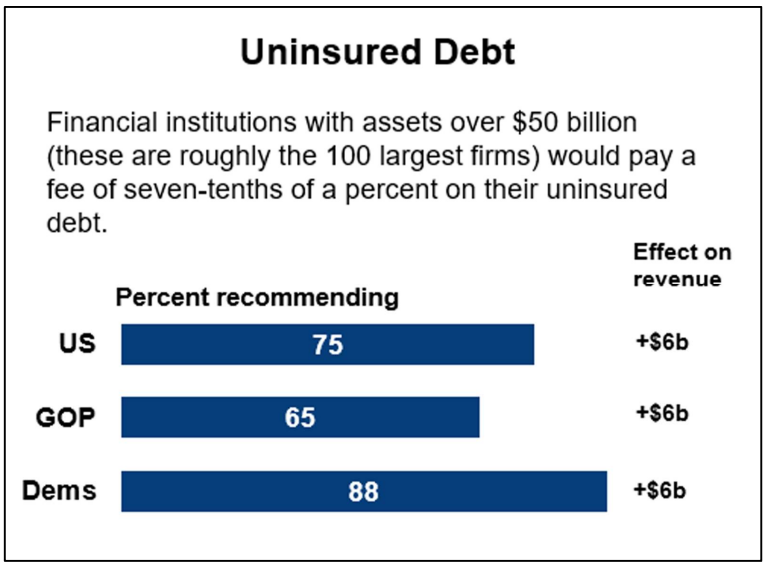
Two-thirds (65%) elected to raise the top marginal tax rate on capital gains and dividends from 23.8 to 28 percent, which raised $22 billion. Thirty-five percent were opposed. This revenue change was selected by 51% of Republicans and 80% of Democrats (independents, 62%).

Fee on Uninsured Debt

A very large bipartisan majority of three in four approved of a proposal in the president's budget for imposing a fee of seven-tenths of one percent on the uninsured debt of very large financial institutions that have taken on large amounts of such debt, in an effort to discourage them from taking on high levels of risk, as well as to generate revenue. This fee generated $6 billion in revenue.

Respondents read that:

The president's budget calls for imposing a fee on very large financial institutions (such as banks) that have taken on large amounts of uninsured debt, in an effort to discourage them from taking on high levels of risk, as well as to generate revenue. Institutions with assets over $50 billion (these are roughly the 100 largest firms) would pay a fee of seven-tenths of a percent on their uninsured debt.



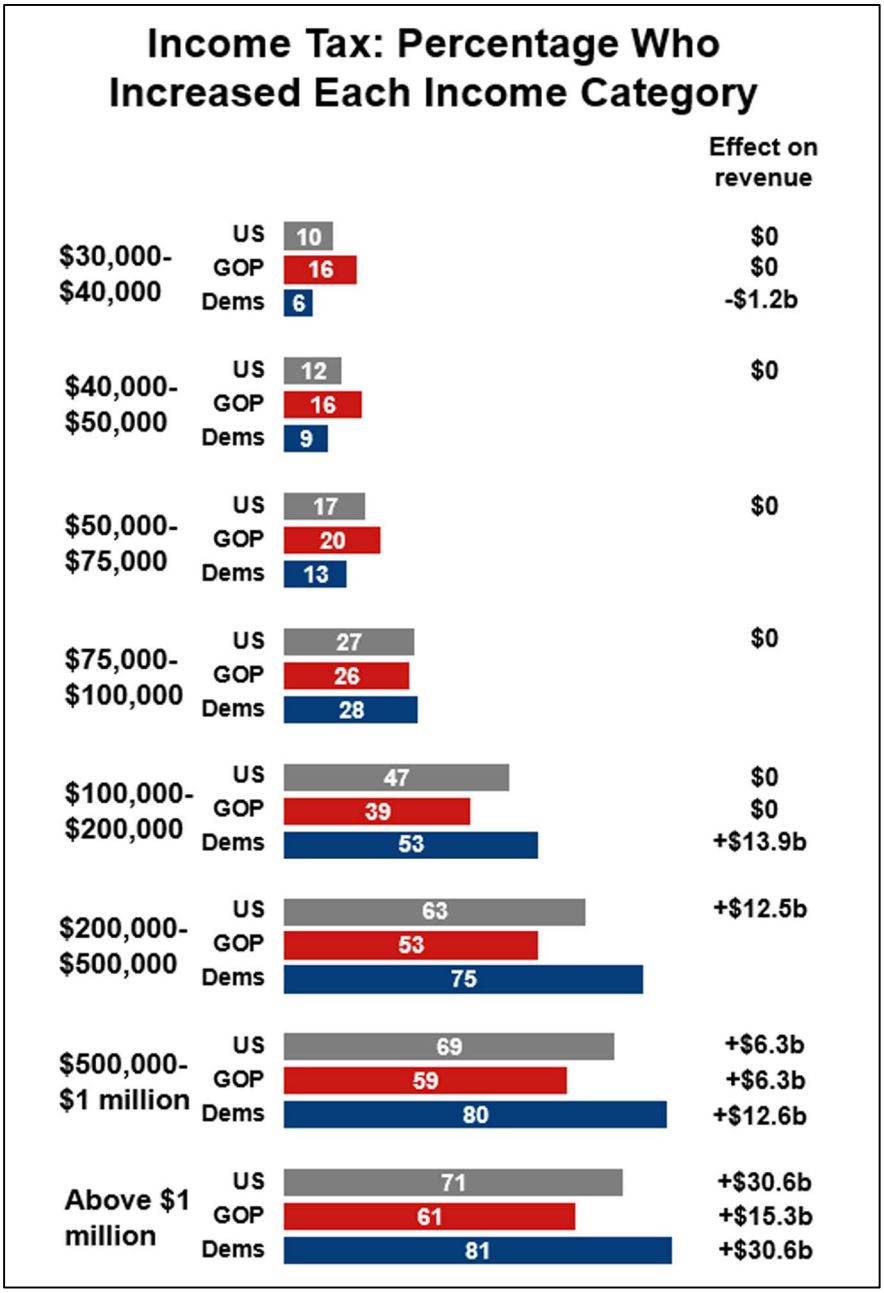
A robust bipartisan majority of 75% endorsed this plan, which generated $6 billion in revenue. Two thirds (65%) of Republicans were supportive of this fee—one of the highest levels of support for a revenue increase among Republicans, though it was explicitly presented in as the president's proposal. Almost nine in ten Democrats agreed (88%), as did 69% of independents.

Personal Income Tax Rates

Respondents were given the opportunity to increase or decrease effective personal income tax rates by specific amounts. Large bipartisan majorities increased income tax rates 5% for those with incomes over $200,000, generating $34.1 billion. A bare overall majority (that did not include Republicans) also increased income taxes by 10% for those with incomes over $1,000,000, for an additional $15.3 billion in revenue, yielding a total of $49.4 billion.

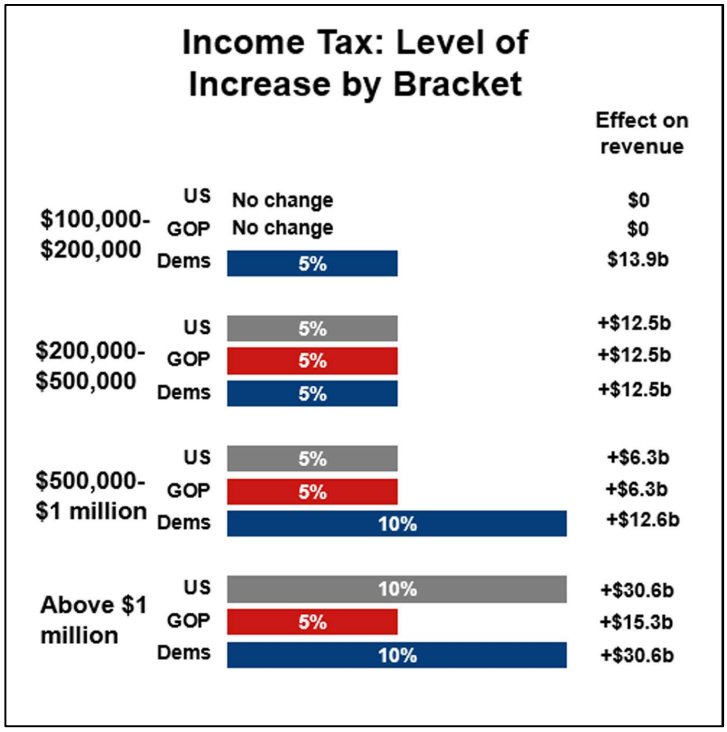
For personal income tax rates respondents were given detailed instructions. It was explained that they were dealing with effective rates, not top marginal rates; that incomes below $30,000, which pay very little income tax, were not part of this picture; and that (as they had already heard via an argument) higher incomes just got a rate increase in 2013. The instructions read in part:

> The next screen shows the average *effective income tax rates* for people with different levels of income. These are lower than a person's marginal tax bracket, which you may have heard about. The effective tax rate shown is the percentage of their adjusted gross income that people actually pay, after exemptions, credits and deductions.
>
> As you may know, before 2013 there was much discussion about whether the temporary income tax cuts that were put in place in



2001 and 2003 should be made permanent. In 2013 Congress voted to make these income tax cuts permanent on all income below $400,000 (or $450,000 for a married couple filing jointly). The tax rate on income above $400,000 was increased.

The table will give you the opportunity to keep the rates currently in place, or to increase or reduce the effective rates for one or more income category. Each selection shows how much revenue it would generate, if any.



They were then given the opportunity to increase or decrease the rates of eight different income brackets by increments of 5 percent up to 20 percent. The effect this would have on the effective tax rate and the amount of revenue generated was specified at each level. Naturally, decreases in the tax rates resulted in increases in the budget deficit presented in the bubble that moved with them through the exercise, just as increases in the tax rates resulted in decreases to the deficit.

There was not majority support for increasing or decreasing tax rates for incomes under $200,000. However, all income groups above $200,000 were raised by at least five percent, in all cases by large majorities:

.

- 63% for incomes between $200,000 and $500,000
- 69% for incomes between $500,000 and $1 million
- 71% for incomes above $1 million

This increase of 5 percent on all incomes above $200,000 raised $34.1 billion in revenues.

A bare majority went further and took the increase on incomes over $1 million up to 10 percent. Fifty percent of respondents chose the 10 percent level while 48% made other choices (5 percent increase, 21%; no change, 15%; decreases to the rate, 12%). This generated an additional $15.3 billion in revenue, raising the total to $49.4 billion for this source.

Majorities of Republicans only differed from the full sample by not extending an increase to 10 percent for incomes above $1 million. Thus Republicans raised $34.1 billion from increasing effective rates.

Democrats' increases started at incomes of $100,000 and were more considerable. From $100,000 to $500,000, Democrats picked a 5 percent increase; from $500,000 up, a 10 percent increase. Consequently, they raised a higher $69.6 billion from this source.

Carried Interest

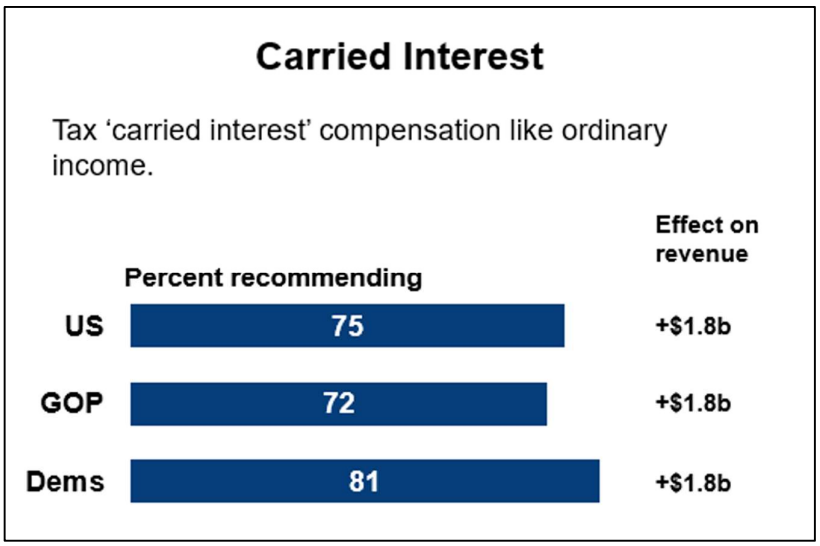
A very large bipartisan majority—three in four—approved of taxing 'carried interest' compensation to managers of private investment funds, such as hedge funds, as ordinary income. This would generate $1.8 billion in revenue.

Respondents first learned how fund managers are currently paid and taxed:

> Managers of private investment funds, such as hedge funds, are paid in part by giving them a percentage of the profits of the firm even 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 20%.

And then were presented the proposal to:

> …tax this "carried interest" compensation like ordinary income, such as wages. This would raise extra revenue of $1.8 billion.



Taxing 'carried interest' as ordinary income was recommended by three in four (75%), with only 23% opposed.

This was one of the highest levels of consensus registered in the survey. This change was adopted by very large majorities of Republicans (72%) as well as Democrats (81%).

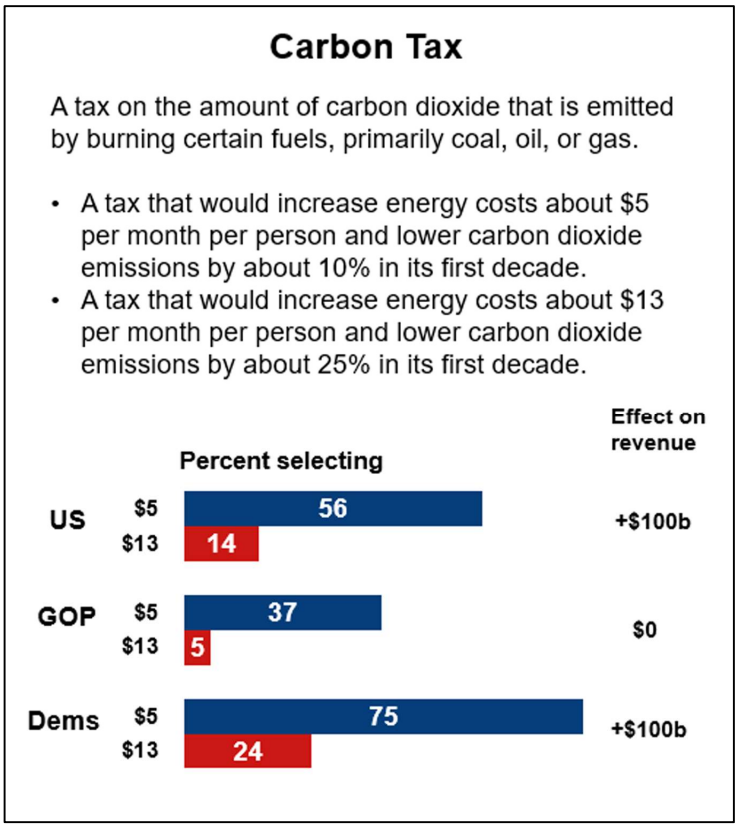
REVENUE INCREASES RECOMMENDED BY OVERALL MAJORITIES BUT NOT REPUBLICANS

Carbon Tax

The largest change in revenue overall was from a new carbon tax, based on a proposal modeled by the Congressional Budget Office. A substantial majority recommended a tax on the amount of carbon dioxide that would increase energy costs approximately $5 a month per person and generate $100 billion in revenue. This proposal was not supported by a majority of Republicans.

Respondents were presented a tax on carbon dioxide that was modeled by the Congressional Budget Office. It read:

Another possibility is to impose a tax on the amount of carbon dioxide that is emitted by burning certain fuels. These fuels are primarily coal, oil, or gas, which are currently the largest sources of energy in the economy. The carbon dioxide from these fuels is a gas that is regarded by the National Academy of Sciences as contributing to climate change, and burning such fuels also contributes to other forms of air pollution.



They were then presented three options:

1. Do not have a carbon tax
2. Have a carbon tax that will increase energy costs about 5 dollars per month per person and also lower carbon dioxide emissions by about 10% in its first decade (effect on revenue: $100 billion)
3. Have a carbon tax that will increase energy costs about 13 dollars per month per person and also lower carbon dioxide emissions by about 25% in its first decade (effect on revenue: $245 billion)

Overall 56% selected at least a carbon tax that would increase energy costs by $5 per person per month; 42% expressly selected this and another 14% selected the higher level. Thus a majority chose a tax that would bring in at least $100 billion toward deficit reduction.

A robust three in four Democrats (75%) approved of a carbon tax at least at the $5 per person per month level—51% chose the $5 per person level, while 24% chose the $13 per person level. A 54% majority of independents adopted at least a $5 per person tax, with 45% declining to do so.

Among Republicans, 62% did not select either carbon tax; 32% selected the $5 per person per month level, and 5% the $13 level.

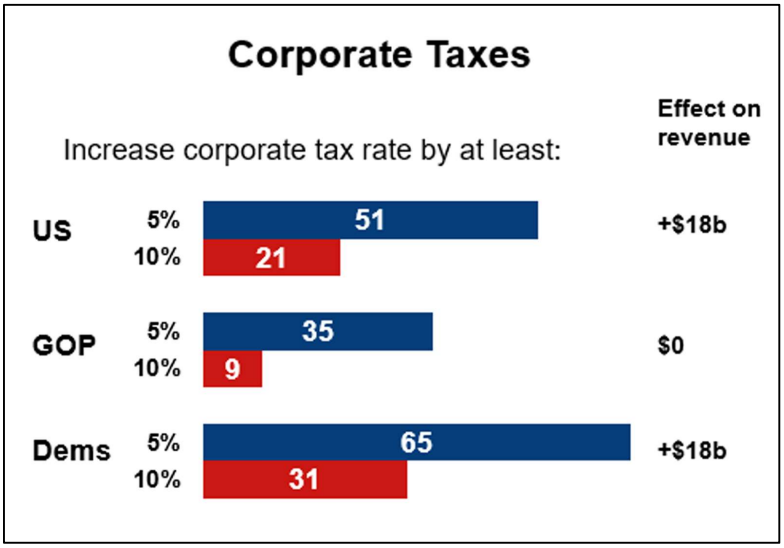
Corporate Income Tax

Respondents were given the opportunity to increase or decrease corporate income tax rates by specific amounts. A bare majority recommended a 5% increase in corporate taxes, generating $18 billion in revenue. This did not include a majority of Republicans.

Corporate income taxes were introduce to respondents as follows:

Corporations or businesses pay a tax on their profits. Just like individuals, corporations have exemptions, credits and other deductions that are applied to their profits before calculating their income tax. This screen shows the average *effective tax rate* for corporations. The percentage of their profits that they actually pay is estimated by the General Accountability Office at 19.2%. You now have an opportunity to raise revenues or cut corporate income taxes by adjusting this rate.

Respondents could keep the effective rate the same, or increase it or decrease it in increments of five percent by as much as 20 percent. The effect this would have on the effective tax rate and the amount of revenue generated was specified at each level. Naturally, decreases in the tax rates resulted in increases in the budget deficit presented in the bubble that moved with them through the exercise, just as increases in the tax rates resulted in decreases to the deficit.



Fifty-one percent chose to increase the corporate rate by at least 5 percent. Thirty percent selected a 5 percent increase and another 21 percent selected higher levels. A fifth (22%) made no change in the rate, and 27% made some decrease in the rate.

Among Democrats, two thirds (65%) recommended at least a 5 percent increase, with 34% selecting this level and 31% going higher. A fifth (20%) made no change and 15% made some decrease. Fifty percent of independents recommended at least a 5 percent increase.

Among Republicans, just 35% increased the corporate tax rate, while two thirds (65%) either made no change in the rate (26%) or lowered it (39%).

Tax on Sugary Drinks

A majority recommended a tax of half a cent per ounce on sugary drinks, generating $9 billion in revenue. A bare majority of Republicans did not support this proposal.

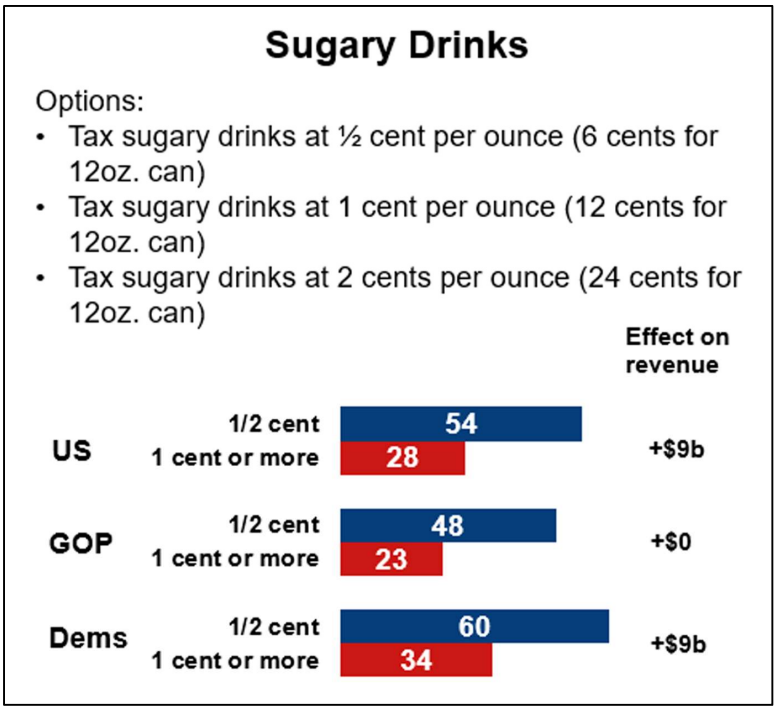
The proposal for a new tax on sugary drinks was presented as follows:

> 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. Here are some options, with the extra revenue they would raise.
>
> 1 Do not tax sugary drinks, OR
>
> Tax sugary drinks at:
>
> 2 ½ cent per ounce (6 cents for a typical 12 oz. can) +$9 B
>
> 3 1 cent per ounce (12 cents for a typical 12 oz. can) +$18B
>
> 4 2 cents per ounce (24 cents for a typical 12 oz. can) +$36B

A majority of 54% recommended a tax of at least a half-cent per ounce: 26% chose the half-cent level, 12% the one -cent level, and 16% the 2-cent level. Forty-six percent recommended not to impose a tax on sugary drinks.

Among Democrats, 60% recommended a tax, with 26% choosing the half-cent levels and 34% going higher; 40% recommended no tax. Among independents a bare majority of 51% recommended a half-cent tax.

Just under half of Republicans—48%—chose to adopt a tax on sugary drinks of at least a half-cent; a bare 51% majority recommended against a tax.



Alcohol Tax

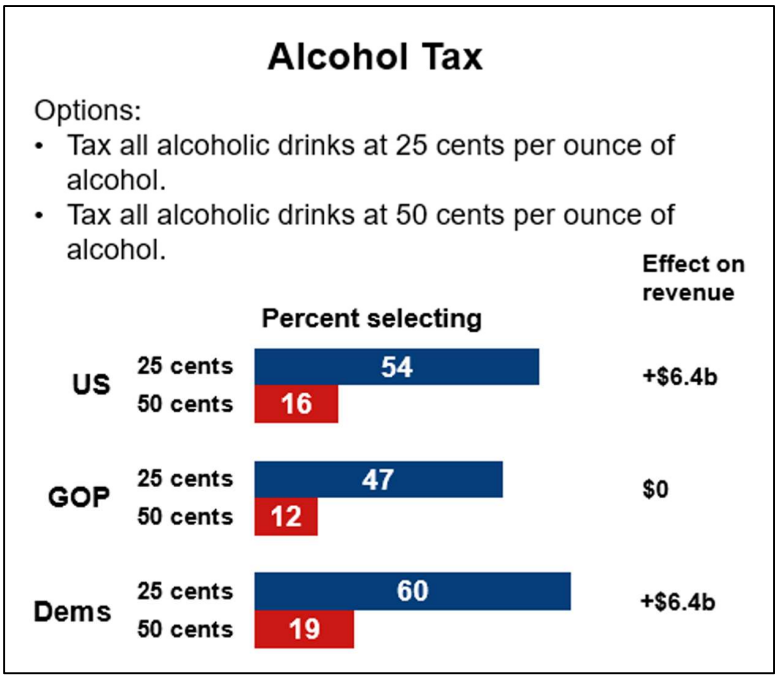
A majority recommended an increase in the alcohol tax to 25 cents per ounce for all drinks, generating $6.4 billion. A bare majority of Republicans did not support this proposal.

Respondents were first told about the current levels of federal taxation of alcoholic drinks.

> 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.

Then they were offered three positions: leave the alcohol tax as it is; raise it by taxing all alcoholic drinks at 25 cents per ounce of alcohol (generating $6.4 billion in revenue); or do so at 50 cents an ounce (generating $12.8 billion).

A majority (54%) supported changes to alcohol taxes such that all alcoholic beverages would be taxed at least at a rate of 25 cents per ounce of alcohol, yielding $6.4 billion. Thirty-eight percent chose the 25 cent rate, while 16% chose the 50-cent rate.



Three in five Democrats (60%) chose to tax alcohol at least at 25 cents an ounce, raising $6.4 billion. Forty-one percent chose the 25-cent level and 19% the 50-cent level. Independents were almost exactly like the full sample. Among independents 54% chose at least the five-cent level, also raising $6.4 billion.

Unlike the full sample, a bare majority of Republicans (51%) chose not to change taxes on alcohol. However, 47% chose at least the 25-cent level—including 12% who went up to the 50-cent level.

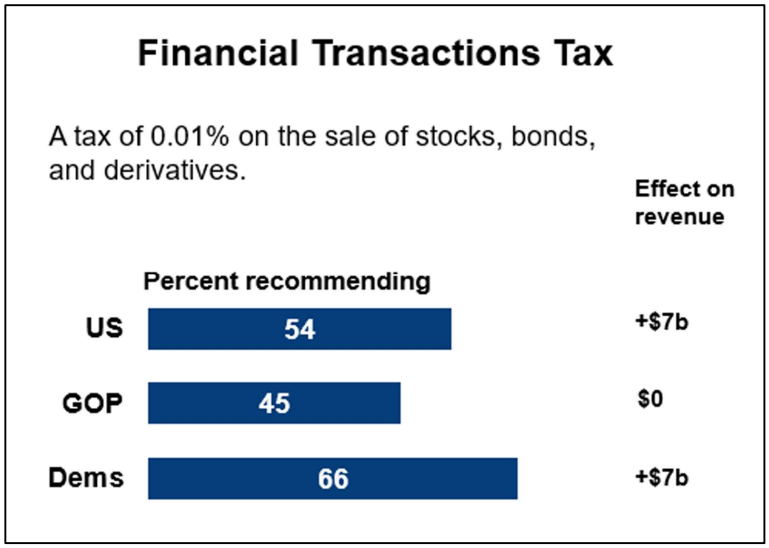
Financial Transactions Tax

A majority recommended a tax of 0.01 percent on trades of stocks, bonds, and derivatives, generating $7.0 billion in revenue. A modest majority of Republicans did not support the proposal.

The idea of a financial transactions tax was presented as follows:

> Every day that financial markets are open, roughly $1 trillion worth of stocks, bonds and derivatives are traded. This proposal would tax each transaction by a hundredth of one percent (0.01%) of the value of the security being traded.

They were also told that this would generate $7 billion in revenue.



Fifty-four percent recommended a financial transactions tax, while 44% recommended against it. Two thirds of Democrats (66%) were positive. A modest majority of Republicans were opposed (53%), while 45% favored it.

REVENUES NOT SUPPORTED BY A MAJORITY

Capital Gains on Bequests

Three in five rejected a proposal to apply the capital gains tax to bequests after the first $100,000, which would have generated $2 billion. Only a bare majority of Democrats were supportive, while Republicans and independents had substantial majorities opposed.

The proposal was explained to respondents as follows:

> As you may know, currently, when someone dies and wills such things as stock or real estate to an heir, the person who inherits does not pay any capital gains tax on bequests, whether their value has grown or not.

In this proposal, there would still be no capital gains tax on bequests for a business owned and operated by the family, or for:

- the first $100,000 of gains ($200,000 for a married couple), or
- gains on a personal home that has gone up in value--up to $250,000 for an individual, $500,000 for a couple.

Above these levels an heir would have to pay capital gains tax. For the highest-income bracket, the rate for this tax would be 28%.

Respondents were told this proposal would provide $2 billion toward deficit reduction.

Sixty-one percent recommended against the proposal, while only 38% selected it. Among Republicans this was more lopsided (75% to 25%). Sixty-three percent of independents were also opposed.

Democrats were only weakly supportive, with 51% recommending the proposal and 48% recommending against.

Voice Of the People is a non-partisan organization that seeks to re-anchor our democracy in its founding principles by giving 'We the People' a greater role in government. VOP furthers the use of innovative methods and technology to give the American people a more effective voice in the policymaking process.

VOP is working to urge Congress to take these new methods to scale so that Members of Congress have a large, scientifically-selected, representative sample of their constituents—called a Citizen Cabinet—to be consulted on current issues and providing a voice that accurately reflects the values and priorities of their district or state.

PROGRAM FOR PUBLIC CONSULTATION
SCHOOL OF PUBLIC POLICY, UNIVERSITY OF MARYLAND

The **Program for Public Consultation** seeks to improve democratic governance by consulting the citizenry on key public policy issues governments face. It has developed innovative survey methods that simulate the process that policymakers go through—getting a briefing, hearing arguments, dealing with tradeoffs—before coming to their conclusion. It also uses surveys to help find common ground between conflicting parties. The Program for Public Consultation is part of the School of Public Policy at the University of Maryland.

ACKNOWLEDGEMENTS

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This survey was fielded to a national panel from September 17 - October 28, 2015 by Nielsen Scarborough and Communications for Research, Inc. The national sample size is 1,271 and the margin of error is 2.7%

Richard Parsons, VOP's Executive Director, and Rich Robinson, VOP's Director of Communications, managed communications with U.S. Congressional offices and the press, and contributed to the writing of the report.

Allison Stettler managed the panel development and the design and production of the report with assistance from Dalexi Carrillo, Meaza Getachew and Sarah Reynolds.