Unenlightened Self-Interest; The strange appeal of estate-tax repeal

BY LARRY M. BARTELS; LARRY M. BARTELS directs the Center for the Study of Democratic Politics in Princeton University's Woodrow Wilson School of Public and International Affairs. The broader study from which this piece is drawn is available at http://www.princeton.edu/ csdp/research/pdfs/homer.pdf.

THE SHARE OF INCOME GOING TO THE TOP onetenth of 1 percent of American families quadrupled between 1970 and 1998, leaving the 13,000 richest families with almost as much income as the 20 million poorest families. Ordinary Americans seem to be well aware of this growing gap between rich and poor. In a recent opinion survey, 74 percent of the respondents acknowledged that the difference in incomes between rich and poor people in the United States is larger today than it was 20 years ago, and 42 percent said it was much larger. Most of these respondents added that the growing gap is a bad thing, though many others acknowledged that they hadn't thought about that. Nearly two-thirds said that government policies have contributed to economic inequality by favoring high-income workers, and more than half said that rich people are asked to pay less than they should in federal income taxes.

Meanwhile, the survey found little evidence of any popular enthusiasm for economic inequality -- or much solicitude for the wealthy. Less than 7 percent of the respondents regarded a larger income gap between the rich and poor as a good thing. Less than 15 percent said that the rich are asked to pay too much in taxes, while three times that many said that the poor are asked to pay too much. And ratings of a wide variety of social groups on a general "feeling thermometer" suggest that the public likes "big business" even less than it likes people on welfare, liberals, feminists, the news media, or the Catholic Church.

If all of this sounds like a promising basis for populist class warfare, think again. The striking fact is that the same people who regret the growing gap between rich and poor and say that the rich should shoulder a greater tax burden have, over the past three years, broadly supported a massive upward transfer of wealth via substantial reductions in federal income taxes. Many of the specific provisions of these multi-trillion-dollar tax cuts -- including cuts in the top rate, reductions in taxes on dividends and capital gains, and a gradual elimination of the estate tax -- disproportionately benefited wealthy taxpayers. As a result, according to projections by the Institute on Taxation and Economic Policy, the total federal tax burden in 2010 will decline by 25 percent for the richest 1 percent of taxpayers and by 21 percent for the next richest 4 percent, but by only 10 percent for taxpayers in the bottom 95 percent of the income-distribution pool.

A variety of public-opinion surveys have documented substantial popular support for President Bush's tax cuts, even in the face of substantial elite criticism. The 2002 National Election Study (NES) survey provides an unusual opportunity to probe the bases of that support. With funding from the Russell Sage Foundation,
the NES survey included a battery of questions focusing on perceptions of economic inequality and its causes and consequences, the 2001 Bush tax cut, the proposed repeal of the federal estate tax, and related issues. (More information about the study is available at www.umich.edu/nes.)

Elsewhere, I have used the NES data to probe the striking disconnection between ordinary citizens' values and beliefs in the domain of equality and their views about specific public policies. Here I focus on the most egregious example of that disconnection: the remarkable level of public support for repealing the estate tax. How is it that so many ordinary Americans are troubled by escalating economic inequality, say that they want to shift the federal tax burden from the middle class and the poor to the rich, yet favor the repeal of a tax that is only paid by the heirs of the very wealthy? (In 2002 the estate tax was assessed only on estates worth $1 million or more, and many of those were exempted. Under the Bush tax cuts, the estate-tax threshold will gradually increase to $3.5 million in 2009, while the tax rate will gradually decline. The estate tax will be totally repealed in 2010, but then reinstated in its pre-2002 form in 2011 absent further action by Congress.)

The NES survey included a series of questions on the controversy about "doing away with the tax on large inheritances." These questions were asked in two forms, one referring to the "estate tax" and the other to the "death tax." Because proponents of repeal have aggressively championed the emotionally charged "death tax" label, it might be expected to generate more public support for repeal than the "estate tax" wording. It did -- but only by a few percentage points. What is more striking is that large majorities in both cases favored repealing the tax. Altogether, 51 percent of the public "strongly" favored doing so, while another 19 percent were less strong supporters of repeal. Only 25 percent opposed repeal, and they were mostly "not strong" opponents.

The depth of public antipathy toward the estate tax is clear in the accompanying table, which shows how the proportion of people favoring repeal of the tax varied with seemingly relevant circumstances and political views. In the sample as a whole, almost 70 percent favored repeal. But even among people with family incomes of less than $50,000 (about half the sample), 66 percent favored repeal. Among those who wanted to spend more money on a variety of federal government programs, 68 percent preferred repeal. Among people who said that the difference in incomes between rich and poor has increased in the past 20 years and that it is a bad thing, 66 percent favored repeal. Among those who said that government policy is a "very important" or "somewhat important" cause of economic inequality (almost two-thirds of the sample), 67 percent preferred repeal. Among those who said that the rich are asked to pay too little in federal income taxes (more than half the sample), 68 percent favored repeal. And, most remarkably, among those respondents sharing all of these characteristics -- the 11 percent of the sample with the strongest conceivable set of reasons to support the estate tax -- 66 percent favored repeal.

OBTUSE SUPPORT FOR REPEALING THE ESTATE TAX

<table>
<thead>
<tr>
<th>Among those who . . .</th>
<th>Favor repeal</th>
<th>Oppose repeal</th>
</tr>
</thead>
<tbody>
<tr>
<td>have family incomes of less than $50,000</td>
<td>66 percent</td>
<td>26 percent</td>
</tr>
<tr>
<td>want more spending on government programs</td>
<td>68 percent</td>
<td>30 percent</td>
</tr>
<tr>
<td>say income differences are larger and that's a bad thing</td>
<td>66 percent</td>
<td>30 percent</td>
</tr>
<tr>
<td>say govt. policy contributes to differences in income</td>
<td>67 percent</td>
<td>28 percent</td>
</tr>
<tr>
<td>say the rich pay less than they should in federal income taxes</td>
<td>68 percent</td>
<td>27 percent</td>
</tr>
<tr>
<td>All of the above</td>
<td>66 percent</td>
<td>29 percent</td>
</tr>
<tr>
<td>Total (of 1,346 responding)</td>
<td>70 percent</td>
<td>25 percent</td>
</tr>
</tbody>
</table>

Source: 2002 National Election Study

The persistence of strong public support for estate-tax repeal in the face of so many seemingly contrary considerations is very hard to square with any notion of public opinion as rational or well-integrated. Indeed, it seems to me that the only way to account for it is to suppose that these considerations have not really
been brought to bear on the estate tax at all, but occupy a separate domain in the minds of people who have never had occasion to reconcile their policy preferences with their broader beliefs and values.

If opinions about repealing the estate tax are virtually unrelated to circumstances and values like these, where do they come from? In part, not surprisingly, they are a product of ideology and partisan attachments. Conservatives and Republicans were more likely to favor repeal than liberals and Democrats. But an even more significant, and surprising, factor is respondents' attitudes about their own tax burden. People who thought that they are asked to pay too much in federal income taxes were substantially more likely to support repealing the estate tax -- despite the fact that the vast majority of them never have been or would be subject to the tax. Even after allowing for the effects of ideology, partisanship, government spending preferences, and family income, those who said that they are asked to pay more than they should in federal income taxes were 23 percent more likely to favor repeal than those who thought that they pay about the right amount.

Even more perversely, this apparent effect of misplaced self-interest was most powerful among those whose own economic circumstances make them least likely to have any direct personal stake in repealing the estate tax. In separate analyses by income class, the estimated effect of respondents' own perceived tax burdens on their views about repeal was substantially larger for lower- and middle-class people than for those in the top third of the income-distribution field (with family incomes greater than $65,000).

Attitudes about estate-tax repeal are strongly related to people's views about their own tax burdens, but remarkably unrelated to their views about other peoples' tax burdens. Because the primary effect of repealing the estate tax would be to reduce the long-run tax burden of the wealthiest 1 percent or 2 percent, people who said that the rich are asked to pay too little in taxes should have been especially likely to oppose repeal. In fact, however, they were (very slightly) more likely to favor repeal. Meanwhile, those who said that the poor are asked to pay too much were also (very slightly) more likely to favor repeal, notwithstanding the likelihood that repealing the estate tax would lead to increases in other, broader-based taxes, reductions in government services, and larger budget deficits.

The impact of unenlightened self-interest on policy preferences in this domain is facilitated by a widespread public misunderstanding of how the estate tax actually works. For example, when a 2003 opinion survey sponsored by National Public Radio, the Kaiser Foundation, and Harvard's Kennedy School of Government asked whether "most families have to pay the federal estate tax when someone dies or only a few families have to pay it," half the respondents said that most families have to pay, while an additional 18 percent said that they didn't know. Thus, two-thirds of the American public fails to recognize the single most important fact about the estate tax: Only very wealthy people pay it. Another question asked respondents who favored eliminating the estate tax about their reasons for doing so; more than six in 10 endorsed the statement, "It affects too many people," while almost seven in 10 agreed, "It might affect YOU someday." These results, too, suggest that a very substantial number of people support repealing the estate tax because they mistakenly believe that their own taxes will be lower as a result.

Would correcting this misconception produce widespread public support for the estate tax? Probably not. Americans have always found the juxtaposition of death and taxes peculiarly unsettling, even before conservatives began to mount a vigorous attack on the supposed iniquities of the "death tax." Liberals have noted that many survey respondents say they support an estate tax if it is "collected only on estates worth $5 million or more" (as in the NPR-Kaiser-Kennedy School survey) or when they are offered the option of "exempting small family farms and small businesses from the estate tax, but not multimillionaires" (as in a 2001 survey by Mark Penn of Penn, Schoen & Berland Associates). Those results suggest that some form of estate tax could conceivably win substantial public support. So far, though, Democrats' efforts to frame the estate-tax debate in terms of reform rather than repeal have had very little impact on public opinion -- and very little success in Washington.

In the NES survey, people who were generally well-informed about politics were much more likely to recognize that economic inequality has been increasing, much more likely to say that it is a bad thing, much more likely to recognize that disparities in income have important ramifications in other realms of social life, and much less likely to favor the 2001 Bush tax cuts. But despite those differences, they were no less likely than less-informed citizens to support repealing the estate tax. By this standard, at least, there seems to be little basis for imagining that more information alone would produce a noticeably different distribution of public opinion on this issue.

Here, as elsewhere, specific policy-relevant facts are only likely to be politically potent in conjunction with a compelling moral interpretation. Thus, it should not be surprising that well-informed people who recognized...
that economic inequality has increased \textit{and} said that it was a bad thing were much less likely to favor estate-tax repeal. But even these people were about as likely to favor it as to oppose it -- a fact that highlights the very real limits of political education as a potential transforming force in this domain.

Political education is certainly a worthy progressive project. In the meantime, though, millions of ordinary Americans say that the federal government should spend more on a wide variety of programs, that the rich are asked to pay too little in taxes, and that growing economic inequality is a bad thing -- yet simultaneously support a policy (estate-tax repeal) whose main effect would be to reduce the tax burden of the very wealthy, constrain funding for government programs, and further widen the growing gap in economic fortunes between the rich and the rest of American society. A political system that takes such views at face value may have a good deal of difficulty addressing the challenge of escalating inequality.

**GRAPHIC:** Picture, no caption, ISABELLE ARSENAULT

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