

Public Policy Brief

New Directions for Fiscal Policy in Ohio: Citizen Attitudes toward Spending and Taxation

By Samuel R. Staley, Ph.D.

February 2004

Executive Summary

Ohio's budget crisis has prompted elected officials in Ohio to consider various approaches to fiscal policy reform. Lawmakers have two basic strategies available: spending restraint or tax reform. Unfortunately, recent policy discussions have not reflected popular support or understanding of these issues. Most of the discussion has been "inside the beltway" and therefore isolated from the perspective of the state's voters.

This report bridges the gap between spending trends and citizen support for fiscal policy reforms. Overall, Ohioans are deeply concerned about the direction of the State, and economic concerns rank among their most important worries. This report finds that:

- ❖ 86 percent of Ohioans believe lawmakers should focus on spending restraint rather than increasing taxes to address future budget deficits;
- ❖ 73 percent of Ohioans understand that tax rates influence the decisions of wealthy families to stay or leave Ohio;
- ❖ 96 percent of Ohioans understand that state taxes influence the decisions of businesses to stay in Ohio;
- ❖ 78 percent of Ohioans would support a proposal to limit state spending to the inflation rate;
- ❖ 60 percent of Ohioans would support reforms that simplify Ohio's income tax system by moving toward one rate for all taxpayers.



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The Buckeye Institute for Public Policy Solutions

88 East Broad Street, Suite 1120

Columbus, Ohio 43215

(614) 224-4422

www.buckeyeinstitute.org

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Ohio's Budget Crisis

The Ohio General Assembly passed a budget in June 2003 that increased spending by 9.5 percent over the next two years.¹ This rate of increase is almost twice the rate of inflation.² While increased spending was matched by higher taxes and fees (most notably a temporary increase in the sales tax), a recent analysis of the budget by the Cleveland-based Federation for Community Planning estimates that the General Assembly created a “structural” deficit of \$3.8 billion once these temporary taxes and fees expire.³ Meanwhile, current tax revenues are running below estimates.⁴

Recent budget deficits are a symptom of a larger problem: Ohio's fiscal house is no longer in order.

Recent budget deficits are a symptom of a larger problem: Ohio's fiscal house is no longer in order. Tax revenue stagnated during the recent recession while spending continued a steady upward increase. Little effort was made to bring spending in-line with revenues. Indeed, even the modest cuts proposed by Gov. Bob Taft were largely ignored by the General Assembly.

These trends may well be contrary to the intent of the Ohio Constitution.⁵ Ohio requires the state to approve a balanced budget, implying that legislators should run state government like a business. Rather than support increased spending by boosting revenues through higher taxation, legislators should bring spending in line with revenues.

These fiscal issues are compounded by economic growth that lags behind the nation. From 1990 to 2001, personal income growth (after adjusting for inflation) grew by 17.7 percent in Ohio. Nationally, personal income grew by 30.2 percent over the same period, a rate almost double Ohio's.⁶ Perhaps more importantly, Ohio's income growth lagged behind every one of its neighboring states.

Ohio's continuing struggle to balance its budget suggests the need for substantial fiscal policy reform. State policymakers need to focus their efforts on two important and complementary strategies: spending restraint and fundamental tax reform. Significant reform in both of these areas would help rationalize state government and provide a fiscal policy framework that would significantly enhance economic growth and restore Ohio's economic competitiveness.

This study examines fiscal policy reform from a political perspective. The Buckeye Institute has published numerous studies on tax reform, but many of these analyses have relied on academic and statistical analysis.⁷ They have not given significant attention to the political environment in which tax reforms would be implemented. This analysis seeks to fill the gap.

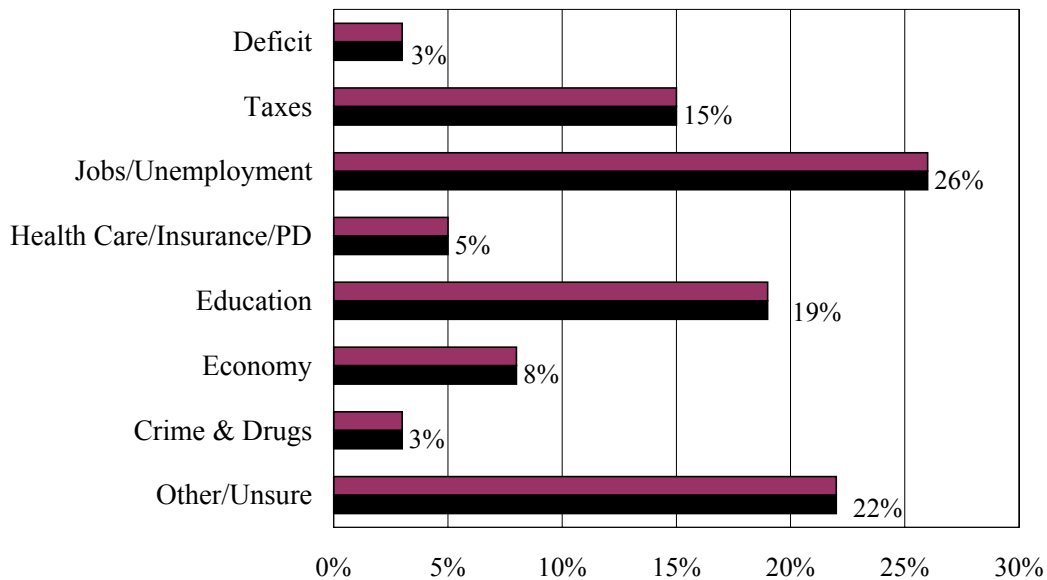
Public Support for Fiscal Policy Reform

Fiscal policy reform may be more important now than in previous years. Ohioans are concerned about the economy; indeed, it may even be the most dominant policy issue facing state lawmakers. In a statewide survey of registered voters commissioned by The Buckeye Institute, 60 percent of those responding to the survey believed that Ohio is going in the “wrong” direction.⁸ More significantly, almost half (46 percent) *strongly* believed the state is headed the wrong way.

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The recent economic recession may have influenced general perceptions about the state of the economy. Ohioans, however, were fairly specific about the nature of the problems the state faces. When asked, Ohioans did not rank the stock market, foreign affairs, welfare, terrorism or health care as the most important problem facing the state. Rather, with the exception of education, they focused mostly on concrete backyard economic concerns such as jobs, taxes, and unemployment.

Figure 1: Ohioans' Views on the Number One Problem Facing Ohio*



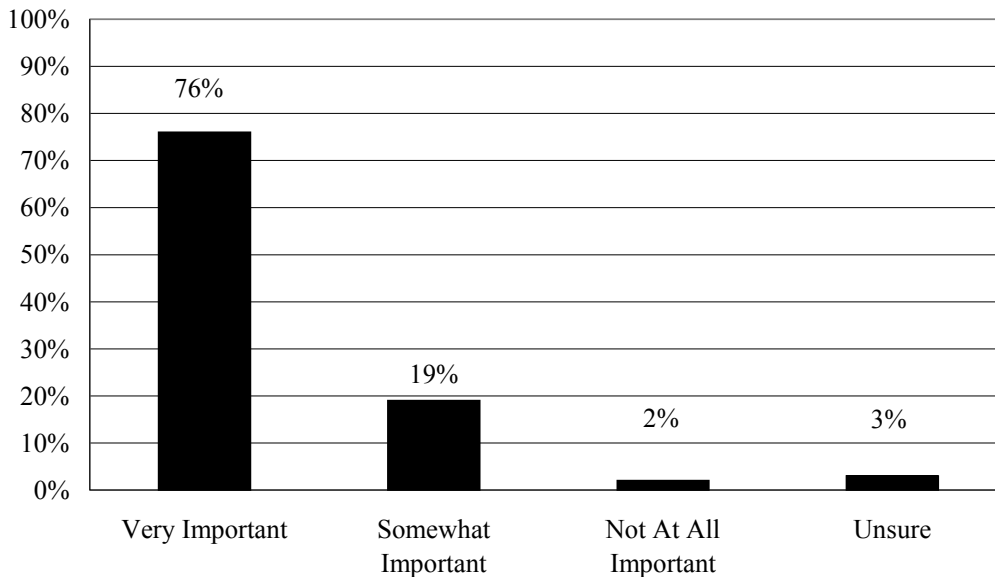
* Question: What do you think is the number one problem facing the state of Ohio today?

Note: Categories shown do not total to 100 due to rounding.

Source: The Tarrance Group.

Not surprisingly, many Ohioans believe policymakers should give priority to the economic impacts of fiscal policy decisions. In fact, their views are near consensus: More than three-quarters (76 percent) think economic impacts should be extremely or very important factors when state legislators consider tax reform. Only 2 percent believed that they should not be important.

Figure 2. Economic Impact and Tax Reforms*



* Question: "How important should the economic impact of taxes be when your state legislator is considering tax reforms?"

Source: The Tarrance Group.

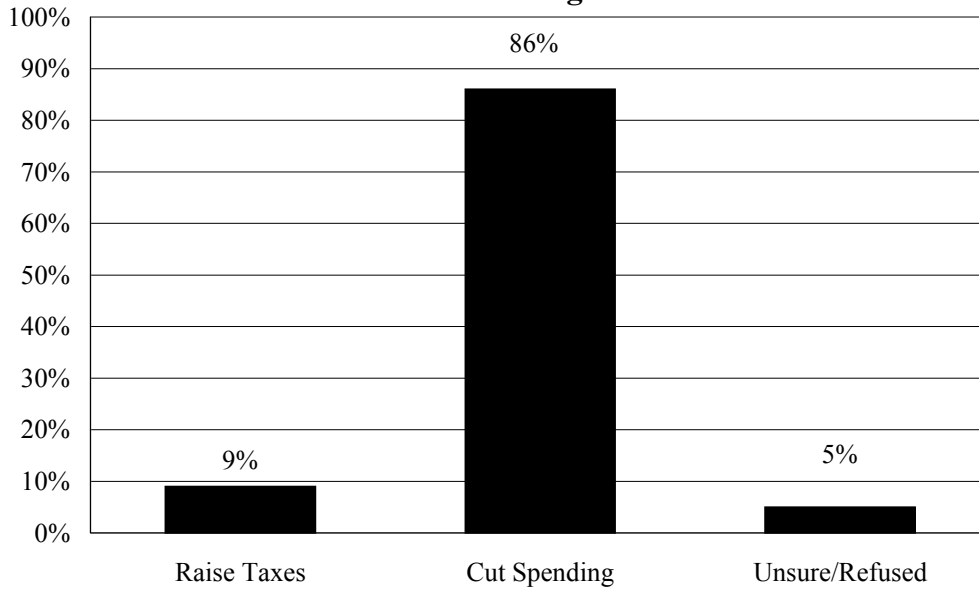
These views are consistent with Ohioans' understanding of the role taxes play in the economy. Over three-quarters (73 percent) of those responding to the survey believed that state taxes were very or extremely important factors in the decisions of businesses to locate facilities in Ohio. Most also believed that tax policy influenced the decisions of wealthy people to move to other states (e.g., Florida or Texas), and almost half (48 percent) said they would be more likely to move to another state without an income tax if they had to move.

Setting Fiscal Reform Priorities

A consensus existed that legislators should focus first and foremost on spending restraint rather than tax increases.

Consistently higher taxes and state government spending provide an important background for understanding how many Ohioans view fiscal policy reform. A consensus existed among the likely registered voters in The Buckeye Institute's survey that legislators should focus first and foremost on spending restraint rather than tax increases to address any state budget deficit. Eighty-six percent said state lawmakers should cut the state budget rather than raise taxes if it faces a deficit this year (Figure 3).

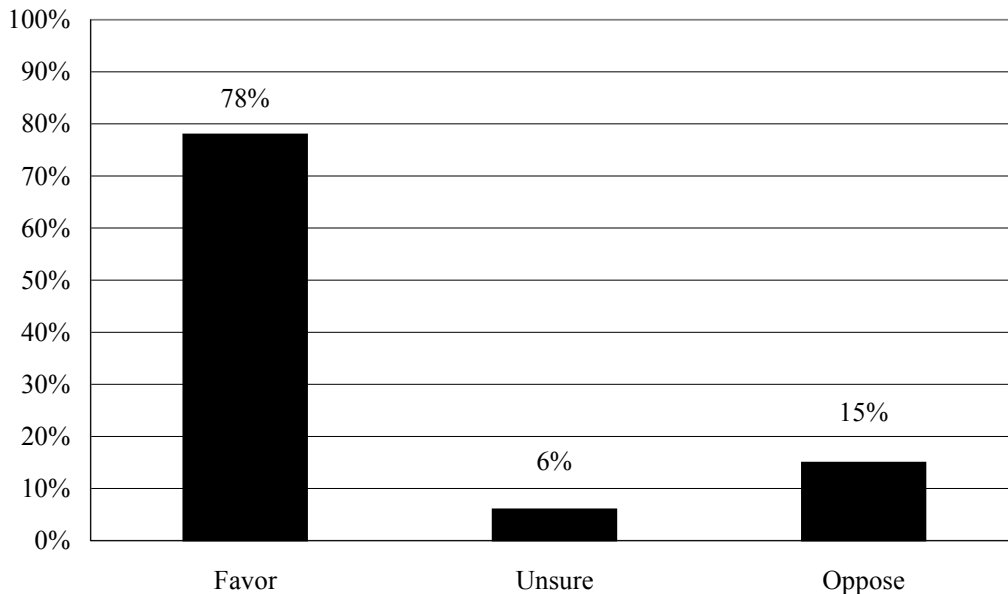
Figure 3: Ohioans' Views on Spending Restraint and Tax Increases to Meet Budget Shortfalls*



* Question: "If the state faces the problem of a budget deficit this year, do you think the state legislators should raise taxes first or cut spending first?"
Source: The Tarrance Group.

The public commitment to spending restraint appears to run deep. Seventy-nine percent said they would favor a proposal to limit state spending to the rate of inflation if given the opportunity.

Figure 4: Ohioans' Views on Spending Limitations*



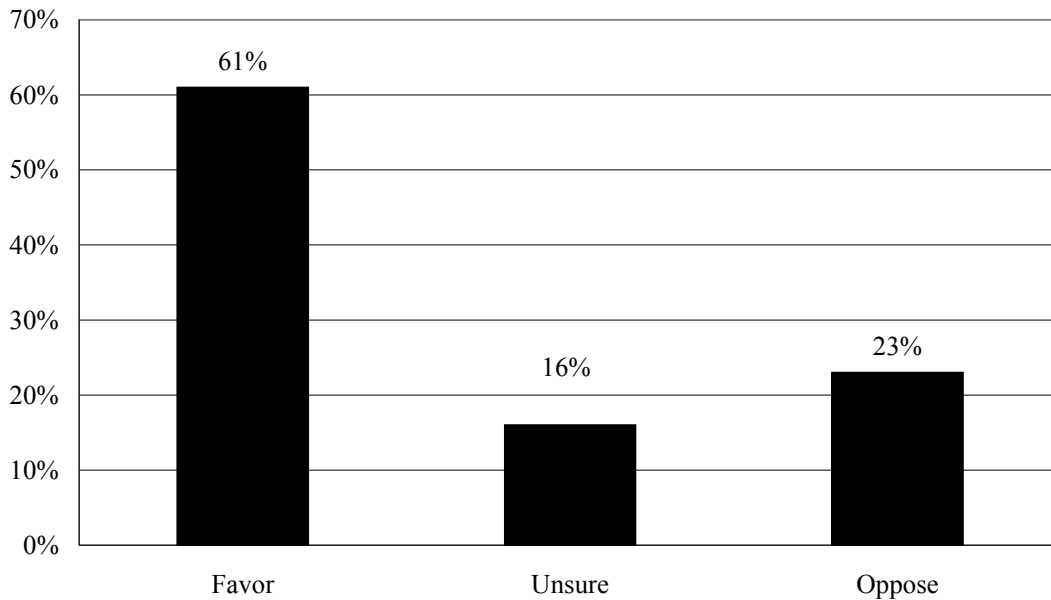
* Question: "Would you favor or oppose a proposal to limit state spending to no more than the rate of inflation?"
Note: Categories shown do not total to 100 due to rounding.
Source: The Tarrance Group.

The Promise and Potential of Income Tax Reform

General support for tax reform rings hollow unless there is tangible support for specific proposals. The survey asked Ohioans about specific types of income tax reforms to help gauge general impressions.

Ohioans appear to favor certain types of income tax reform. More than 60 percent favor replacing the state’s current nine income tax brackets with a single rate (as long as the tax raised the same amount of money). This majority was well within the margin of error for the survey.⁹

Figure 5. Support For A Flat Tax*



* Question: "Would you favor or oppose replacing these (Ohio's) nine different rates with one rate for every Ohio taxpayer if this system raised the same amount of tax revenue?"

Source: The Tarrance Group.

More than 60 percent favor replacing the state’s current nine income tax brackets with a single rate.

Interestingly, support for income tax reform dropped if the proposal included exempting low- and moderate-income families. Ohioans were evenly split on whether lightening the burden of the income tax would be more or less fair than the current income tax system. The survey revealed a strong polarizing effect of this reform. While 49 percent believed that the exemption would result in a system that was fairer, 37 percent believe that the system would be less fair.

Conclusions

Popular support for various tax reforms should not be the only, or even the primary, criterion for determining the efficacy of a particular tax reform proposal.¹⁰ Nevertheless, the evidence suggests that Ohio has pursued a fiscal policy of higher spending and taxes that is wearing thin on voters.

Almost half believe they pay too much in taxes, and a consensus exists that policymakers should be focusing on spending restraint rather than higher taxes to resolve the state's budget crisis.

Interpreting poll results should include a degree of caution as well. The poll was conducted in the aftermath of the November elections. Ohioans defeated a proposed constitutional amendment to issue bonds to use state funds to promote high technology investment. These results could reflect general popular dissatisfaction with constitutional amendments as a technique for achieving policy reforms, and this dissatisfaction may carry over into tax reform.

Tax reforms must have a practical application, and general political support is important for formulating policy and strategy.

Poll results should be used to inform public officials and policy analysts about the political environment in which tax reform decisions are made. Ultimately, tax reforms must have a practical application, and general political support is important for formulating policy and strategy. This information can be used strategically—to determine where public education may be important—and tactically—to determine which proposals can be promoted at which times.

About the Author

Samuel R. Staley, Ph.D. is President of The Buckeye Institute for Public Policy Solutions. Prior to joining The Buckeye Institute full time in 1995, Dr. Staley was an economic development consultant to local governments and a full time economist at Wright State University. His applied research has covered a wide range of issues, including the supervision, design, and analysis of several surveys on issues such as business relocation, community development, low-income housing, and public transit. His work has appeared in numerous academic publications, including the *Journal of the American Planning Association*, *Economics of Education Review*, *Constitutional Political Economy*, the *FORUM for Applied Research and Policy*, and the *Capital University Law Review*. He earned his Ph.D. in public administration from The Ohio State University, M.S. in applied economics from Wright State University, and B.A. in economics-public policy from Colby College in Waterville, Maine.

About The Tarrance Group

The Tarrance Group is one of the nation's leading polling firms. Founded in 1977, The Tarrance Group is a full-service, internationally recognized polling and strategic research firm based in Alexandria, Virginia. Its clients include political candidates, trade associations, and major corporations. Eleven U.S. senators, three governors, and over thirty members of Congress currently use The Tarrance Group for their research needs, as does Miller Brewing, Papa John's and the American Society of Anesthesiologists. Partner Brian Tringali and Senior Research Analyst Brian Nienaber advised The Buckeye Institute on the design, implementation, and analysis of the poll results.

Appendix: Responses to Statewide Survey of Ohio Registered Voters on Tax Reform

NOTE: Questions have been renumbered for clarity.

1. Do you feel things in Ohio are going in the right direction, or do you feel things have gotten off on the wrong track?

Right direction/strongly.....	12%
Right direction/somewhat	17%
UNSURE (DNR)	11%
Wrong track/somewhat	14%
Wrong track/strongly.....	46%

* = Less than .5%

2. What do you think is the number one problem facing the state of Ohio today—that is, what is the problem that you and your family are most concerned about?

Abortion	NA	Job training.....	*
Agriculture/farming/ranching.....	NA	Lawsuits/Litigation.....	NA
AIDS	NA	Loss of Industry.....	NA
Auto insurance	NA	Medicare/Medicaid.....	*
Budget deficit.....	2%	Moral/religious concerns	2%
Bush (President George W.).....	*	National Defense	*
Campaign finance reform.....	NA	Pensions.....	NA
Child care	1%	Politicians/incumbents	2%
College/affording	1%	Pollution	
Congress.....	NA	Prescription drugs.....	1%
Cost of living.....	1%	Property taxes.....	1%
Crime.....	2%	Racism.....	NA
Cuts to government programs	*	Republicans	*
Deficit	2%	Retirement	*
Democrats	NA	Roads/highways	*
Drugs.....	1%	Schools/school choice	3%
Economy	8%	Senior citizens	*
Education	16%	Social security	1%
Energy costs (gasoline for automobiles) .	NA	Stock Market	NA
Energy costs (home heating).....	1%	Taxes	12%
Environment.....	*	Tax increases	2%
Foreign affairs	NA	Television/violence & sex.....	NA
Gambling/gaming.....	NA	Terrorism.....	*
Gangs	NA	Tobacco	NA
Government/size/regulation	1%	Trade	NA
Government spending	1%	Traffic.....	*
Growth/over-development	*	Unemployment.....	7%
Guns	1%	Unions	*
Health care (cost/quality of).....	3%	Values.....	NA
Health insurance (cost/lack of).....	1%	Violence	*
Homeless/poverty.....	NA	Wages.....	NA
Housing (costs/lack of)	*	Welfare (reform)	NA
Immigration.....	NA	Water (shortage/quality).....	NA
Inflation.....	*	OTHER.....	5%
Interest rates	NA	UNSURE.....	5%
Jobs	19%		

3. Do you approve or disapprove of the way Bob Taft is handling his job as Governor?

Approve/strongly 8%
Approve/somewhat..... 28%
UNSURE (DNR) 10%
Disapprove/somewhat 18%
Disapprove/strongly 36%

4. Do you approve or disapprove of the way the Ohio State Legislature is handling its job?

Approve/strongly 10%
Approve/somewhat..... 30%
UNSURE (DNR) 23%
Disapprove/somewhat 15%
Disapprove/strongly 23%

5. As you may already know, the state of Ohio faced a 4 billion dollar budget deficit last year. If the state faces the problem of a budget deficit this year, do you think the state legislators should raise taxes first OR cut spending first?

Raise taxes..... 9%
Cut spending..... 86%
BOTH EQUALLY (DNR)..... 2%
NEITHER (DNR) 1%
UNSURE/REFUSED 3%

6. Ohio currently has the 9th highest state and local tax burden in the nation. Knowing this, if the state faces a budget deficit, do you think should state legislators raise taxes first OR cut spending first?

Raise taxes..... 9%
Cut spending..... 88%
BOTH EQUALLY (DNR)..... 1%
NEITHER (DNR) 1%
UNSURE/REFUSED 2%

7. Currently, Ohio has nine different state income tax rates. Only two states have more state income tax rates than Ohio. Would you favor or oppose replacing these nine different rates with one rate for every Ohio taxpayer if this system raised the same amount of tax revenue?

Favor/strongly 42%
Favor/somewhat 19%
UNSURE/REFUSED (DNR)..... 16%
Oppose/somewhat 7%
Oppose/strongly 16%

8. Currently, all families in Ohio pay state income taxes, regardless of how much they earn. Under this proposed tax reform, a single, flat state tax rate would be instituted for all taxpayers with an exemption for low- and

moderate-income families so that they would not pay any state income tax at all. Regardless of how you feel about this proposal, do you think this system would be more fair or less fair than the current state income tax system in Ohio?

More fair/strongly.....	32%
More fair/somewhat	17%
UNSURE (DNR)	13%
Less fair/somewhat.....	13%
Less fair/strongly	25%

9. Since 1990, state government spending in Ohio has increased at a faster rate than all other states but two. In the most recent state budget, spending was increased by nearly twice the rate of inflation, the state sales tax was increased, and more than 150 fees were increased. With this in mind, would you favor or oppose a proposal to limit state spending to no more than the rate of inflation?

Favor/strongly	64%
Favor/somewhat	15%
UNSURE/REFUSED (DNR).....	6%
Oppose/somewhat	6%
Oppose/strongly	9%

10. Which of these four ways to raise revenue for the state budget do you prefer the most:

- Increasing income state taxes
- Increasing state sales taxes
- Adopting a statewide property tax
- Increasing user fees for public services?

Increasing income taxes	14%
Increasing state sales taxes	19%
Adopting a statewide property tax.....	10%
Increasing user fees for public fees	28%
ALL OF THESE (DNR)	
NONE OF THESE (DNR).....	19%
UNSURE/REFUSED (DNR).....	10%

11. As you may know, some states, like Tennessee, do not have a state income tax. If you had to move your family or business, would you be more likely or less likely to consider moving to a state with no state income tax?

More likely/strongly	31%
More likely/somewhat.....	17%
UNSURE (DNR)	7%
NO DIFFERENCE (DNR)	17%
Less likely/somewhat	11%
Less likely/strongly	17%

12. How important do you think state income tax rates are to the decisions of wealthy people to move to other states? Would you say these rates are • extremely important, • very important, • somewhat important, or • not at all important – to this decision?

Extremely important..... 15%
Very important.....20%
Somewhat important38%
Not at all important..... 19%
UNSURE/DK (DNR) 8%

13. How important do you think state taxes are to the decisions of businesses to locate facilities in Ohio? Would you say these rates are • extremely important, • very important, • somewhat important, or • not at all important – to this decision?

Extremely important.....33%
Very important.....40%
Somewhat important23%
Not at all important.....2%
UNSURE/DK (DNR) 1%

14. How important should the economic impact of taxes be when your state legislator is considering tax reforms. Should it be • extremely important, • very important, • somewhat important, or • not at all important – to their debate on tax reforms?

Extremely important.....33%
Very important.....44%
Somewhat important19%
Not at all important.....2%
UNSURE/DK (DNR) 3%

15. Do you personally think that you pay too much, too little, or the right amount in state income taxes?

Too much.....49%
Too little2%
Right amount44%
UNSURE/REFUSED (DNR)5%

16. In your opinion, what percentage of a family's income should a typical family pay in income taxes each year?

Less than 5%13%
5% to 9%9%
10% to 14%11%
15% to 25%19%
More than 25%3%
Unsure/refused.....45%

17. When thinking about the services you get from your tax dollars, do you believe that you get the most services from the federal government, the state government, OR your local government?

Federal government.....	25%
State government.....	15%
Local government.....	43%
ALL OF THESE (DNR)	2%
NONE OF THESE (DNR).....	7%
UNSURE/REFUSED (DNR).....	9%

Statistical Questions

D1. What is your age, please?

18-24	3%
25-29	4%
30-34	7%
35-39	9%
40-44	11%
45-54	20%
55-64	18%
65-69	9%
70-74	8%
75-79	5%
80-84	2%
85-89	1%
90 or over.....	1%
REFUSED	2%

D2. What is the highest level of education you have completed?

Some grade school (1-8)	1%
Some high school (9-11)	4%
Graduated high school (12).....	30%
Technical/vocational (12).....	3%
Some college (13-15)	24%
Graduated college (16).....	24%
Graduate/professional school (16 or more)	14%
Unsure/Don't Know.....	1%

D3. When thinking about politics and government, do you consider yourself to be...

Very conservative.....	19%
Somewhat conservative.....	44%
MODERATE (DNR)	2%
Somewhat liberal	22%
Very liberal	8%
UNSURE/DK (DNR)	4%

D4. In which political party do state records show that you are registered to vote

- the Republican,
 - the Democrat -- OR
- are you registered as an Independent?

Republican	41%
Democrat	39%
Independent	15%
OTHER (SPECIFY (DNR))	*
UNSURE/REFUSED (DNR)	5%

D5. Which of these statements best describes how you have usually voted in past elections?

Straight Republican	7%
Mostly Republican.....	24%
A few more Republicans than Democrats.....	13%
INDEPENDENT/THE PERSON (DNR)	11%
A few more Democrats than Republicans.....	12%
Mostly Democrat	19%
Straight Democrat.....	9%
UNSURE/DK (DNR)	4%

D6. What is the church you or your family attends most often?

Roman Catholic	22%
Baptist.....	11%
Methodist.....	10%
Episcopalian	3%
Evangelical	2%
Presbyterian	5%
Lutheran	5%
Other Protestant.....	14%
Greek Orthodox.....	1%
Jewish.....	1%
Mormon.....	1%
Quaker / Amish	*
Other (SPECIFY)	6%
NONE (DNR)	15%

D7. And how often do you attend church (or synagogue)?

More than once a week.....	15%
Once a week	42%
Several times a month	13%
Once a month.....	7%
Several times a year	15%
Only on holidays	2%
NEVER/DON'T ATTEND	5%
UNSURE/REFUSED	2%

D8. What do you consider to be your race? Are you white, African-American, Hispanic, Asian or some other race?

White.....	89%
Black/African-American	6%
Hispanic	1%
Asian	
Other	3%
UNSURE/REFUSED (DNR)	2%

D9. Are you employed outside the house, are you a homemaker, or are you retired?

Male/employed.....	29%
Male/homemaker.....	
Male/retired	14%
Male/not in labor force.....	3%
Female/employed	26%
Female/homemaker	9%
Female/retired.....	16%
Female/not in labor force	2%
MALE/REFUSED (DNR).....	*
FEMALE/REFUSED (DNR).....	1%

D10. What is your current marital status -- are you -- • single and never married, • married, • separated, • divorced, or •widowed?

Single	13%
Married	65%
Separated	1%
Divorced	10%
Widowed	10%
UNSURE/REFUSED (DNR)	2%

D11. Do you have children under the age of 18 living at home?

Yes	32%
No.....	67%
UNSURE/REFUSED (DNR)	2%

Notes

¹ Total general revenue fund spending for the two-year budget was approved for \$48.9 billion, *State of Ohio Budget Highlights: Fiscal Years 2004 and 2004*, Enacted June 2003, Ohio Office of Budget and Management, Figure 1a, p. 2. This represents a 10.9% increase over the previous biennial budget of \$44.1 billion, but slightly lower than the 11.5% increase reported by the Legislative Service Commission based on the proposal approved by the Senate Finance Committee May 29, 2003. See “The Evolution of a Budget”, www.buckeyeinstitute.org, posted June 3, 2003.

² Inflation is forecast by OBM to increase by 2.1 percent in 2004 and 2.3 percent in 2005. *Ibid.*, p. 5.

³ John Corlett, David Ellis, and Richard Sheridan, “Ohio Structural Deficit Reaches Record Levels,” Federation of Community Planning, Cleveland, release November 5, 2003.

⁴ OBM estimates that year-to-date tax revenues were down \$77.5 million and overall revenues down \$26.5 million through September 2003. See the monthly financial report to the Governor by Thomas Johnson and Sam Nemer, October 10, 2003.

⁵ See the discussion in Samuel R. Staley, “Balanced Budget Sets State for Historic Battle,” *Perspective on Current Issues* (Columbus: The Buckeye Institute for Public Policy Solutions, April 2003).

⁶ Richard Vedder, *Grinding to a Halt: Ohio’s Tax Policy and Its Impact on Economic Growth* (Columbus: The Buckeye Institute for Public Policy Solutions, 2002), p. 5.

⁷ See, for example, the empirical studies by Russell Sobel and Robert Lawson, *Income Tax Progressivity in Ohio* (Columbus: The Buckeye Institute for Public Policy Solutions, 2003) and Vedder, *Grinding to a Halt*. See also Robert Lawson, *Making Sense of the Ohio Estate Tax* (2001) and James Damask, Robert Lawson, David Tuerk et al. *Tax Reform for the New Millennium* (2001).

⁸ All survey results are taken from a poll commissioned by The Buckeye Institute and implemented by the Tarrance Group in Alexandria Virginia. The Tarrance Group surveyed 604 registered voters November 9-10, 2003 on tax reform issues. The confidence interval associated with a sample of this type is such that 95 percent of the time results will be within plus or minus 4.1 percent of the “true values,” where true values refer to the results obtained if it were possible to interview every “likely” voter in the state. A more complete discussion of the methodology is contained in the Appendix.

⁹ While about one-fifth of the registered voters opposed moving to a flat income tax, a majority would favor the reform even if all the undecided voters eventually opposed the proposed reform.

¹⁰ Other criteria should include the stability of tax revenue, equity in its application, and the efficiency of implementing the tax. Interestingly, some research suggests that gambling tax revenues are not very stable. See the analysis of casinos in Ranuana G. Madhusudhan, “Betting on Casino Revenues: Lessons from State Experiences,” *National Tax Journal* vol 49, no. 3 (September 1996), pp. 401-412. Moreover, the Ohio Lottery Commission notes that transfers from the Ohio Lottery to public education have fallen from a high of \$749 million in 1997 to \$641 million in 2003, a 14.4 percent drop. Transfers were around \$635 million in 2001 and 2002. The lottery generated revenues of \$2.2 billion in 2003, and \$2.1 billion in 2001 and 2002.



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Dr. William Peirce
Case Western Reserve University

Dr. Robert Premus
Wright State University

Fr. John Putka
University of Dayton

Dr. John Rapp
University of Dayton

Dr. Henry Rennie
Heidelberg College

Dr. Robert P. Rogers
Ashland University

Dr. Anthony Sanders
The Ohio State University

Dr. Larry Schweikart
University of Dayton

Mr. Michael Solimine
University of Cincinnati

Dr. John Soper
John Carroll University

Dr. Anthony Stocks
Youngstown State University

Dr. Rebecca Thacker
Ohio University

Dr. Bradley Thompson
Ashland University

Dr. Charles Upton
Kent State University

Mr. Joseph Zoric
*Franciscan University of
Steubenville*