

## The General Public's View of Public Finance Reform

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Over the past two years, the public finance reform has turned into a dominant topic in Czech politics. Shortly after having been instituted to power, the cabinet of the Prime Minister Špidla announced the reform as a core element on its government agenda for the entire election term. For a long period of time, the very notion of public finance reform has represented one of the notions most frequently exploited in public presentations of coalition and opposition politicians or local political commentaries and major media news. Discussions of the reform were also joined very intensely by certain key interest groups, such as trade unions, professional chambers, employer associations or various groups of entrepreneurs. Several times, disputes surrounding certain proposals escalated to the very edge of an open social conflict. For a long time, our ongoing investigations in which we periodically ask, for example, about which recent events people consider most important, have been showing, that even most of the population perceive the public finance reform as one of major current issues. In this situation, it was clear that we would pick this topic from among others to focus our research interest on.

Since the very beginnings, we have faced a not entirely simple challenge of how we should tackle the investigation of these issues. The stumbling block consisted primarily in the merit of the subject of our focus. Although the “public finance reform” expression itself firmly settled in the vocabulary of the current political discourse, the meaning of the notion was and continues to be rather blurred. What is tagged the government public finance reform does not represent any pre-defined, compact, inherently consistent and coherent intention. In fact, it is a relatively large and diverse set of individual measures oftentimes not inter-related in any manner. The declared purpose of these measures is to achieve balanced public budgets over the course of several years. One third of this balancing is to be covered by increasing budget revenues and two thirds by reducing budget expenditures. Moreover, certain measures officially included in the government understanding of the public finance reform do not match the declared purpose. For example, this concerns reduction in the rates for property transfer tax or decrease in the income tax rate for legal entities. What is more, the individual reform measures are adopted gradually and, in the course of their approval, they are frequently heavily amended. Subsequently, their final form and consequences may vary distinctly from the original assumptions. Alternative proposals and policies presented not only by opposition politicians but also some discontents from the coalition parties, involved interest groups or people presented as independent experts enter the scene.

For these reasons, attempting to survey the opinions of the population concerning the public finance reform *en bloc* was difficult at the beginning. In practice, rational interpretation of results of a survey in which respondents may understand an identical question in a very different manner and where the researcher does not even have the option to find out how respondents actually understand the question is made impossible and the results do not have any great value because no-one knows what they actually predicate. Finally, we concluded that it would be best to present the respondents with a battery of the individual measures formulated in as plain terms as possible and invite them to state, for each and any given item, whether they support the measure or not. In addition to key elements of the government reform agenda, we have also included in the battery certain measures proposed publicly by the opposition. Then we have incorporated the question into a research organised in the second decade of January 2004.<sup>1</sup>

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<sup>1</sup> The degree to which the public finance reform has been and still is a challenge for public opinion poll surveys can be demonstrated in a relatively illustrative manner by a rather unfortunate fact that our January questionnaire managed to fall out of date in one of its rather key respects practically at the moment when the field data

Table 1: Attitudes concerning public finance reform measures (in %).

	Supports		Does not support	
	Definitely	Tends to support	Tends no to support	Definitely
Alcohol stamping	38	33	11	4
Ban on sale of alcohol and cigarettes at marketplaces	40	28	15	6
Reduction in sickness benefit in the first 14 days of sickness	4	8	26	53
Introduction of minimum tax for entrepreneurs	17	20	22	17
Reduction in income tax rate for companies	11	28	21	9
Introduction of cash registers	28	30	11	5
Ban on cash payments for amounts exceeding CZK 500,000	25	26	12	8
Declarations of assets for people owning more than a set amount of property	29	30	13	11
Tax advantages for families with dependent children	59	32	4	1
Increase of the 5% VAT rate for certain kinds of goods and services to 22% rate	1	8	32	48
Increase in financial deductibles for patients	3	13	29	47
Compulsory income pension insurance with private pension funds	8	27	26	21
Reduction of property transfer tax	31	39	8	4
Raising retirement age	3	10	27	50
Introduction of flat fifteen per cent tax	14	26	20	13
Decrease in state contribution for building savings	2	10	30	47
Permanently lower old-age pension payments for the early retired	6	16	27	38
Increase in excise taxes for cigarettes	38	28	14	11
Increase in excise taxes for alcohol	31	32	18	11
Increase in excise taxes for petrol	4	10	34	45
Introduction of tuition fee at universities	6	15	27	40
Introduction of excise taxes for luxury goods	20	28	23	17
Abolishing taxes on interest and dividends	29	26	13	11

Source: CVVM, Our society /*Naše společnost*/ 2004 survey, investigation 04-01. Note: The remainder for the individual lines to reach 100% contains “Does not know” and “Not interested” responses.

Survey results, captured in Table 1 in their basic form, showed that the spectrum of opinions on the set of individual parts of the public finance reform is, in the case of the general public,

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collection started. Upon distribution of the questionnaires, it was still generally assumed that the reduced five per cent value added tax rate for the kinds of goods and services supposed to be affected by the change would increase to the basic rate which amounted to 22 % at that time and that the basic rate would remain without any changes. The outcome of coalition negotiations of this issue which coincidentally fell to a date shortly after the questionnaires were distributed to respondents, was, however, very different. The final proposal included an overall reduction in the basic rate from 22 % to 19 %.

much more varied than is the case with the political representation taken as a whole. This is easy to understand. Unlike opinions verbalised by political parties and their leaders, opinions and attitudes of ordinary citizens are, for the most part, much less determined by ideological assumptions and political or social economic stereotypes pertaining to the individual doctrines or arising from routine political practice. In addition to being less consistent in ideology, opinions and attitudes of ordinary citizens are not very consistent from factual point of view either. Although most of the population considers budget deficits and overall growth in public debt a serious problem, only a smaller part are willing to support even certain steps oriented to better balancing of public budgets but having negative impact on them at the same time. On the other hand, popular measures have mostly high support. This applies even in instances when the impact of such measures to budget balance is evidently in counter position to the declared goal of the public finance reform.

This is already clear at first sight from relative frequencies of the declared support to or rejection of the individual measures included in Table 1. For example, people tend to like very much possible tax advantages awarded to families with children, reduction in the rate of property transfer tax or abolishment of taxes on interest and dividends. At the same time, however, most of them fiercely object not only to increase in the consumption tax burden (with the exception of excise tax on cigarettes and alcohol and, to a lesser degree, also on luxury goods) and also to reductions in the current amount of state contribution to building savings, reduction in sickness benefits for short-term sick leaves, increase in the financial deductible for patients exceeding the applicable health insurance or permanently reduced old-age pension payments for those who retire early.

As further implied in Table 1, certain measures aimed at eliminating tax evasion or other forms of economic crime, such as stamping alcohol and ban on sale of alcohol and cigarettes at marketplaces, declarations of assets, ban on cash payments starting at certain amount or introduction of cash registers enjoy support of a distinct majority despite being traditionally controversial in political terms. This, however, does not apply to introduction of the minimum tax, which should ensure at least certain taxation of entrepreneurs and self-employed who evade paying income taxes in the long run by artificially decreasing their tax bases through accounting. Only 37% of respondents expressed support to introduction of the minimum tax for entrepreneurs, while 39% were against it and another 24% did not express their opinion. Opponents of this measure include, quite understandably, higher share of entrepreneurs and tradesmen (33% in favour, 61% against) but in other respects the social-demographic differences in the distribution of opinions concerning this measure are relatively indistinct. This may suggest that, unlike with other planned measures, the public here is not entirely sure about the significance and essence of this instrument. Obviously, the reason behind rejecting the minimum tax may, in certain cases, be based on a feeling that for a number of entrepreneurs, the amount of such tax would not correspond to their actual income at all, in one way or another, and that it would be essentially somewhat unjust.

As far as changes in the tax rates are concerned, a majority of the general public would not really mind if the excise taxes on cigarettes or alcohol increased but for petrol, almost four fifths of the population object. Obviously, the shift of certain types of goods and services from the lower to the basic value added tax rate is very unpopular. As already suggested above, reduction in property transfer tax has a high support among respondents. This is in great contrast to their relatively highly reserved attitude towards reduction in legal entities income tax rate declared by the government. Among other things, this difference is another illustrative evidence in favour of the fact that attitudes of the public are governed for the most part by personal utilitarian standpoints. Other proposals in taxation subject to investigation and presented mainly by opposition parties are not generally accepted as clearly positive or clearly negative. Possible abolishment of capital yield tax (on interest or dividends) would have

relatively strongest support among respondents but support also slightly prevailed for possible imposition of excise tax on luxury goods or introduction of a flat fifteen percent tax.

Practically, all planned restrictive measures in social area or steps with negative social consequences for wider groups of population are perceived as clearly negative. More than three quarters of respondents reject reduction in sick benefits for the first two weeks of sickness or raising the retirement age and two thirds also oppose the idea of permanent reduction in old-age pension payments for the early retired. Raising financial deductible for patients exceeding the compulsory health insurance, rejected by three fourths of respondents, or introduction of tuition fees at universities, opposed to by two thirds of population, showed similar results. Also, the already introduced reduction in state contribution to building savings was clearly not a great joy for people and more than three quarters of respondents in the investigation disapproved of it. From among measures with similar orientation subject to investigation, only the idea of compulsory income retirement insurance with private pension funds saw a relatively lower degree of general resentment, although neither this idea found much support among the general public. Approximately one third of the population would (in their own opinion) support such a decision but a larger part just below one half objected.

In order to facilitate at all rational grasping of results of an investigation comprising such an extensive battery of a rich spectrum of measures related in one way or another to public finance and to disclose significant influences involved in the formation of people's attitudes on these issues, it was necessary to sort out the individual items in a logical and systematic manner. In this, the factor analysis proved to be a very good instrument; it disclosed seven significant factors, very easy to interpret logically, explaining approximately three fifths of the final opinion structure with the total used variance of the relevant solution of 58.7%.

Attitudes towards permanent reduction in old-age pension payments for the early retired, reduction in sick benefits, reduction in state contribution to building savings, raising the retirement age, introduction of tuition fees at universities and increase in deductible for patients in respect of health care payments exceeding the compulsory health insurance, featuring high positive factor loads, oscillating between 0.550 and 0.712, were all major contributions to the first factor, accounting for 12.2% of the variance of the rotated solution. Characterised as Social Darwinism factor in a nutshell, with a bit of a hyperbole, this factor reflects the influence of firm liberalistic attitude completely consistent ideologically, which is characteristic of a not very extensive group of people with very strong political opinions, who come, relatively more frequently, from higher social classes containing entrepreneurs or executives or highly qualified experts with high income and high standard of living. As expected, the correlation analysis of this factor showed its distinctive dependency on self-classification in the left-right political spectrum, subjective assessment of the standard of living of people's own households and the level of income. In a weaker form, also connections to the level of completed education manifested itself.

Another significant factor used up 11.3% of the overall variance in the rotated solution. It may be labelled the Vice Exorcists factors. With factor loads of 0.818 and 0.817, attitudes towards excise taxes on alcohol and cigarettes participated in this factor very heavily; further, with just slightly lower factor load values, attitudes concerning alcohol stamping and ban on sale of alcohol and cigarettes at marketplaces joined in. As confirmed in further analysis, this factor is, in fact, neutral as far as respondents' political orientation, education or social status are concerned but there are apparent differences based on sex and age. Women perceive alcohol and cigarettes more strictly than men and, as for age, it is possible to say that with increasing age, attitudes to both above human vices gradually turn fiercer.

The third factor in line, accounting for 9.5% in the rotated solution of the overall variance, may be coined the Hammer Against Black Marketers factor. Attitudes towards introduction of a minimum tax for entrepreneurs, introduction of declarations of assets, cash registers and ban

on non-cash payments for amounts higher than a set amount have mirrored in it in practically same levels. Factor loads for all indicated items oscillated in a relatively narrow interval of 0.652 to 0.684. With a lower yet still relatively significant factor load of approximately 0.33, also alcohol stamping and introduction of luxury goods tax manifested itself in this factor. Again, the correlation analysis indicated that this factor is related to political orientation to a certain degree although the incline of the correlation was opposite than for the Social Darwinism factor. While measures involved in the formation of the first factor were supported chiefly by those who claimed to support the right wing, for the Hammer Against Black Marketers factor support for the relevant measures from the right-hand side off the centre is relatively lower.

The fourth factor, which could be labelled the Tax Paradise factor, entailed significant support to possible abolishment of tax on interest and dividends, support to introduction of a flat fifteen per cent tax, support to reduction in property transfer tax, support to tax advantages for families with children and, to a lesser degree, support to reduction in the income tax rate for legal entities. The correlation analysis did not show any significant dependency of this factor on political orientation or on social-economic position of respondents or their households. But we have recorded a slight correlation of this factor in relation to the size of respondents' settlements. Some of the above measures have a relatively higher support in villages and smaller towns.

Attitudes towards transfer of selected kinds of goods and services from the reduced to the basic VAT rate and towards increase in excise tax on petrol participated very significantly in the fifth factor. Further, support for deductibles of patients above compulsory health insurance expressed in it to a lesser degree and, marginally, also support to increase in excise taxes on alcohol and disapproval with reduction in property transfer tax. For this factor, which, as suggested by the mentioned items, could represent a kind of Guardians of Full Treasury factor, no significant social-demographic dependency revealed.

The last but one of the seven significant factors explaining attitudes towards public finance reform included mainly support to imposition of excise tax on luxury goods and disapproval with reduction in income tax rate for legal entities. Along with the above mentioned, to a lesser degree, support to tax advantages for families with children and support to declarations of assets or disapproval with increase in deductibles paid by patients above the compulsory health insurance mirrored in this factor. This factor, the possible label of which could be the Unified Proletariat factor, in fact reflects the impact of a group with strong political opinions forming the core electorate of the KSČM; a subsequent analysis confirmed this as well. In addition to party preferences and self-classification on the right-left political scale, this factor also correlates with subjectively assessed standard of living of households or with respondents' income and age relatively strongly.

Support to introduction of compulsory pension income insurance with private pension funds and, to a lesser degree, support to reduction in property transfer tax, support to tax advantages for families with children and disapproval with reduction in state contribution to building savings participated the most in the last factor. This factor, interpretable, with a certain degree of tolerance, as the Old-age Back-up factor, shows a certain degree of dependency on self-classification on the right-left political scale and political preferences with those who profess to be supporters of the right wing expressing higher support to measures included in this factors.

Table 2: Support to/rejection of individual measures based on party preferences (in %).

	KSČM	ČSSD	KDU- ČSL	ODS
Alcohol stamping	70/16	76/15	78/17	75/12
Ban on sale of alcohol and cigarettes at marketplaces	63/25	71/20	76/19	73/20
Reduction in sickness benefit in the first 14 days of sickness	5/88	16/78	10/82	17/78
Introduction of minimum tax for entrepreneurs	51/27	46/37	33/39	35/50
Reduction in income tax rate for companies	25/42	39/39	33/33	55/28
Introduction of cash registers	67/9	65/15	54/20	62/22
Ban on cash payments for amounts exceeding CZK 500,000	51/14	61/17	56/15	53/27
Declarations of assets for people owning more than a set amount of property	72/15	72/17	67/21	51/39
Tax advantages for families with dependent children	95/2	93/6	91/6	91/6
Increase of the 5% VAT rate for certain kinds of goods and services to 22% rate	5/80	12/80	9/78	11/84
Increase in financial deductibles for patients	7/86	21/74	14/81	20/74
Compulsory income pension insurance with private pension funds	21/61	37/54	32/50	48/39
Reduction of property transfer tax	60/17	73/13	73/12	82/10
Raising retirement age	6/89	13/79	8/82	20/75
Introduction of flat fifteen per cent tax	31/40	35/41	39/35	52/32
Decrease in state contribution for building savings	15/72	11/79	9/81	16/78
Permanently lower old-age pension payments for the early retired	21/70	21/70	20/74	27/65
Increase in excise taxes for cigarettes	61/29	71/21	72/22	68/25
Increase in excise taxes for alcohol	60/33	69/26	73/21	67/28
Increase in excise taxes for petrol	16/75	15/81	17/74	14/82
Introduction of tuition fee at universities	19/68	15/74	16/76	31/62
Introduction of excise taxes for luxury goods	63/24	55/34	57/35	38/53
Abolishing taxes on interest and dividends	52/21	60/24	59/23	57/28

Source: CVVM, Our Society /*Naše společnost*/ 2004 survey, investigation 04-01. Note: The remainder for the individual lines to reach 100% contains “Does not know” and “Not interested” responses.

A detailed analysis of the individual items in our survey complemented the results of the factor analysis and confirmed the previous conclusions more or less. It showed that political orientation has a more significant impact on the distribution of opinions only for some of the measures under investigation. Further, it was revealed that, at the level of civil public, various impacts weakening or entirely eliminating effects of ideological models or party preferences enter the process of formation of attitudes in this area considered the eminent domain of politics. The most politically differentiated items within the battery surveyed entailed declarations of assets, reduction in corporate income tax rate, introduction of minimum tax for entrepreneurs, compulsory pension income insurance with private pension funds, introduction of a flat fifteen per cent tax and imposition of excise tax on luxury goods. But for these items (see Table 2) major part of supporters of individual parties present in the Parliament clearly deviated from their declared positions.