UNITED STATES[1]: THREE STATE-LEVEL CAMPAIGNS TO INCREASE INCOME TAXES ON THE RICH

This case examines efforts to introduce higher income taxes on the wealthy by different civil society coalitions in three U.S. states. In each state, organizations that were part of a national network of state fiscal policy think tanks supported by the Center on Budget and Policy Priorities worked with coalitions of unions and grassroots groups to push for tax reform. In Massachusetts, the **Raise Up Massachusetts** coalition pursued a constitutional amendment to allow a surcharge on high incomes. In Maine, the **Stand Up for Students Coalition** organized a ballot initiative to raise taxes, and then tried to advocate with legislators to protect the voter-supported increase. In Minnesota, the **Invest in Minnesota Coalition**—found a supporter in a Democratic governor who was eager to push through a state law raising taxes on high incomes through normal legislative procedure.

THE TAX REFORMS

Under the U.S. federal system, taxes are assessed at the local, state, and federal level to support the public services provided by that level of government. Although there is a lot of variation across the country, generally the federal tax system is more progressive than most state tax systems, which tend to rely on regressive rate structures. State tax and expenditure systems became even more inequitable during the recessions of 2001 and 2007, when states cut spending on social programs, largely eschewing tax increases, even as the economy strengthened in subsequent years and revenues remained below pre-recession levels.

These policies have strangled spending on education, health, and human services programs. As a result, progressive advocates in multiple states have initiated campaigns to increase revenue. In the three states of focus—with populations leaning Democratic, but governing power divided and including anti-tax Republicans—civil society advocates led campaigns to increase the taxation of high incomes. While these coalitions shared similar goals, they deployed different strategies, depending on local political conditions.

In Massachusetts, advocates sought to amend the state's constitution (which requires a flat income tax) to add a new higher rate of tax on incomes above $1 million. On five occasions since 1915, voters have rejected attempts to implement a graduated income tax. A century after the flat tax was introduced, the Raise-Up Massachusetts coalition determined that the time was right for another attempt to amend the constitution and create a surcharge of 4 percentage points on annual income above $1 million. The additional $2 billion a year projected from this change was to be earmarked for education and public transportation.

In 2004, Maine voters passed a ballot initiative pledging the state to assume greater responsibility for funding schools (this enhances equity by reducing reliance on local property taxes, which are usually inadequate in poorer districts.) This was not implemented, however, as the state government reduced tax rates and slashed education funding over the next decade. By 2017, these tax changes had resulted in around $300 million of lost revenue, and the state's education budget had experienced almost ten years

[1] Derived from Alan Essig's case study paper: "*Attempts to tax the rich: A story of three states*".

of budget cuts. In 2016, civil society groups initiated a referendum on a 3 percent surcharge for those with incomes above $200,000 a year. The surcharge was expected to raise $160 million a year for education spending.

Credit: Invest in Minnesota/Minnesota Budget Project

In Minnesota, advocates worked through the regular legislative process—taking advantage of a brief window of unified Democratic control of the state government to add a new high income tax bracket. For over a decade, beginning in the early 2000s, the progressive non-profit community supported legislative efforts to increases taxes on high-income Minnesotans. This advocacy was stymied by the anti-tax Republican governor between 2003 and 2010, whose tenure was characterized by consistent budget shortfalls and significant budget cuts. But in 2010, the state's voters elected a Democratic governor who had run on a platform of a broad revenue-raising package, including a higher tax bracket for incomes above $250,000. Unlike in Massachusetts or Maine, the political environment meant that tax reform could potentially happen through a regular legislative session, without the need for a constitutional amendment or a ballot initiative.

THE CAMPAIGNS

In Massachusetts, advocates worked in loose coalition over several years to push for a graduated income tax. In 2013, they coordinated with a Democratic governor to increase the overall progressivity of the state's tax system. The legislature rejected this proposal—but did form a "Tax Fairness Commission" that recommended a graduated income tax. In response, advocates established Raise Up Massachusetts, a coalition of 85 organizations, from think tanks to public employee unions and social justice organizations. Pessimistic about the possibilities for progressive legislative reforms, instead the coalition decided to pursue a ballot initiative. Doing so required three percent of the voters in the state to sign a petition before the state legislature would take it up and where a minority would have to approve it in two separate legislative sessions. Only after securing legislative support, would the Fair Share Amendment go to a full citizen vote.

To ensure maximum support for their proposal, advocates used polling to help determine what sort of rate increase might be most politically palatable. Eventually the decision was made to focus on a single rate increase for incomes above one million dollars, earmarked for education and transportation. Volunteers helped to gather over 157,000 signatures for the initiative—double what was required. The legislature approved the initiative proposal in 2016-17 and scheduled a referendum vote in 2018. At this point, several business groups sued to keep it off the ballot. In 2018, the state's highest court threw the amendment out, arguing that earmarking revenues violated a requirement that ballot referenda concern only one substantive question (e.g., either taxes or spending, but not both). The Raise-Up Massachusetts coalition now plans to follow the legislative route that they initially rejected. Such an approach to constitutional change permits earmarking.

In Maine, the coalition of advocates that pushed for the high-income tax increase grew out of previous efforts to oppose the Republican governor's budget cuts; their members organized as the Stand Up for Students coalition. The membership and basic allocation of roles among participants both mirrored the structure in Massachusetts: union groups provided much of the funding, tax advocacy groups the technical expertise, and social justice groups aided in the grassroots efforts. Unlike in Massachusetts, this coalition used a combination of paid and volunteer staff to gather the required signatures; they coordinated in the effort with a different (overlapping) coalition gathering signatures for a ballot initiative to increase the minimum wage. Once again, opposition came from the business community, which argued that the state allocation of funds across schools was unfair.

The final vote came down to a margin of less than one percentage point—perhaps to be expected, given the state's partisan split—passing with 50.6 percent of the vote. The surcharge immediately became the focal point of budget negotiations in the new legislative session, opening a new chapter in the campaign. Although Democrats retained a slim majority in one of the legislative branches, the state budget required two-thirds consent—and as legislatures faced stalemate (and, eventually, a state shutdown) the surcharge was ultimately jettisoned. Nonetheless, the legislature managed to secure increased funding for education, which was one of the principal goals of the coalition.

In Minnesota, the tax advocacy effort emerged out of prior civic coalition work—in this case, as in Maine, opposition to a Republican governor's budget cuts. The advocates' work on this issue dated back to 1989, when the director of an interfaith advocacy group published a tax justice paper; its main recommendation (subsequently adopted by the legislature) was to require a regular tax incidence study, the findings of which have documented the state's regressive tax structure and proved key for tax fairness advocacy in the state. Eventually, the Invest in Minnesota coalition coalesced around a higher tax bracket on high incomes that was vetoed by the Republican governor in 2009. However, the proposal was then incorporated into the campaign platform of the Democratic governor elected in 2010. While the initial two years of Governor Dayton's term were spent fighting off Republican legislative attempts to amend the state constitution to make it harder to increase taxes, the opportunity for progressive taxation opened when Democrats won (narrow) unified legislative control in 2012. Advocates worked together to persuade legislators through direct meetings, phone calls, actions in their local districts, and advertising – and the new upper tax tier ultimately passed in 2013.

Credit: Invest in Minnesota/Minnesota Budget Project

ASSESSMENT

In all three states, the campaigns focused on the need to reverse years of declining revenues and deteriorating public services, and to increase funding for sectors like education and infrastructure; These cases represent divergent outcomes: Minnesota represents a clear success on progressive tax reform;

Maine a failure on tax reform, but a partial success on other progressive policies; and Massachusetts a failure on tax in the short-term, but with prospects for success going forward. Together, they show the difficulty of moving such tax policy changes through all the separate levels of the process—particularly where governing power is shared with a party that stridently rejects the principle of progressive taxation.

In Massachusetts, advocates see a glass half-full. Due to legal issues involved in the initiative's wording, their Fair Share Amendment was not successful. But the coalition succeeded in designing a constitutional amendment that had the support of a broad base of coalition members as well as the voting public; they developed an infrastructure that relatively cheaply and efficiently collected twice the numbers of signatures required that can support future reform efforts; and their advocacy efforts resulted in overwhelming support in the state legislature. Although advocates now are shifting strategies back to a legislative approach, their initial decision to pursue a citizens' petition arguably made sense based on the information available at the time. Past legislative amendments to implement a graduated income tax had overwhelmingly failed at the ballot, and advocates wanted to avoid repeating this same playbook.

In Maine, the legislature's subsequent repeal of the surcharge somewhat obscures the success of the ballot initiative itself. The coalition incorporated evidence from extensive polling to design a rate and income cutoff that impacted as few voters as possible while maximizing the revenues for education funding. Its significant financial resources allowed the coalition to use paid signature gatherers to overcome the constraint of limited volunteer capacity; given the close result, it is likely that these efforts made a difference. Where the campaign failed was in the subsequent legislative session, which represented a different type of fight—conditions considerably less favorable to the organizers' original goal. But they were partly successful in achieving progressive spending priorities, and they forced their conservative opponents on the defensive on tax reform.

In Minnesota, advocates' successful effort to implement a new high-income tax bracket was made possible by organizing going back two decades. These efforts set the stage for possible action during the brief window when Democrats enjoyed a narrow majority in the legislative chambers during the term of a Democratic governor who had run on the 4th tier proposal. Advocates had been comfortable playing the long game: continually building data, messaging, and capacity in support of their position, while at the same time joining together to fight the immediate battles of proposed tax and budget cuts. Their work together on those other battles solidified coalition partnerships and brought the issue of tax fairness to the forefront of policy conversations among the public, media, and policymakers.

LESSONS

Several cross-cutting lessons emerge from these case studies, connecting the experiences of advocates across the three states. The first lesson is that even in a two-party system with vigorous ideological opposition to progressive taxation, the pendulum will swing over time and create opportunities to change the narrative about taxes. These cases suggest that when such anti-tax rhetoric pushes policy far enough, the impact of falling revenues on basic services can undermine a narrative that prioritizes low taxes and growth and, rather, support a counter-narrative about the importance of government. A related lesson from these cases is the importance of engaging in dedicated efforts to understand changes in public opinion and to tailor reform proposals accordingly. Reformers in these states used polling and grassroots work to better know where voters were coming from, both to design their policy proposals, and to inform their approach to reform narratives and campaigning.

Coalitions were also essential in each of these states and demonstrate the ways in which organizations can build partnerships to internalize the technical, political, communication and grassroots mobilization skills, as well as the financing, that any one organization may lack. Finally, while advocates' efforts created the conditions for change, the ultimate outcome in each state was shaped significantly by elections and political conditions. Tax reform is a long game, and civil society organizations that prepare can reap the benefits of longer-term strategies when favorable political environments open to secure at least some gains. The organizations in these cases worked overtime not only to try to change the views of the public and legislators, but where possible, also to directly create windows of opportunity by influencing elections, as when civic actors helped elect Democratic legislators in Minnesota that helped push through progressive tax reform.