Title: Costly, Regressive and Ineffective: How Sensitive is Public Support for the Mortgage Interest Deduction?

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Abstract: This paper investigates whether public support for the mortgage interest deduction is sensitive to critiques of the policy as regressive, costly or ineffective. The deduction is a popular social policy that lowers the cost of owning a home for some homeowners by enabling them to deduct their mortgage interest payments from their federal tax liability. Although the deduction enjoys broad public support, critics argue that it disproportionately benefits wealthy households, fails to expand homeownership opportunities to households on the margins and costs the federal government an extraordinary amount of money in foregone tax revenue. Drawing on data collected through an on-line experiment, this analysis tests the sensitivity of public support to these critiques. The findings reveal that support for the mortgage interest deduction declines when respondents are presented with information about the cost, effectiveness or distribution of benefits associated with the deduction. Disaggregating support by political party and homeownership status reveals that support among renters is more sensitive to framing effects than that of homeowners. Republicans are less sensitive to framing effects than Democrats when the deduction is framed as distributing benefits unequally, but more sensitive to these effects when the issues is framed as costly. However, all groups register their lowest level of support when told that the mortgage interest deduction is not an effective tool for expanding ownership opportunities.

Key Words: Homeownership; Tax Policy; Mortgage Interest Deduction; Framing Effects

Introduction

American homeowners are among the most privileged beneficiaries of federal tax policy (Bourassa and Grigsby 2000; Hanson, Brannon and Hawley 2014). They are exempt from paying capital gains taxes on a portion of the money earned from selling their homes and permitted to deduct state and local property taxes from their federal tax liability. However, the most popular tax benefit enjoyed by American homeowners is the mortgage interest deduction (MID). This deduction permits homeowners who itemize their taxes to deduct the interest paid on their mortgage loans. Often viewed as the anchor of federal policies to support homeownership, the MID is broadly popular across the American population.

Critics of the mortgage interest deduction contend that the policy is costly, regressive and ineffective. Since wealthy households are more likely to own their own home, these high-income households disproportionately reap the rewards of the MID. As a result of this unequal distribution of benefits, the deduction is poorly targeted as a tool for expanding homeownership. It does not create new opportunities for families on the margins of ownership – one of the stated goals of federal housing policies. At a cost of nearly seventy billion dollars annually, critics note that the revenue forgone through the deduction exceeds the entire federal budget for low-income, rental housing assistance programs in the United States.

While these critiques cast doubt on the effectiveness of the deduction as a tool for expanding ownership opportunities, the mortgage interest deduction remains a deeply popular arm of the hidden welfare state (Howard 1997; Mettler 2001). Recent polling conducted on behalf of the National Association of Home Builders suggests that more than eighty percent of

Americans support the MID – a level of agreement rarely seen for a contemporary social policy.¹ Notably, this support cuts across social categories – including partisanship, political party identification and income – that often serve as the cleavages for policy disagreements in the United States. While acknowledging broad support, critics contend that the popularity of the mortgage interest deduction simply reflects a generalized commitment to policies associated with homeownership and a lack of understanding about the impact or effectiveness of the policy.

Against this backdrop, I ask whether support for the MID shifts when Americans are presented with additional information about the deduction. Through an on-line experiment, I investigate whether people are less likely to support the policy when it is framed as: a) an ineffective tool for expanding homeownership opportunities; b) an expensive part of the federal budget; or c) a policy that distributes benefits unequally to wealthy households. After evaluating framing effects for the complete sample of respondents in the experiment, I disaggregate the sample to test for heterogeneity by homeownership status and political party affiliation.

This paper begins with a brief history of the deduction. I provide more detail on three common critiques of the MID in the first section. Next, I situate the analysis within a broader research tradition on framing effects in public opinion research. Although there is no previous research identifying framing effects in support for housing policy, I use this background to theorize how issue frames may influence support for the deduction. In the following section, I present details of the survey experiment using Amazon’s M-Turk platform and briefly discuss the challenges and benefits of conducting experimental research on M-Turk. Then, I present findings from the research, including results from sub-samples of respondents disaggregated by

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¹ “Voters Warn: Don’t Mess with the Mortgage Interest Deduction.” Available at: <http://www.businesswire.com/news/home/20100922006215/en/Voters-Warn-Don't-Mess-Mortgage-Interest-Deduction>.

homeownership status and political party affiliation. In the conclusion, I argue that these findings are important for current efforts to reform the mortgage interest deduction. By documenting changes in public opinion in response to information about the costs, effectiveness and distribution of benefits, this research deepens our understanding of both the possibilities and limitations of policy reform.

The Mortgage Interest Deduction: History and Critique

The mortgage interest deduction is a popular federal tax policy that enables some homeowners to deduction their mortgage interest payments from their federal tax liability. It emerged from a provision of the original federal income tax code passed by Congress in 1913 that permitted federal taxpayers to deduct interest paid on consumer debt (Howard 1997). However, since fewer than half of Americans owned their own homes, and fewer still held long-term mortgages on those homes, the original interest deduction was not targeted specifically at homeowners. In fact, not until 1986, when Congress underwent major tax reform, was the interest paid on mortgage debt singled out as a unique form of consumer debt meriting special treatment (Ventry 2010; McCabe 2016). Today, homeowners are permitted to deduct the interest paid on mortgage loans of up to \$1 million. This includes interest payments on mortgage loans to purchase both first and second homes, as well as the interest paid on home equity loans up to \$100,000.

Critics of the mortgage interest deduction generally offer three critiques of this policy. First, they point to the unequal distribution of benefits (Glaeser and Shapiro 2003; Poterba and Sinai 2008; Toder, Harris and Lim 2009). Since wealthy Americans are more likely to own their homes, they are substantially more likely to claim the benefits of the deduction. In 2017, more than 77 percent of households reporting incomes above the national median owned their homes

compared to fewer than half of those with incomes below the median (United States Census Bureau 2017). Even among homeowners, the benefits accrue largely to high-income households because they are more likely than low- and middle-income households to itemize their deductions – a precondition for claiming the MID. Finally, since wealthy homeowners typically take out larger loans to buy their homes, their interest payments are generally larger than those paid by middle-class households. As a result, among tax filers claiming the deduction, high-income households generally claim a larger deduction than low-income households.

The resulting distribution of benefits from the mortgage interest deduction is striking. In 2013, the Congressional Budget Office (CBO) reported that households in the top income quintile receive about seventy-five percent of the benefits of the mortgage interest deduction (Congressional Budget Office 2013). Even more remarkably, the top 1 percent of Americans get fifteen percent of the benefits of the deduction – an unevenness that highlights the deep inequalities generated by the mortgage interest deduction. On the other end of the distribution, the bottom sixty percent of American households receive less than ten percent of the benefits (Drier 1997).

One consequence of the regressive nature of the mortgage interest deduction is that the policy is poorly targeted to expand homeownership opportunities (Hilber and Turner 2014; Morrow 2012). Since the benefits of the deduction accrue overwhelmingly to high-income households who would own a home regardless of the tax benefits, the MID is an ineffective tool for reaching low- or moderate-income renters on the margins of ownership and looking to buy a home (Glaeser and Shapiro 2003). Highlighting the ineffectiveness of the mortgage interest deduction for expanding ownership opportunities, Hanson (2012) utilizes state-level variation in the availability of the deduction to estimate its impact on the homeownership rate. Hanson

(2012) finds that the MID does not enable renters to enter into the housing market, but instead incentivizes homeowners to purchase larger homes.

Finally, critics contend that the mortgage interest deduction is excessively costly. In 2016, the federal government forewent nearly \$70 billion in revenue by enabling homeowners to deduct their interest payments (United States Departments of the Treasury 2017).² This makes the MID one of the costliest expenditures in the tax code. In fact, only a handful of tax expenditures, including the deduction for charitable giving, cost the federal government more revenue. By 2024, the cost of the deduction is expected to rise above \$100 billion annually.³ Critics of the MID often note that the revenue foregone through the policy exceeds the entire budget for low-income rental housing assistance through the Housing Choice Voucher program – the largest program to assist low-income Americans in securing stable, affordable rental housing. In fact, the federal government foregoes more revenue through the MID each year than it spends on the entire budget of the Department of Housing and Urban Development (HUD) – the cabinet-level agency tasked with overseeing federal housing programs.

Despite these critiques, the deduction remains widely popular.⁴ A 2010 poll fielded on behalf of the National Association of Home Builders finds that the super-majority of American

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² Alongside the mortgage interest deduction, the Department of the Treasury lists three other tax expenditures for homeowners – the exclusion of net imputed rental income, the capital gains exclusion on home sales, and the deductibility of state and local property taxes on owner-occupied homes – among the twelve costliest in the tax code.

³ For additional information on the cost of the mortgage interest deduction and other federal tax expenditures, see the Tax Policy Center (<http://www.taxpolicycenter.org/briefing-book/what-are-largest-tax-expenditures>) and the Joint Committee on Taxation (<https://www.jct.gov/publications.html?func=startdown&id=4857>).

⁴ Available polling has been reported in a variety of media outlets, including: McCabe, Brian J. 2011. “Despite Benefit Disparities, Middle Class Supports Mortgage Interest Deduction.” *New York Times*. Available at: <https://fivethirtyeight.blogs.nytimes.com/2011/07/13/despite-benefit-disparities-middle-class-supports-mortgage-deduction/>. Streitfield, David and Megan Thee-Brenan. 2011. “Despite Fears, Owning a Home Retains Allure, Polls Show.” *New York Times*. Available at: <http://www.nytimes.com/2011/06/30/business/30poll.html?scp=1&sq=homeownership&st=cse>. Dietz, Robert. 2013. “New Poll Confirms Broad Support for the Mortgage Interest Deduction.” Available at: <http://eyeonhousing.org/2013/07/new-poll-confirms-broad-support-for-the-mortgage-interest-deduction/>.

voters support the deduction and other policies targeted at homeowners. In fact, about 70 percent of survey respondents report that they would view political candidates more unfavorably if they advocated for changes to the mortgage interest deduction.⁵ Even when asked about eliminating the deduction as a way to curtail excessive government spending, the deduction retains remarkably high levels of support – a finding that holds across political parties. In 2012, a poll asking respondents whether they would support eliminating the deduction as part of a plan to reduce the budget deficit found that Americans opposed eliminating the deduction by a margin of two-to-one.⁶ While this polling comes largely from interest groups working to preserve the MID, it reveals consistently high levels of support across broad swaths of the population.

Issue Framing and Support for Social Policy

While the mortgage interest deduction is broadly popular, previous research has not examined whether support is sensitive to issue frames. The way an issue is framed – in this case, as a policy that is expensive, ineffective for advancing policy goals, or unevenly distributed to favor high-income households – can shift both the level of support for a social policy and the intensity of that support (Nelson, Oxley and Clawson 1997; Nelson and Oxley 1999). Although there has been no previous research investigating framing effects in support for housing policies, a large literature identifies these effects for a host of other social policy issues, including government spending (Jacoby 2000; Rasinski 1989), assistance to the poor (Smith 1987), the use of nanotechnology (Cobb 2005) and same-sex marriage (Heerwig and McCabe 2012).

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⁵ For additional information on the polls conducted for the National Association of Home Builders, see: “Voters Warn: Don’t Mess with the Mortgage Interest Deduction.” Available at: <http://www.businesswire.com/news/home/20100922006215/en/Voters-Warn-Don't-Mess-Mortgage-Interest-Deduction>. “NAHB Poll: Voters Strongly Support Mortgage-Interest Tax Deduction.” Available at: http://www.builderonline.com/money/mortgage-finance/nahb-poll-voters-strongly-support-mortgage-interest-tax-deduction_o.

⁶ CBS News Poll. December 12-16, 2012. Available at: <http://www.pollingreport.com/budget3.htm>.

There are several ways that issue framing can influence levels of public support. On one hand, issue frames may heighten emotional sensitivity or conjure specific moral ideas. Studies of social safety net programs in the United States reveal a decline in support when respondents are asked about *welfare* compared to parallel questions about *assistance to the poor* – a difference attributed to negative stereotypes about *welfare* that disappear when respondents are given a more neutral wording (Smith 1987). Likewise, a recent study of support for same-sex marriage finds that support diminishes among older Americans when the policy is framed as a support for *homosexual* marriage rather than *gay* (or *same-sex*) marriage (Heerwig and McCabe 2012).

More often, issues are framed by priming survey respondents with specific information before asking them to report their support (Scheufele and Tewksbury 2007). This type of framing may supply respondents with new information about a social policy – in this case, information about the costs or effectiveness of the MID – that shape their assessment of it. Alternatively, priming may simply be used to heighten the recall of information already known to respondents. It may emphasize specific pieces of knowledge (over other pieces) or strengthen the recall of this information. While effective issue frames often utilize concrete facts and information, they may also rely on symbols and heuristics to shape public support (Chong and Druckman 2007). In the case of the mortgage interest deduction, respondents may not respond exclusively to bits of information about the policy, but also to cultural symbols, like homeownership itself.

Finally, effective issue frames may depend on the source of information, rather than its content. Trusted sources of information – for example, the endorsement of a meaningful political organization, like the Republican Party, or a high-status social group, like doctors – can heighten the sensitivity of an issue to framing effects (Druckman 2001a; Druckman 2001b).

Data and Methodology

To test for framing effects in support for the mortgage interest deduction, I present the results from an on-line experiment. The experiment was fielded between May 11, 2017 and May 19, 2017 on the Amazon M-Turk platform. Researchers on M-Turk recruit *workers* to complete *Human Intelligence Tasks* (HIT) for a small fee. In this case, the HIT was a twelve-question survey about housing policy in the United States and each worker was paid \$0.25 upon completion of the survey.

I recruited 1,645 workers through M-Turk to participate in the experiment. These workers were recruited into one of four groups corresponding with either a baseline survey condition or one of three treatment conditions, as noted below. They were directed to take a survey via Google Forms. The surveys were identical across groups *except* for the first question, which asked about support for the mortgage interest deduction.

In the baseline survey, workers received the following question about the mortgage interest deduction.

The mortgage interest deduction is a federal tax deduction for American homeowners. It permits some homeowners to deduct the interest they pay on their mortgages from their federal taxes. Do you support or oppose this federal tax deduction for homeowners?

Workers were given four response options – strongly support, support, oppose or strong oppose – and their responses are recoded into a dichotomous measure (support / oppose) for the analysis in this paper.

In each of the three treatment groups, which I refer to the *inequality*, *cost* and *ineffective* frames, the baseline statement was appended with additional information about the deduction. (The appended information is highlighted in bold below for readers to clearly identify differences across statements, but was not highlighted in the survey instrument.) Workers in the second group received the following statement:

*The mortgage interest deduction is a federal tax deduction for American homeowners. It permits some homeowners to deduct the interest they pay on their mortgages from their federal taxes. **Because high-income people are more likely to own their homes, they get most of the benefits. In fact, more than 75 percent of the benefits from the mortgage interest deduction go to households earning more than \$100,000 annually.** Do you support or oppose this federal tax deduction for homeowners?*

Workers in the third group received the following statement:

*The mortgage interest deduction is a federal tax deduction for American homeowners. It permits some homeowners to deduct the interest they pay on their mortgages from their federal taxes. **The deduction is one of the most expensive expenditures in the tax code. Last year, the mortgage interest deduction cost the federal government more than 70 billion dollars.** Do you support or oppose this federal tax deduction for homeowners?*

Finally, workers in the fourth group received the following statement:

*The mortgage interest deduction is a federal tax deduction for American homeowners. It permits some homeowners to deduct the interest they pay on their mortgages from their federal taxes. **Most economists agree that the deduction is not a good policy for getting more people to buy homes. It provides no assistance to people who want to buy a home but can't afford to do so.** Do you support or oppose this federal tax deduction for homeowners?*

After responding to their group-specific question about the mortgage interest deduction, all workers were presented with an additional set of questions. These questions capture basic demographic information about respondents, including their family income, level of education and age. They also include information about their political party affiliation. After being prompted to report their homeownership status, homeowners were asked whether they currently held a mortgage on their home and renters were asked whether they expected to buy a home in the next three years.

In Table 1, I report descriptive statistics for the entire M-Turk sample followed by the statistics for each sub-group of workers categorized by condition assignment.⁷ Forty-two percent of respondents identified as Democrats and only one-quarter identified as Republicans. The modal education category was respondents with a Bachelor's degree. Forty-six percent of respondents hold a Bachelor's degree while only 23 percent hold a high school degree or less. More than 75 percent of respondents were under the age of 40 and women comprised less than 45 percent of the sample. About 55 percent of respondents own their own homes. Among

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⁷ In addition to the measures listed in Table 1, survey respondents were asked a series of questions about their interest in public policy, their general support for policies that support homeownership and their level of political partisanship. These were included in the survey immediately after the question about the mortgage interest deduction, but before the demographic information.

homeowners, nearly 70 percent hold a mortgage on their homes. Among renters, about 57 percent expected to make this transition into homeownership in the next three years. These descriptive statistics for the sample are reported in Table 1.⁸

<< Insert Table 1 here >>

While M-Turk offers a convenient, low-cost platform to conduct experimental research, there are significant limitations of the sample compared to population-based samples (Mutz 2011). Most importantly, the M-Turk sample is descriptively unrepresentative of the American population. Compared to samples drawn using more conventional sampling techniques, the M-Turk sample is younger, more heavily male, more likely to lean Democrat and less likely to own a home (Levay, Freese and Druckman 2016). The sample is therefore inadequate for generating un-weighted population estimates. Still, recruitment through M-Turk is typically preferable to other types of convenience samples, including those drawn largely from college students (Berinsky, Huber and Lenz 2012). In fact, recent efforts to replicate experiments from population-based surveys on the M-Turk platform suggest that adjustments based on observable characteristics often lead to suitable population estimates (Buhrmester, Kwang and Gosling 2011; Mullinix, Leeper, Druckman and Freese 2015; Levay, Freese and Druckman 2016).

In recent years, social scientists have turned to M-Turk as platform to conduct experimental social research and generate theoretical insights (Bohannon 2011; Paolacci and Chandler 2014). For example, Garcia and Abascal (2016) evaluate whether skin color

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⁸ For several variables, I report differences between the treatment and the baseline groups significant at the $p < 0.05$ level in Table 1. The logistic regression model, reported in Appendix A, adjusts for the full set of covariates to confirm that significant differences in the difference-in-proportions tests are not driven by unbalanced groups in the analysis.

assessments are impacted by other markers of racial status, like an individual's name. McCright, Dentzman, Carters and Dietz (2013) utilize M-Turk to identify partisan differences in self-reported trust of environmental scientists. Even though sample limitations restrict researchers from estimating unbiased population parameters, Levay, Freese and Druckman (2016) argue that M-Turk offers a useful platform for theory development.

For this analysis, I conduct a series of difference-in-proportions tests to test whether support for the mortgage interest deduction declines when respondents are presented with information about the cost, effectiveness and distribution of benefits. After testing for framing effects across the entire sample of respondents, I examine heterogeneity by political party identification and homeownership status. The analysis by political party identification is motivated by a substantial body of research identifying differences in policy preferences across political groups. For political party identification, I divide respondents into three groups – self-identified Democrats, Independents and Republicans. The analysis by homeownership status is motivated by the fact that homeowners (and particularly homeowners with a mortgage) or renters expecting to opt into homeownership have a greater financial interest in the mortgage interest deduction than other individuals. For this analysis, I begin with a comparison between homeowners and renters, and then I make two further within-group comparisons – first, between mortgaged homeowners and non-mortgaged homeowners and second, between renters expecting to buy home within the next three years and those not expecting to do so.

In the following analysis, I report two types of tests. After testing for framing effects on the full sample of respondents, I test for *within-group* framing effects on particular sub-groups. For example, looking only at Democrats, I test whether support for the deduction changes across framing conditions. These difference-in-proportion tests compare each treatment condition to the baseline condition. These *within-group* differences are read down a single column in Table 2

in the following section. Significant differences at the $p < 0.05$ level are identified with an asterisk.

Next, I test for significant differences across sub-groups within a particular framing condition. I refer to these as *within-condition* framing effects. For example, in the framing condition that provides respondents with information about the cost of the deduction, I test whether support differs by political party identification. This analysis tells us whether Republicans (and Independents) are more or less likely than Democrats to support the mortgage interest deduction when presented with information about its costs. These *within-condition* effects are read across the rows in Table 2. Significant differences at the $p < 0.05$ level are indicated in bold.

Findings

In the full sample of respondents, support for the mortgage interest deduction differs significantly across framing conditions. Nearly 83 percent of respondents support the MID when framed neutrally in the baseline condition. However, support for the deduction fell substantially when the policy was framed as costly, ineffective or unequal. Only 70 percent of respondents supported the deduction when presented with information about its costs. Support fell to 67 percent when respondents were given information about the unequal distribution of benefits. When respondents were told about the ineffectiveness of the deduction, support declined to 63 percent. These results are reported in column 1 of Table 2. Notably, each of these differences between the treatment groups and the baseline group is statistically significant. In Figure 1, I graph these differences across framing conditions.

<< Insert Table 2 >>

<< Insert Figure 1 >>

Political Party Identification:

I begin by testing for *within-group* differences by political party identification. Separate analyses of Democrats, Republicans and Independents are reported down columns 2 – 4 in Table 2. When the deduction is framed around issues of inequality, support among Democrats falls by nearly 20 percentage points – from 81.7 percent to 62.1 percent of respondents. For Republicans and Independents, support declines by 12 – 13 percentage points in this condition. When framed around the cost of the deduction, support among Republicans declines by 17 percentage points – from 86.9 percent to 69.7 percent. Among Democrats and Independents, support falls from between 10 – 12 percentage points in this condition. This suggests that Republican support for the MID is more sensitive to cost issues, while Democratic support for the MID is more sensitive to inequality issues. However, for Republicans, Democrats and Independents, support for the deduction is *the most sensitive* to the frame about its effectiveness. Support among each of the three groups declines by 19 – 22 percentage points when the mortgage interest deduction is framed as an ineffective tool for promoting homeownership. These *within-group* differences by political party are graphed in Figure 1.

Next, I test for *within-condition* differences between Republicans, Independents and Democrats. These differences, which are read across the rows in Table 2, are graphed in Figure 2. Notably, I find no significant differences between Independents and Democrats for any of the framing conditions. Although support is slightly higher among Independents than Democrats in each of the framing conditions, these small gaps are not statistically significant. However, the results are more nuanced when I investigate differences between Democrats and Republicans. In

the baseline condition, 87 percent of Republicans support the deduction compared to 82 percent of Democrats – a gap of five percentage points. While Republicans are slightly more supportive of the deduction, the difference is not statistically significant. When the deduction was framed as a costly piece of the tax code, the gap between Democrats and Republicans shrinks to nearly zero – about 69 percent of both Republicans and Democrats support the policy. On the other hand, the gap between Democrats and Republicans widens to more than 12 percentage points when the deduction is framed as a regressive policy that primarily benefits the wealthy. Under this inequality condition, 75 percent of Republicans support the MID compared to only 62 percent of Democrats. This gap is statistically significant, as noted in Table 2. When the deduction is presented as an ineffective tool for expanding ownership opportunities, support declines to lowest level for both groups, but the eight-point gap by political party identification – 68 percent for Republicans and 60 percent for Democrats – fails to reach statistical significance. These findings are graphed in Figure 2.

<< Insert Figure 2 >>

Homeownership Status:

I begin by comparing homeowners and renters in columns 5 and 6 of Table 2. Compared to the baseline condition, support declines among both homeowners and renters when the mortgage interest deduction is framed as a regressive, ineffective or costly social policy. For example, support drops by 12 percentage points – from nearly 85 percent to 73 percent – among homeowners when the policy is framed as creating unequal benefits. It drops more than 20 percentage points – from 80 percent to less than 60 percent – among renters under this condition. When framed as a costly social policy, support drop nearly 10 percentage points among

homeowners and 17 points among renters. Finally, when framed as an ineffective tool for expanding ownership opportunities, support for the MID falls to 70 percent for homeowners – a drop of more than 14 percentage points. Among renters, the decline is even more stark. Fewer than 53 percent of renters support the deduction when it is framed as an ineffective tool – a decline of nearly 28 percentage points. Critically, while support for the MID declines among both homeowners and renters in each of the framing conditions, the effects are substantially larger for renters. These *within-group* comparisons are graphed in Figure 1.

Next, I test for *within-condition* differences by comparing across the rows in Table 2. In the baseline condition, I find that homeowners are slightly more supportive of the deduction than renters, but this gap between owners and renters – almost 85 percent of homeowners compared to 80 percent of renters – is not statistically significant. However, when I examine *within-condition* differences for each of the treatment groups, I find substantially wider gaps. Framed as a social policy that disproportionately benefits the wealthy, the gap between owners and renters widens to 13 percentage points – 73 percent of owners support the MID compared to just 60 percent of renters. Framed as a costly part of the tax code, the gap widens to 12 percentage points. Under this condition, 75 percent of owners support the MID compared to just 63 percent of renters. And billed as an ineffective tool for promoting homeownership, the gap widens to more than 17 percentage points. More than 70 percent of owners support the MID when presented with information about its effectiveness compared to less than 53 percent of renters. Each of these *within-condition* differences by homeownership status is statistically significant. I graph these differences in Figure 3.

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Extending these comparisons between homeowners and renters, I next evaluate two sub-groups of homeowners – those with a mortgage and those without a mortgage (columns 7 and 8) – and two sub-group of renters – those who expect to buy a home in the next three years and those who do not (columns 9 and 10). In this analysis, I focus on *within-condition* differences by reading across the rows in Table 2. In the baseline condition, nearly 87 percent of owners without a mortgage support the deduction compared to 83 percent of owners with a mortgage. This gap is not statistically significant. The gap widens under each of the framing conditions – to 14 points when framed as unequal, 7 points when framed as costly and 10 points when framed as ineffective. However, only under the unequal condition does the gap between mortgaged and non-mortgaged homeowners reach statistical significance. Presented with information about the unequal distribution of benefits, 77 percent of homeowners with a mortgage support the deduction compared to only 63 percent of those without a mortgage.

In Table 2, columns 9 and 10, I find similar patterns when I test for *within-condition* differences between renters who expect to buy a home in the next three years and those who do not. Although the 6-point gap in the baseline condition between these sub-groups of renters is *not* statistically significant, the gap widens – and emerges as significant – when the MID is framed as ineffective or unequal. About 73 percent of renters who expect to buy a home support the deduction when it is framed as an unequal social policy compared to only 40 percent of renters who do *not* expect to buy a home – a 33-point gap in support. Likewise, when the deduction is billed as an ineffective social policy for expanding ownership opportunities, a significant 16-point gap emerges. Under this condition, 60 percent of renters who expect to buy a home support the MID compared to 44 percent of renters who do not expect to buy. The five-point gap in the cost condition is not statistically significant.

Conclusion

Increasingly aware of the limits of the mortgage interest deduction, a growing number of housing policy scholars and practitioners have put forth reform proposals to lower its costs, redistribute its benefits or reshape the deduction into a more effective tool to expand ownership opportunities (Toder, Turner, Lim and Getsinger 2010; Katz 2012). In 2005, President George W. Bush's Advisory Panel on Federal Tax Reform proposed to replace the deduction with a non-refundable credit. The credit, which would amount to 15 percent of interest paid on a principal residence, would be available to homeowners regardless of whether they itemize their deductions. In 2010, President Obama's National Commission on Fiscal Responsibility and Reform (Bowles-Simpson) proposed to reduce the cap on eligible mortgage interest debt to \$500,000. Other proposals call for ending the deductibility of mortgage interest paid on second homes and converting the deduction into a one-time home buyers tax credit for first-time home buyers. Even the National Association of Home Builders – a group that has historically worked to protect the mortgage interest deduction – recently signaled their willingness to consider MID reforms as part of broader tax reform efforts.⁹ Many proponents of MID reform, including the United for Homes campaign sponsored by the National Low-Income Housing Coalition, aim to reinvest these savings into affordable housing programs, including programs to assist low-income renters, middle-class homebuyers or households experiencing excessive cost burdens.¹⁰

Amid the emerging consensus around MID reform, the findings from this paper offer evidence to shape the path forward. Briefly, I highlight three key findings from the paper before discussing their relevance to reform efforts. First, while overall support fell under each of the

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⁹ Woellert, Lorraine. "Homeowner tax relief looks vulnerable as industry breaks ranks." *Politico.com*. September 27, 2017. Kusisto, Laura. "Housing Groups Spar Over Mortgage Deduction: Homebuilders, Realtors associations split after decades of strong support for tax break." *Wall Street Journal*. October 16, 2017.

¹⁰ For more information on the United for Homes campaign, see: <http://nlihc.org/unitedforhomes>.

framing conditions, it was the most sensitive to the effectiveness frame. In the overall sample, support declined by more than 20 percentage points – from 83 percent to 63 percent – when respondents were presented with information suggesting the policy was ineffective at expanding homeownership opportunities for households on the margin. Support fell by 13 percentage points when respondents were given information about the costs of the deduction and 15 percentage points when they presented with information about the unequal distribution of benefits.

Second, I find that Republicans are less sensitive to these effects when the deduction is framed as distributing benefits unequally, but more sensitive to these effects when it is framed as expensive. Democrats, on the other hand, are more sensitive to issues of inequality, but less sensitive to issues of cost. These findings suggest that sensitivity differs across social groups – a key take-away message for reformers seeking to rally public support. However, across every group in the analysis, support declines to its lowest level when the MID is presented as an ineffective tool for expanding ownership.

Finally, I report that renters are more sensitive to framing effects than homeowners. Although renters are almost as supportive as homeowners in the baseline condition, their support drops more dramatically across each of the framing conditions. Relatedly, I find that, among sub-groups of both homeowners and renters, respondents with the *least stake* in mortgaged homeownership are the *most sensitive* to framing effects. When the policy is framed as regressive, costly or inefficient, support for the MID declines more among homeowners without a mortgage and renters who do not expect to buy a home (compared to homeowners with a mortgage and renters who expect to buy a home in the next three years, respectively).

Taken together, these findings offer important lessons for housing policy scholars and practitioners looking to replace the MID with a less regressive, more effective tax policy

(Anderson, Clemens and Hanson 2007). Transforming social policy often requires shifts in public opinion to garner the support of political leaders. Political elites are deeply responsive to the demands and preferences of their constituencies, underscoring the importance of rallying public opinion as a tool for implementing policy change (Manza and Cook, 2002; Brooks and Manza, 2006). However, current efforts to shape public opinion on the mortgage interest deduction are largely driven by industry groups that benefit from the policy. For example, the National Association of Realtors calls the deduction “a remarkably effective tool that facilitates homeownership,” and expressly “opposes any changes that would limit or undermine current law.”¹¹ By linking the MID to popular cultural symbol of homeownership (Perin 1977), groups like the National Association of Realtors have bolstered the popularity of the policy. Yet, the findings in this paper suggest that public support is sensitive to information about the MID – information that may not readily be known to Americans when asked whether they support this policy. In fact, given the framing effects documented in this analysis, the findings suggest that Americans may simply misunderstand how the deduction works or who benefits from it. Educating the public about the consequences of the MID is likely to dampen its popularity and, in doing so, create a wider space for policy reform.

However, while public opinion is sensitive to issue framing, the findings from this paper also confirm the deep, enduring popularity of the MID. Regardless of the way the issue is framed, support in the full M-Turk sample never dropped below 62 percent. (Notably, none of the framing conditions presented all three critiques of the policy together, which would have provided an estimate of support when the policy was framed as costly, regressive *and* inefficient.) While scholars should be cautious about generalizing population estimates from the

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¹¹ National Association of Realtors. Statement on the Mortgage Interest Deduction. Available at: <https://www.nar.realtor/mortgage-interest-deduction>.

Amazon M-Turk sample, it is worth noting that the sample *under-represents* several sub-groups that are highly supportive of the deduction, including elderly households, homeowners and high-income respondents.¹² Moreover, the estimates from the M-Turk sample are consistent with those reported in polls fielded on behalf of industry groups, like the National Association of Home Builders. This persistently high level of support – even against the backdrop of negative information – underscores the popularity of policies linked to homeownership. While support declines the most when Americans are presented with information about the effectiveness of the MID, nearly two-thirds of respondents continue to express their support.

Taken together, the findings in this paper offer new empirical evidence about both the possibilities and limitations of reform. Plans to reform have run up against the enduring popularity of the MID and other subsidies for American homeowners (Morrow 2012). While this popularity reflects a broad commitment to homeownership in the United States, the findings from this analysis also suggest that Americans may simply know very little about the implications of the policy – for example, the unequal distribution of benefits or its ineffectiveness in expanding ownership opportunities. In order to effectively reform the MID to better target middle-class households and lower its costs, proponents of reform must highlight shortcomings of the current policy. This paper suggests that the public is responsive to information about the policy, and that shifting public support may create new opportunities to move forward with policy reform.

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¹² Regression analyses predicting support for the mortgage interest deduction reveal that homeowners, high-income households and older Americans are all more likely to support the deduction. A baseline regression predicting support for the deduction is reported in the Appendix A.

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Table 1: Descriptive Statistics from the M-Turk Sample, by Treatment Condition

	<u>Total</u>	<u>Baseline</u>	<u>Inequality</u>	<u>Cost</u>	<u>Ineffective</u>
Party: Democrat	0.418	0.442	0.437	0.375*	0.411
Party: Independent / Other	0.336	0.331	0.331	0.372	0.308
Party: Republican	0.247	0.227	0.232	0.253	0.281
Income: Less than \$15,000	0.158	0.123	0.151	0.199*	0.167
Income: \$15,000 to \$29,999	0.212	0.208	0.190	0.263	0.188
Income: \$30,000 to 49,999	0.244	0.236	0.257	0.230	0.255
Income: \$50,000 to \$74,999	0.207	0.246	0.220	0.163*	0.188*
Income: \$75,000 or more	0.179	0.187	0.183	0.145	0.202
Education: High School or Less	0.225	0.253	0.244	0.184*	0.212
Education: Associate's Degree	0.144	0.163	0.153	0.102*	0.154
Education: Bachelor's Degree	0.464	0.450	0.444	0.505	0.462
Education: Master's or Professional Degree	0.167	0.134	0.158	0.209*	0.172
Age: 18-29	0.384	0.376	0.368	0.416	0.379
Age: 30-39	0.370	0.363	0.358	0.383	0.377
Age: 40-49	0.131	0.151	0.146	0.120	0.103*
Age: 50-59	0.0796	0.0849	0.0914	0.0485*	0.0928
Age: 60+	0.0353	0.0255	0.0370	0.0332	0.0477
Female	0.446	0.435	0.457	0.401	0.493
Homeownership	0.545	0.512	0.541	0.564	0.570
Holds a Mortgage	0.692	0.627	0.680	0.747*	0.721
Expect to Buy	0.568	0.526	0.597	0.637*	0.512
Sample Size (n)	1,645	471	405	392	377

Note: The questions about a mortgage (“Holds a Mortgage”) was asked only of homeowners so the descriptive statistics are reported only to homeowners. The question about buying expectations (“Expect to Buy”) was asked only of renters so the descriptive statistics are reported only for renters. Respondents were also asked several questions not used in the analysis, including their political ideology, their overall support for policies that support homeownership and their general interest in public policy issues. Additionally, homeowners were asked about the value of their homes. Coefficients with an asterisk identify significant differences between treatment groups and the baseline group at the $p < 0.05$ level.

Table 2: Proportion of the M-Turk Sample Expressing Support for the Mortgage Interest Deduction, by Framing Condition

	Political Identification				Homeownership Status					
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Total	Democrats	Independents	Republicans	Homeowner	Renter	Homeowner: Mortgage	Homeowner: No Mortgage	Renter: Intends to Buy	Renter: Does Not Intend to Buy
Baseline Condition	0.826	0.817	0.808	0.869	0.846	0.804	0.834	0.867	0.825	0.763
Treatment Condition: Inequality	0.667*	0.621*	0.672*	0.745*	0.726*	0.597*	0.772	0.629*	0.730	0.400*
Treatment Condition: Cost	0.699*	0.694*	0.705*	0.697*	0.751*	0.632*	0.770	0.696*	0.651*	0.597*
Treatment Condition: Ineffective	0.626*	0.600*	0.612*	0.679*	0.702*	0.525*	0.729**	0.633*	0.602*	0.443*
Observations (n)	1,645	687	552	406	896	749	620	276	406	309

Note: Asterisks identify *within-group* differences (read down the columns) at the $p < 0.05$ level. Support in each treatment condition is compared to support in the baseline condition. Bolded proportions identify *within-condition* differences (read across the rows) at the $p < 0.05$ level. The comparison groups are Democrats (for Independents and Republicans), Homeowners (for Renters), Homeowners with a Mortgage (for Homeowners without a Mortgage) and Renters Intending to Buy (for Renters Not Intending to Buy).

Figure 1: Within-Group Differences in Support for the Mortgage Interest Deduction, by Homeownership Status and Political Party Identification

Figure 2: Within-Condition Differences in Support for the Mortgage Interest Deduction, by Political Party Identification

Figure 3: Within-Condition Differences in Support for the Mortgage Interest Deduction, by Homeownership Status

Appendix A: Logistic Regression of Support for the Mortgage Interest Deduction

	(1)
Condition: Inequality	-0.941 ^{***} (0.00)
Condition: Cost	-0.735 ^{***} (0.00)
Condition: Inefficient	-1.168 ^{***} (0.00)
Homeownership	0.377 ^{**} (0.00)
Income: \$15,000 to \$29,999	0.312 (0.08)
Income: \$30,000 to \$49,999	0.577 ^{**} (0.00)
Income: \$50,000 to \$74,999	0.498 ^{**} (0.01)
Income: \$75,000 to \$100,000	0.694 ^{**} (0.00)
Income: More than \$100,000	1.251 ^{***} (0.00)
Education: Associate's Degree	0.326 (0.08)
Education: Bachelor's Degree	0.542 ^{**} (0.00)
Education: Master's or Professional Degree	0.491 ^{**} (0.01)
Age: 30-39	0.381 ^{**} (0.00)
Age: 40-49	0.402 [*] (0.03)
Age: 50-59	0.965 ^{**} (0.00)
Age: 60 or older	0.900 [*] (0.01)
Female	0.067 (0.57)

Party: Independent / Other	0.153 (0.25)
Party: Republican	0.216 (0.15)
Constant	0.181 (0.42)
Observations	1,645
Pseudo R^2	0.075

Notes: p -values in parentheses. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.0001$