
Public attitudes and (mis)perceptions of fiscal policy

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Irish Fiscal Advisory Council Conference 2026

Introduction

- ❑ Global economic challenges of climate change, demographic shifts, deglobalisation, and digitalisation all require increased investment
- ❑ Total climate change adaptation investment needs for Ireland estimated NPV of €26-33 billion (European Commission, 2026)
- ❑ Future Forty report identifies a ten-year window with the fiscal space to address systemic vulnerabilities and an estimated 22% reduction in corporation tax receipts, in real terms, from 2025- 2040 (Dept of Finance, 2025)
- ❑ To avoid National Debt levels of 148% of GNI* by 2065, we need to increase taxation, reduce public expenditure, increase public sector productivity (Dept of Finance, 2025)

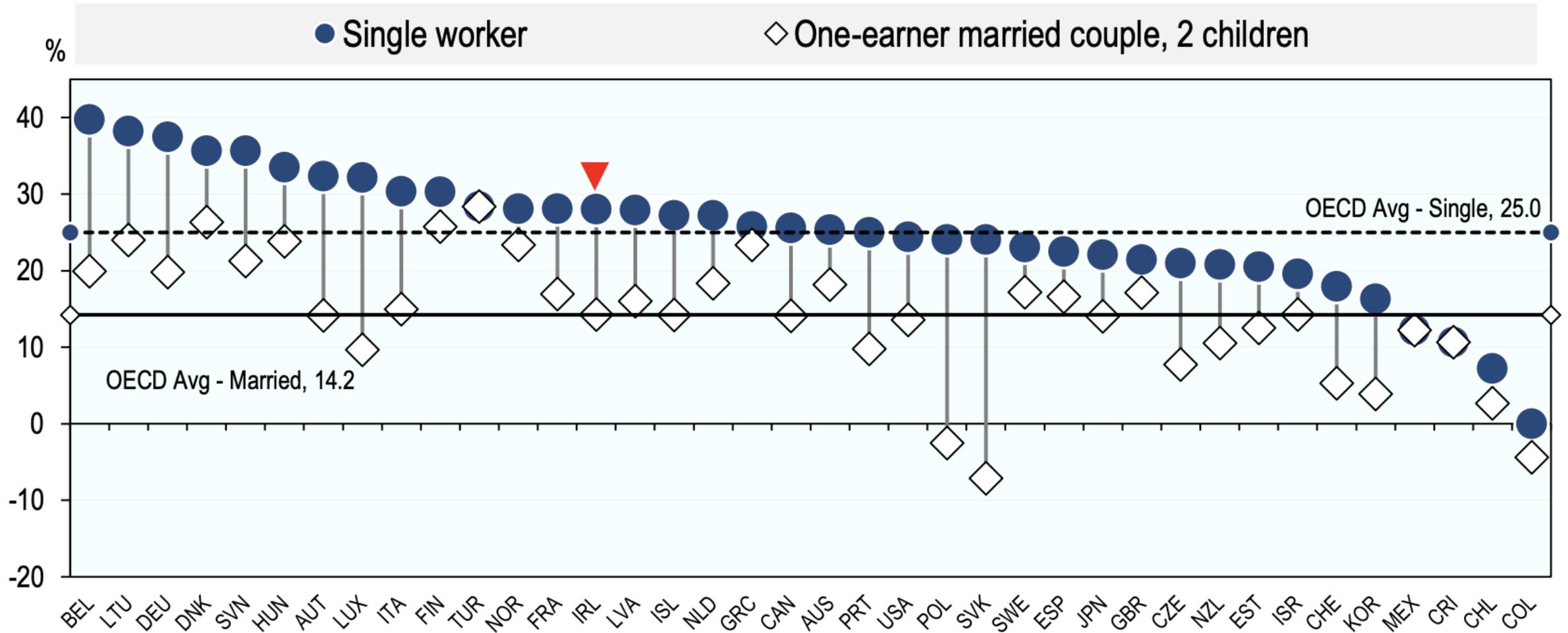
Behavioural Biases

- ❑ The required policy changes are difficult to implement without public support or acceptance
- ❑ However, heuristics and cognitive biases can lead to misperceptions of fiscal policies
- ❑ Prospect theory suggests evaluations are not made subjectively but in relation to reference points, and that risk perceptions are biased (Kahneman & Tversky, 1979)
- ❑ How we think about government spending and taxation is impacted
- ❑ Three examples:
 - ❑ Income tax
 - ❑ Climate change mitigation
 - ❑ Government expenditure

Perceptions: Income Tax

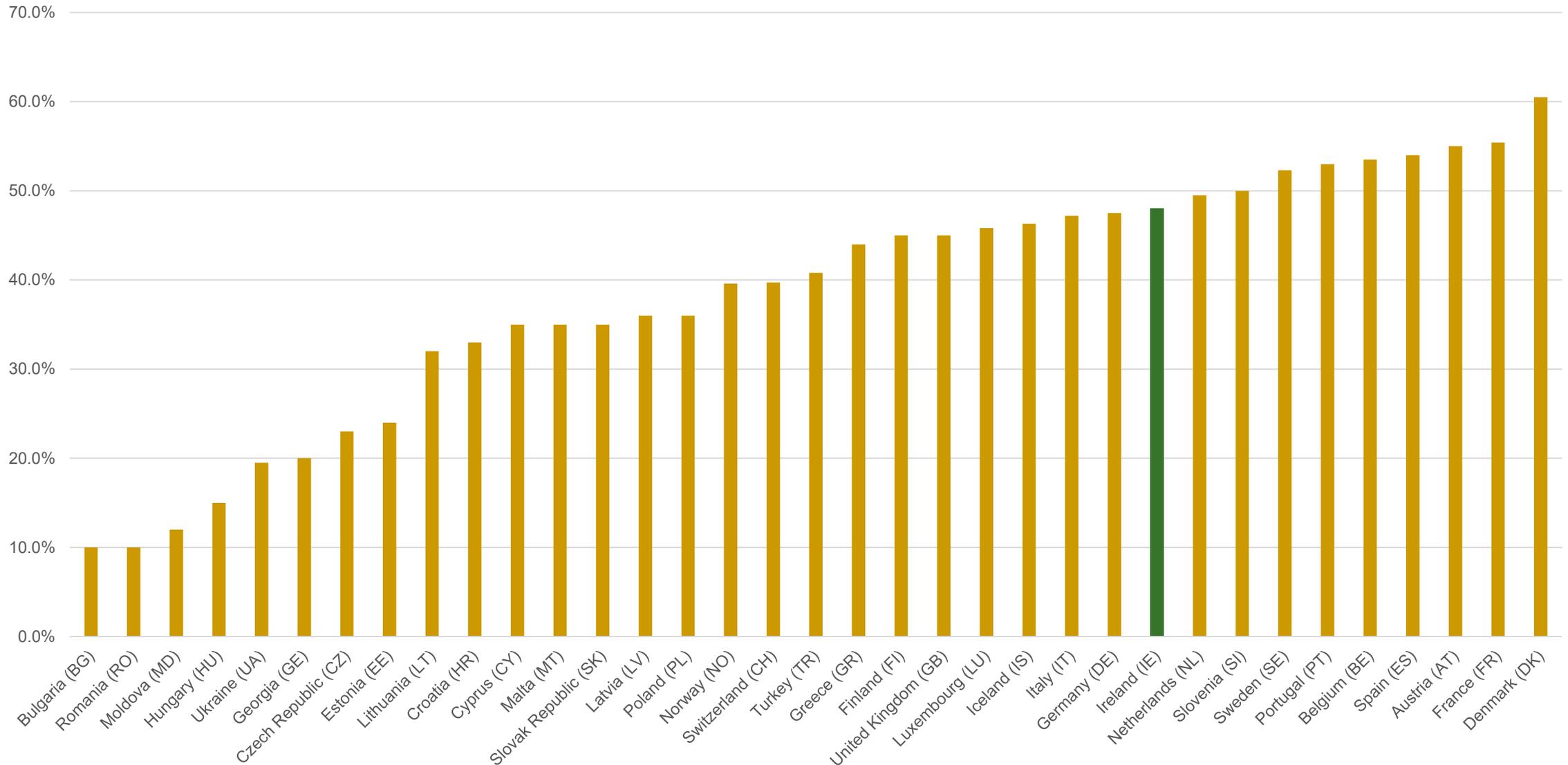
- ❑ How salient a tax is influences how people respond to the tax
- ❑ Misperceptions of income tax schedules are common, especially with complex progressive systems
- ❑ What we focus on impacts our perception

Employee Net Average Tax Rate 2024



Source: OECD, Taxing Wages 2025 Ireland

Top Personal Income Tax Rates 2026

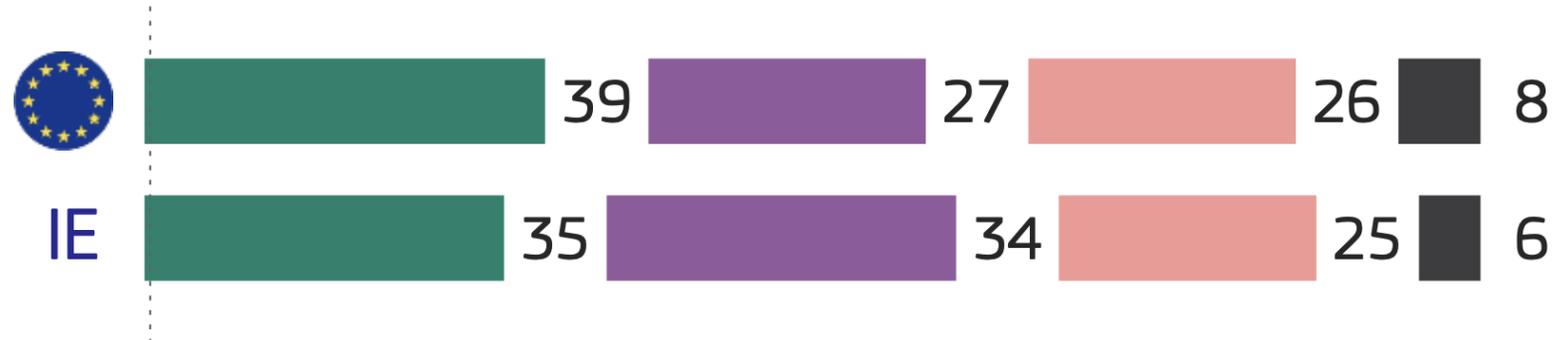


Source: Tax Foundation Europe

Perceptions: Income Tax

- ❑ Misperceptions of income tax schedules are common, especially with complex progressive systems
- ❑ How salient a tax is influences how people respond to the tax
- ❑ What we focus on impacts our perception
- ❑ Taxpayers can engage in “schmeduling” constructing mental representations of nonlinear incentive schemes using either:
 - The ‘ironing heuristic’ focusing on their average tax rate rather than their marginal tax rate
 - The ‘spotlight heuristic’ linearising schedule using their marginal tax rate (Rees-Jones and Taubinsky, 2020)

Irish Perceptions of the Current Level of Taxation



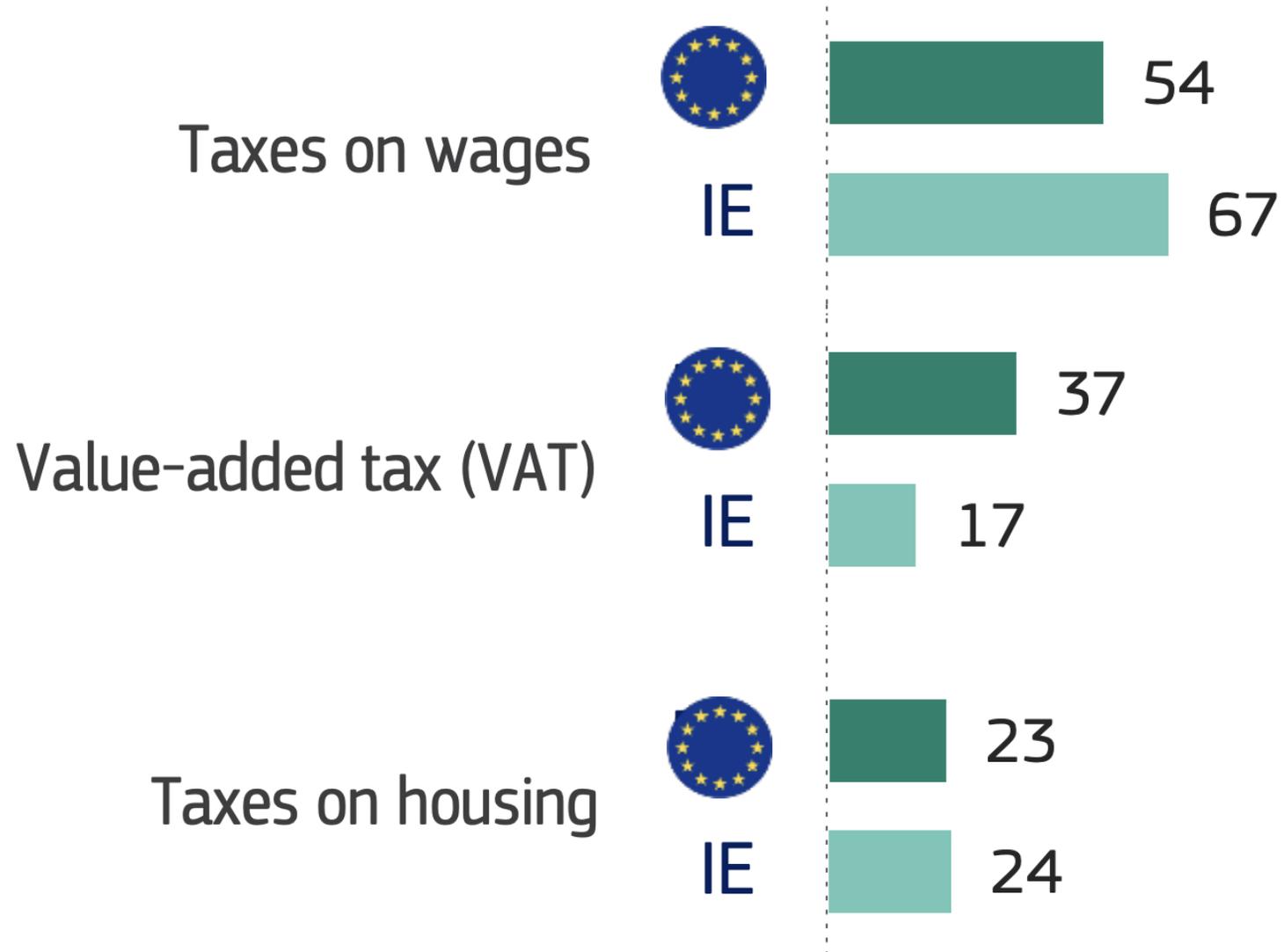
— Taxes are too high, and I would decrease them even if it means fewer or lower quality public services

— I agree with higher taxes if it means more or better public services

— Both taxes and public services should stay at the same level

— Don't know

Preference for Tax Reductions- Which tax first?



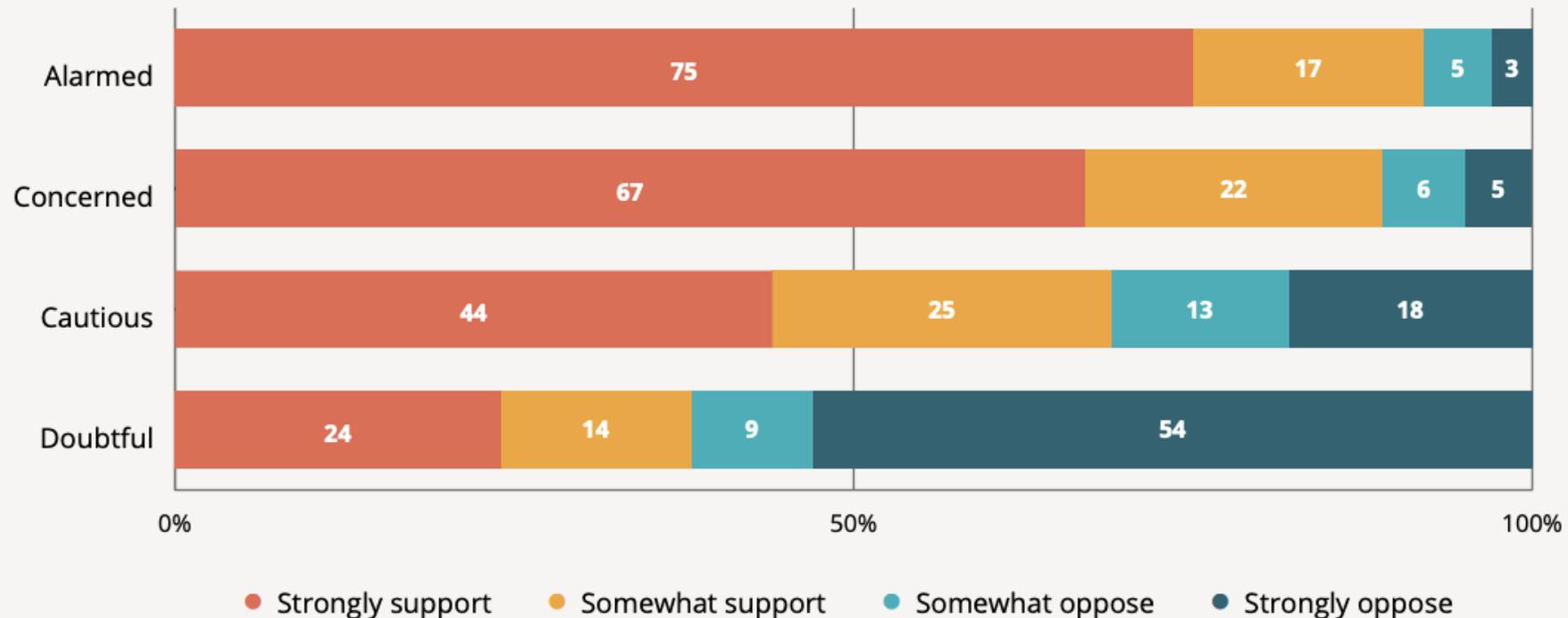
Source: European Commission Flash Eurobarometer 2025

Perceptions: Climate Change Mitigation

- ❑ Heightened salience of carbon taxes can lead policy makers to set them too low
- ❑ Politicians' tendencies to prefer carrot to stick (subsidies to taxes) inadvertently increases emissions (van der Ploeg, 2023)

Ireland: Support for Carrot Policy

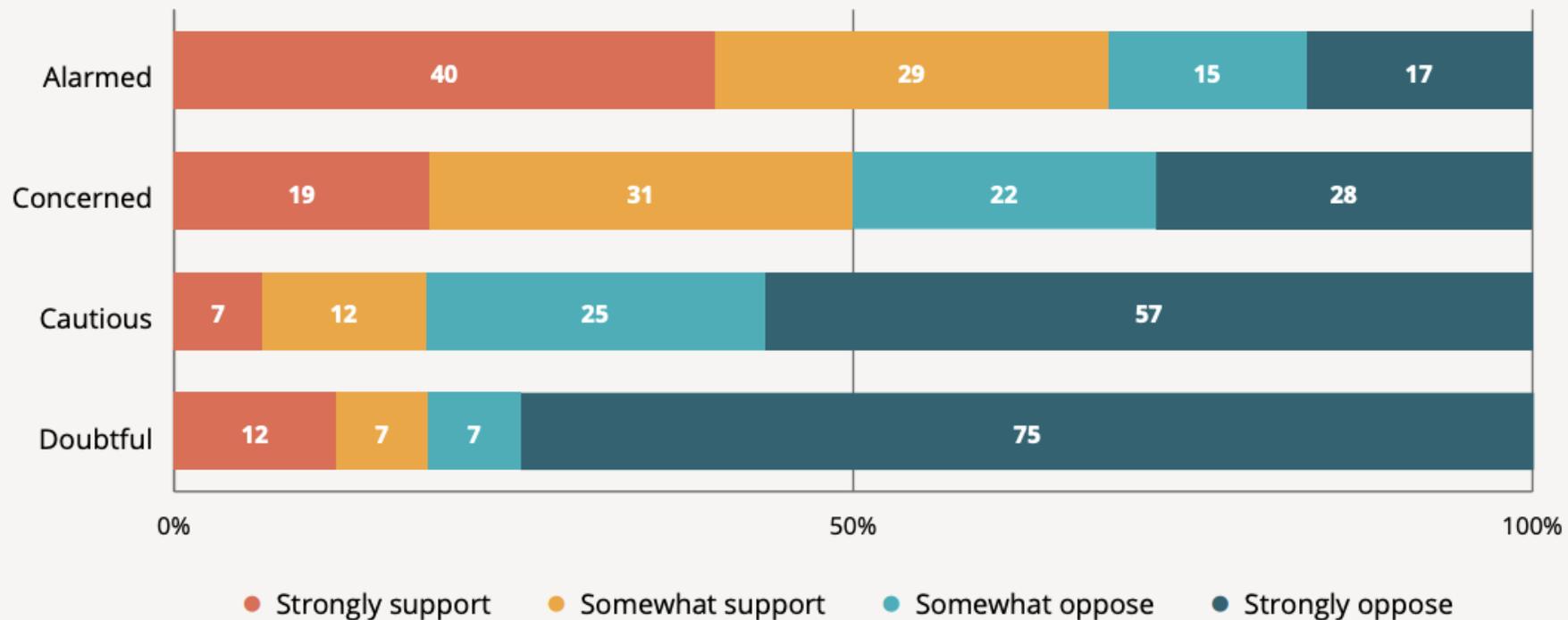
How much do you support or oppose the following policies to help Ireland achieve its greenhouse gas reduction targets? ...
[Government grants to make electric vehicles more affordable]



Source: EPA Climate Change in the Irish Mind 2024

Ireland: Support for Stick Policy

How much do you support or oppose the following policies to help Ireland achieve its greenhouse gas reduction targets? ...
[Higher taxes on cars that use petrol and diesel]



Source: EPA Climate Change in the Irish Mind 2024

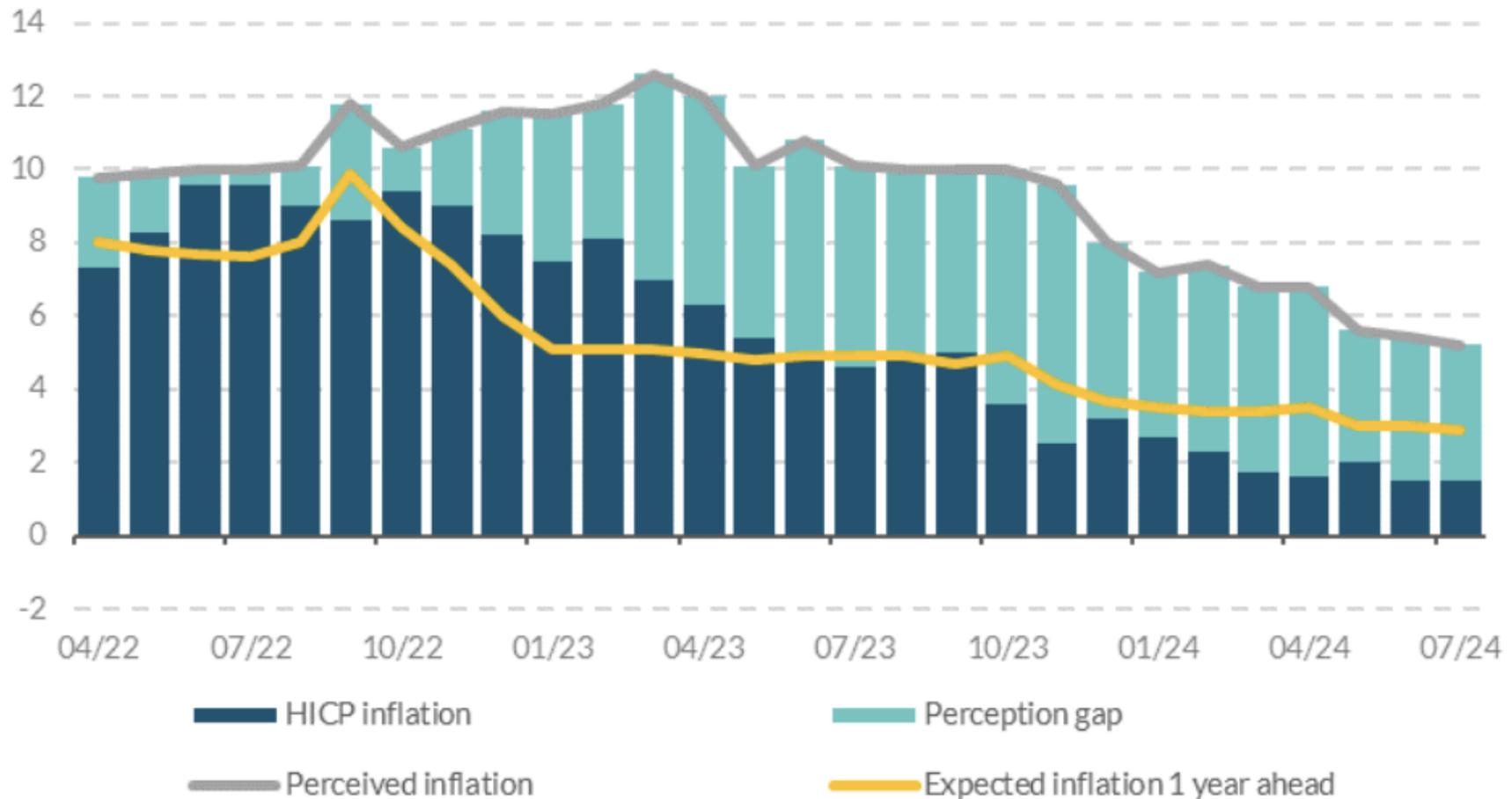
Perceptions: Climate Change Mitigation

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- ❑ Loss-averse consumers would respond more to a tax (a loss) than an equivalent subsidy (a gain)
- ❑ Consumers incorporate taxes into their reference point over time and so taxes are less effective unless changed frequently
- ❑ Subsidies encouraging consumption of one good can create expectations of supports and delay other behavioural changes
- ❑ Present bias, hyperbolic discounting, and status quo bias all feed into low levels of support for meaningful emissions reduction measures

Expenditure: Cost of Living Measures

- ❑ A total of 84% of people in Ireland are worried about the cost-of-living crisis, while fewer than one in seven believe the Government is doing enough to address it (IHREC Ipsos B&A, 2025)
- ❑ Perceptions of aggregate inflation are systematically biased toward the perceived inflation rates of the frequently purchased items (Georganas et al, 2014)

Irish Inflation Perception Gaps



Source: ECB CES, Eurostat.

Source: Central Bank of Ireland QB3 Sept 2024

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- ❑ Perceptions of aggregate inflation are systematically biased toward the perceived inflation rates of the frequently purchased items (Georganas et al, 2014)
- ❑ Frequency bias and the salience of grocery prices widened the inflation perception gap
- ❑ Repeated one off measures in Budget 2023, 2024, and 2025 were the reference point for Budget 2026- anchoring and loss aversion
- ❑ Suggestive and experimental evidence that people do not treat money as fungible and 'labels' can influence how benefits are spent (Abeler and Marklein, 2017)
- ❑ Therefore framing effects of payments are important - 'cost of living measures'

Thank you!

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