

Using Representative Polling to Test Ricardian Equivalence

Idea for Future Research

By James Sly

Ricardian equivalence is a very important and hotly debated assumption used across the field of macroeconomics that argues the average person will not spend any new tax cuts or spending increases because taxes will have to go up or spending will have to go down by an equal amount in the future to pay for the deficits and debt that results. That means increases in the deficit (fiscal stimulus) have no impact on the economy because it is equally offset by increased saving from consumers who want to be prepared for the tax increase and spending cuts that will be needed to close the deficit later. This argument presumes people have a very sophisticated knowledge of budget policy that is probably unrealistic in real life. My vision for another research paper would basically ask a representative sample of voters about their understanding of budget policy to see if they actually have the sophisticated views on policy necessary for Ricardian equivalence to actually work the way its proponents suggest.

The survey (where I suggest a list of potential question below) would test voters' basic knowledge of the budget, which is likely to be quite limited, as well as test their knowledge of the economic effects of changes to the budget, which also requires a very sophisticated knowledge of economics to get right. Then I test whether people actually know when taxes, spending, or the deficit goes up or down under various Presidents, and then finally I test directly whether Ricardian equivalence holds to see how people might respond to tax cuts that are deficit financed compared to tax cuts that are paid for with other spending cuts.

The expectation is that most people will only have the simplest understanding of how the budget works, and that the vast majority of people will have no idea how to answer the questions requiring a more sophisticated knowledge about economics or the budget. Once we understand how much people really understand about how the government's finances work, then we can adapt our assumptions used in economics to correspond to a level of sophistication that actually exists in the public.

Potential Survey Questions

Demographic

How old are you?

What was your household income in the previous year?

What is your highest level of education? High school, some college, college graduate, graduate school

Are you a Republican, Democrat, Independent, Libertarian, Green, or non-affiliated?

Testing basic knowledge of government budgets

Do budget deficits occur when tax revenue exceeds government spending, when government spending exceeds tax revenue, when tax revenue equals government spending, or you don't know?

Do budget surpluses occur when tax revenue exceeds government spending, when government spending exceeds tax revenue, when tax revenue equals government spending, or you don't know?

Do balanced budgets occur when tax revenue exceeds government spending, when government spending exceeds tax revenue, when tax revenue equals government spending, or you don't know?

Do debt levels increase, decrease, stay the same, or don't know when the government runs budget deficits?

Do debt levels increase, decrease, stay the same, or don't know when the government runs budget surpluses?

Do debt levels increase, decrease, stay the same, or don't know when the government runs a balanced budget?

What is the current budget deficit as a percent of GDP?

How much debt does the government owe to other people and to other parts of government as a percent of GDP?

Testing our knowledge of budget politics

Obama

While Barack Obama was in office did federal taxes go up, down, or stay approximately the same as a percent of GDP?

While Barack Obama was in office did federal spending go up, down, or stay approximately the same as a percent of GDP?

While Barack Obama was in office did federal deficits go up, down, or stay approximately the same as a percent of GDP?

George W Bush

While George W Bush was in office did federal taxes go up, down, or stay approximately the same as a percent of GDP?

While George W Bush was in office did federal spending go up, down, or stay approximately the same as a percent of GDP?

While George W Bush was in office did federal deficits go up, down, or stay approximately the same as a percent of GDP?

Bill Clinton

While Bill Clinton was in office did federal taxes go up, down, or stay approximately the same as a percent of GDP?

While Bill Clinton was in office did federal spending go up, down, or stay approximately the same as a percent of GDP?

While Bill Clinton was in office did federal deficits go up, down, or stay approximately the same as a percent of GDP?

George HW Bush

While George HW Bush was in office did federal taxes go up, down, or stay approximately the same as a percent of GDP?

While George HW Bush was in office did federal spending go up, down, or stay approximately the same as a percent of GDP?

While George HW Bush was in office did federal deficits go up, down, or stay approximately the same as a percent of GDP?

Ronald Reagan

While Ronald Reagan was in office did federal taxes go up, down, or stay approximately the same as a percent of GDP?

While Ronald Reagan was in office did federal spending go up, down, or stay approximately the same as a percent of GDP?

While Ronald Reagan was in office did federal deficits go up, down, or stay approximately the same as a percent of GDP?

Testing Ricardian Equivalence

[1] How much would you increase your spending over the next year if the federal government passed a one time tax cut worth \$1000 to you and every other person in the country that was funded with cuts to government spending that did not directly affect you?

[2] How much would you increase your spending over the next year if the federal government passed a permanent tax cut worth \$1000 every year to you and every other person in the country that was funded with cuts to government spending that did not directly affect you?

[3] How much would you increase your spending over the next year if the federal government passed a permanent tax cut worth \$1000 every year for five years that then went away for you and every other person in the country that was funded with cuts to government spending that did not directly affect you?

[4] How much would you increase your spending over the next year if the federal government passed a permanent tax cut worth \$1000 every year for five years that then went away and was replaced by a \$150 permanent tax increase for you and every other person in the country?

[5] How much would you increase your spending over the next year if the federal government passed a one time tax cut worth \$1000 to you and every other person in the country that was funded by running higher deficits and accumulating more debt?

[6] How much would you increase your spending over the next year if the federal government passed a permanent tax cut worth \$1000 every year to you and every other person in the country that was funded by running higher deficits and accumulating more debt?

[7] How much would you increase your spending over the next year if the federal government passed a permanent tax cut worth \$1000 every year for five years that then went away for you and every other person in the country that was funded by running higher deficits and accumulating more debt?