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Does the Broad Public Want to Consolidate Public Debt? – The Role of Fairness and of Policy Credibility

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WORKING PAPER 167

Does the Broad Public Want to Consolidate
Public Debt? –
The Role of Fairness and of Policy Credibility

Helmut Stix

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Editorial

The paper tests selected long-standing hypotheses about why voters support or oppose fiscal consolidation. Deviating from most of the empirical literature which mainly focuses on cross-sectional and time series evidence, this paper employs data from a public opinion survey that has been conducted in spring 2010 in Austria. The results show (i) that voters are fiscally prudent, that (ii) they behave rationally in the sense that self-interest matters, that (iii) they care for the next generation (this effect is surprisingly small), that (iv) the distributional fairness among the current generation is at least as important as the intergenerational aspect and that (v) the low credibility of medium-term fiscal policy plans can be a serious impediment to voters' support for consolidation. These results bear direct implications on the design of fiscal consolidation plans.

May 10, 2011

Does the Broad Public Want to Consolidate Public Debt? – The Role of Fairness and of Policy Credibility

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Abstract

The paper tests selected long-standing hypotheses about why voters support or oppose fiscal consolidation. Deviating from most of the empirical literature which mainly focuses on cross-sectional and time series evidence, this paper employs data from a public opinion survey that has been conducted in spring 2010 in Austria. The results show (i) that voters are fiscally prudent, that (ii) they behave rationally in the sense that self-interest matters, that (iii) they care for the next generation (this effect is surprisingly small), that (iv) the distributional fairness among the current generation is as at least as important as the intergenerational aspect and that (v) the low credibility of medium-term fiscal policy plans can be a serious impediment to voters' support for consolidation. These results bear direct implications on the design of fiscal consolidation plans.

JEL-Classification: H63, H31, D12

Keywords: Public debt, fiscal adjustment, political economy, fairness, credibility

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1 Introduction

The question why debt consolidation efforts that followed periods of sustained fiscal deficits were only modestly successful was an important issue in the economic policy debate of the 1980s and the 1990s. The—partly dramatic—increases in public indebtedness in practically all Western democracies during the last few years, has brought this issue back on top of the economic policy agenda. While the necessity to initiate policies which reduce debt-to-GDP ratios is relatively uncontested from an economic point of view, their political feasibility critically depends on whether politicians can gain voters’ approval. Therefore, it is important to understand whether and under what condition the electorate supports or opposes a reduction of public debt levels.

Against this background, the present paper tests various long-standing hypotheses about why people support or oppose consolidation, with a focus on the role of intergenerational altruism, intragenerational fairness and policy credibility. The paper deviates from the empirical literature which mainly focuses on cross-sectional and time series evidence by employing data from a public opinion survey that has been conducted in spring 2010 in Austria. Extending the empirical evidence by the direct opinions of the electorate about fiscal consolidation seems natural. Important results of the literature and discussions about the effects of government debt build on the conviction that the electorate cares for the next generation.¹ Is this the case, and if yes, is the motive of intergenerational altruism strong enough to induce today’s voters to bear a financial burden? Other strands of the literature highlight the importance of the distribution of the consolidation burden within the current generation. Do economic agents weigh intergenerational consideration more heavily than intragenerational aspects? To answer these question, direct evidence from voters is necessary — and presented in this paper.

Specifically, the paper presents a series of regression results which relate a measure of voters’ preferences for consolidation to a comprehensive set of explanatory variables. Foremost, I analyze the importance of self-interest and of intergenerational altruism controlling for time preferences, ideology and the level of information respondents have. The presented regression model also provides evidence on whether and to what extent (i) intragenerational fairness considerations and (ii) the credi-

¹For example: “An obvious limit to [the] behavior [of shifting the burden of taxation into the future], is given by intergenerational altruism: parents do care about their children.” Alesina and Perotti (1994, p.14)

bility of fiscal policy plans affect voters' demand for consolidation. The potential importance of these two aspects can be derived from related fields of research.

That fairness matters has been established in several topics of social behavior. The underlying decisions agents have to make in the context of redistributive politics (e.g. Alesina and Giuliano, 2009) or in the context of tax issues (e.g. Heinemann and Hennighausen, 2010) are close to the decision agents face when deciding whether to oppose or to support fiscal consolidation. The potential importance of fairness considerations also follows from results of the literature emphasizing that intragenerational considerations—or how the burden of consolidation should be distributed among the current generation—could be crucial for explaining why consolidations are delayed (e.g. Alesina and Perotti (1994) or Jensen and Rutherford (2002)).²

The importance of the credibility of fiscal policy plans for the effectiveness of fiscal policy has long been established in macroeconomics and a crucial assumption behind many macroeconomic models is that government announcements regarding fiscal plans are credible (for recent results, see Corsetti et al. (2010a) and Corsetti et al. (2010b)). Against the background of such models, it is important to understand how credibility affects the demand for consolidation, but empirical evidence has been scant.

The results, first, show that a majority of voters favors fiscal consolidation. Moreover, voters prefer a stronger consolidation than they expect the government to implement. This also holds if voters expect to be financially burdened by eventual consolidation measures. This provides support to the view that voters are fiscal conservatives (Blinder and Holtz-Eakin, 1984; Peltzman, 1992) and/or that governments which pursue a consolidation policy will not be punished by voters (Alesina et al., 2010).³

Second, voters behave rationally in the sense that self-interest matters, both with respect to the contemporaneous effect and the forward looking effect of consolidations: respondents who expect to be short-run financially burdened by consolidation measures favor a weaker consolidation; if positive pay-offs of a successful consolida-

²Indirectly, the role of fairness also follows from the literature on the institutional design of politics, like weak coalition governments or government instability (cf. Alesina and Perotti, 1994). If polarization of party positions in coalition governments about how the burden of adjustment should be distributed among the current generation results in delayed stabilizations and if parties represent the ideological orientation of their voters then this polarization should be directly detectable also in the stated preferences of voters.

³Similarly, it challenges the conclusion of the model of Jensen and Rutherford (2002) (“based on majority voting of self-interested households, debt reduction would never occur”, p.1).

tion are expected in the medium-run, voters favor a stronger consolidation; expected income mobility matters; people with higher time preferences favor a weaker consolidation; older people tend to favor a weaker consolidation than younger people. Also, self-interest works differently for old, young and old-poor, hinting at the importance of distributional aspects and bequest constraints (Cukierman and Meltzer, 1989).

Third, the results corroborate the view that intergenerational altruism is important—which does not occasion a big surprise. What is more, this effect is not as strong as one might have expected and it is confined to only those parents who expect their children to have a lower living standard relative to their own living standard. This applies only to one fourth of parents or to about 15% of voters suggesting that election can not be won if politicians solely appeal to voters responsibility concerning the next generation.

Fourth, the paper reveals that intragenerational fairness has a substantial impact on the demand for consolidation. Consolidation measures which are perceived as “fair” dampen the negative impact of financial affliction. The literature has debated the relative importance of the intergenerational versus the intragenerational distribution of debt (Alesina and Perotti, 1994). I show that both factors are important and that neither dominates the other.

Fifth, the paper shows that a serious impediment to successful debt consolidation can be seen in the low credibility of consolidation plans. About two thirds of voters do not expect that debt ratios will be sustainably reduced in 20 years time. Under the hypothetical case that consolidation efforts are successful, about the same share of voters believe that indebtedness will soon rise again. These expectations lead them to favor weaker consolidations beforehand.

The paper is related to the literature in several dimensions. To our knowledge, there are only a few microdata based papers who studied preferences for consolidation. Blinder and Holtz-Eakin (1984) and Blinder and Krueger (2004) cover aspects which are close in spirit but nevertheless differ in the sense that they focus more on the role of ideology, how informed agents are and how underlying sentiments about economic outcomes (e.g. fears of inflation) affect approval of a balanced budget policy.⁴ A related literature is the one on the demand for redistribution (e.g. Fong, 2001; Alesina and Giuliano, 2009) and on tax preferences (e.g. Heinemann and Henninghausen, 2010; Pitlik et al., 2010). These contributions also employ microdata and provide implications on several of the questions asked in this paper, i.e. the role of

⁴Less closely related, Allers et al. (1998) use survey data to study Ricardian equivalence.

self-interest and the role of fairness. Finally, I complement results from the rich fiscal consolidation literature that mainly builds on aggregate time series or cross-sectional data. The data used in this paper allow testing several propositions of the literature for which evidence has been scant. One of the greatest advantages of this approach, moreover, is that various effects can be analyzed jointly while the previous literature has studied them separately.

The paper is organized as follows. Section 2 introduces the data and discusses the dependent variables. Section 3 presents the modeling approach. Descriptive results are presented in Section 5, estimation results in Section 6. Section 7 concludes.

2 Data and Dependent Variables

The data are drawn from a survey which has been conducted among 2,000 randomly selected Austrian voters who were interviewed face-to-face from late January to early March 2010. The structure of the questionnaire was to pose several warm-up questions about the effects of debt on various general aspects and to ask about the knowledge of respondents regarding the evolution of government debt.⁵ Then, respondents were informed about the increase of the government debt level caused by the financial crisis and about what this implies in terms of annual interest payments.⁶ I have chosen this approach to make sure—at least as much as possible—that all respondents have the same information when answering subsequent questions.⁷ Then, respondents were asked about their expectations regarding government measures and about how they expect to be financially affected by these measures (“financial affliction”).

The dependent variables used in subsequent regressions are derived from questions about the preferred consolidation speed: “Assume that you could determine the extent of the reduction of government debt, but not the type of expenditure cuts or which taxes are increased—this is determined by the government” (CONSPEED).

⁵The wording of selected questions used in this study is provided in Appendix A. The complete questionnaire is available upon request.

⁶The increase in interest payments for the extra debt which has emerged since the start of the crisis amounts to about 2 billion euro a year or about two thirds of one percentage point of GDP. Respondents were confronted with this figure. To exemplify this amount, the questionnaire related it to the costs of the public procurement of fighter jets, whose total life costs lie in the same range. This comparison was chosen because this acquisition has been the subject of heated political and public debates.

⁷Given evidence from Blinder and Krueger (2004), one can expect respondents to be influenced by the provision of this information.

Answers refer to the debt ratio and range from “no consolidation, debt ratio continues to increase”, “consolidation, but only to the extent that the debt ratio does not continue to increase”, “very strong (strong, somewhat weaker, much weaker) consolidation such that the debt ratio declines markedly within the next 5 (10,20,50) years”. These answers were presented on a show card where questions were ordered in a logically consistent way.

Clearly, the wording of this question contains seem degree of ambiguity. First, it is not clear whether respondents understand that they could express their opinion about consolidation but that the government actually sets the policy. Second, the differences between answer categories might be difficult to understand. In order to account for these issues, two prior questions with the same answer categories were posed such that answer categories were already known to respondents. The first question asked respondents about their expectations about how strongly the government will consolidate. Conversely, the second question referred to what respondents would do under the assumption that they could choose freely—set the extent and speed of consolidation, determine which expenditures are reduced and which taxes are changed, etc.⁸ This procedure should alleviate concerns about whether respondents understand the questions and answer without considering the consequences of their answers. It also puts questions and answers into a semantic context such that respondents understood the difference between ‘the government sets policy’ and they ‘can freely choose’. Third, the fact that respondents answered three questions about the strength of consolidation should also make clear to respondents that the six answer categories entail a ranking, which is important for those respondents who do not understand the concept of the debt-to-GDP ratio.⁹

The variable *CONSPEED* will be used as the main dependent variable in the empirical section. It is important to note that *CONSPEED* conditions on the fact that the government sets the actual policy measures. Consolidation preferences CS_i of respondent i are therefore influenced by expectations regarding consolidation measure set by the government, i.e. $CONSPEED_i = E(CS_i | \text{expected government policy})$. In some regressions I will also employ the unconditional variable which determines

⁸The exact wording of all three questions is summarized in the Appendix.

⁹Some ambiguities might arise because the answer categories combine the strength of consolidation with the speed of consolidation. Alternatively, one could have also asked for the preferred time at which a predetermined debt-to-GDP ratio should be reached (which would imply a certain strength) or about the preferred debt-to-GDP ratio one aims to reach within a predetermined time period. In the end, both alternatives have problems in their own, mainly in that a more precise knowledge of the actual debt-to-GDP ratio is required.

what agents would like to do if they were free to choose (CONSPEED PREF).

Given the complexity of the topic, one clearly needs to be cautious about the reliability of results. To account for this, great care was taken to simplify the survey questions as much as possible. Hence, the survey is basically comparable to sentiment surveys like the Social Value Surveys, which are frequently employed for studies about the demand for redistribution (e.g. Fong, 2001). According to the institute which conducted the survey, the interest of respondents in the topic was high and non-response rates were rather low. Also, it is reassuring that answers are to a large extent logically consistent.¹⁰

To put the results into perspective, the political and the macroeconomic situation in Austria is of relevance. During the interviewing period, fiscal adjustments were a topic but not the main topic in the public debate. At the time when the survey was conducted, some government members even claimed that no tax increases would be necessary to cope with the rising debt ratio. Despite this fact, it is remarkable that about 94% of respondents knew that government debt has increased over the past two years (prior to the interview). We consider the relatively low presence of the debt topic in public debates during the interviewing period as an advantage. The much more heated discussions which arose in spring 2010 with the Greek debt situation and which started to culminate in late 2010 might have biased responses. Concerning the factual economic situation (as of spring 2010), the debt-to-GDP ratio increased from about 60% in 2007 to projected 75% in 2014. Bringing the situation under control will demand considerable fiscal adjustments: spending cuts or tax increases in the extent of about 2% of GDP per annum are necessary to stabilize the debt-to-GDP ratio. Although the Austrian situation is relatively modest in an international comparison, the reduction of the debt ratio to 60%, as foreseen by the Stability and Growth Pact, requires fiscal adjustments to an extent such that societal conflicts over how the burden will be distributed are very likely.

3 Empirical Procedure

The paper relates empirical measures of agents i 's preferred consolidation speed (CS) with variables which have been identified in the literature as potentially important,

¹⁰This can be seen along many dimensions. I will mention some results in later sections.

including self-interest and intergenerational altruism:

$$CS_i = f(SI_i, IGEN_i, GEN_i, CR_i, X_i) + \epsilon_i, \quad (1)$$

where SI contains variables describing self-interested motives, $IGEN$ = intergenerational aspects and X = a vector of various control variables, including socio-demographic variables. Importantly, the regression model contains two aspects for which evidence has not been presented in the literature. The first concerns intragenerational considerations (GEN), in particular fairness considerations, and the second the effect of policy credibility (CR). While some of the explanatory variables reflect general preferences towards consolidation (e.g. the intergenerational aspects) others have a forward looking component and depend on respondent's expectations about the government's policy (e.g. fairness considerations).

The survey elicits several sources of information about self-interest and I will employ both objective data on respondents' socio-economic characteristics (income, education and age) as well as subjective variables. Among the latter, expected financial affliction—whether or not respondents believe they are expected to be financially affected by consolidation measures—is the most important variable.¹¹ To account for the intertemporal nature of self-interest (e.g. self-interest might also depend on the utility derived in 20 years), I also control for expected income mobility.

Several different pieces of information regarding the intergenerational motive for consolidation are available. Most naturally, I control for whether a respondent has children or not. In addition, information on children's expected well-being will be included. These and other included variables will be discussed in greater detail throughout the text.

Apart from socio-demographic variables, the vector X includes control variables which have a potential to be important: the respondent's time preference and self-assessed life expectancy, a measure of ideology, a measure to control about how well a respondent is informed and his or her attitude towards personal debt. While the first two of these are natural to include in a decision problem involving a time dimension, the inclusion of ideology follows from Blinder and Krueger (2004) who have highlighted the important role of ideology for decisions about economic policy issues. The same holds for knowledge which might affect answers. The inclusion of respondents' attitude towards personal debt should prevent that voters draw invalid

¹¹For example, Pitlik et al. (2010) shows that subjective affliction is as important as ideology for the choice of various policy measures to finance an income tax decrease.

analogies to personal finances.

In all subsequent results, the sample is restricted to respondents who recognized that government debt has increased during the financial crisis. This should prevent that results are biased by a lack of economic knowledge. Despite the ordered nature of CONSPEED and CONSPEED PREF, all estimation results are based on ordinary least squares (OLS) because the estimated coefficients are easier to interpret than those from ordered probit regressions. Moreover, as I will show in robustness tests, there is no qualitative difference between ordered probit or OLS estimation results.

4 Descriptive Results

Table 1 summarizes the responses concerning debt consolidation which agents' expected the government will choose and the preferred consolidation speed under the assumption that respondents choose the speed of consolidation conditional on politicians setting actual policy measures (CONSPEED).

Several findings are noteworthy. First, respondents are not too optimistic about the governments willingness to consolidate: 19% expect no consolidation, 38% expect consolidation efforts but only such that the debt ratio is stabilized.¹² Second, respondents seem to favor a stronger consolidation than they expect the government to implement. 67% would like to see the debt ratio to decrease within the next 20 years.

At first sight, these results suggest that the relatively modest success of governments to decrease the debt ratio which has been noted in the literature (Alesina and Perotti, 1994) does not seem to be rooted in voters' ignorance – at least in this particular case. If the speed of consolidation were the only issue in the next elections, a reduction of the debt-to-GDP ratio would get a clear relative majority. Interestingly, this also holds among those who expect to be strongly burdened by (eventual) government measures: in this group 62% favor a decrease of the debt ratio within the next 20 years. This result can be seen as a microeconomic counterpart to the finding of Alesina et al. (2010) for a cross-section of 19 OECD countries.

A third finding is that a remarkable 27% favor a constant debt-to-GDP ratio and further 3% favor no consolidation. This could be taken as evidence against the contention that such surveys cannot be taken seriously because all respondents

¹²With hindsight, these expectations turned out to be very accurate as the planned mid-term budgetary path of the Austrian government which was decided upon in late 2010 foresees a stabilization of the debt-to-GDP ratio.

dislike debt.

5 Estimation Results

5.1 Self-Interest Affects Preferences For Consolidation

The substantive inquiry of this paper begins with Table 2. If the support for consolidation operates through self-interest, then one should find a negative impact for those who loose in the short-run and a positive impact for those who expect to gain in the long-run. The results largely support this presumption: those who expect to be “very strongly affected” by government measures of consolidation have a significantly lower preferred consolidation speed than all others; for respondents who believe that a lower debt level in 20 years time has a positive personal impact, a significantly higher consolidation speed is obtained. To assess the quantitative impact, I note that the dependent variable which ranges from one to six has a mean of 3.82 which corresponds to the category ‘somewhat weaker consolidation such that the debt ratio declines markedly within the next 20 years’. For those very strongly affected this index function is reduced by 0.33, which implies that agents would prefer, all else equal, a weaker consolidation (within 50 years).

Self-interest also works through other channels. One is the income situation. I find that persons with a lower household income and persons with lower education favor a weaker consolidation, most likely reflecting fears of cuts in social spending.^{13,14} More important than measured income is the subjective assessment of the own income situation: persons who assess the financial situation of their household as very bad or very good prefer a weaker consolidation (than those with a good situation). Again, this is likely to reflect fears of cuts in social spending or tax increases, respectively.

Another variable which one could expect to be of significant importance is age— young persons may opt for a stronger consolidation such that they do not inherit high debt levels, older persons have little incentive to contribute as they will not reap the benefits of consolidation. Somewhat surprisingly, age exerts no statistically

¹³Alternatively, the effect for low education could also reflect knowledge effects. Since I (partly) control already for knowledge effects, this alternative explanation is less plausible.

¹⁴Note that the model does not include household income as a regressors but just a dummy variable for low household income respondents. This specification was chosen on the basis of prior tests which revealed that the impact of household income amounts to a comparison of low versus higher income (these tests are available upon request).

significant influence (neither age individually nor age jointly with age squared).¹⁵

Cukierman and Meltzer (1989) and Jensen and Rutherford (2002) analyze the distributional consequences of consolidation. Somewhat generalizing, one could derive from these models that the old, the poor and especially the old-poor stand to lose from consolidation. Thus, age might exert an influence through interaction effects. I account for this argument by separately estimating the model of column 1 for households below median and above median income. The implied age profiles, depicted in Figure 1, corroborate this argument. Old-poor have a lower predicted consolidation speed than old-not-poor, at least up to an age of 65; in contrast, young-poor are significantly more in favor of consolidation than young-not-poor, probably reflecting prospective income mobility. For not-poor, the age-consolidation profile is very flat up to an age of about 50, with a somewhat declining preferred consolidation speed for persons aged 50+. Despite these differentiated effects, the overall effect of age does not seem to be very sizeable. This runs counter to the proposition that older generations are the obstacle to fiscal reform because they will not reap any gains (Jensen and Rutherford, 2002).

The baseline specification in column 1 of Table 2 includes several other important variables. Foremost, respondents with children are found to prefer a significantly stronger consolidation (I will delve more deeply into the intergenerational motive below). The regressions also control for the time preference of respondents and the coefficient has the expected sign—a higher preference for the present is associated with a lower CONSPEED.¹⁶ An alternative way to model time preferences is to control for the self-assessed life expectancy of respondents. In most regressions the coefficient for the dummy variable “I will be dead in 20 years” is not significant and moreover positive, which runs counter to what one would assume by pure self-interest.

People differ in their attitude towards (personal) indebtedness. To control for this heterogeneity and its likely consequences on people’s attitude towards government indebtedness, the specification includes a dummy variable controlling for whether respondents feel uncomfortable when their checking accounts are overdrafted (“overdraft uncomfortable”). This variable is insignificant.¹⁷ Finally, males are in favor of a stronger consolidation, an effect which corresponds to findings in related papers.

¹⁵In some of the richer specification that will be presented later, age is statistically significant; the quantitative impact, however, remains relatively small.

¹⁶In later specifications this coefficient is not always significant.

¹⁷In Austria, overdraft facilities for checking accounts are very frequent. By using them, it is easy to become a borrower without having to go through the usual loan application procedures at commercial banks.

The reasons given for this effect—males are less risk averse, more activists and less concerned with the effect on the whole society than females—might also apply to this paper (cf. Heinemann and Hennighausen (2010)).

The degree of knowledge of respondents is proxied through information on media consumption. In particular, readers of quality newspapers and magazines and readers of other (non-quality) newspapers are compared with those who read no newspapers (the omitted category). I find that readers of quality newspapers or magazines favor a stronger consolidation than those who do not read newspapers, however the effect depends on the specification and is not always significant.

Blinder and Krueger (2004) assign ideology an outstanding importance for social decisions, more important than self-interest. This conclusion has been debated and qualified, e.g. Pitlik et al. (2010) note that self-interest might be as important as ideology. Regardless of the view one holds, I take from these studies that ideology is likely to matter and by not controlling for ideology one would risk that results are driven by a mere general ideological attachment to fiscal positions, like fiscal conservatism. Accordingly, the baseline specification includes one measure for ideology, i.e. the degree of redistribution respondents' prefer relative to their assessment of the actual situation. From these responses three dummy variables are constructed measuring whether respondents prefer “more redistribution”, “less redistribution” or “no change” (the omitted category). A priori, the expected sign of these coefficients is ambiguous. On the one hand, one could argue that preferences towards more redistribution are correlated with a weaker preferred consolidation in order to not endanger the availability of budgetary means to pursue such a policy. On the other hand, a preference for redistribution could be consistent with a stronger consolidation if it is financed by wealthy citizens.

The point estimates reveal that ideology matters: Both coefficients are of about the same size, however the significance of “less redistribution” varies across specifications while “more redistribution” is always significant at least at the 5% level.¹⁸ Concerning the sign, a differential impact is obtained, i.e. both the group favoring less redistribution and the group favoring more redistribution prefer a stronger consolidation than those who are satisfied with the current degree of redistribution. This finding makes sense as respondents who are not content with the government policy concerning redistribution might also not be content with the measures (expected)

¹⁸This reflects the fact that the number of respondents favoring “less redistribution” is considerably smaller than that those favoring “more redistribution”.

from the government to achieve consolidation.

Extending the baseline specification Columns 2 to 4 of Table 2 extend the baseline specification. In column 2, I control for expectations of what high debt levels imply in the future. If respondents expect higher taxes in the future (absent consolidation), they are in favor of a stronger consolidation, whereas expectations of lower transfers (again absent consolidation) exert no impact. Like in the case of age, one can presume that many of the discussed effects might unfold through interactions (e.g. expected future tax increases are relevant only for those that expect to be still alive and who expect to have high income). As the matter of self-interest is not at the core of the present analysis and as the number of observations is not overly high, which restricts the number of interactions which can be analyzed meaningfully, I do not delve too deeply into this issue but present just one additional model containing interaction terms. In column 3, expected income mobility is interacted with expectations of higher taxes. Upward mobility alone does not matter for the preferred consolidation speed, but the interaction of upward mobility and expectations of higher taxes are important: those who are upwardly mobile and who expect higher taxes favor a stronger consolidation than those who are upward mobile but do not expect higher taxes.¹⁹ In turn, expectations of higher taxes (absent consolidation) do not matter for those not upwardly mobile. Finally, the last column in Table 2 demonstrates that the results are neither driven by the ideological position that the tax burden is too high (“tax burden too high”) nor the self-assessed reliance on social transfers (“transfers are important”).

5.2 Intergenerational Concerns Matter – But Not Unconditionally

In light of the outstanding role that has been assigned to the intergenerational motive in the literature, it is surprising that the difference in CONSPEED between parents and non-parents, established in the previous results, is not overly high both in absolute terms and compared with other marginal effects: for example, the marginal effect of self-interest as measured by “lower debt in 20 yrs: positive impact for me”

¹⁹This is derived from the following test: “exp. upward mobility” = “exp. upward mobility” + “high debt implies higher taxes in the future” + (exp. upward mobility x “high debt implies higher taxes in the future”). The F-test statistics is 7.59 with a p-value of 0.01.

is as important as the intergenerational effect.²⁰ This deserves a closer look.

Table 3 shows the marginal effects of six specifications where “has children” is interacted with variables which might potentially affect parents’ preferences towards consolidation—the reported coefficients represent the marginal effects relative to those respondents without children.

Column 2 compares parents whose children are still living at home with parents whose children left home. The former have a significantly higher CONSPEED than the latter. Moreover, the latter group of parents do not favor a stronger consolidation than non-parents.

In column 3, I account for intergenerational mobility, i.e. the living standard parents expect for their offsprings relative to their own living standard. Employing this information reveals that parents who expect their children to have a lower living standard favor a significantly stronger consolidation than non-parents or parents who expect them to have the same or a better living standard.

Next, I employ information about whether respondents think that government debt will constitute a burden for their children (column 4). Again, results are very similar: those parents who consider debt to be a burden for their children differ both from those parents who do not think so and from non-parents. Based on answers about whether debt will be a burden for children, I construct a variable indicating whether parents would increase their saving effort and inherit more if the debt-to-GDP ratio will not be reduced. Among parents who consider debt a burden for their children, about 46% of respondents answer that they would increase their inheritances and, as expected, this share is increasing with income. From Ricardian equivalence considerations one could expect that parents who plan to increase bequests have a lower CONSPEED than those who do not plan to increase their bequests. However, the opposite result is obtained: plans to increase bequests are correlated with a higher CONSPEED.

A further survey question inquires about whether parents think that their children will have a better standing than average children – pertaining to the relative standing of their offsprings within the next generation (in contrast to the standing relative to the parents). Those who think that the standing of their children will be higher have a significantly higher CONSPEED (column 6). Finally, we split parents according to whether their household income is above or below the median household income

²⁰The estimates in column 1 of Table 2 suggest that the 95% confidence interval for both effects ranges from about 0.04 to 0.44.

observed in the sample. This shows that parents with an above-median income tend to have a higher CONSPEED than parents with a below median income.²¹

In summary, the intergenerational motive of fiscal consolidation is found to be relatively weak when averaged across all parents. Moreover, a more detailed view establishes that intergenerational concerns do not matter unconditionally. While some groups of parents are not different from non-parents, marginal effects are sizeable for other groups of parents. Although the presented results do certainly not condition on all possible aspects parents might include in their assessment, the presented results convincingly suggest that expectations of parents regarding the economic future of their children play a substantial role. While neither of these regressions can be used as a strong and direct test of Ricardian equivalence, the evidence, in sum, seems to run counter to the prediction that high wealth families are indifferent while low wealth families (who cannot adjust bequests) prefer stronger consolidations. This assessment is derived from complementary survey evidence which shows that those who want to increase bequests, those who expect their children to have a high relative standing within the next generation and those who fear that their offsprings have a lower living standard in comparison to themselves have higher wealth levels than the respective comparison groups.^{22,23}

These findings will be incorporated in subsequent analyses. In particular, I will use the model of column 3 of Table 3 as the new baseline model to which further variables will be added (extended baseline model).

5.3 Distributional Fairness Important

I provide a direct test whether fairness perceptions exert an impact on the preferred consolidation speed above and beyond the effect of self-interest and intergenerational concerns. In particular, respondents were asked to think about the expected consolidation measures set by the government and to indicate their consent to the following statements: “the burden will be distributed very unfairly” (25% of respondents agree

²¹The difference between parents with above-median income and parents with below median-income is only weak, i.e. the test of equality of coefficients is rejected only at a 10% level.

²²A particular shortcoming of the survey data is that no direct information on wealth is contained, which would be required for a direct test of the propositions of Ricardian equivalence. From information about income and the possession of various housing and financial assets I can only indirectly deduce that respondents with the above characteristics are wealthier.

²³Although not directly comparable, these findings are related to Allers et al. (1998) who conducted a survey among the Dutch population and found no evidence that saving behavior is influenced by fiscal policy.

to this statement).²⁴

The results confirm that fairness perceptions matter quite substantially. If “the burden will be distributed very unfairly” is appended to the extended baseline specification, it is both economically and statistically significant (Table 4, column 1). It can be expected, however, that answers on fairness are distorted by a self-serving bias, i.e. that respondents conflate the views about what is fair with views about self-interest. This raises the minor problem that my measure of personal affliction is likely to be correlated with the measure of perceived fairness—which can easily be accounted for in estimations. A more subtle problem is whether it is at all possible to empirically identify an effect of fairness *independent* of financial affliction. Ultimately, such a pure separation seems only possible in experimental studies but not with survey data. Instead, I will present several estimations which aim at dampening the suspected effect of financial affliction.

In column 2, personal affliction is omitted which results in the finding that “the burden will be distributed very unfairly” turns larger, which points towards the correlation of financial affliction and fairness. One way to account for this correlation is by interacting affliction and expected fairness. The results indicate a very strong impact of fairness (column 3). This can be seen along two dimensions: First, those who expect to be very strongly or strongly affected and who consider the expected policy measures fair do not differ statistically from those who are just somewhat affected (the omitted base category). Second, within single categories of affliction, there are significant differences between respondents who expect the government’s measures to be fair and respondents who expect the government’s measures to be unfair: for those expecting to be “strongly affected” the marginal effects are 0.07 versus -0.41 (p-value of F-test of equal coefficients: 0.01), for those “very strongly affected” the marginal effects are -0.27 and -0.53, respectively. These point estimates suggest a neutralizing role of perceived fairness. Policy measures which are expected to be fair do not completely wipe out the negative effect of being financially afflicted but, at least, significantly reduce its negative impact.

Other ways to control for the possible correlation between fairness and financial affliction are to restrict the sample in various dimensions. This is done in column 4 of Table 4 which disregards all respondents who expect to be very strongly affected by consolidation measures. In a similar vein, in column 5, I include only respondents

²⁴Note that we do not specify the term “fairness” and leave it to respondents to judge. Clearly, respondents might have a heterogeneous understanding of what is “fair”. While a closer analysis of this issue would be interesting it is beyond the scope of this paper.

who do not fully agree to the statement that “me and my family will be burdened too much if the government aims at reducing government debt”. In both cases, fairness remains both economically and statistically significant.

For a last test, I construct a variable which signals whether respondents deviate from their preferences regarding fiscal consolidation if government sets policy, i.e. CONSPEED DIFF takes a value of one if respondent i wants to consolidate more slowly in case the government sets the policy measures than if she is free to choose:

$$\begin{aligned} \text{CONSPEED DIFF}_i &= 1 \text{ if } \text{CONSPEED}_i - \text{CONSPEED PEF}_i < 0 \\ &= 0 \text{ else.} \end{aligned}$$

All variables which reflect a general attitude towards consolidation (intergenerational concerns, time preference, etc.) should affect both CONSPEED and CONSPEED PEF. Accordingly, when using CONSPEED DIFF as the dependent variable, one should find these variables to be insignificant, whereas variables which reflect government policy should remain significant.

The corresponding results are summarized in column 6. In line with our contention, I find that all general variables which previously have been identified as significant and important turn insignificant while those variables which are related to government policy remain significant.²⁵ On the one hand, this provides convincing evidence that respondents did answer in a consistent way. On the other hand—and more important—the results show that perceived fairness exerts a sizeable and significant impact on whether a respondent deviates from his/her preferences regarding consolidation if the expected government measures are deemed unfair.

The findings from Table 4, taken together, suggest that intragenerational fairness exerts an important impact, substantiating results from the literature which identify the lack of intragenerational fairness as an important cause for delayed consolidations.

5.4 Intra- vs. Intergenerational Distribution – What is More Important?

Having established evidence that intergenerational as well as intragenerational aspects of consolidation measures matter, the question emerges as to the relative importance of these effects.

²⁵Results are available upon requests.

The survey contains one question which can be used to analyze this issue: “What factors would affect your willingness to accept financial burdens? How important are the following preconditions?” The question comprised two answers and for each answer respondents could indicate their consent: “If I know, that the burden is distributed fairly within today’s generation” and “If the future burden of today’s young or of following generations will be reduced”. Employing this information, three dummy variables are constructed: “only intragenerational fairness important” for those who consider the first reason important but not the second, “only intergenerational fairness important” for those who consider the second reason important but not the first and “both are important”.

For about 50% of the sample, neither of the two motives is important. As I do not have information about whether these 50% do not want to contribute or would like to contribute for some other reason, I must compare the relative importance of these three variables.

A first indication can be obtained from descriptive statistics. For a relative majority of 28% of all respondents both aspects are important and for 17% only intragenerational fairness is important. In turn, intergenerational fairness is considered by just 5% as the sole motive.

A second indication can be derived by appending these three dummy variables to our previous specification (the marginal effects must be seen relative to those for whom neither of the reasons is important). All marginal effects are positive (Table 5). As the question pertains to the willingness to contribute for the consolidation, this was expected, and in the end, demonstrates the logical consistence of the results. The strongest effect is found for those who consider both aspects important. If “only intergenerational fairness important” is compared with “only intragenerational fairness important” no statistically significant difference is found. Finally, this pattern of results also holds (i) if “CONSPEED PREF” is used as the dependent variable and (ii) if the sample is reduced to only parents. In the latter case, the intergenerational aspect gains in importance, as could have been expected, but nevertheless remains insignificantly different from the intragenerational aspect.

These results establish that intergenerational and intragenerational aspects are both important and that neither is dominated by the other.

5.5 Policy Credibility

The survey allows shedding light on two aspects of policy credibility – what is the stance of credibility and how does it affect preferences towards consolidation. Moreover, the survey provides information from two independent survey questions. First, respondents were asked whether they expect that government debt will be reduced sustainably within the next 10 to 20 years. Counterfactually, respondents were also asked about what they expect will happen if the government achieves a debt reduction. One answer category was that “government debt will soon start to increase again”.

The descriptive findings suggests that Austrian fiscal policy makers have a considerable credibility problem: 66% of respondents do not believe that debt will be reduced sustainably in 10 to 20 years and 73% expect an rebound of debt after it has been reduced.²⁶

The estimates presented in Table 6 support the view that expectations regarding the political process affect voters’ preferences for consolidation. Those respondents who have doubts about whether debt will be lower in the future favor a weaker consolidation. Furthermore, the estimated coefficients are sizeable in comparison to other frequently cited motives for why the public likes or dislikes consolidation, i.e. in comparison to the intergenerational motive.

There are three potential caveats which could affect these estimation results. First, expectations about the debt level in 20 years are likely to be correlated with the strength of consolidation respondents expect the government to pursue. I account for this by including these expectations as an additional right-hand side variable (results not shown) and, alternatively, I restrict the sample to only those who expect the government to consolidate already in the short-run (column 3 of Table 6). In neither case do results change qualitatively.

Second, answers could again be affected by a self-serving bias. Selfish individuals who do not support consolidation and who are willing to shift the burden to future generations could try to rationalize and defend their behavior by making the government responsible. To exclude that this self-serving bias drives the results, the regression sample in column 4 comprises only individuals who are not selfish, i.e. individuals who report to care for future generations.²⁷ Again, results do not change

²⁶The question was not geared towards a specific consolidation plan. Therefore, answers reflect an attitude towards the entire political process.

²⁷More precisely, the sample is restricted to those respondents who state that they are willing to accept a financial burden for fiscal consolidation if the future burden for today’s young or of future

qualitatively.

Third, the finding could be caused by omitted variables which affect both policy credibility and the desired speed of consolidation. A natural candidate would be the attitude towards politicians or political institutions – a negative attitude could translate into lower credibility and lower CONSPEED. To account for this argument, the regression in column 5 control for trust in government and, alternatively, trust in political parties (not shown). Again, the inclusion of these variables does not change the overall picture.

5.6 Reliability of Results and Robustness Tests

The results presented in this paper are based on a series of simple regressions and there are good reasons to be wary of some results.

One source of possible scepticism could be rooted in the use of survey data which raises the issue of whether answers reflect respondents' true preferences. Clearly this is an issue which has to be taken seriously. Apart from growing evidence demonstrating the behavioral validity of survey responses about social preferences in general (e.g. the role of reciprocity or of trust, cf. Dohmen et al. (2009) and the evidence cited therein), I think that there is one reason which should alleviate such concerns in the particular application of this paper: at the heart of the analysis is voting behavior. In this case, the use of survey data is very plausible because on average voters are unlikely to invest much more time when casting their poll than when answering survey questions (cf. Pitlik et al., 2010). Furthermore, the questionnaire contained several possibilities to cross-check results and these tests suggest that answers are plausible. On balance, therefore, I do not consider the methodology of great concern although the present study can be seen as a starting point upon which improvements in the questionnaire are clearly possible.

Another source of scepticism could be rooted in estimation issues. Foremost, model selection is an issue: I applied a simple-to-general specification search. This resulted in a baseline model (Table 2, column 1). Starting from this model, (blocks of) variables were sequentially added. This raises the issue about which variables should be left in the model as additional variables are added. It turns out, fortunately, that for almost all of the presented estimations, this does not pose a problem, i.e. that results do not change qualitatively if one or the other block of variables is left out of the regression (which can be expected if the omitted variables are not very

generations will be lowered.

highly correlated with the other regressors). Also, one could turn this around and ask what would happen, if one started out with a full model, including fairness variables and variables of policy credibility. As shown in the Appendix (column 1 of Table A.3), this does not affect the results. This finding also applies if all regressions are estimated with ordered probit instead of OLS (column 2 of Table A.3).

Additionally, column 3 summarizes marginal effects of a (probit) regression where the dependent variable has been recoded to a binary variable. The idea behind this regression is that some respondents might have had difficulties with the concept of the debt-to-GDP ratio used in the wording of the survey question which is used to construct CONSPEED. As argued, in principle it should not matter much whether respondents have detailed knowledge about the debt-to-GDP ratio because the answer categories entail a ranking. However, it could nevertheless be the case that the ranking respondents apply, differs between respondents who understand and respondents who do not understand the debt-to-GDP ratio. Employing a binary dependent variable eliminates any finer differences in answers (and hence differences in how respondents understand the ranking) while prevailing the principle ranking of policy alternatives (which should also be understood by respondents with less economic knowledge). As shown, the use of a binary dependent variable does not change the results qualitatively.

Finally, the regressions controlled for knowledge via dummy variables about newspaper consumption. Although I don't consider it very likely, these knowledge variables could be poor proxies for knowledge about fiscal issues. To account for this, all regressions were repeated with the sample restricted to only those respondents who are interested in politics, accounting for the finding of Blinder and Krueger (2004) that knowledge about government debt is highly correlated with political involvement, at least in the US. This robustness tests reveals that results are similar (there are some minor differences which are due to the fact that the sample is smaller) and that neither of the conclusions drawn above needs to be changed (column 3 of Table A.3).

6 Conclusions

This paper employs information obtained through a public opinion survey to examine in detail the factors which are conventionally assumed to govern agents' preferences for fiscal consolidation. In addition, I study the role of policy credibility. The results

show that a majority of voters favor consolidation, suggesting that the reason why consolidations are delayed cannot be found in the behavior of the median voter. This result can be seen as a microeconomic counterpart to the results reported in Alesina et al. (2010) who study the connection between the voting behavior and fiscal consolidations for a sample of OECD countries.

Although the median voter favors fiscal consolidation, the estimation results demonstrate that preferences for consolidation vary considerably across individuals along economically informed dimensions. First, self-interest turns out to be important. Second, voters care for their children. The selected approach allows making judgments about the relative sizes of these effects and results indicate that the role of intergenerational altruism might have too much weight in the economic debate. Intergenerational altruism is not overly influential, compared to the other effects, and it applies only to about one third of parents or to about one fourth of voters. While self-interest and intergenerational altruism can barely be affected by economic policy, I identify two other effects which are susceptible to policy interventions. Voters' assessment of intragenerational fairness is at least as important as intergenerational aspects. Policy measures which are perceived as fair have a significantly higher chance of obtaining voters' approval. Finally, the low credibility of fiscal policy plans can be a serious impediment to voters' support for consolidation. This finding could point to a new motivation for constitutional debt limits. If voters believe that these debt limits are effective, they could have an effect on their deficit preferences. Taken together, the results presented in this paper are in line with economic policy advice on how to design fiscal adjustment in advanced economies: "You shall target a long-term decline in the public debt-to-GDP ratio, not just its stabilisation at post-crisis levels", "You shall be fair", "You shall have a credible medium-term fiscal plan" (Blanchard and Cottarelli, 2010). To the same extent as these results contribute to our understanding of how economic policy should be designed, they might provide an additional explanation why consolidations have failed in the past.

The analysis can be extended in several directions. In particular, I have not studied how an optimal consolidation should look like and what measures are perceived as fair. Also, it would be interesting to study in more depth the importance of fiscal policy issues for voting behavior. Given that the data are from Austria, the question emerges whether the presented results are relevant for other countries. For the US, voters have also been found to be fiscally prudent (Alesina et al., 1998; Peltzman, 1992), fairness has been shown to be important in many countries (e.g. Alesina and

Giuliano, 2009; Fong, 2001; Heinemann and Hennighausen, 2010). Therefore, the question whether results are relevant for other countries does not apply so much to voters' attitude towards government debt or the role of fairness. However, it applies to the importance of the role of policy credibility detected in this paper.

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A Appendix

A.1 Survey Description

The data are drawn from a survey which was conducted by “IFES”, an Austrian based market and polls research institute. From end of January 2010 until the beginning of March 2010, about 2000 Austrian residents were interviewed face-to-face by computer assisted personal interviews. The sample was drawn on the basis of a stratified multistage clustered random sampling procedure. The questionnaire was designed by the author for the purpose of this study.

A.2 Variable Description

A.2.1 Dependent Variables

The dependent variables are derived from the following sequence of questions. These questions were asked after a series of questions about the general attitude towards debt, about the increase of debt in the course of the financial crisis, about what type of measures respondents expect (tax increases, cuts in transfers, etc), whether they will be affected by these measures and whether they consider these measures fair.

1. “And what do you think: How strong will the government consolidate public finances?”
 - (a) “no consolidation, debt ratio continues to increase”
 - (b) “consolidation, but only to the extent that the debt ratio does not continue to increase”
 - (c) “very strong consolidation such that the debt ratio declines markedly within the next 5 years”
 - (d) “strong consolidation such that the debt ratio declines markedly within the next 10 years”
 - (e) “somewhat weaker consolidation such that the debt ratio declines markedly within the next 20 years”
 - (f) “much weaker consolidation such that the debt ratio declines markedly within the next 50 years”.
2. “And suppose you could choose - you could choose, how strongly and in what areas expenditures are cut, whether and what taxes are increased. What would you choose?”
3. “Assume that you could determine the extent of the reduction of government debt, but not the type of expenditure cuts or which taxes are increased—this is determined by the government. What would you choose under these circumstances?”.

Answers from question 3 are used to construct the main dependent variable “CONSPEED”, answers from question 2 are used to construct “CONSPEED PEF”. Answer categories for both “CONSPEED” and “CONSPEED PEF” are ordered from 1 to 6 such that 1 represents “no consolidation, debt ratio continues to increase” and 6 represents “very strong consolidation such that the debt ratio declines within the next 5 years”.

A.2.2 Explanatory Variables

The following table contains a definition of dependent variables and of variables which are used to restrict the sample. Own translation.

Table A.1: Explanatory variables

fin. sit. very good, fin. sit. good, fin. sit. bad, fin. sit. very bad	“All in all: how would you assess the financial situation of your household?” (very good, good, bad, very bad)
low income	Dummy variable, 1 if respondent’s household income falls into the lowest percentile.
read other newspapers, read quality newspapers, reads other newspapers	Respondents were asked about their newspaper and magazine consumption. For those reading quality newspapers or magazines, “read quality newspapers”=1, “read no newspapers”=1 if respondent does not read newspapers or magazines. Omitted category=reads other newspaper.
overdraft uncomfortable	“Please tell me how much the following statements apply to you personally” (agree, somewhat agree, somewhat disagree, disagree) - “when I overdraft my account, I feel bad”
time preference	Dummy variable, 1 if respondent agrees or somewhat agrees. “Imagine that you have won a monthly salary in the lottery (or the amount, which you usually have at your disposal per month). This money will be paid out in a year from now. If you relinquish parts of the money, you can have the rest immediately. To get the money right now, how many percent would you give up?” Showcard with 9 categories (0%, 2%, 3%, 5%, 7%, 10%, 15%, 20%, more than 20%). For “time preference” these categories were translated into numerical values.
not affected, somewhat affected, strongly affected, very strongly affected	Derived from two questions about (i) expected cuts in transfer payments and (ii) expected tax increases. For both questions, respondents were asked to indicate on a scale from 1 to 4 whether they will be financially affected. The four dummy variables are constructed as a combination of answers to both questions.
lower debt in 20 yrs: positive impact for me	“And personally. If you think about the time in 10 to 20 years. Would consolidated public finances have positive effects on your life in 10 to 20 years.” (very positive, positive, negative, very negative, practically no effects, will not affect me anymore) Dummy variable, 1 if respondent answers that this would have very positive or positive effects.
will be dead in 20 years	Same question as above: Dummy variable, 1 if respondent answers that this will not affect him/her anymore.
high debt implies higher taxes in the future	“People have different views on the effects of government debt. I am going to read some statements. Please tell me how much, in your opinion, the following statements apply.” (agree, somewhat agree, somewhat disagree, disagree) - “higher government debt implies that I have to pay more taxes in the future”
high debt implies lower transfers in the future	Dummy variable, 1 if respondent agrees or somewhat agrees. Same question as above: - “higher government debt implies that the protection through government transfers will be worse in the future” Dummy variable, 1 if respondent agrees or somewhat agrees.

See continuation.

Table A.1: Explanatory variables (cont'd)

exp. upward mobility	<p>Derived from two questions:</p> <p>1) "If you think about your living standard. Where would you place yourself on a scale from 1 to 10, where 1 means very bad living standard and 10 means very good living standard."</p> <p>2) "And on which position do you think you will be in 10 years from now."</p> <p>Answers on both questions were compared and "exp. upward mobility" is coded as 1 for those who expect an improvement, 0 else.</p>
my children will have worse standing	<p>(question is posed in the context of the questions above) "And on which position do you think will your child be if it is in your age?" (if respondent has more children, then answer refers to the youngest).</p> <p>Dummy variable, 1 if children is expected to have worse standing than respondent.</p>
children higher status than avg. children	<p>"In the long-run, do you think that your children or grandchildren will have a better living standard than average children or grandchildren"</p> <p>Dummy variable, 1 if "yes, because they will inherit enough" or "yes, because of other reasons".</p>
higher inheritances	<p>Derived from question above, dummy variable, 1 if "yes, because they will inherit enough".</p>
tax burden too high	<p>"How do you assess your current burden from taxation. Is the burden much too high, too high, appropriate, too low or much too low?"</p> <p>Dummy variable, 1 if too high or much too high.</p>
transfers are important	<p>"any persons or households receive transfer payments from the government, like money for children, for personal care, grants, housing subsidies. How important are such payments for your monthly budget?" (very important, important, unimportant, very unimportant)</p> <p>Dummy variable, 1 if important or very important.</p>
debt a burden for children	<p>"Suppose, this government or the next governments do not succeed in consolidating government debt within the next 10 to 20 years. Do you think that this would constitute a burden for your children or grandchildren?"</p> <p>Dummy variable, 1 if respondent agrees.</p>
today's generation should restrain itself to avoid burden	<p>"There are many opinions about what is fair with respect to subsequent generations. How much do you agree to the following statements?" (agree, somewhat agree, somewhat disagree and disagree)</p> <p>- "today's generation should financially restrain itself such that the next generations are not burdened by high debt levels"</p> <p>Dummy variable, 1 if respondent agrees or somewhat agrees.</p>
environment	<p>Same question as above:</p> <p>- "today's generation should restrain itself such that the next generations are not burdened by environmental damages which are caused by today's generation"</p> <p>Dummy variable, 1 if respondent agrees or somewhat agrees.</p>
burden will be distributed very unfairly	<p>"In case the government consolidates public finances – how much do you think will the following apply?" (agree, somewhat agree, somewhat disagree and disagree)</p> <p>- "the financial burden will be distributed fairly"</p> <p>Dummy variable, 1 if respondent disagrees.</p>

See continuation.

Table A.1: Explanatory variables (cont'd)

<p>only intragen. fairness important, only intergen. fairness important, both are important, neither is important</p>	<p>“Under which conditions would you be willing to accept a financial burden for fiscal consolidation? How important are the following preconditions for you?” - “If the future burden for today’s young or of future generations will be lowered” - “If I know, that the burden is distributed fairly within today’s generation” Respondents could agree/disagree to each question on a four point scale. The variables are then defined as dummy variables for those who agree to the first reason but not the second, for those who agree to the second reason but not to the first and for those who agree on both or on neither statement.</p>
<p>expect no sustainable consolidation</p>	<p>“Do you think that government debt will be reduced sustainably within the next 10 to 20 years?” (yes/no)</p>
<p>future: debt will increase again</p>	<p>Dummy variable, 1 if respondent answers yes. Derived from a question which was posed after the hypothetical question on the effects of government debt if debt will not be reduced (see above, “debt a burden for children”) “And now the opposite: Suppose this government or the next governments do succeed in consolidating government debt within the next 10 to 20 years. What do you think would happen after the consolidation?” (agree, somewhat agree, somewhat disagree, disagree) - government debt will rise again soon afterwards</p>
<p>trust in government</p>	<p>Dummy variable, 1 if respondent agrees or somewhat agrees. “How much do you trust the following institutions?” (trust, somewhat trust, somewhat distrust, distrust) Dummy variable, 1 if respondent trusts or somewhat trusts the government.</p>
<p>I am interested in politics (this variable is not used as a dependent variable but to restrict the sample for robustness tests)</p>	<p>Same question as above: - “I am interested in politics” Dummy variable, 1 if respondent agrees or somewhat agrees.</p>
<p>knowledge about government debt (this variable is not used as a dependent variable but to restrict the sample; only those who answered strong increase or increase were included in the sample)</p>	<p>“And now to government debt. How do you assess the development of government debt over the past two years?” (strong increase, increase, about constant, decline)</p>

Table A.2: Descriptive statistics

	mean	sd	min	max
preferred consol. speed (CONSPEED)	3.82	1.50	1	6.00
preferred consol. speed (CONSPEED PREF)	3.97	1.52	1	6.00
fin. sit. very good	0.10	0.30	0	1.00
fin. sit. bad	0.22	0.41	0	1.00
fin. sit. very bad	0.06	0.23	0	1.00
low income	0.08	0.27	0	1.00
age	46.71	16.45	16	96.00
age sq. (x1e3)	2.45	1.65	0.26	9.22
edu low	0.56	0.50	0	1.00
edu high	0.26	0.44	0	1.00
male	0.48	0.50	0	1.00
married	0.62	0.49	0	1.00
read other newspapers	0.60	0.49	0	1.00
read quality newspapers	0.26	0.44	0	1.00
overdraft uncomfortable	0.78	0.41	0	1.00
time preference	3.38	5.45	0	30.00
will be dead in 20 years	0.10	0.30	0	1.00
less redistribution	0.14	0.35	0	1.00
more redistribution	0.66	0.47	0	1.00
not affected	0.06	0.23	0	1.00
somewhat affected	0.36	0.48	0	1.00
strongly affected	0.39	0.49	0	1.00
very strongly affected	0.19	0.39	0	1.00
lower debt in 20 yrs: positive impact for me	0.55	0.50	0	1.00
high debt implies higher taxes in the future	0.48	0.50	0	1.00
high debt implies lower transfers in the future	0.41	0.49	0	1.00
exp. upward mobility	0.26	0.44	0	1.00
exp. upward mobility X higher taxes	0.12	0.32	0	1.00
tax burden too high	0.68	0.47	0	1.00
transfers are important	0.50	0.50	0	1.00
has children	0.62	0.48	0	1.00
children, not in household	0.27	0.45	0	1.00
children in household	0.35	0.48	0	1.00
my children will have worse standing	0.23	0.42	0	1.00
my children will have better/same standing	0.35	0.48	0	1.00

See continuation.

Table A.2: (cont'd) Descriptive statistics

	mean	sd	min	max
debt a burden for children	0.55	0.50	0	1.00
debt no burden for children	0.07	0.26	0	1.00
burden & higher inheritances	0.24	0.42	0	1.00
burden & not higher inheritances	0.28	0.45	0	1.00
children higher status than avg. children	0.22	0.41	0	1.00
children not higher status than avg. children	0.32	0.47	0	1.00
children and high income	0.33	0.47	0	1.00
children and low income	0.29	0.46	0	1.00
today's generation should restrain itself to avoid burden	0.64	0.48	0	1.00
today's generation should restrain itself X children	0.42	0.49	0	1.00
today's generation should restrain itself X no children	0.22	0.42	0	1.00
environment X children	0.52	0.50	0	1.00
environment X no children	0.31	0.46	0	1.00
burden will be distributed very unfairly	0.25	0.43	0	1.00
strongly affected X measures are fair	0.28	0.45	0	1.00
strongly affected X measures are unfair	0.09	0.28	0	1.00
very strongly affected X measures are fair	0.10	0.29	0	1.00
very strongly affected X measures are unfair	0.08	0.27	0	1.00
only intragen. fairness important (A)	0.17	0.37	0	1.00
only intergen. fairness important (B)	0.05	0.22	0	1.00
both are important	0.28	0.45	0	1.00
expect no sustainable consolidation	0.66	0.47	0	1.00
future: debt will increase again	0.73	0.45	0	1.00
trust in government	0.30	0.46	0	1.00

Table A.3: Robustness Tests

	preferred consolidation speed (CONSPEED)			
	(1) OLS	(2) ord. probit	(3) probit	(4) restr. sample OLS
	(1)	(2)	(3)	(4)
fin. sit. very good	-0.463*** (0.155)	-0.082*** (0.027)	-0.111** (0.044)	-0.501*** (0.161)
fin. sit. bad	0.061 (0.125)	0.015 (0.021)	0.045 (0.042)	0.084 (0.138)
fin. sit. very bad	-0.443* (0.229)	-0.067* (0.040)	-0.148** (0.073)	-0.675*** (0.245)
low income	0.541*** (0.201)	0.098*** (0.034)	0.175** (0.073)	0.494** (0.222)
age	-0.032* (0.017)	-0.006* (0.003)	-0.012** (0.006)	-0.048** (0.019)
age sq. (x1e3)	0.276 (0.170)	0.050* (0.029)	0.112* (0.058)	0.427** (0.187)
edu low	-0.444*** (0.134)	-0.077*** (0.023)	-0.183*** (0.043)	-0.392*** (0.141)
edu high	-0.214 (0.148)	-0.037 (0.025)	-0.100** (0.047)	-0.185 (0.154)
male	0.219** (0.096)	0.040** (0.016)	0.078** (0.032)	0.163 (0.103)
married	0.036 (0.109)	0.004 (0.018)	0.064* (0.037)	0.042 (0.117)
read other newspapers	0.002 (0.148)	-0.005 (0.025)	-0.049 (0.050)	-0.162 (0.174)
read quality newspapers	0.169 (0.171)	0.023 (0.028)	-0.059 (0.056)	0.035 (0.193)
overdraft uncomfortable	-0.036 (0.109)	-0.001 (0.018)	0.026 (0.037)	0.022 (0.118)
time preference	-0.020** (0.009)	-0.003** (0.001)	-0.006** (0.003)	-0.025*** (0.009)
will be dead in 20 years	0.283 (0.212)	0.031 (0.036)	0.018 (0.075)	0.102 (0.222)
less redistribution	0.224 (0.163)	0.048* (0.027)	0.127** (0.056)	0.229 (0.180)
more redistribution	0.215* (0.118)	0.030 (0.019)	0.066* (0.040)	0.225* (0.128)

¹ See continuation.

Table A.3: Robustness Tests (cont'd)

	preferred consolidation speed (CONSPEED)			
	(1) OLS	(2) ord. probit	(3) probit	(4) restr. sample OLS
my children will have worse standing	0.474*** (0.137)	0.086*** (0.023)	0.121*** (0.046)	0.521*** (0.146)
my children will have better/same standing	0.082 (0.121)	0.017 (0.021)	-0.006 (0.040)	0.084 (0.128)
lower debt in 20 yrs: positive impact for me	0.185* (0.112)	0.030 (0.019)	0.034 (0.036)	0.155 (0.122)
not affected	0.157 (0.251)	0.020 (0.042)	0.118 (0.083)	0.065 (0.254)
strongly affected X measures are fair	0.074 (0.120)	0.009 (0.020)	0.079** (0.040)	0.105 (0.127)
strongly affected X measures are unfair	-0.366** (0.158)	-0.065** (0.025)	-0.147*** (0.052)	-0.325* (0.175)
very strongly affected X measures are fair	-0.266 (0.178)	-0.058* (0.030)	-0.031 (0.054)	-0.362* (0.194)
very strongly affected X measures are unfair	-0.565*** (0.164)	-0.104*** (0.028)	-0.182*** (0.050)	-0.430** (0.183)
expect no sustainable consolidation	-0.415*** (0.099)	-0.065*** (0.017)	-0.101*** (0.034)	-0.386*** (0.105)
constant	4.769*** (0.450)			5.253*** (0.512)
adj-R2	0.07			0.07
pseudo-R2		0.03	0.07	
uncond. probability of outcome		0.17	0.37	
N	1013	1013	1013	900

¹ Marginal effects from ordinary-least squares regression (column 1 and 3).

² Marginal effects from ordered probit regression (column 2). The marginal effects were calculated for outcome 6 (consolidation with the next 5 years).

³ Marginal effects from probit regression (column 3). The dependent variable is one for outcome 5 and 6 (consolidation with the next 10 or 5 years) and zero else.

⁴ In column 4 the sample is restricted to only those who are interested in politics.

⁵ Robust standard errors in parentheses. * p<0.10, ** p<0.05, *** p<0.01.

⁶ Omitted variables (base categories for groups of dummy variables): fin. sit. good, edu med., somewhat affected, read no newspaper, same extent of redistribution.

⁷ Variables are defined in the Appendix.

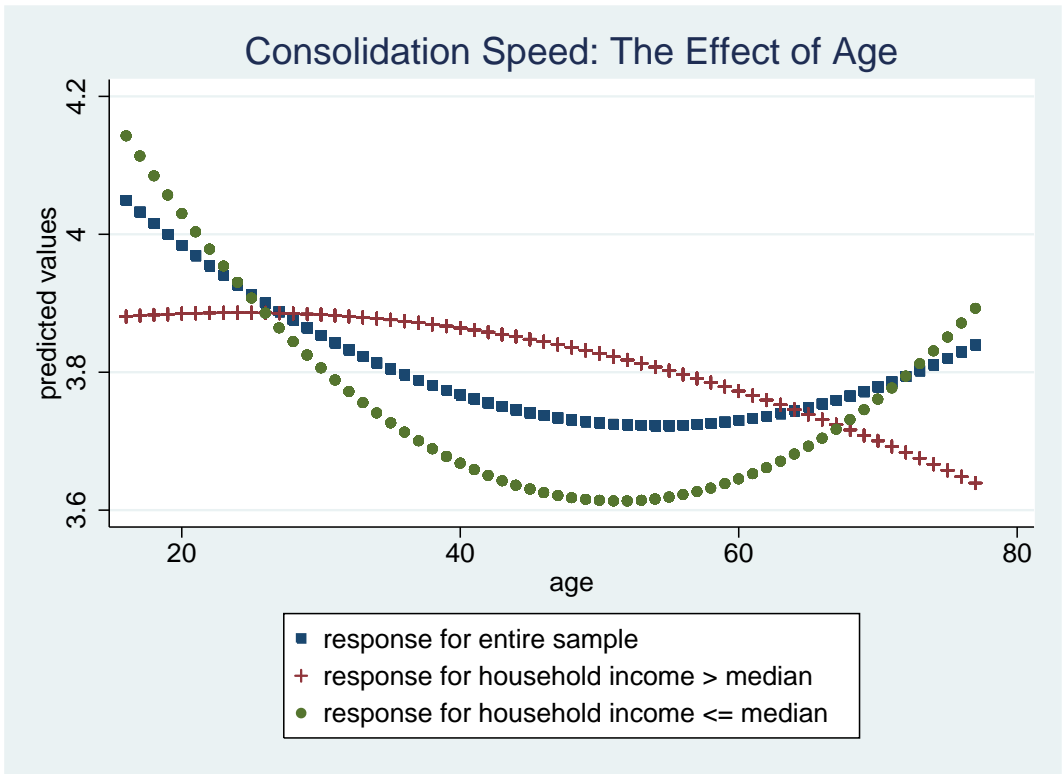


Figure 1: Preferred Consolidation Speed and the Age-Income Profile

Table 1: Preferred and expected consolidation speed

	expected from government	preferred (CONSPEED)
no consolidation, debt ratio continues to increase	19	3
consolidation, constant debt ratio	38	27
very weak consolidation (reduction within 50 years)	3	3
weak consolidation (reduction within 20 years)	17	24
strong consolidation (reduction within 10 years)	14	26
very strong consolidation (reduction within 5 years)	9	17

¹ Answers in % of respondents.

Table 2: Self-Interest

	preferred consolidation speed (CONSPEED)			
	(1)	(2)	(3)	(4)
fin. sit. very good	-0.308** (0.147)	-0.334** (0.148)	-0.318** (0.153)	-0.301** (0.149)
fin. sit. bad	-0.054 (0.114)	-0.043 (0.115)	-0.032 (0.119)	-0.098 (0.118)
fin. sit. very bad	-0.596*** (0.201)	-0.658*** (0.198)	-0.601*** (0.211)	-0.646*** (0.212)
low income	0.479** (0.189)	0.479** (0.192)	0.412** (0.194)	0.526*** (0.196)
age	-0.024 (0.016)	-0.022 (0.016)	-0.032* (0.017)	-0.024 (0.017)
age sq. (x1e3)	0.224 (0.158)	0.197 (0.161)	0.283* (0.171)	0.211 (0.166)
edu low	-0.395*** (0.122)	-0.392*** (0.122)	-0.418*** (0.129)	-0.388*** (0.126)
edu high	-0.065 (0.133)	-0.045 (0.133)	-0.083 (0.138)	-0.100 (0.137)
male	0.228*** (0.088)	0.243*** (0.089)	0.264*** (0.091)	0.232*** (0.090)
married	0.074 (0.101)	0.080 (0.101)	0.048 (0.105)	0.094 (0.102)
read other newspapers	0.143 (0.141)	0.195 (0.144)	0.170 (0.145)	0.134 (0.146)
read quality newspapers	0.288* (0.159)	0.332** (0.162)	0.349** (0.163)	0.321* (0.164)
overdraft uncomfortable	-0.050 (0.103)	-0.006 (0.104)	0.027 (0.106)	-0.062 (0.106)
time preference	-0.017** (0.009)	-0.016* (0.009)	-0.018** (0.009)	-0.013 (0.009)
will be dead in 20 years	0.253 (0.188)	0.283 (0.189)	0.373* (0.203)	0.264 (0.193)
less redistribution	0.251* (0.152)	0.302** (0.153)	0.337** (0.158)	0.246 (0.153)
more redistribution	0.298*** (0.109)	0.289*** (0.110)	0.283** (0.113)	0.302*** (0.110)
has children	0.237** (0.104)	0.210** (0.104)	0.210* (0.107)	0.228** (0.107)
not affected	0.057 (0.236)	0.005 (0.231)	0.068 (0.247)	0.027 (0.252)
strongly affected	-0.042 (0.101)	-0.069 (0.103)	-0.019 (0.105)	-0.022 (0.106)
very strongly affected	-0.332*** (0.125)	-0.372*** (0.129)	-0.331** (0.133)	-0.294** (0.136)
lower debt in 20 yrs: positive impact for me	0.239** (0.101)	0.228** (0.102)	0.223** (0.104)	0.217** (0.103)
high debt implies higher taxes in the future		0.307*** (0.111)	0.193 (0.128)	
high debt implies lower transfers in the future		-0.087 (0.109)	-0.118 (0.113)	
exp. upward mobility			-0.408*** (0.155)	
exp. upward mobility X higher taxes			0.385* (0.198)	
tax burden too high				-0.134 (0.097)
transfers are important				0.037 (0.100)
constant	3.969*** (0.420)	3.750*** (0.428)	4.115*** (0.455)	4.059*** (0.448)
adj-R2	0.05	0.06	0.06	0.05
N	1191	1168	1105	1152

¹ Marginal effects from ordinary-least squares regression

² Robust standard errors in parentheses. * p<0.10, ** p<0.05, *** p<0.01.

³ Omitted variables (base categories for groups of dummy variables): fin. sit. good, edu med., somewhat affected, read no newspaper, same extent of redistribution.

⁴ Variables are defined in the Appendix.

Table 3: Intergenerational Distribution

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
has children	0.237** (0.104)						
children, not in household		0.056 (0.128)					
children in household		0.346*** (0.114)					
my children will have worse standing			0.404*** (0.132)				
my children will have better/same standing			0.114 (0.116)				
debt a burden for children				0.273*** (0.106)			
debt no burden for children				-0.001 (0.181)	0.025 (0.182)		
burden & higher inheritances					0.465*** (0.129)		
burden & not higher inheritances					0.140 (0.125)		
children higher status than avg. children						0.381*** (0.116)	
children not higher status than avg. children						0.158 (0.112)	
children and high income							0.330*** (0.116)
children and low income							0.123 (0.124)
F-test: equal coefficients		5.54	4.95	3.59	2.58	6.88	2.96
p-value		0.02	0.01	0.06	0.11	0.01	0.09
adj-R2	0.05	0.05	0.05	0.05	0.05	0.06	0.05
N	1191	1191	1102	1191	1191	1081	1191

¹ Marginal effects from ordinary-least squares regression.

² Robust standard errors in parentheses. * p<0.10, ** p<0.05, *** p<0.01.

³ The variables which are summarized in this table have been appended to the model of column 1 of Table 2. The coefficients of the other explanatory variables are not shown. All variables in columns 2 to 7 are only defined for respondents who have children.

⁴ The F-test refers to a test of equal coefficients (e.g. whether the coefficient of “children, not in household” is statistically the same as “children in household”).

⁵ Variables are defined in the Appendix.

Table 4: Fairness

	preferred consolidation speed (CONSPEED)					Difference in CONSPEED (0/1)
	(1)	(2)	(3)	(4)	(5)	(6)
lower debt in 20 yrs: positive impact for me	0.270** (0.109)	0.246** (0.109)	0.250** (0.107)	0.205* (0.120)	0.231* (0.123)	0.022 (0.028)
not affected	0.170 (0.258)		0.161 (0.247)	0.169 (0.257)		-0.011 (0.068)
strongly affected	-0.028 (0.108)			-0.038 (0.109)		-0.034 (0.030)
very strongly affected	-0.327** (0.139)					-0.113*** (0.042)
my children will have worse standing	0.438*** (0.133)	0.420*** (0.132)	0.425*** (0.131)	0.447*** (0.157)	0.453*** (0.152)	-0.025 (0.035)
my children will have better/same standing	0.090 (0.118)	0.104 (0.118)	0.092 (0.116)	0.043 (0.130)	0.187 (0.129)	0.042 (0.030)
burden will be distributed very unfairly	-0.232** (0.111)	-0.298*** (0.106)		-0.274** (0.128)	-0.270** (0.128)	-0.100*** (0.034)
strongly affected X measures are fair			0.070 (0.115)			
strongly affected X measures are unfair			-0.410*** (0.151)			
very strongly affected X measures are fair			-0.270 (0.170)			
very strongly affected X measures are unfair			-0.527*** (0.161)			
adj-R2	0.05	0.05	0.05	0.03	0.04	
pseudo-R2						0.06
N	1077	1077	1102	859	873	1066

¹ Marginal effects from ordinary-least squares regression (column 1 to 5) and from probit regression (column 6).

² In column 6 the dependent variable is a dummy variable reflecting the difference between CONSPEED and CONSPEED PREF. A value of one implies that respondents want the government to consolidate weaker than preferred.

³ Robust standard errors in parentheses. * p<0.10, ** p<0.05, *** p<0.01.

⁴ The variables which are summarized in this table have been appended to the model of column 3 of Table 3. The coefficients of the other explanatory variables are not shown.

⁵ Variables are defined in the Appendix.

Table 5: Intergenerational versus Intragenerational Distribution

	preferred consolidation speed			
	CONSPEED PREF		CONSPEED	
	(1)	(2)	(3)	(4)
	full sample	only parents	full sample	only parents
only intragen. fairness important (A)	0.345*** (0.124)	0.417*** (0.155)	0.120 (0.123)	0.092 (0.156)
only intergen. fairness important (B)	0.496** (0.215)	0.591** (0.257)	0.295 (0.222)	0.359 (0.255)
both are important	0.440*** (0.099)	0.497*** (0.123)	0.310*** (0.100)	0.301** (0.126)
F-test: (A) = (B)	0.43	0.40	0.55	0.95
p-value	0.51	0.53	0.46	0.33
adj-R2	0.04	0.06	0.05	0.07
N	1198	750	1173	732

¹ Marginal effects from ordinary-least squares regression.

² Robust standard errors in parentheses. * p<0.10, ** p<0.05, *** p<0.01.

³ The variables which are summarized in this table have been appended to the model of column 3 of Table 3. The coefficients of the other explanatory variables are not shown.

⁴ The F-test refers to a test of equal coefficients for “intragenerational fairness important” and “intergenerational fairness important”.

⁵ Variables are defined in the Appendix.

Table 6: Policy Credibility

	preferred consolidation speed (CONSPEED)				
	(1)	(2)	(3)	(4)	(5)
			restr. sample	restr. sample	
expect no sustainable consolidation	-0.414*** (0.099)		-0.305** (0.123)	-0.386*** (0.105)	-0.405*** (0.100)
future: debt will increase again		-0.332*** (0.107)			
trust in government					-0.009 (0.111)
adj-R2	0.07	0.06	0.10	0.07	0.07
N	1013	999	460	866	997

¹ Marginal effects from ordinary-least squares regression.

² Robust standard errors in parentheses. * p<0.10, ** p<0.05, *** p<0.01.

³ The variables which are summarized in this table have been appended to the model of column 3 of Table 3. The coefficients of the other explanatory variables are not shown.

⁴ For the model in column 3, the sample is restricted to only those who expect the government to consolidate in the short-run.

⁵ For the model in column 4, the sample is restricted to only those respondents who are willing to accept a financial burden for fiscal consolidation if the future burden for today’s young or of future generations will be lowered.

⁶ Variables are defined in the Appendix.

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