

## Students' Economic Ideology and Deficit Reduction Choices

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### ABSTRACT

We measure the students' economic ideologies in a capstone economics course defining economic ideology as how one views the world. Students are measured to be slightly liberal in ideology. Students submit deficit reduction choices from "The New York Times Deficit Project," to reduce the projected long-term deficit to 3 percent of expected economic output. We compare the ideology measurement to students' deficit reduction choices. While students on average prefer spending cuts, their choices to reduce the deficit have popular liberal leanings: reducing the size of the military and increasing taxes on very high income earners. Medicare and Social Security reform are commonly selected as options for deficit reduction as well.

In this paper, *The New York Times* deficit reduction project (Leonhardt 2010b, Leonhardt and Marsh) is paired with an ideology measurement instrument (Hadsell, McAvoy and McGovern). An undergraduate student often thinks of herself as an adherent of one particular ideology or another. Often, too, undergraduate economics courses focus on perfectly competitive markets and prices to determine the best outcomes without discussion or incorporation of alternative ideologies. The survey instrument employed uses simple economic statements to measure a student's ideology along a continuum. The *Times* deficit reduction project presents choices which may be favored specifically by partisans of one ideology or another. Nevertheless, however a student may think her ideology is classified can measure it using this survey instrument. When combined with the deficit reduction project, she gains a deeper understanding why she prefers one deficit reduction option as opposed to another. In this paper, the instrument ideology scores are compared to choices that students make to reduce the long term deficit. We show that ideology scores tend to correlate with the deficit reduction choices.

In *The New York Times* Economic Scene column, published on November 13, 2010, David Leonhardt (2010b) analyzes the federal budget and asks his readers to make choices to maintain the long term federal budget deficit at 3 percent of output. Readers must choose specific tax increases and spending cuts summing to \$1.345 trillion, to reduce the projected deficit to 3 percent of output by 2030. These choices are an exercise to illustrate the difficulty of reducing the deficit no matter one's political ideology. Leonhardt focuses on the long-term deficit since Baby Boomers will have an increasing impact on the deficit as they begin to retire in large numbers. In Leonhardt's judgment, focusing on deficit reduction from the long view causes the reader to realize the enormity of the task. Why 3 percent rather than a balanced

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budget? Leonhardt (2010a) utilizes budget analysis by Auerbach-Gale, experts on the budget. A deficit of 3 percent is sustainable: one year's deficit may be paid for by economic growth the following year. In addition, interest costs on the accumulated debt are manageable given ongoing deficits of that proportion.

As Leonhardt (2010b) notes, spending cuts alone or revenue increases alone will not balance the long term budget. The numbers Leonhardt presents show that the long term deficit reduction target is 5.5 percent of 2030's gross domestic product. However, domestic discretionary spending is projected by the Congressional Budget Office to be 3 percent of gross domestic product, and military spending about 4 percent. In other words, deep cuts to social programs alone or the military alone will not be enough to eliminate the long term deficit. Therefore, both spending cuts and tax increases are necessary. Spending cuts in social programs are difficult for Democratic liberals to accept, while tax increases are similarly unappealing to Republican conservatives. Leonhardt observes that the bipartisan commission agreed to make substantial cuts to social programs while allowing the Bush era tax cuts to expire on incomes above \$250,000. Factoring in other spending cuts and tax increases, the commission's recommendations reduced the long term deficit by one-third, an amount too small to reduce the deficit to 3 percent of GDP.

Readers of the Leonhardt's column (2010b) are presented with a graphic showing a menu of spending and revenue options. Readers are challenged to reduce the projected 2030 deficit by \$1.345 trillion and post their choices online (Leonhardt and Marsh 2010). Readers are presented with instructions for a selection of options within categories summarized in Table 1. While the spending options total \$1.81 trillion and the revenue options total \$1.955 trillion, due to instructions within categories, the maximum spending cut a reader could choose is \$1,590 billion, and the maximum tax increase is \$1,625 billion.

**Table 1:** Spending and Tax Options in *The New York Times* Deficit Reduction Project

<b>Spending Options</b>	<b>Billions</b>	<b>Revenue Options</b>	<b>Billions</b>
Domestic Programs and Foreign Aid	\$160	Estate Tax	\$170
Military	505	Investment Taxes	70
Health Care	680	Income and Employer Taxes	715
Social Security	465	Tax Reform	545
		Other New Taxes	455
<b>Total</b>	<b>\$1,810</b>	<b>Total</b>	<b>\$1,955</b>

Among the responses posted to reduce the long term deficit, Leonhardt (2010c) observes that the least popular choice selected (fewer than 10 percent of respondents) allowed the expiration of the Bush tax cuts for incomes less than \$250,000 per year. The most popular spending cut chosen by respondents (more than 80 percent) reduced the military to below its size before the Iraq War. Leonhardt (2010c) notes that respondents' long term choices to reduce the deficit likely reveal their ideological preferences:

“But when it came to tax cuts for incomes above \$250,000, people’s opinions appeared to diverge according to their political views. Those who preferred spending cuts – a conservative group in all likelihood – generally wanted this tax cut to remain in place. Among those who closed the deficit mostly with tax increases – probably a liberal group – the expiration was the single most selected policy.”

The deficit reduction puzzle is an interesting exercise for college students as well. Just as ideology is observed in responses by Times readers, we may observe how students’ ideology affects their choices. Similar to Hadsell, economic ideology is, “a view of the world that influences what one considers important,” and this view affects behavioral modeling and policy positions. To measure ideology, they develop a survey instrument that measures economic ideology along a continuum. A student records her strength of agreement (towards score 6) or disagreement (towards score 0) for twelve short statements in a seven point Likert type scale. The questions are provided in Table 2. The score for a person is the sum of her answers to the statements (see note to Table 2). The larger (smaller) her score, the more liberal (conservative) she is. A score of 36 is the midpoint. Hadsell finds the survey score measurement to be consistent with the person’s stated ideology.

**Table 2:** Survey Questions and Students Average Score to Each

Number	Question	Score
n1*	If people are poor it is mostly because of their own actions.	2.94
n2	The price of pharmaceuticals (drugs) should be regulated by the government so that the drugs are more affordable to the average person.	2.29
n3	Government is needed to help the less fortunate.	3.71
n4*	At birth, everyone has an equal opportunity to become rich.	3.65
n5	The government should provide unemployment compensation and retraining to people who lose their jobs as a result of a weak economy.	2.24
n6	People with very high incomes should be heavily taxed.	3.29
n7	Consumers need active government protection from unethical business practices.	2.47
n8	Women and minorities face significant discrimination in the labor market.	3.53
n9	Sick persons should always be provided healthcare whether or not they have ability to pay.	3.71
n10	The government should provide basic housing to those unable to pay market price rent.	2.76
n11	The government should use tax money to subsidize the development of environmentally sustainable (green) technologies.	2.71
n12	Every employed person should be guaranteed a fair wage.	3.71

Note: Answers are scored 0 (strongly disagree) to 6 (strongly agree), except the numbers with asterisks which are scored (6 - answer). Once summed, the larger (smaller) the score, the more liberal (conservative) is the person. See Hadsell, McAvoy and McGovern (2010, p14).

SUNY Oneonta offers the Senior Seminar in Economics, a capstone course for the economics major as well as the finance minor. The course is offered during the spring semester and seniors commonly enroll. These students' views are of interest as they have completed several upper division economics and/or finance courses and are relatively knowledgeable about current events. Students are required to read *The New York Times* daily, prepare summary logs, and participate in discussions of current events.

Nineteen students completed the ideology survey. Of those students that reported their gender, 26 percent are female, and 74 percent are male. The average ideology score is 37.02, meaning the average student respondent scores slightly above the midpoint of 36. The survey requests respondents to provide six additional data observations, one of which is a self-rating. Four students identified themselves as conservative, while eleven students self-identified as liberal, the other four reporting were neither. The survey indicates that six students are conservative or slightly conservative, four students are indifferent (neither slightly liberal nor conservative), and the other nine students are slightly liberal to liberal. Therefore, while this sample is small, the survey average slightly understates liberal self-identification. Hadsell notes that their survey measurement is not intended to predict a respondent's ideology; instead, the instrument is intended to spark interest in economic principles and understand better the role values play in modeling the behavior observed in the world and the resultant policies favored. Nevertheless, given Leonhardt's predictions, our seniors should prefer tax increases to spending cuts, on average.

Seventeen students submitted *Times* deficit reduction choices. These choices are presented in Tables 3 and 4. While the students had to submit at least \$1,345 billion as tax increases and spending cuts, on average, they reduced the deficit by a larger average amount, \$1,463 billion, of which \$862 billion (58.9 percent of selected options) represent spending reductions, and \$601 billion tax revenue increases (similarly 41.1 percent). At first blush, our typical liberal leaning seminar student generally prefers spending cuts. Spending cuts represented 47.6 percent of the total cuts possible, while tax increases 30.7 percent of the total possible. However, the options include instructions restricting some choices. When these choices are applied given the instructions, the outcome strengthens the conservative leaning choices our self-identified average liberal students make. Under the adjusted proportions, students select about 54 percent of the spending cuts and 37 percent of the tax increases. On the surface, at least, our ideologically measured and self-identified liberal leaning students were more willing to reduce spending than increase taxes.

**Table 3:** Students' Spending Reduction Choices, \$ Billions

<b>SPENDING OPTIONS (1)</b>	<b>Student Average Spending Cut (n=17) (2)</b>	<b>Percent Students Choosing Option (n = 17) (3)</b>	<b>Students Scoring Conservative Ideology, Averages, (n = 6) (4)</b>	<b>Students Scoring Liberal Ideology, Averages, (n = 9) (5)</b>
<b>DOMESTIC PROGRAMS</b>				
Farm Subsidies	\$4.24	29.41%	\$7.33	\$2.80
Foreign Aid	10.76	64.71%	7.83	11.90
Earmarks	9.24	64.71%	9.83	8.40
Federal Workforce	2.65	17.65%	5.00	1.50
Government contractors	5.65	35.29%	10.33	3.40
Cut Pay 5 %	5.00	29.41%	5.67	3.40
Other Cuts	10.59	35.29%	5.00	9.00
Aid to States	14.59	35.29%	27.33	8.40
<b>MILITARY</b>				
Cancel Weapons	8.59	47.06%	6.33	7.20
Reduce Fleets	7.12	29.41%	4.17	9.60
Nuclear Arsenal	20.24	52.94%	6.67**	26.60**
Reduce Active Personnel	37.53	76.47%	24.67	39.20
Reduce Noncombat Comp	17.94	35.29%	16.83	20.40
Withdraw IR/AF by 2015, or (a)	61.47	41.18%	99.67	29.80
Withdraw IR/AF by 2013 (a)	69.65	41.18%	28.33*	101.40*
<b>HEALTH</b>				
Malpractice Reform	4.94	35.29%	7.17	2.80
Medicare eligibility age 68	23.00	41.18%	18.50	22.40
Medicare eligibility age 70	30.65	29.41%	34.83	31.20
Cut Medicare Growth	330.24	58.82%	373.67	281.00
<b>SOCIAL SECURITY</b>				
Disability Insurance	6.76	41.18%	10.67	3.40
Reduce benefits for upper income	25.41	47.06%	18.00	32.40
Alternate inflation measure	33.65	41.18%	27.00	32.80
Raise retirement age to 68, or (a)	20.82	29.41%	23.50	21.30
Raise retirement age to 70 (a)	101.35	41.18%	163.67	49.40
<b>TOTAL SPENDING CUTS</b>	<b>\$862.06</b>		<b>\$942.00</b>	<b>\$759.70</b>

a: The choice is one of the adjacent options or neither, \* the difference is statistically significant at 10%, \*\* 5%

**Table 4:** Students' Tax Increase Choices, \$ Billions

<b>REVENUE OPTIONS (1)</b>	<b>Student Average Tax Increase (n = 17) (2)</b>	<b>Percent Students Choosing Option (n = 17) (3)</b>	<b>Students Scoring Conservative Ideology, Averages (n = 6) (4)</b>	<b>Students Scoring Liberal Ideology, Averages (n = 9) (5)</b>
<b>ESTATE TAX (Pick one)</b>				
Exempt 1st \$5 million 36% Rate	\$1.18	5.88%	\$0.00	\$2.00
Exempt 1st \$3.5 million 45% Rate	13.24	29.41%	15.00	9.00
Exempt 1st \$1million	42.88	41.18%	34.83	41.60
<b>INVESTMENT TAXES (Pick one)</b>				
Raise capital gains tax on high income	7.24	29.41%	12.50	4.80
Raise capital gains tax on all	13.53	29.41%	7.67	9.20
<b>INCOME and EMPLOYER TAXES</b>				
Surtax on Income > \$1million	50.29	52.94%	31.67	57.00
SS Tax applied to income>\$106,800	23.53	23.53%	16.67	30.00
Reduce health insurance tax break	36.82	23.53%	52.00	15.70
Expiration of BUSH cuts >\$250,000 (a)	47.35	41.18%	76.67	34.50
Expiration of BUSH cuts <\$250,000 (a)	14.82	5.88%	0.00	0.00
<b>TAX REFORM (Pick one)</b>				
Reduce mort. deduct. for high income	19.12	35.29%	18.17	21.60
Eliminate breaks cut rates (SIMP)	82.35	47.06%	116.67	52.50
Eliminate breaks cut rates less	74.12	23.53%	0.00	126.00
<b>OTHER NEW TAXES</b>				
Carbon Tax	41.65	58.82%	35.17	35.50
Tax on banks	66.41	64.71%	68.00	61.80
National Sales Tax	66.06	23.53%	46.67	56.20
<b>TOTAL TAX INCREASES</b>	<b>\$600.59</b>		<b>\$531.67</b>	<b>\$557.40</b>

a: The choice is pick one of the adjacent options or neither.

Similar to *Times* readers, Table 3 shows 76 percent of our students prefer to reduce the size of the military, whether they prefer spending cuts or tax increases. In addition, about 64 percent want to cut foreign aid and reduce earmarks. A majority of the students would reform both Medicare and Social Security, primarily by increasing the age of eligibility to at least 68 years. In terms of revenue increases, Table 4 shows at least one-half of the students wants a surtax on incomes above \$1 million. The students' least popular tax increase, selected by one student, is to allow the Bush tax cuts to expire on incomes below \$250,000, matching the smaller than 10 percent selection of this option by *Times* readers

(Leonhardt 2010d). Our students on average reveal themselves to be slightly conservative, given their preferences for spending cuts. While increasing the age of eligibility for Medicare and Social Security may not be a liberal position, very good financial actuary reasons can support the selection of these options, independent of ideology. Furthermore, in cutting spending, our students very much prefer to target the military for cuts, a common liberal preference.

Cox presents the submissions by 6,989 Twitter users. Leonhardt (2010d) observes the online submitters via Twitter are likely younger. At least two-thirds of all Twitter users favor reducing the size of the military, ending the Bush tax cuts for \$250,000 plus earners, reducing Social Security benefits for high income earners, reducing nuclear arsenal and space spending, canceling or delaying some weapon programs, and imposing the millionaire's income tax. Cox further compares the deficit reduction choices by segmenting the entries into either those that reduced the deficit by more than via 75 percent tax increases (604 submissions), or by more than 75 percent via spending cuts (509 submissions). For those that prefer tax increases, at least two-thirds eliminate the Bush tax cuts on incomes of less than \$250,000, increase taxes on incomes in excess of \$1 million, tax carbon emissions and banks, increase the estate tax, increase the income subject to the Social Security payroll tax. For those Twitter users preferring spending cuts, at least two-thirds reduce the size of the military, reduce Social Security benefits, reduce the nuclear arsenal and space spending and eliminate or delay some weapons programs, reduce troops in Iraq and Afghanistan, eliminate farm subsidies, increase the age of eligibility and cap Medicare growth, enact medical malpractice reform, eliminate earmarks, and cut contractors, cut military compensation, both cut the pay and size of the civilian federal workforce, cut foreign aid and aid to states, and other cuts such as to national parks.

This study collects more precise information on ideology than Leonhardt (2010d) and Cox. Student ideology is directly measured with the survey tool developed by Hadsell. While Hadsell measures ideology along a continuum, they intend not to label specifically respondent's ideology, and prefer for their respondents to observe that one who scores low views behavior, models, and policies very differently than one who scores high. In this study, the midpoint of 36 is selected as a demarcation between liberal and conservative ideology measures. Ideology is labeled upon a specific, carefully considered, and ultimately arbitrary threshold. Students' answers for the ideology survey are linked to his or her choices for various budget reduction options. All seventeen students submitting reduction choices also self-identified on the submitted ideology surveys. Given the caveat of small sample sizes, as a group, they are liberal leaning: they self-identify an average 2.65 (neither to slightly liberal), and they score an average 37.00 (liberal). Five students self-identified as neither liberal nor conservative, and scored higher than 36 (liberal). Four students self-identified as slightly liberal or liberal, and scored 36 or below (neither or conservative). Two students self-identified as slightly conservative or conservative, and scored 36 or above (neither or liberal). Of the remaining six students, four students self-identified as slightly liberal or liberal and scored above 36, and two students self-identified as slightly conservative or conservative and

scored below 36. In sum, six students score below 36 (this study's separation score for "conservative" classification), and nine students score above 36 (this study's threshold score for "liberal" classification).

Among students scoring different than 36, their choices are shown in Tables 3 and 4, in columns 4 and 5. Students scoring conservative clearly favor reducing spending relative to students scoring liberal, and students scoring conservative increase taxes slightly lower than students scoring liberal. Keeping in mind the small sample sizes, students scoring conservative cut domestic programs more, reduce military spending less, reduce Medicare growth more, and are more willing to raise the age for Social Security benefits. In testing for differences in the means, two differences were statistically significant. Students scoring liberal are more willing to reduce the nuclear arsenal (5 percent level of significance) and more quickly draw down military forces in our Iraq and Afghanistan conflicts (10 percent level of significance). In Table 4, none of the differences in means is statistically significant. Amongst the tax increases, both sub-samples of students scoring conservative or liberal are shown to increase taxes in similar amounts, although the students scoring liberal increase taxes slightly more. The students scoring conservative increase taxes on wealthier and higher income households, but also are more likely to close loopholes and to lower rates. These students can be interpreted as broadening the tax base and treating all forms of income similarly. Students scoring liberal increase taxes by greater amounts on wealthier and higher income earners, lower rates less, and maintain popular deductions for middle income earners.

Some of the survey questions are directly related to the options in the deficit reduction project. For instance, the survey questions listed in Table 2 show numbers 2 and 9 are related to health care, number 3 promotes social programs in support of low income and other marginal groups, number 6 increases income taxes, 7 favors regulation, and 11 promotes the environment. On a continuum from 0 (strongly disagree) to 6 (strongly agree), the sub-sample average ideology scores for n2 is 2.29, number 3 is 3.71, number 6 is 3.29, number 7 is 2.47, number 9 is 3.71, and number 11 is 2.71. Tables 3 and 4 compare the reduction choices for fifteen students scoring other than 36. As previously stated, students with conservative scores favor spending cuts, while students with liberal scores slightly prefer more tax increases.

Comparing average ideology scores for health care to Medicare choices in the subsample, our students on average are moderately liberal (sub-sample average score is 3.71 on n9); however, they choose to reform Medicare eligibility by increasing the age and reducing spending growth. Their average choices for Medicare match closely their ideology for preferring not to regulate drug prices (average score is 2.29 on n2). Liberal scoring students favor a smaller cut in Medicare and are less in favor of raising the retirement age to 70. While students slightly agree that the less-fortunate must be assisted by the government (average score on n3 is 3.71), Tables 3 and 4 show they choose larger spending cuts than tax increases to reduce the deficit, no matter their ideology score. Consistent with popular views of partisan ideology, our liberal scoring students prefer smaller reductions to social programs relative to our conservative scoring students.

Comparing the scores in Table 4 to the tax increases selected in Table 3, the students slightly agree that higher incomes should be taxed more (n6 score is 3.29). Indeed, the students scoring liberal choose an average 63.52 percent of the \$315 billion available for tax reform, while students scoring conservative select 42.81 percent. Liberal scoring students choose a smaller national sales tax, conservative scores selecting an average 16.61 percent, and liberal scores selecting an average 20 percent, of the available \$315 billion tax increase. While the students slightly disagree that consumers need government protection (score on n7 is 2.47), their tax increase on banks is relatively high, conservative scores selecting an average 66.02 percent, and liberal scores selecting an average 60 percent of the \$103 billion available. The students slightly disagree that the government should direct resources to green technologies (score on n11 is 2.71); and, they select a moderate carbon tax increase, conservative scores selecting an average 49.52 percent and liberal scores 50 percent, from \$71 billion available. Consistent with popular partisan interpretation of current issues, liberal scoring students favor tax increases on wealthy or high income earners more than conservative scoring students, and they favor smaller tax increases on low income earners.

The ideology survey and *The New York Times* deficit reduction project continue to be relevant to current events. In combination, they offer the instructor an opportunity to increase student participation in class and well as their interest in important current issues. When matching the survey results to the options selected by those students, the instructor has an opportunity to discuss ideology, partisan views, and economic models with their assumptions. While more statistical results and conclusions would be ideal for a study of this type, the tentative results presented are promising, and a larger sample size or replicating this exercise frequently should present more conclusive evidence that the survey scores predict the economic choices students make. At the least, the ideology survey and *The New York Times* deficit reduction project offers students a chance to gain a greater understanding of the world around them.

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