

Economic Ideology and Deficit Reduction Choices: An Exercise to Engage Students in an Economics Principles Course

Michael McAvoy^{*}, Lester Hadsell[†] and William P. O'Dea^{*}

ABSTRACT

We introduce an exercise in which a student enrolled in principles of economics completes an economic ideology survey, makes choices from “*The New York Times* Deficit Reduction Project,” reflects upon these ideology measure and choices, and records self-interest for debt and deficit reduction. Economic ideology is defined as “a view of the world that influences what one considers important.” Of students completing rather than submitting a partial assignment, the difference in reported self-interest for debt and deficit reduction is significantly different. The conclusion we draw is students completing the assignment are more engaged. JEL codes: A13, A22, E60.

INTRODUCTION

In this paper, we introduce an assignment for students in economics principles to pair the *The New York Times* deficit reduction project (Leonhardt 2010b, Leonhardt and Marsh 2010), with an ideology measurement instrument developed by Hadsell, McAvoy and McGovern (2010, 2012). 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.

Leonhardt does not measure ideology nor does the project request ideological or partisan views. While ideology may be observed in responses by Times readers, students will more concisely observe how their ideology scores are correlated with their choices by completing the assignment described in this paper. Having students to complete the survey, make successful deficit reduction choices, and reflect upon their ideology scores and choices will increase their level of engagement.

Hadsell, McAvoy and McGovern (2012) define economic ideology as “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. An undergraduate student often thinks of herself as an adherent of one particular ideology or another. Yet, undergraduate economics courses generally focus on perfectly competitive markets and

^{*} SUNY Oneonta, Department of Economics, Finance, and Accounting – Email: michael.mcavoy@oneonta.edu

[†] University of North Carolina at Wilmington, Department of Economics and Finance – Email: lester.hadsell@oneonta.edu

^{*} SUNY Oneonta, Department of Economics, Finance, and Accounting – Email: william.odea@oneonta.edu

prices to determine the best outcomes. Commonly, these courses fail to discuss alternative ideologies in a substantive manner. In this assignment, the survey instrument employs positive economic statements to measure a student's ideology. The instructor may begin a discussion of economic ideology and the survey provides a means for classroom engagement in economic ideology and the choices people (and entire economies) make. This exercise increases student interest in the course and encourages them to master economic principles.

This assignment provides a means to enhance student learning for the budget, deficits, and economic policy. At the time of this study, spring 2012, decision makers face increased uncertainty about economics policies due to election year campaigning. Additional sources of uncertainty are the potential automatic tax increases and spending cuts beginning January 1, 2013, the so-called fiscal cliff, which could have reduced GDP an estimated 3.6 percent (Rampell 2012). While the President and Congress eventually negotiated an agreement to avoid the automatic tax increases and spending cuts, uncertainty continues regarding the authorized debt ceiling as well as the ongoing need to authorize spending through sequestration. In this paper, the ideology instrument scores are correlated to respondents' choices to reduce the long term deficit. The results of the deficit reduction project help validate the ideological survey instrument.

THE ASSIGNMENT

The assignment is presented in Appendix A. First, students are required to complete "The New York Times Deficit Reduction Project." In The New York Times Economic Scene column, David Leonhardt (2010b) analyzes the federal budget and asks his readers to make choices to reduce the 2030 federal budget deficit to no more than 3 percent of output, requiring both tax increases and spending cuts summing to \$1.345 trillion, then post them online (Leonhardt and Marsh 2010). As an exercise, these choices illustrate the difficulty of reducing the deficit no matter one's political ideology. Leonhardt focuses on the long-term deficit to force the reader to realize the enormity of the task. Leonhardt (2010a) utilizes a deficit of 3 percent because it is sustainable: one year's deficit may be paid for by economic growth the following year. Furthermore, as Leonhardt (2010b) notes, neither spending cuts nor revenue increases alone will balance the long term budget. Both are necessary. Students make choices which may be favored specifically by adherents to one economic ideology or another. Spending cuts in social programs are difficult for Democratic liberals to accept, while tax increases are similarly unappealing to Republican conservatives. Table 1 shows a summary of the possible reduction choices. 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. Completing the survey, the student compares her score along the very liberal to very conservative continuum. When combined with the deficit reduction project, she gains a deeper understanding why she prefers one deficit reduction option as opposed to another.

Then, Students complete the ideology survey, provided in Appendix B. Using a seven-level Likert-type scale, a student records her strength of agreement (towards score 6) or disagreement (towards score 0) with 12 short statements. We use the positive economic statements which are shown to be internally consistent with the respondent's stated ideology when measuring the Cronbach's alpha score (Hadsell, McAvoy, and McGovern, 2012). The ideology score for a person is the sum of her answers to the statements (see note to Table 4). The larger (smaller) her score, she is more conservative (liberal).

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

Spending Options	Billions	Revenue Options	Billions
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
Total	\$1,810	Total	\$1,955

SUMMARY OF SAMPLE AND IDEOLOGY SURVEY

SUNY Oneonta offers Principles of Economics, ECON 110, a General Education 2000 Social Sciences course option for students not declaring the Accounting, Business Economics or Economics majors. SUNY Oneonta is a comprehensive college located in rural upstate New York, enrolls approximately 6,000 students who are largely from New York State and draws heavily from the metropolitan areas of New York City and Albany, the state capital. These students' scores and views are of interest as this is the introductory economics course for students outside the Division of Economics and Business. Approximately 120 to 180 students enroll in this course each semester.

The assignment was a portion of the course's required work. It was assigned mid-semester and due during the final week of regular class. It provided a means for the instructor to introduce the topics of budgets and economic policy and to engage students to apply their social preferences to an important economic issue. At the time of this assignment, President Obama established withdrawal or draw down dates for troops serving in Iraq and Afghanistan, thus one of the deficit reduction options had become known and likely influenced some students' choices.

For the work submitted, 138 students submitted an assignment, 115 students completed the deficit reduction choices, 118 students completed the survey, 99 students completed both the choices and the survey, and 90 students completed the survey and achieved the maximum 3 percent deficit in the expected 2030 budget. This assignment was required work for successful completion of this course, with its grade score a weight of 5 percent of the final grade. Of these 90 students, most of the principles students have completed an high school economics course, are taking their first college level economics course, are female, and most are first or second year status.¹ Table 2 shows their self-reported ideology trends liberal (the median is moderately liberal), with 16 students self-identifying as moderately conservative and nine students conservative. Of students submitting an assignment, 22 of 138 declined

to report their ideology score, and of those you completed the assignment, 2 of 90 did not report their ideology score.

For the 90 students who submitted a complete assignment and provided their characteristics, additional summary measures for the self-reported ideology and measured survey scores are provided in Table 3. In the course, 73 percent are female, and 27 percent are male. The average ideology score is 28.54, below the midpoint of 36. The average self-identified ideology score is 2.77, between moderately liberal (2) and neither liberal nor conservative (3). The 90 students who submitted a complete assignment are not substantially different than those contained in the other groups.²

Table 2: Respondent Characteristics

	All students	Completed survey, deficit choices, and achieved 3 percent reduction
Number respondents	138	90
Self-rated ideology		
Not available	22	2
Very Liberal	2	1
Liberal	17	14
Moderately Liberal	32	23
Neither	33	25
Moderately Conservative	22	16
Conservative	10	9
Very Conservative	0	0

Hadsell, McAvoy and McGovern (2010, 2012) note their survey measurement accurately measures economic ideology. 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. In this study, the correlation coefficient between self-reported ideology and the ideology score is 0.5346 with a p-value of less than 1 percent. Therefore, the self-reported score and the survey score are significantly correlated, a lower (higher) self-reported score is associated with lower (higher) survey score. A student who reports she is liberal (conservative) is positively associated with a liberal (conservative) measurement from the survey.

RESULTS: IDEOLOGY SCORES, DEFICIT REDUCTION CHOICES AND STUDENT ENGAGEMENT

Given Leonhardt's predictions, liberal (conservative) students should prefer more (fewer) tax increases and fewer (more) spending cuts, on average. For The New York Times deficit reduction choices of the 90 students who accomplished no more than a 3 percent long-term budget deficit, the students had to submit at least \$1,345 billion as tax increases and spending cuts.³ On average, they reduced the deficit by a larger average amount, \$1,550.87 billion, of which \$917.83 billion (59.2 percent of selected options) represent spending reductions, and \$633.04 billion tax revenue increases (40.8 percent). Spending cuts represented 57.7 percent of the total cuts possible and tax increases 39.0 percent. The ideologically measured and self-identified economic liberal leaning principles' students were more willing

to reduce the deficit via spending cuts rather than increase taxes. However, the correlation coefficient between the ideology score and total deficit reduction chosen is 0.2656 which is statistically significant at the 5 percent level. A conservative (liberal) leaning score is associated with more (less) deficit reduction. The coefficient indicates that economic ideology is related to the amount of deficit reduction.

Table 3: Values on Scale, for students who responded to the grouping indicated and who completed the economic ideology survey and reduced the long-term deficit to no more than 3 percent of GDP

Grouping	Number	Mean	Standard Deviation	Minimum	Maximum
Sample					
Students completing survey	115	28.39	9.11	2	53
Students completing assignment	90	28.54	9.59	2	53
Gender					
Female	65	28.28	9.24	2	50
Male	24	29.71	10.58	7	53
Self- Rated Ideology					
Very Liberal	1	2			
Liberal	14	23.29	9.06	7	34
Moderately Liberal	23	27.09	7.89	12	47
Neither	25	26.52	6.72	13	43
Moderately Conservative	16	35.38	7.71	21	50
Conservative	9	38.78	9.32	26	53
Very Conservative	0				

Note: See Appendix B for the survey. The larger (smaller) the score, the more conservative (liberal) is the person.

To discuss budgets and deficit reduction, an instructor may tabulate the proportion of students selecting the specific choices. Then, the instructor may correlate the ideology scores with the specific spending cuts and tax increases to show how economic ideology affects preferences for government spending and taxation.

For instance, for the sample of 90 students, 83 percent prefer to reduce the size of the military, 71 percent cut foreign aid, 68 percent reduced the nuclear arsenal, and a majority reform both Medicare and Social Security by increasing the age of eligibility to at least 68 years. Reviewing statistically significant correlation coefficients of spending options and ideology score, reducing foreign aid, the federal workforce, aid to states, noncombatant military compensation, raising Medicare eligibility to 68, and increasing Social Security retirement age to 68 are all positive at least at the 10 percent level. These options are favored by students with larger (trending less liberal / more conservative) scores. Increasing Social Security benefits to upper income earners has a negative correlation at least at the 5 percent level, and is favored more by students with lower (trending more liberal / less conservative) ideology scores. Overall, the correlation coefficient for economic ideology and spending cuts is estimated to be 0.1845 with statistical significance at least at the 10 percent level, indicating spending cuts are weakly associated with

more conservative / less liberal ideology scores, an expected result. In regards to tax increases, at least 50 percent of the students in the sample want the surtax on incomes above \$1 million. More conservative / less liberal scores are significantly associated at the 5 percent level with an estate tax that exempts the first \$5 million from tax and a lower 36 percent tax rate. More liberal / less conservative ideology scores are significantly associated at least at the 5 percent level with an estate tax with \$1 million exemption and a higher tax rate, higher tax rates on capital gains, a surtax on incomes exceeding \$1 million, and a carbon tax; these scores are weakly associated at least at the 10 percent level with a bank tax. Summing all tax increases, the correlation coefficient is 0.2582 and statistically significant at least at the 5 percent level, and indicates less liberal / more conservative scores are associated with the total size of tax increases, a surprising result.

Table 4: Students' Responses to Self-Reported Personal Interest of the Assignment Topic

Sample	(1)	(2)	(3)	(4)	(5)
Mean	3.89	3.946	3.97	4.03	4.06
Standard Deviation	1.21	1.17	1.13	1.09	1.11
Maximum	6	6	6	6	6
Minimum	0	0	1	1	1
Median	4	4	4	4	4
Number in sample	138	115	118	99	90
Number students with interest scores	113	101	98	87	81
Proportion students with scores	81.88%	87.83%	83.05%	87.88%	90.00%
Incomplete Assignments					
Mean		3.42	3.33	3.42	3.47
Standard Deviation		1.21	1.54	1.47	1.34
Maximum		5	5	5	5
Minimum		1	0	0	0
Median		3.5	4	4	4
Cumulative number students removed		23	20	39	48
Number students removed with interest scores		12	15	26	32
Proportion removed students with scores		52.17%	75.00%	66.67%	66.67%
Difference in Means Test Self-Reported Personal Interest					
p-value		0.2450	0.1414	0.0605	0.0333

Note: Students are requested to respond to, "The problem of government budget deficits and debt is one that is of personal interest to me (be honest, this will not be graded). Choose one _____. A - Strongly disagree; B - Disagree; C - Somewhat (slightly) disagree; D - Neither disagree nor agree; E - Somewhat (slightly) agree; F - Agree; G - Strongly agree." When recording the scores, A through G is valued 0 through 6. Column (1) is the entire student sample; (2) Students from (1) who completed the survey; (3) Students from (1) who completed the deficit reduction project; (4) Students from (2) who completed the deficit reduction project; and (5) Students from (4) who achieved at least 3% long-run deficit reduction.

The respondents on average reveal themselves to be slightly conservative in Leonhardt's view, given their preferences for spending cuts. This study more precisely finds that more conservative respondents prefer more spending cuts and larger tax increases. Respondents in general chose to increase the age of

eligibility for Medicare and Social Security which may not be a liberal position, yet very good actuarial reasons support the selection of these options. Furthermore, in reducing spending, our respondents very much prefer to target the military for spending cuts, a common liberal preference.

Table 4 shows evidence that the students who complete the assignment are more engaged. Students are asked to respond to the following statement, "The problem of government budget deficits and debt is one that is of personal interest to me (be honest, this will not be graded)," on a scale with seven points between, "Strongly Disagree," and, "Strongly Agree." Some important observations may be observed. First, students are more likely to report their personal interest in deficits and debt the more complete their assignment. 81.88 percent of students who submitted assignments recorded personal interest scores and proportion increased to 90 percent for those students completing the assignment as directed. Second, students completing the assignment report they "Somewhat (slightly) agree," on average with the above statement. Students who do not complete their assignments show they, "Neither disagree nor agree," on average. Furthermore, Table 4 (column 5) shows the difference in means test between the average personal interest scores for students completing the assignment and those who do not is statistically significant at the 5 percent level. The evidence is that completing the assignment and personal interest in deficits and debt are related. One possibility for this result is that a student who is already interested in debt and deficit reduction will complete the assignment. Many principles students often do not understand what are debt and government deficits. A student might have thought the work uninteresting and stopped, or the student could have thought the assignment tedious and stopped. The second panel of Table 4 shows that average self-interest does not change much between categories of students who do not complete the economic ideology survey, or the choices for deficit reduction, or both. As this question is the fourth of four steps to complete the assignment, students will have reflected upon economic ideology and deficit reduction prior to addressing the question. Students who successfully complete this assignment are more engaged.

CONCLUSIONS

This assignment collects more precise information than Leonhardt (2010d) to connect economic ideology with the deficit reduction choices. Respondents are likely to observe that low scores are correlated with views for behavior, models, and policies very differently than correlations for high scores. These differences should foster discussion, promote deeper understanding, and allow for critical thinking. Respondents' ideology scores are linked to their choices for various budget reduction options. In this study, among 90 students, higher scores have an association with larger total tax increases and total deficit reduction. When correlating ideology scores to deficit reduction, more spending cuts are chosen by more conservative respondents, as expected; but, more tax increases are selected by more conservative students, as well. Most importantly, students completing the assignment according to the instructions are shown to have greater interest in government budgets than those students who do not complete the

assignment. The goal of student engagement is better achieved when the students complete the assignment.

The assignment in Appendix A, the ideology survey and The New York Times deficit reduction project, are a valuable exercise to link each student's self-identified ideology to her ideology score, and in turn to her deficit reduction choices. When matching the survey results to the options selected by these students, the instructor may discuss ideology, partisan views, and economic models with their assumptions. In combination, the exercise and the instruction provides an instructor with an opportunity to increase in-class participation and interest for an important current issue. The need to improve the government's fiscal position is likely to remain a contentious current issue: entitlement spending continues to increase, and Congress continues to rely upon sequestration to cut spending. Once policy makers achieve a negotiated outcome, this assignment is likely to continue to be relevant as an explanatory tool. The ideology survey and The New York Times deficit reduction project offer students a chance to gain a greater understanding of themselves and the world around them.

ENDNOTES

1. The complete table summarizing respondent characteristics is available from McAvoy upon request.
2. Survey average scores and standard deviations for each question are available upon request.
3. Summaries for the spending reduction choices and tax increase choices are available upon request.

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APPENDIX A

Instructions for completing the short paper on the federal government budget deficit. Due date on the course syllabus. This project will require some preparation (steps 1 and 2 below) and a few hours of writing (step 3). The overarching goal is for you to become more aware of the choices facing policy makers as they struggle to balance the federal budget.

STEP 1 - Background

- a. Read background chapters in the textbook (on the Macroeconomy, Fiscal Policy and Government Budgets) – this is the normal course reading, as listed in the course schedule.
- b. Read the Article by David Leonhardt, "Economic Scene: O.K., You Fix the Budget," in the November 13, 2010, *The New York Times*. Available at http://www.nytimes.com/2010/11/14/weekinreview/14leonhardt.html?_r=1&scp=1&sq=fix%20the%20budget&st=cse

From the article: "Rather than making recommendations, we are laying out a menu of major options, so that readers can come up with their own plan. The ultimate goal is to help you judge the deficit proposals that are now emerging."

STEP 2 – Balance the budget

Click on the Multimedia Interactive Feature link (left hand side, near top of page one). This exercise requires that you make spending cuts and/or tax increases to reduce the deficit to 0 by 2015 and 2030. It is rather simplified (allowing only yes/no responses for each category) but it is a valuable illustration of the difficulties inherent in the process currently underway on Capitol Hill.

STEP 3 – Write

Write a memo (a maximum of 3 pages of text; put tables, graphs, and references other than the sources provided here in an appendix).

- a. Explain the deficit problem, both short-term and long-term. Discuss the magnitude, causes, and consequences.
- b. Describe your solution to balance the budget.
 - i. General overview – how much spending reduction, how much tax increases.

- ii. Some specifics – which programs were cut, which taxes were increased.
- c. Explain the economic impacts on the macroeconomy.
 - i. Based on your economic training from the text and class.
 - ii. Short- and long-term.

STEP 4 – Some additional information

The problem of government budget deficits and debt is one that is of personal interest to me.

Choose one _____

- A - Strongly disagree
- B - Disagree
- C - Somewhat (slightly) disagree
- D - Neither disagree nor agree
- E - Somewhat (slightly) agree
- F - Agree
- G -Strongly agree

Complete the economic ideology survey (already on the course website).

APPENDIX B

DIRECTIONS: Please read each statement carefully, and indicate how strongly you agree or disagree with each item using the following rating scale:

- A. Strongly disagree
 - B. Disagree
 - C. Somewhat (slightly) disagree
 - D. Neither disagree nor agree
 - E. Somewhat (slightly) agree
 - F. Agree
 - G. Strongly agree
1. If people are poor it is mostly because of their own actions.
 2. Regulating the price of pharmaceuticals so that everyone who needs the drugs can afford them will cause more harm than good.
 3. Government is needed to help the less fortunate.
 4. At birth, everyone has an equal opportunity to become rich.
 5. If left to itself, the economy will ensure that everyone who wants a job will find one at the market wage rate.
 6. People with very high incomes are deserving of their income and should not be forced to

share it with those who have less.

7. Unethical or unscrupulous businesses will eventually be driven from the market place.
8. Women and minorities face significant discrimination in the labor market.
9. Health care is a fundamental good whose provision should not be left to the market place where if you don't have money to pay for it you don't get it.
10. The government should provide basic housing to those unable to pay market price rent.
11. Businesses will develop the correct amount of environmentally sustainable ("green") technology required by society.
12. Competition ensures that workers are paid what they deserve.

For the following use the response scale provided with each statement.

13. How many economics courses did you complete in high school?
A. 0 B. 1 C. 2 D. 3 E. 4 or more
14. How many economics courses have you completed in college (not counting this semester)?
A. 0 B. 1 C. 2 D. 3 E. 4 or more
15. Class year (right now)
A. Freshman B. Sophomore C. Junior D. Senior
16. Major
A. Business or Business Economics
B. Economics
C. Accounting
D. Other
17. How would you describe yourself on economic issues?
A. Very Liberal
B. Liberal
C. Moderately Liberal
D. Neither conservative nor liberal
E. Moderately conservative
F. Conservative
G. Very Conservative
18. What is your gender? A. Male B. Female C. Prefer not to answer