ifo Working Paper No. 233

The (In)Validity of the Ricardian Equivalence Theorem – Findings from a Representative German Population Survey*

Abstract

In this paper, we utilise data from a German population survey to test the validity of the Ricardian equivalence theorem (RET). In 2013, 2,000 representatively chosen people were asked whether they have altered their consumption and saving behaviour in response to the significant increase in public debt that occurred between 2008 and 2012. Our findings suggest that, in general, RET does not hold. Only 7% of our respondents reported consuming a smaller proportion of their income, and saving a larger proportion, in response to public debt accumulation. In the case of respondents required to pay social security contributions, we can control for their expectations about the future and find that 36% behave in line with RET. We interpret our findings as microeconomic evidence in support of the 'rule-of-thumb' consumer assumptions employed in macroeconomic models. Moreover, using multinominal logit regressions, we find that individuals' consumption responses are significantly related to their economic situation, time preferences, education, and age.

JEL Code: D12, D91, E21, H31.

Keywords: Ricardian equivalence, public debt, private consumption, private saving, survey, Germany.

Bernd Hayo**
School of Business and Economics
Philipps-University Marburg
Universitätsstr. 24
35032 Marburg, Germany
T +49(-6421-282-30915
hayo@wiwi.uni-marburg.de

Florian Neumeier
ifo Institute – Leibniz Institute for Economic Research
at the University of Munich
Poschingerstr. 5
81679 Munich, Germany
T +49-89-9224-1425
neumeier@ifo.de

* Thanks to participants of seminars at the Universities of Bayreuth, Marburg, Victoria, and Waikato for helpful comments and to Christian Traxler and Joachim Winter for valuable comments on the design of the questionnaire. The usual disclaimer applies.

** Corresponding author.