Budget Deficits and Demand for Government
How Starve the Beast Policies Feed the Machine

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\textbf{ABSTRACT}

The notion of starving the beast has been an important justification for major elements of the fiscal program advocated by many Republicans and conservatives over the last three decades. While the idea of restraining government spending by limiting government revenues has an intuitive appeal, there is convincing evidence the reducing federal tax rates without coordinated reductions in federal spending actually produces long-term growth in spending. This seemingly perverse result is explained by Buchanan’s theory of “fiscal illusion.” By deferring the costs of government services and benefits through deficit financing, starve the beast policies have the effect of lowering the perceived price of government in the minds of many citizens. We assess the principal behavioral prediction of the fiscal illusion strategy. Incorporating estimates of the effects of federal deficits into a standard substantive model of Stimson’s mood index, we find strong support for a subjective price-driven theory of demand for government. In particular, we find that the size of the federal budget deficit is significantly associated greater demand for government services and benefits.
The metaphor of “starving the beast” has become ubiquitous in contemporary debates about federal revenue collections in general and about federal income tax policy in particular. It represents the idea that reduced rates of taxation and subsequent decreases in government revenue collection will yield budget deficits that, in turn, catalyze reductions in public expenditures. Among political conservatives, tax cuts represent a “double benefit,” promoting economic growth by making more capital available for private investment and contributing to future reductions in the size of government.

Yet, increases in public spending (along with growing federal deficits and mounting national debt) following the enactment of Ronald Reagan’s tax cut plan in 1981 and George W. Bush’s tax cut legislation in 2001 have prompted serious reevaluation of the starve the beast approach. Systematic analyses of the effects of tax cuts on government spending and public demand for government services has been nearly uniformly damning of the starve the beast approach. Indeed, some analysts have found that a negative relationship between federal revenue collections and federal spending.

The failure of starve the beast policies is well documented, but it is less well understood. Yet, classic work in economics by Buchanan (1967) suggests a mechanism for the failure of starve the beast policies that hinges on the mass public’s response to deficit spending. In particular, Buchanan argues that demand for government services and public benefits is price sensitive. Factors that attenuate the link between taxes and government spending (such as such as deficit financing and tax complexity) create inaccurate public evaluations of the relative costs and benefits of public programs, which can lead to the inefficient allocation of resources. Starve the beast policies—which decrease revenue collections without reducing public expenditures—have the effect of lowering the price of government services, which, according to classical price theory, should increase aggregate demand for any product or service. The resulting “fiscal illusion” creates conditions that support a subject perception of value and increased aggregate demand for government.

This price-driven theory of aggregate demand for government yields a novel testable hypothesis: Aggregate demand for government should be positively related to the size of the federal
budget deficit. This prediction can be assessed in the context of the political science literature on American macro politics by incorporating federal deficits into a standard model of Stimson’s (1999, 2008) mood index, which is typically interpreted as an indicator of the degree of public demand for increases in the size and scope of federal government activity, particularly in terms of social welfare policies. We find that federal budget deficits predict significant increases in demand for government spending and services controlling for the levels of domestic spending, unemployment, and inflation.

This result has several important implications. Evidence of a price mechanism is aggregate demand for government supports a coherent behavioral account of the failure of starve the beast policies. This, in turn, provides insight into how to construct policies to restore fiscal balance that might win public support. Finally, our findings also suggests important revisions and extensions of existing macropolitical theories of spending preferences and public mood.

**Starving the Beast**

The metaphor of “starving the beast” has become ubiquitous in contemporary debates about federal revenue collections in general and about federal income tax policy in particular. It represents the idea that reduced rates of taxation and subsequent decreases in government revenue collection will yield budget deficits that, in turn, catalyze reductions in public expenditures. The notion of restraining government spending by limiting its revenue collection has been an element of conservative and Republican thinking and rhetoric since the late 1970s. Bartlett (2007) traces its ascendance to an influential editorial in *The Wall Street Journal* by Jude Wanniski which chastised Republicans for allowing itself to become the party of balanced budgets while the Democrats had become the party of spending, creating an ideological and political imbalance that doomed the GOP to minority status the federal budget to permanent deficit.

The idea caught on. By 1978, Milton Friedman was urging “fiscal conservatives” to stop “concentrating on the wrong thing, the deficit, instead of the right thing, total government spend-
ing” (1978, p. 11). Continuing, he argued that the Republican Party’s traditional emphasis on fiscal discipline and balanced budgets made its members the “unwitting handmaidens of big spenders” by essentially committing the party and the conservative movement to surrender a tax increase for every addition to government spending. Similarly, in testimony before the Senate Finance Committee in 1978, then Chairman of the Council of Economic Advisors, Alan Greenspan, urged Congress to adopt the Kemp-Roth tax cut legislation, arguing “the basic purpose of any tax cut program in today’s environment is to reduce the momentum of expenditure growth by restraining the amount of revenues available and trust that there is a political limit to deficit spending” (Senate Finance Committee 1978, p. 172).

Starving the beast became part of the conservative fiscal canon and a permanent part of the national political lexicon with the election of Ronald Reagan. Though Reagan initially paired his proposals for substantial permanent reductions in federal income tax rates with plans for reduced federal spending, he ultimately endorsed and signed legislation reducing taxes without offsetting cuts to spending. He justified the change in Republican fiscal orthodoxy by explaining that one could eliminate “children’s... extravagance by simply reducing their allowance” (1982, p. 81). However, the Reagan tax cuts were not ultimately followed by reductions in federal spending. Indeed, the Reagan administration was coincident with large real increases in federal spending, leading an anonymous White House source to lament, “we didn’t starve the beast” (Blustein 1985).

Despite the experience of the Reagan era, starve the beast theory has remained a prominent element of conservative political-economic thinking. In 2001, President George W. Bush suggested that his 2001 tax cut plan would induce greater restraint on federal spending in Congress (Bush 2001). As late as 2003, Milton Friedman and Gary Becker wrote separate editorials endorsing starved the beast rationales (among others) for reductions in federal income tax rates (Becker 2003; Friedman 2003). However, the passage of federal income tax cuts in 2001 preceded substantial increases in federal domestic spending.
The anecdotal failure of tax cuts to produce reductions in federal spending along with the continued prominence of starve the beast theory as part of the justification for reduction in federal tax rates has catalyzed systematic analysis of the effects of changes in federal revenue collection policy for future government expenditures. The preponderance of these studies conclude that reduced tax rates do not predict future decreases in spending (e.g. Andersen, Wallace, and Warner 1986; Gale and Kelly 2004; Jones and Williams 2008; Niskanen 1978; von Furstenberg, Green, and Jeong 1986; but see Bohn 1991).

Other analyses of the relationship between federal revenue collections and federal budget authorizations go even further, concluding that there is a negative relationship between federal revenues and federal expenditures (Buchanan and Wagner 1977; Gale and Orszag 2004; Niskanen 1978; Romer and Romer 2009). In other words, reductions in federal revenues are associated with increases in future spending—even after accounting for fiscal dynamics related to the business cycle (Gale and Orszag 2004; Niskanen 1978) and changing policy priorities (Romer and Romer 2009). These results predict that starve the beast policies—policies changes tax cut, that are not coordinated with reductions in federal spending—have the ultimate effect of increasing federal expenditures beyond the level they would have achieved otherwise.

The failure and, indeed, the counterproductivity of starve the beast policies is a critical puzzle for students of fiscal policymaking and those interested in the fiscal well-being of the United States. Seemingly endless budget deficits represent a serious and objective fiscal problem that can only be remedied by harmonizing spending and revenues. Reducing government revenues through lower rates of taxation would seem to produce political pressure to limit public expenditures either through public dissatisfaction with deficit conditions or elite-driven recognition of the need for fiscal sustainability. Yet, revenue-reducing policies that are not coordinated with expenditure-reducing policies seem to have little constraining effect on future expenditures.

Buchanan’s (1967) classic notion of the “fiscal illusion” suggests a resolution. (Dollery and Worthington 1996) review much of the subsequent literature on fiscal illusions in economics.) “Fis-
cal illusion” refers to any policy or practice that obscures the true costs of government programs, services, or transfers, interfering with the efficient allocation of societal resources. For example, a fiscal illusion may emerge when revenues are collected from many small, indirect taxes rather than a lump-sum direct tax. In that case, citizens’ ability to accurately observe and efficiently evaluate the costs of existing government programs is (rationally) limited by the information costs of identifying their respective tax burdens.

The “debt illusion” is another example. The debt illusion emerges when current government services and benefits are provided by deficit financing. For a variety of cognitive and informational reasons, citizens are likely to be more aware of the actual costs of public programs when they are paid for by current tax revenues rather than future tax revenues. Thus, the cumulative perceived price of government services and benefits is lower when they are debt-financed rather than tax-financed. As a result, citizens’s demand for public programming should be positively related to the extent to which the costs of current expenditures are deferred.

Buchanan’s debt illusion has obvious relevance for understanding the the failure of starve the beast policies. The observed negative association between revenue collections and spending is motivated by the electorate’s response to deficit spending. Niskanen explicitly links the debt illusion to starve the beats policies, explaining, “Reducing the current tax burden of federal spending has much the same effect as a price control, increasing the amount demanded relative to that supplied from current revenues” (2008, p. 4). Essentially, the theory suggests that government offers citizens a basket of goods and services for which they pay an aggregate price equivalent to current government revenues. Reducing the tax burden without constraining spending creates the “illusion” of lowering the price of the basket of government goods and services, which, in turn, increases demand for government. Thus, the notion of the debt illusion suggests that exacerbating a deficit by reducing tax rates will have the consequence of increasing public demand for additional expenditures.

Though the theory of the debt illusion is fundamentally behavioral. Yet, it has principally been investigated empirically by assessing the effects of some policy choices for other, future
policy choices. In particular, the literature has focused on evaluating the relationship between debt capitalization and spending growth among local government in the United States (see Dollery and Worthington 1996 for a review). While this approach tests an indirect implication of the debt illusion theory, it does not assess the link between fiscal policy and mass behavior. This empirical work also supplies little evidence of the debt illusion’s relevance for federal fiscal policy in general nor for starve the beast policies in particular.

Assessing the Behavioral Effects of the Debt Illusion

The political science literature on public mood (or mass policy sentiment) in the United States, however, suggests a direct test of the principal behavioral prediction of the debt illusion theory in the context of federal fiscal policy. The concept of public mood—often represented by Stimson’s (1999) mood index—is typically interpreted as the aggregate level of unfulfilled (marginal) demand for government benefits and services (Stimson 1999, 2004; see also Durr 1993; Enns and Kellstedt 2008; Erikson, MacKuen, and Stimson 2002; Ura and Ellis 2008) and is expressed as mass political liberalism (e.g. Binder 1999; Mishler and Sheehan 1993; Kelly 2009).

Extant literature indicates that public mood—marginal aggregate demand for the basket of federal goods, services, and benefits—changes over time as a function of the innate desireability of government policies and the current supply of government. First, the attractiveness of government policies is understood to relate to the state of the macro economy, usually indicated by the rates of inflation and unemployment (Durr 1993; Enns and Kellstedt 2008; Erikson, MacKuen, and Stimson 2002). Greater unemployment spurs increased demand for public services and, therefore, more public opinion liberalism (more demand for government). Increased inflation produces pressure to limit public expenditures, which has the effect of reducing demand for government and predicts greater conservatism.

Second, the marginal quantity of government demanded is a function of the amount of government currently supplied. This is usually represented empirically by either an indicator of cu-
cumulative legislative enactments (Erikson, MacKuen, and Stimson 2002; Kelly 2009) or federal spending (Wlezien 1995, 1996; Wlezien and Soroka 2010?). Regardless of the measurement approach employed, these models regularly show negative feedback from changes in public opinion from changes in public policy. In other words, the greater the level of spending on domestic programs or the greater the accumulation of liberal legislative enactments become the lower the marginal demand for additional programs, services, benefits, and other public expenditures.

These factors establish a useful baseline against which we may estimate the effects of federal budget deficits for aggregate demand for government. By incorporating deficit spending into this baseline model of public mood, we create a direct test of the hypothesis that larger federal deficits are associated with increasing public demand for government.

Data

We measure aggregate policy sentiment using the 2008 estimates of Stimson’s (1999; 2008?) annual mood index. Mood is a dynamic factor score representing the common over-time variance in dozens of survey questions covering an array of political issues (principally related to expenditures for domestic policy problems) asked in identical form many times from the early 1950s through 2008. Mood is scaled so that higher values indicate greater liberalism, i.e. greater demand for government. So, for example, an increase in Policy Mood from time $t$ to time $t + 1$ indicates that the public prefers higher federal expenditures and more expansive social welfare benefits.

Since we are most proximately interested in fiscal policy, we follow Wlezien (1995, 1996; Wlezien and Soroka 2010?) in measuring policy liberalism with government spending. In particular, we measure the supply of government consumed as the annual value of all federal appropriations less those for defense, foreign aid, homeland security, and debt service reported by the Policy Agenda’s Project expressed as a proportion of gross domestic product (GDP).\footnote{The data used here were originally collected by Frank R. Baumgartner and Bryan D. Jones, with the support of National Science Foundation grant number SBR 9320922, and were distributed through the Department of Government at the University of Texas at Austin (http://www.policyagendas.org/index.html). Neither the National Science Foundation nor the original collectors of the data bear any responsibility for the analysis reported here.} This represents the
total value of all federal spending on domestic programs (including entitlements and discretionary programs) and services as well as administrative and personnel costs expressed as a proportion of the size of the United States economy.

We measure the size of the federal budget deficit relative to the gross domestic product. Deficit data relative to GDP are reported by the Office of Management as Budget (2010?). We utilize deficit statistics derived from total federal outlays, which incorporates both on-budget appropriations as well as off-budget items (including Social Security and the Postal Services Fund).

Finally, we measure the state of the macro economy using standard indicators of inflation and unemployment. Inflation is the the percentage change in the Consumer Price Index (January to December) in each year (Bureau of Labor Statistics 2009a?). Unemployment is the average annual rate of unemployment (Bureau of Labor Statistics 2009b?).

**Modeling Demand for Government**

We use a single equation error correction model (ECM) to examine whether changes in the federal deficit create shifts in the public’s preferred size of government. The ECM is a reparameterization of the more familiar autoregressive distributed lag model (ADL) which explicitly estimates the short run and long run effects for each independent variable (DeBoef and Kelle 2008; Beck 1991; Durr 1993). For a bivariate relationship, the Bardsen single equation ECM takes the form (DeBoef and Keele 2008):

\[
\Delta Y_t = \alpha_0 + \alpha_1 Y_{t-1} + \beta_0 \Delta X_t + \beta_1 X_{t-1} + \epsilon_t,
\]

In this model, \(\alpha_1\) indicates how quickly \(Y\) adjusts to its equilibrium level after a change in \(X\) occurs, \(\beta_2\) represents the long run effect (which may be distributed over several future periods) of changes in \(X\) on \(Y\), and \(\beta_1\) is the immediate effect of a change in \(X\) on \(Y\). The explicit estimation of the short run and long run effects in the model above make it an appropriate choice because the temporal dynamics we are interested in theoretically are easily estimated and interpreted with this model specification. Although ECMs are frequently associated with cointegration, DeBoef
and Keele (2008) demonstrate that they can also be applied to stationary data in the absence of cointegration.

Using the ECM, we estimate two separate models to test the empirical implication of our theory. In both models, the dependent variable is the first difference of Stimson’s mood index. We proceed by estimating a baseline model of mood (the public’s aggregate demand for government) as a function of the first lag of the mood index (the error correction term) as well as the first lags (long run effects) and first differences (short run effects) of federal domestic spending, inflation, and unemployment. The second model builds on this baseline by incorporating estimates of the long run and short run effects of the size of the federal deficit relative to the gross domestic product. This model assess the dynamics of the relationship between deficit spending and the public’s demand for government and represents the critical test of the price-driven theory of public responsiveness to deficit spending.

Both models are estimated using data from 1956 through 2008. Table 1 reports the mean, standard deviation, minimum, and maximum of each variable included in the models described above. Model estimates are reported in Table 2.

**Results**

The results of the baseline model, presented in the first two columns of Table 2, are in line with the current wisdom about the predictors of Policy Mood. The baseline model is able to replicate the key substantive results of the existing models of the public mood (Wlezien 1995; Enns and Kellstedt 2008; Erikson, MacKuen and Stimson 2002). As anticipated, the relationship between policy output and Policy Mood is thermostatic. As the federal government spends more money on domestic programs and and operating expenses such as administrative and personnel costs, the public perceives that government policy is more liberal and asks for “less” government in the future in response. This effect is immediate. In period t, a one standard deviation increase in domestic spending as a proportion of GDP (0.042) produces a 1.75 shift in mood in the conservative
direction. This negative feedback response is what we would expect based on Wlezien’s (1995) thermostatic model of public opinion.

As expected, inflation tempers the public’s demand for government. When the rate of inflation increases, the public is less willing to support an expansion of the size and scope of government. Inflation does not have an immediate impact on the public’s mood. Changes in the inflation rate do not start to influence mood until the following period and the full effect of a change in inflation continues to be incorporated into the public’s preference for government over several years. Changes in inflation begin to affect public mood in period t+1, when a quarter of the effect occurs as specified by the error correction term. A quarter of the remaining total effect occurs in period t+2 and so on, until the public’s mood has fully incorporated the initial change in the inflation rate. For instance, a one standard deviation increase in the inflation rate produces a -1.16 shift in the public’s mood in the long run, as the public becomes more conservative in response to increasing inflation. This shift occurs relatively slowly, with mood moving -0.29 in period t+1 and about half of the total long run effect occurring by period t+3.

The relationship between unemployment and the public’s mood is also in the expected direction. The temporal dynamics of this relationship are different than the relationship between inflation and public mood. Unlike changes in the inflation rate, the full effect of a change in unemployment occurs immediately. The unemployment rate does not have a statistically significant long run effect on public mood, suggesting that public mood recognizes and adjusts immediately to changes in the unemployment rate. When unemployment increases by one standard deviation (1.5), the public immediately increases their policy liberalism by 1.61 points demanding an expansion of government’s role. Although the effects of inflation and unemployment on Policy Mood do not initially seem particularly large, mood only varies by about 20 points over the entire time period included in the analysis with a standard deviation of about 4, so a 1.16 point and 1.61 point shift respectively is not substantively insignificant. The public also updates their demand for government at a relatively slow pace and previous research on Policy Mood demonstrates that large swings in the public’s mood from one period to the next are unusual.
Considered together, these results lend more support to the existing theories about public mood. Policy Mood, as expected, responds to two factors: changes in macroeconomic conditions and policymaking. More liberal policymaking causes the public’s preference for government to shift in the conservative direction immediately, as a corrective response. The relationships between mood and the economic variables are in opposite directions, with increases in inflation leading to increased conservatism among the public and increases in unemployment producing a more liberal public. Substantively, a one standard deviation shift in both economic indicators produces roughly the same magnitude shift in mood, suggesting that the public’s assessment of the economy is not heavily biased toward either inflation or unemployment but takes both into account. The difference is that changes in inflation are incorporated into the public’s preference for government only over the long run, while the entire impact of unemployment changes is felt immediately.

**Results Part II: Assessing the Impact of the Federal Deficit**

We now turn to the second model, which incorporates the size of the federal deficit into the baseline model of public mood. This model tests the empirical implication of our theory that increasing the size of the deficit increases the public demand for government. If the results suggest that a positive relationship between the federal deficit and public mood exists, this finding will provide a public opinion explanation for the failure to starve the beast. To test this hypothesis, we estimate an ECM model that is identical to the baseline model estimated above, except for the addition of the first difference and first lag of the federal deficit as a proportion of GDP. The results of this model are presented in the last two columns of Table 2.

The results indicate that increasing the federal deficit increases the public demand for government, as our theory predicts. Larger deficits are an indication that the government is providing more goods and services without increasing citizens’ tax burden and federal revenues by a commensurate amount. Our model results provide some support for the idea that increasing the federal deficit leads the mass public to think government is less expensive (they are receiving more govern-
ment for less), thereby increasing their demand for government goods and services. The resulting demand for “more” government occurs immediately and also continues to adjust upward (mood becomes more liberal) for several future periods.

The impact of changes in the federal deficit on public mood is substantively important as well. Increasing the federal deficit (relative to GDP) by one standard deviation\(^2\) (0.019) shifts the public mood 2.19 points in the liberal direction, though the full effect is distributed over multiple periods. The temporal dynamics of the relationship between the federal deficit and public mood are more apparent in Figure 1. A one standard deviation increase in the federal deficit results in an immediate 1.35 point increase in the public’s demand for government. Over half of the total effect of a change in the federal deficit on public mood occurs at time \(t\), suggesting that the public is fairly sensitive to the price effect and responds quickly. The public continues to update their preference for the size and scope of government over the subsequent periods, as the remainder of the total effect (a 0.84 point increase) gradually occurs. Although half of the total effect occurs in period \(t\), public mood continues to adjust in response to the change in the federal deficit for an additional 6 years, at which point most of the long run effect has occurred.

The addition of the federal deficit to the baseline model of the public’s demand for government does not significantly alter the substantive effects of the other independent variables. Almost all the other variables (domestic spending, inflation, and unemployment) continue to be signed in the same direction, have a similar magnitude as before, and exhibit the same basic temporal dynamics. Higher inflation still produces more conservative policy mood in the long run and rising unemployment still creates an immediate increase in the public’s policy liberalism. The thermostatic relationship between domestic spending and mood is also still present. The single exception is that the addition of the federal deficit alters the temporal dynamics of the relationship between domestic spending and the public’s demand for government. Increases in domestic spending in the expanded model have a short run and a long run effect on public mood. Rather than adjusting

\(^2\)Recall that the federal deficit variable is coded so that higher values correspond with larger deficits.
immediately, approximately 70 percent of the total effect of an increase in domestic spending takes place immediately but the remainder of the negative effect is distributed over the following periods.

**Discussion and Conclusions**

The notion of starving the beast has been an important justification for major elements of the fiscal program advocated by many Republicans and conservatives over the last three decades. While the idea of restraining government spending by limiting government revenues has an intuitive appeal, there is convincing evidence the reducing federal tax rates without coordinated reductions in federal spending actually produces long-term growth in spending. This seemingly perverse result is explained by Buchanan’s theory of “fiscal illusion.” By deferring the costs of government services and benefits through deficit financing, starve the beast policies have the effect of lowering the perceived price of government in the minds of many citizens. In turn, this creates additional aggregate demand for government spending, which election-minded politicians are willing to satisfy.

We assess the principal behavioral prediction of the fiscal illusion strategy. Incorporating estimates of the effects of federal deficits into a standard substantive model of Stimson’s mood index, we find strong support for a subjective price-driven theory of demand for government. In particular, we find that the size of the federal budget deficit is significantly associated with increased liberalism in public mood, reflecting greater demand for government services and benefits.

This result has several important implications. First, evidence of a price mechanism is aggregate demand for government supports a coherent behavioral account of the failure of starve the beast policies. While analyses of federal and municipal budgets has tended to confirm that increased deficits predict future increases in public spending, the major behavioral prediction of the fiscal illusion theory has thus far lacked empirical support.

This, in turn, provides insight into how to construct policies to restore fiscal balance that might emerge. In particular, the results reflect the importance of revenue collection policies that do not obscure the actual costs of government programs and services. Such obfuscation results
in the inefficient allocation of resources in general and may be an important factor in the political
dynamics that have shaped the United States’s current fiscal problems.

Finally, our findings also suggest important revisions and extensions of existing macropolitical theories of spending preferences and public mood. Political scientists understanding of these dynamics has been incomplete, taking little account of how the (actual and subjective) price that citizens pay for government effects demand for public benefits and services. Such price effects may explain additional over-time variance in public mood and more specific issue preferences as well as account for heterogeneity in public opinion dynamics across income groups.
References


### Table 1: Descriptive Statistics

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<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Std Dev</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policy Mood</td>
<td>58.8</td>
<td>4.4</td>
<td>48.4</td>
<td>67.6</td>
</tr>
<tr>
<td>Inflation</td>
<td>3.8</td>
<td>2.9</td>
<td>-0.4</td>
<td>13.5</td>
</tr>
<tr>
<td>Unemployment</td>
<td>5.7</td>
<td>1.5</td>
<td>2.9</td>
<td>9.7</td>
</tr>
<tr>
<td>Domestic Spending</td>
<td>0.117</td>
<td>0.042</td>
<td>0.037</td>
<td>0.180</td>
</tr>
<tr>
<td>Federal Deficit</td>
<td>0.018</td>
<td>0.019</td>
<td>-0.024</td>
<td>0.06</td>
</tr>
</tbody>
</table>

Figure 1: The Effect of a One Standard Deviation Increase in the Federal Deficit on Public Demand for Government
<table>
<thead>
<tr>
<th>Predictors</th>
<th>Model One</th>
<th>Model Two</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Long Run Effects</td>
<td>Short Run Effects</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Long Run Effects</td>
</tr>
<tr>
<td>Policy Mood(_{t-1})</td>
<td>-0.25** (0.08)</td>
<td>-0.34** (0.05)</td>
</tr>
<tr>
<td>Inflation</td>
<td>-0.40** (0.09)</td>
<td>-0.10 (0.13)</td>
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<tr>
<td>Unemployment</td>
<td>0.29 (.17)</td>
<td>1.07** (.28)</td>
</tr>
<tr>
<td>Domestic Spending</td>
<td>-14.61 (8.68)</td>
<td>-41.62* (19.58)</td>
</tr>
<tr>
<td>Deficit</td>
<td></td>
<td>44.50* (22.96)</td>
</tr>
<tr>
<td>Constant</td>
<td>16.48** (5.71)</td>
<td>25.62** (3.88)</td>
</tr>
<tr>
<td>N</td>
<td>52</td>
<td>52</td>
</tr>
<tr>
<td>R-Squared</td>
<td>.30</td>
<td>.41</td>
</tr>
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</table>

The dependent variable is Policy Mood.
Data are annual. Standard errors are in parentheses.
** = \( p < 0.05 \), * = \( p < 0.10 \), two-tailed tests.