

MICROECONOMIC TESTS OF RICARDIAN EQUIVALENCE

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ABSTRACT

This paper tests the Ricardian Equivalence Concept by constructing “Ricardian” time series for the incomes of U.S. States. “Ricardian” income is taken to be standard disposable income minus the net increment to state debt plus the State’s apportioned share of Federal Debt. Regressions are then run using “Ricardian” and, alternatively, “standard” concepts of disposable income to explain residential electricity consumption in each state. The simplest tests used just real income and relative price as regressors. Later tests added weather and natural-gas-price variables. The “standard” concepts prove preferable, at high levels of significance in all the tests performed.