

Correction to “Ricardian Equivalence”

There is some omitted text in my Journal of Economic Literature article, “Ricardian Equivalence.” On page 175, the paragraph that begins at the bottom of the first column and ends at the top of the second column should read as follows:

One note of caution is that both the deficit and debt variables may have elements of simultaneity in them - the deficit variable directly and both variables indirectly through being expressed as ratios to GNP; thus the estimates may be biased and inconsistent. However, there is evidence that simultaneity bias is not a severe problem in interest rate tests. OLS and instrumental variables estimation yield qualitatively similar results with data from the U.S. and several other countries, including Britain (Evans, 1985, 1987a, 1987b). In no case do deficits raise interest rates significantly. Of course, the only way to be sure that simultaneity bias is unimportant in Barro’s estimation is to repeat his regressions using simultaneous methods; but in the absence of such repetition, the apparent unimportance of simultaneity bias in other interest rate studies of Ricardian equivalence suggests that such bias is not a serious problem in Barro’s, either.⁵⁶