

Perceptions of Public Debt and Policy Expectations: Evidence from Cross Country Surveys

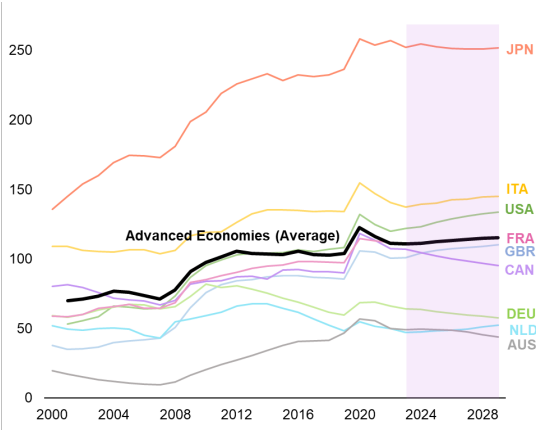
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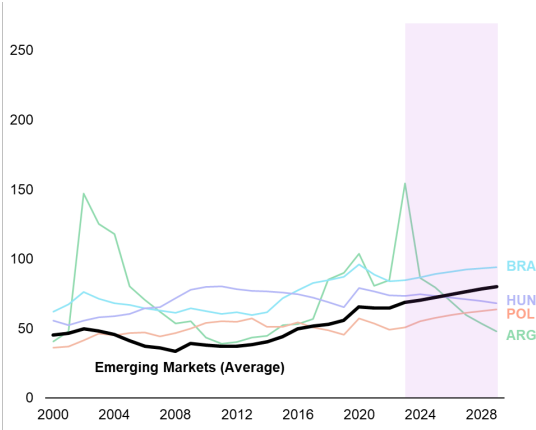
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Global Public Debt is Elevated and Projected to Rise Further



Advanced economies (Percent of GDP)



Emerging market economies (Percent of GDP)

Figure 1: Debt Levels in Advanced and Emerging Market Economies in the Sample

Motivation and Research Questions

- COVID-19 pushed public debt to **historic highs**, raising concerns about fiscal and financial stability.
- Fiscal adjustments (tax hikes, spending cuts) are **politically unpopular** despite perceived necessity.
- Standard macro models assume **well-informed agents** who observe fiscal conditions, an assumption this paper challenges.
- This paper asks:
 - How well do people **understand** the links between taxes, spending, deficits, and debt?
 - Do individuals **misestimate** current and future debt levels?
 - Who expects fiscal adjustment through **tax increases** vs. **spending cuts**, and on which groups/programs?
 - How do **priors** and **lifetime fiscal consolidation experiences** shape beliefs about debt, fiscal policy, inflation, and trust in government?
 - What is the **causal effect** of providing accurate information about debt?

Main Results

- Fiscal knowledge is limited and varies widely across countries and demographic groups.
- Respondents systematically underestimate debt, especially in high-debt countries.
- Awareness and fiscal understanding increase with age, education, and financial wealth.
- Expectations are skewed toward tax increases, while spending cuts are viewed as less likely.
- Individuals expect fiscal adjustments to fall largely on people like themselves.
- Past fiscal consolidation experiences generate pessimism about debt stabilization, inflation, and personal economic prospects.
- Information treatments causally shift fiscal expectations, with effects depending on:
 - the country's debt trajectory,
 - respondents' priors,
 - and their past consolidation exposure.

Data: Cross-Country Survey

- **Survey:** IMF–YouGov, large-scale cross-country design.
- **Period:** April–May 2024.
- **Sample:** 27,202 respondents (about 2,000–2,300 per country).
- **Countries** (13) covering different income groups and debt levels:
 - **Advanced:** Australia, Canada, France, Germany, Italy, Japan, Netherlands, UK, US.
 - **EMEs:** Argentina, Brazil, Hungary, Poland.
- Nationally representative (age, gender, region); survey weights applied.
- Online, native language; duration and attention checks.

Survey Content

- **Background and demographics**

- Socio-demographics, income, financial assets, transfers, pensions.
- Political orientation, trust in government, media consumption.

- **Knowledge and beliefs**

- Factual questions on links between spending, taxes, deficits, debt.
- Quantitative priors on debt-to-GDP now and in 5 years.
- Qualitative beliefs: high/low taxes, spending, debt; debt trajectory.

- **Policy expectations and incidence**

- Probabilities of tax increases and spending cuts; timing.
- Incidence across tax bases and spending categories.

- **Efficacy and mechanisms**

- How debt will be paid: future taxes, lower spending, higher inflation; who wins/loses.

Knowledge and Beliefs About Fiscal Variables

- How well do people understand fiscal concepts?
- How accurate are their priors about debt, taxes, and spending?
- How much heterogeneity exists across countries and demographic groups?

Knowledge of fiscal variables

Knowledge is weak and asymmetric, depending on how the questions are framed.

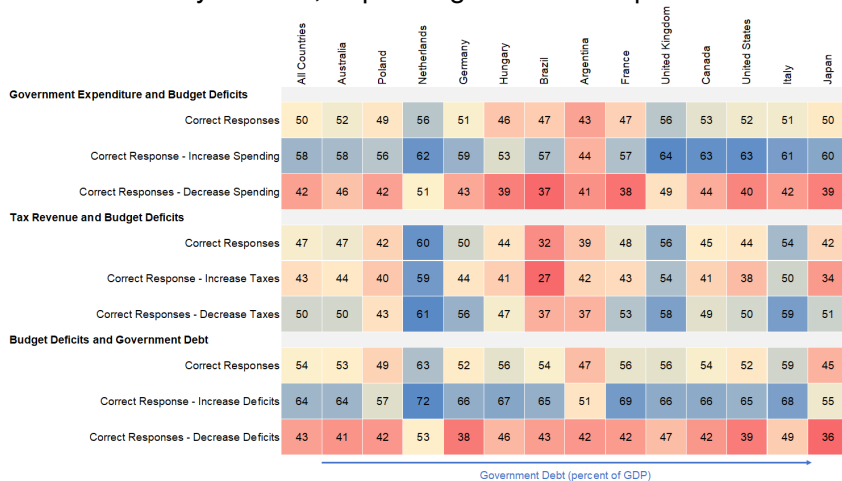
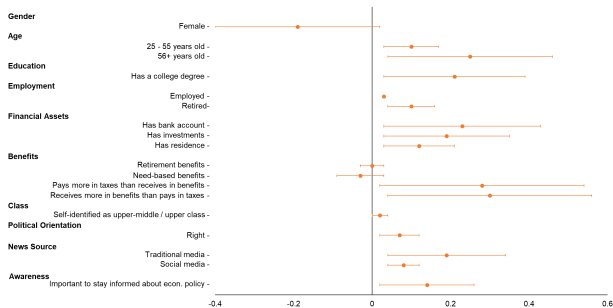


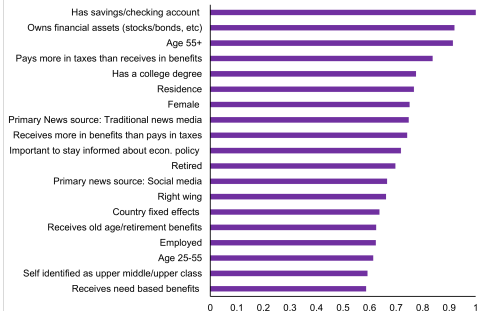
Figure 2: Knowledge and Asymmetrical Framing
(Percent of respondents)

Who has more knowledge?

Knowledge rises with financial asset ownership, age, and education.



Coefficients with 95% Confidence Intervals

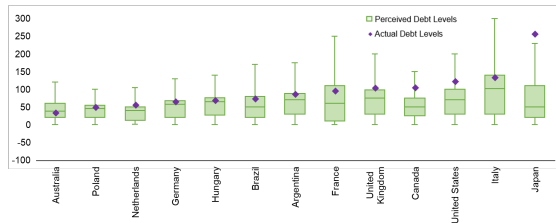


Importance of Predictors of Knowledge

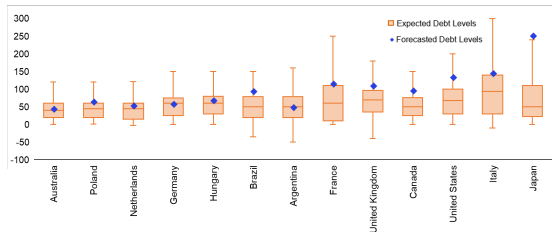
Figure 3: Correlates of Knowledge and Individual Characteristics

Beliefs regarding debt levels

Respondents systematically underestimate debt in high debt countries.



Perceived vs Actual Debt
(Percent of GDP)



Expected vs Forecasted Debt
(Percent of GDP)

Figure 4: Perceptions of Debt Compared to Actual and Forecasted Debt Levels

Correlates of beliefs about debt

Older respondents and those with financial assets are more likely to report higher estimates of the debt.

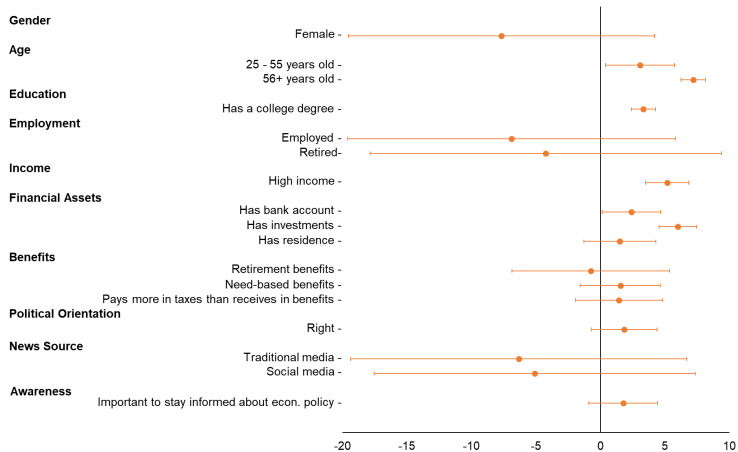
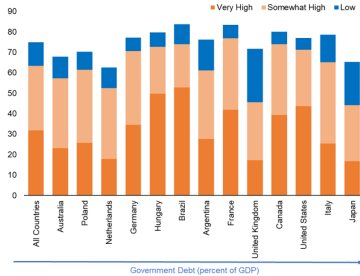


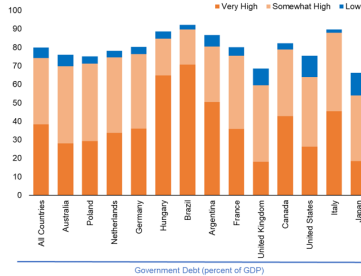
Figure 5: Correlates of Perceived Debt Levels with Individual Characteristics

Qualitative priors

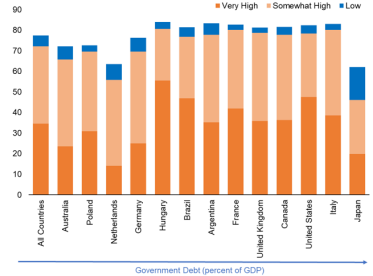
Most respondents perceive debt as high, and an even larger share view taxes as high relative to spending.



Spending levels
(Percent of GDP)



Tax levels
(Percent of GDP)



Debt levels
(Percent of GDP)

Figure 6: Perceptions of Current Government Spending, Taxes, and Debt Levels

Qualitative priors

Most respondents expect debt to rise or stay high, but nearly half the respondents in Argentina believe that debt will decrease.

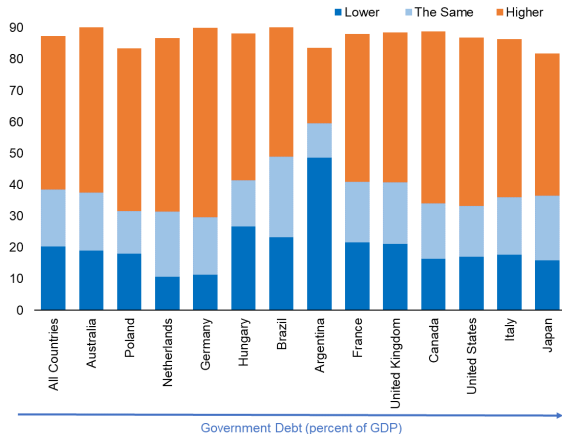


Figure 7: Beliefs about Future Debt
(Percent of respondents)

Policy Beliefs

- How likely do people think tax increases and spending cuts are?
- Over what horizon do they expect these adjustments to occur?
- Which tax bases and spending items do they perceive as most affected?

Perceived likelihood of adjustment

Tax increases are widely expected, while spending cuts are much less expected.

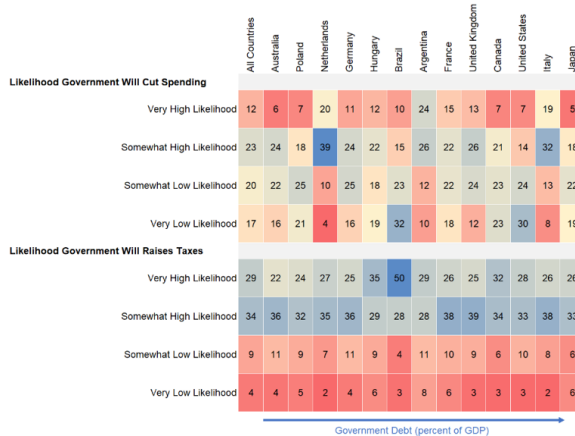


Figure 8: Expectations of Spending Cuts and Tax Increases
(Percent of control group respondents)

Perceived time-horizon for adjustment

Tax increases are viewed as imminent, while expectations of spending cuts differ widely across countries.

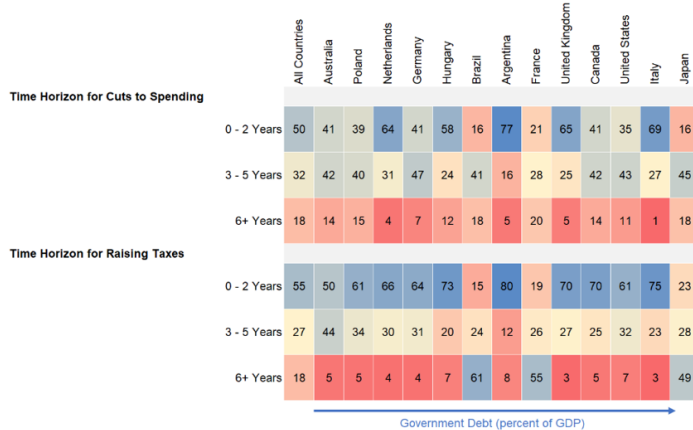
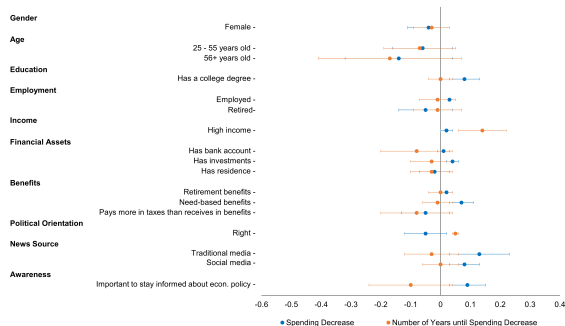


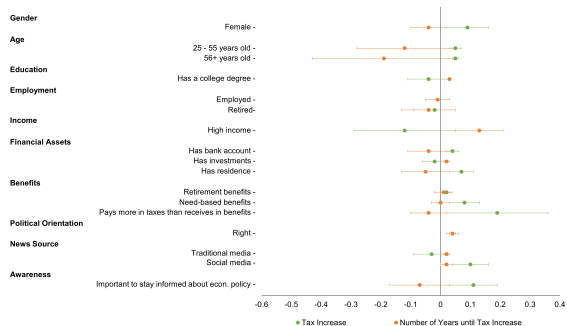
Figure 9: Time Horizon of Fiscal Adjustment
(Percent of control group respondents)

Perceptions across different groups

Individual Characteristics Shape Expectations of Fiscal Adjustment.



Spending cuts and timing



Tax increases and timing

Figure 10: Correlates of Expectations of Spending Cuts and Tax Increases and Time Horizon for Policy Changes

Incidence of adjustment

Most respondents expect fiscal adjustments to fall on themselves, via higher middle-income taxes and cuts to key programs.

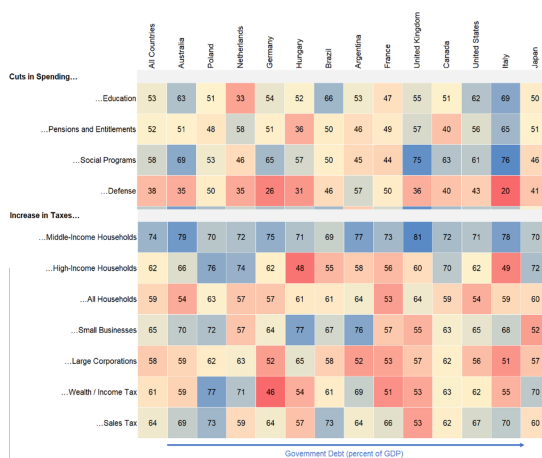


Figure 11: Perceived Incidence across Tax Types and Spending Categories
(Percent of control group respondents)

Correlation with Socioeconomic Characteristics

- Income and age strongly shape expectations about who will face higher taxes.

	Tax Categories						
	(1) Taxes on middle income	(2) Taxes on high income	(3) Taxes on all households	(4) Wealth/estate taxes	(5) Taxes on small businesses	(6) Taxes on corporations	(7) Sales taxes
Female	-0.02	0.05***	0.00	0.05***	0.01	0.10***	0.08***
Age 25–55	0.12***	-0.02	0.08***	-0.01	0.10***	-0.06**	0.10***
Age 55+	0.04	-0.03	0.03	-0.00	-0.03	-0.11***	0.09***
High income	-0.10***	0.15***	-0.12***	0.08***	-0.09***	0.13***	-0.09***
College education	-0.02	0.04**	-0.06***	0.02	-0.10***	0.02	-0.04**
Employed	0.03	0.02	0.02	-0.00	0.05***	0.05***	0.00
Retired	-0.08**	0.02	-0.08***	-0.03	-0.10***	0.03	-0.13***
Savings/checking account	-0.07***	0.08***	0.01	0.05**	-0.12***	0.06***	-0.00
Stocks/shares/funds/bonds/retirement products	0.03**	0.05***	-0.05***	0.06***	-0.05***	0.03*	-0.08***
Residence	0.02	0.05***	-0.02	0.03*	-0.05***	0.02	0.02
Recipient old-age/retirement benefits	0.00	-0.01	0.02	0.01	0.05***	0.01	0.01
Recipient needs-based benefits	-0.02	0.00	0.01	-0.02	0.01	0.02	0.01
Pays more in taxes than receives in benefits	0.16***	-0.03	0.08***	0.00	0.08***	-0.07***	0.09***
Political orientation: Right	0.10***	0.24***	0.10***	0.20***	0.15***	0.22***	0.12***
News: Traditional news media	-0.15***	0.12***	-0.04*	0.05**	-0.16***	0.14***	-0.05**
News: Social media	-0.07***	0.09***	-0.04	0.01	-0.03	0.10***	0.02
Self-reported awareness economic issues	0.09***	0.08***	0.09***	0.08***	0.08***	0.05***	0.07***
Constant	0.09**	-0.36***	-0.04	-0.43***	-0.09**	-0.39***	-0.32***
Observations	16,889	16,889	16,889	16,889	16,889	16,889	16,889
R-squared	0.03	0.06	0.02	0.06	0.07	0.04	0.03

Table 1: Socioeconomic Correlates of Expectation of Tax Changes by Categories

Correlation with Socioeconomic Characteristics

- Respondents expect spending cuts to fall on the programs from which they personally benefit.

	Spending Categories					
	(1) Education	(2) Pensions	(3) Social programs	(4) Defense	(5) Infrastructure	(6) Climate needs
Female	-0.01	0.06***	-0.01	0.04*	-0.00	-0.01
Age 25–55	-0.07**	0.04	0.04	-0.05	-0.08***	-0.00
Age 55+	-0.23***	-0.07*	-0.00	-0.12***	-0.22***	-0.10***
High income	-0.08**	-0.12***	-0.13***	-0.03	-0.03	-0.02
College education	0.03	0.01	0.08***	-0.07***	-0.01	0.05**
Employed	0.07***	-0.01	-0.03	0.07***	0.07***	-0.03
Retired	-0.04	-0.12***	-0.09**	-0.01	-0.03	-0.09**
Savings/checking account	-0.18***	-0.02	0.03	-0.09***	-0.10***	0.01
Stocks/shares/funds/bonds/retirement prod.	0.02	0.00	0.02	-0.03	0.07***	0.03
Residence	-0.02	-0.01	0.04*	-0.06***	-0.01	0.00
Recipient old-age/retirement benefits	0.04*	0.05*	0.03	0.04	0.04	0.05*
Recipient needs-based benefits	0.07***	0.04	0.03	-0.00	0.04*	0.02
Pays more in taxes than receives in benefits	0.03	0.09***	0.08***	-0.00	0.02	0.03
Political orientation: Right	-0.10***	-0.03	-0.10***	0.14***	0.04**	-0.03
News: Traditional news media	-0.10***	-0.07**	-0.04	0.09***	-0.04	0.01
News: Social media	-0.01	0.02	0.04	0.14***	0.01	0.05
Self-reported awareness economic issues	0.11***	0.07***	0.09***	0.02	0.08***	0.10***
Constant	0.38***	0.20***	0.40***	-0.08	0.52***	0.31***
Observations	9,570	9,570	9,570	9,570	9,570	9,570
R-squared	0.08	0.05	0.10	0.07	0.06	0.05

Table 2: Socioeconomic Correlates of Expectation of Spending Cuts by Categories

Role of beliefs and knowledge

Prior beliefs and expectations of future debt increases correlate with higher expectations of tax increases...

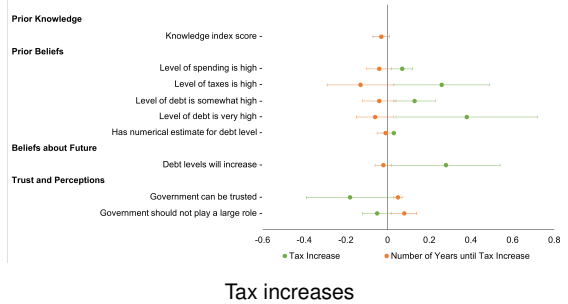
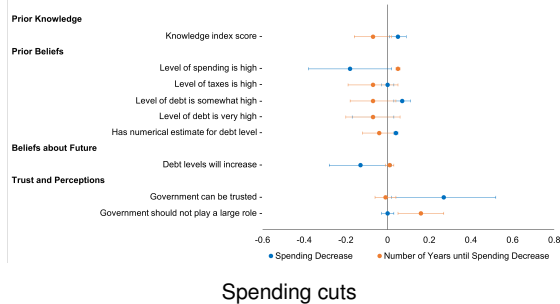
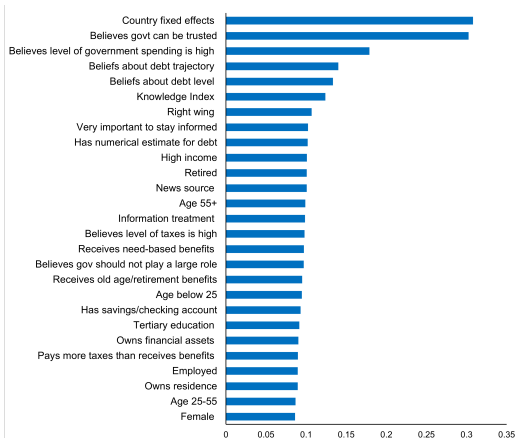


Figure 12: Fiscal Adjustment and Prior Beliefs
(Coefficients with 95% CI)

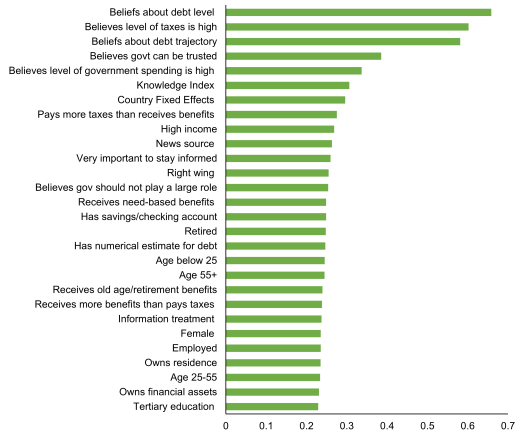
... greater trust in government is associated with higher expectations of expenditure cuts and lower expectation of tax increases.

Which beliefs are most significant?

Beliefs and knowledge predict tax increase expectations, while country context drives expectations of spending cuts.



Spending cuts



Tax increases

Figure 13: Importance of Predictors of Expectations of Fiscal Policy Changes

The Role of Past Fiscal Consolidation Experiences

- Prior fiscal beliefs strongly predict expectations of policy change.
- This raises the question: *How are these beliefs shaped?*
- Crisis experiences can have long-lasting effects on macroeconomic beliefs.
- We use cross-country and within-country variation in fiscal consolidation episodes to study how past experiences shape fiscal perceptions.
- We examine whether such experiences influence:
 - prior fiscal beliefs;
 - expectations of future tax increases and spending cuts.
- Past consolidation experience also leads to a more pessimistic view of the effectiveness of fiscal actions in reducing debt.

Measuring Exposure to Past Consolidations

- We construct an individual-level measure of exposure to past fiscal consolidations using historical episodes identified by year.
- The measure captures the *incidence* of consolidation episodes, not their size.
- For each respondent i , exposure is a recency-weighted average of past consolidation years:

$$A_i = \frac{\sum_{k=1}^{age_i-1} w_i(k, \lambda) C_{age_i-k}}{\sum_{k=1}^{age_i-1} w_i(k, \lambda)}, \quad w_i(k, \lambda) = \left(\frac{age_i - k}{age_i} \right)^\lambda$$

where $C_{(age_i-k)}$ flags consolidation episodes k years before the survey; we apply recency bias ($\lambda = 1$), with weights declining to zero by age 20.

Past experiences and beliefs

- Past experience of fiscal consolidation lowers perceptions of current debt, tax, and spending levels.

	Current Perceptions									
	Debt level		Tax level		Spending level		Debt trajectory		Trust in government	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Past experience of fiscal consolidation	-0.061***	-0.014	-0.082***	-0.018	-0.042***	0.027*	0.083***	0.081***	-0.104***	-0.126***
Observations	25,960	25,960	25,960	25,960	25,960	25,960	21,761	21,761	21,761	21,761
R-squared	0.082	0.142	0.079	0.148	0.057	0.127	0.018	0.070	0.049	0.070
Country fixed effects	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
Age fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Lambda	1	1	1	1	1	1	1	1	1	1
Adjusted R-squared	0.0795	0.139	0.0767	0.145	0.0547	0.124	0.0151	0.0661	0.0459	0.0672

Table 3: Relationship between past experiences of fiscal consolidation and perceptions of fiscal variables

Expectations of future tax increases and spending cuts

- Past consolidation experience raises expectations of tax increases but lowers expectations of spending cuts.

	Fiscal Adjustment Expectations			
	Expectations of tax increases (1)	(2)	Expectations of spending cuts (3)	(4)
Past experience of fiscal consolidation	0.021***	0.007	0.012	-0.080***
Observations	25,960	25,960	25,960	25,960
R-squared	0.030	0.041	0.016	0.100
Country fixed effects	No	Yes	No	Yes
Age fixed effects	Yes	Yes	Yes	Yes
Lambda	1	1	1	1
Adjusted R-squared	0.0275	0.0377	0.126	0.0971

Table 4: Relationship between past experiences of fiscal consolidation and expectations of fiscal policy changes

Beliefs about fiscal adjustments' efficacy and mechanisms

- Past consolidation experience reduces optimism about debt stabilization and future economic prospects.

	Respondent Beliefs									
	Debt will stabilize / decrease (1)	(2)	Respondent will be better off (3)	(4)	Higher debt will have to be paid off (5)	(6)	Debt harmful for future taxpayers (7)	(8)	Inflation may have to be higher (9)	(10)
Past experience of fiscal consolidation	-0.102***	-0.072***	-0.088***	-0.052***	0.063***	0.029*	0.037***	0.038**	0.117***	0.039**
Observations	17,128	17,128	21,879	21,879	21,458	21,458	22,208	22,208	19,381	19,381
R-squared	0.023	0.054	0.061	0.104	0.051	0.149	0.081	0.093	0.032	0.117
Country fixed effects	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
Age fixed effects	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Lambda	1	1	1	1	1	1	1	1	1	1
Adjusted R-squared	0.0188	0.0489	0.0581	0.101	0.0477	0.145	0.0779	0.0895	0.0281	0.113

Table 5: Relationship between past experiences of fiscal consolidation and efficacy of fiscal policy changes and underlying mechanisms

Causal Effect of Information About Debt

- We study the causal effect of information about public debt on expectations of taxes and spending.
- Respondents are randomly assigned to one of three information treatments:
 - **Treatment 1: Actual Debt Levels**
Informed about their country's 2023 debt-to-GDP ratio, shown alongside its pre-pandemic average, with a brief explanation of the debt-to-GDP concept.
 - **Treatment 2: Fiscal Identity**
Adds an equation showing how future debt relates to current debt issuance, interest, spending, and taxes.
 - **Treatment 3: Debt Forecasts**
Adds information that economic forecasters expect debt to remain high relative to historical standards.
- These layered treatments allow respondents to update priors about debt levels, fiscal relationships, and debt trajectories.

Information treatments

- Treatment and Control Groups Are Well Balanced Across Observables.

Joint Significance				
	Test against all other groups		Test against the control group	
	F-statistic	P-value	F-statistic	P-value
Control group	0.77	0.67		
Treatment 1	1.16	0.31	0.92	0.52
Treatment 2	1.28	0.23	0.98	0.47
Treatment 3	0.78	0.66	0.76	0.68

Table 6: Predictability of Treatment Status

Effect on expectations of fiscal adjustment

- Direction of the treatment effect is guided by the information on debt trajectories provided to respondents.

Likelihood of Policy Changes by Debt Levels				
	Expectations of tax increases		Expectations of spending cuts	
	(1) Debt stable sample	(2) Debt increased sample	(3) Debt stable sample	(4) Debt increased sample
Treatment 1	-0.11***	-0.02	-0.02	0.04**
Treatment 2	-0.06**	-0.03	-0.05*	0.04**
Treatment 3	-0.07**	0.01	-0.04	0.04**
Observations	8,371	18,831	8,371	18,831
R-squared	0.03	0.04	0.09	0.10

Table 7: Treatment Effects on Policy Expectations for Debt Stable and Debt-Increased Samples

Channels of treatment effects: heterogeneous debt priors

- Treatment effects depend on debt priors.

Qualitative Debt Priors								
	Expectations of tax increases				Expectations of spending cuts			
	Debt stable sample		Debt increased sample		Debt stable sample		Debt increased sample	
	(1) Debt not high	(2) Debt high	(3) Debt not very high	(4) Debt very high	(5) Debt not high	(6) Debt high	(7) Debt not very high	(8) Debt very high
Treatment 1	-0.06	-0.14***	-0.02	0.00	-0.04	-0.00	0.07***	-0.01
Treatment 2	-0.02	-0.09**	-0.02	-0.04	-0.03	-0.06*	0.07***	-0.02
Treatment 3	0.04	-0.13***	0.04	-0.02	-0.02	-0.05	0.06***	-0.00
Observations	2,611	5,760	11,900	6,931	2,611	5,760	11,900	6,931
R-squared	0.04	0.04	0.03	0.06	0.10	0.09	0.06	0.17

Table 8: Treatment effects and qualitative prior beliefs regarding the debt level

Treatment effect and past experiences of consolidation

- Past consolidation experience amplifies treatment effects on spending-cut expectations in rising-debt countries.

Likelihood of Policy Changes and Fiscal Consolidation		
	Expectations of tax increases (1) Debt stable sample	Expectations of spending cuts (2) Debt increased sample
Received information treatment	-0.075**	0.003
Past experience of fiscal consolidation	0.125**	-0.094***
Information treatment \times Past consolidation	-0.028	0.082**
Observations	8,371	18,831
R-squared	0.041	0.105
Country fixed effects	Yes	Yes
Age fixed effects	Yes	Yes
Lambda	1	1
Adjusted R-squared	0.0301	0.100

Table 9: Treatment effects and past experience of fiscal consolidation

Policy Implications

- Misperceptions about debt are **large, systematic, and consequential** for fiscal expectations and behavior.
- These perceptions shape:
 - support for fiscal consolidation,
 - reactions to future tax or spending policies,
 - macroeconomic behavior through expectation channels.
- As in monetary policy, **managing expectations** may be critical for fiscal policy effectiveness and public support.
- Information policies:
 - In **low or stable-debt** countries, transparency can reduce **unwarranted fears** of tax increases and help anchor expectations about fiscal stability.
 - In **high or rising-debt** countries, clearer communication may increase acceptance of **fiscal adjustment needs**.

Conclusion

- Large international survey reveals:
 - Limited fiscal knowledge and widespread misperceptions about debt.
 - Systematic underestimation of debt, especially in high-debt countries.
 - Awareness of fiscal relationships rises with age and wealth.
 - Expectations skewed toward tax increases, with many believing the burden will fall on themselves and their income group.
- Past fiscal consolidation experiences shape:
 - pessimism about debt stabilization and future economic outcomes,
 - lower trust in government,
 - greater sensitivity to new information.
- Information treatments shift expectations, but effects depend on:
 - the country's debt trajectory,
 - respondents' priors,
 - and their consolidation history.