

**Fighting Poverty in the
U.S. and Europe:
A World of Difference**

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Core Questions

- Why do European Nations give so much more to their poor than the U.S.?
- Why are tax rates so much more progressive?
- Why is there so much more allegedly pro-labor regulation?

The question is NOT why the size of government is larger in Europe than in the US.

The question is NOT whether redistributive effort is successful or not and at what costs.

Outline

- Facts about Redistribution
- Economic Causes of Redistribution
- Political Institutions and Redistribution
- Endogeneity of Institutions
- Racial Heterogeneity and Redistribution
- Ideology and Redistribution

The Level of Redistribution

- Size and composition of government spending
- Pension systems
- Taxation
- Labor market regulation

Table 1. Composition of General Government Expenditure, 2000

Percent of GDP

<i>Country</i>	<i>Total</i> ^a	<i>Consumption</i>		<i>Subsidies</i>	<i>Social benefits and other transfers</i> ^b	<i>Gross investment</i>
		<i>Goods and Services</i>	<i>Wages and salaries</i>			
United States	29.9	5.3	9.2	0.4	10.6	3.3
Continental Europe ^c	44.9	8.3	12.4	1.5	17.6	2.5
France	48.7	9.7	13.5	1.3	19.6	3.2
Germany	43.3	10.9	8.1	1.7	20.5	1.8
Sweden	52.2	9.8	16.4	1.5	20.2	2.2
United Kingdom	37.3	11.4	7.5	0.4	15.6	1.1

Source: Authors' calculations based on data from OECD Economic Outlook Database (No. 71, Vol. 2002, Release 01), June 2002.

a. Totals also include interest payments and some categories of capital outlays.

b. Includes social security.

c. Simple average for Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain and Sweden.

Table 2. Government Expenditure on Social Programs, 1998

Percent of GDP

<i>Country</i>	<i>Total</i>	<i>Old-age, disability and survivors</i>	<i>Family^a</i>	<i>Unemployment and labor market programs</i>	<i>Health^b</i>	<i>Other^c</i>
United States	14.6	7.0	0.5	0.4	5.9	0.9
Continental Europe ^d	25.5	12.7	2.3	2.7	6.1	1.7
France	28.8	13.7	2.7	3.1	7.3	2.1
Germany	27.3	12.8	2.7	2.6	7.8	1.5
Sweden	31.0	14.0	3.3	3.9	6.6	3.2
United Kingdom	24.7	14.2	2.2	0.6	5.6	2.0

Source: Authors' calculations based on data from OECD Social Expenditure Database 1980-1998 (3rd Edition), 2001.

a. Includes cash benefits and in kind services.

b. Includes, among other things, inpatient care, ambulatory medical services and pharmaceutical goods.

c. Includes occupational injury and disease benefits, sickness benefits, housing benefits and expenditure on other contingencies (both in cash or in kind), including benefits to low-income households.

d. Simple average for Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Portugal, Spain and Sweden.

Pension systems imply a redistribution from young to old.

However "poor" old get proportionally much more than the rich and this effect is stronger in Europe than in the US

Figure 1: Difference in marginal tax rates, in %, between the US and EU15
(excluding Denmark)

The difference equals the US marginal tax rate minus the unweighted average
European marginal rate for each income class.

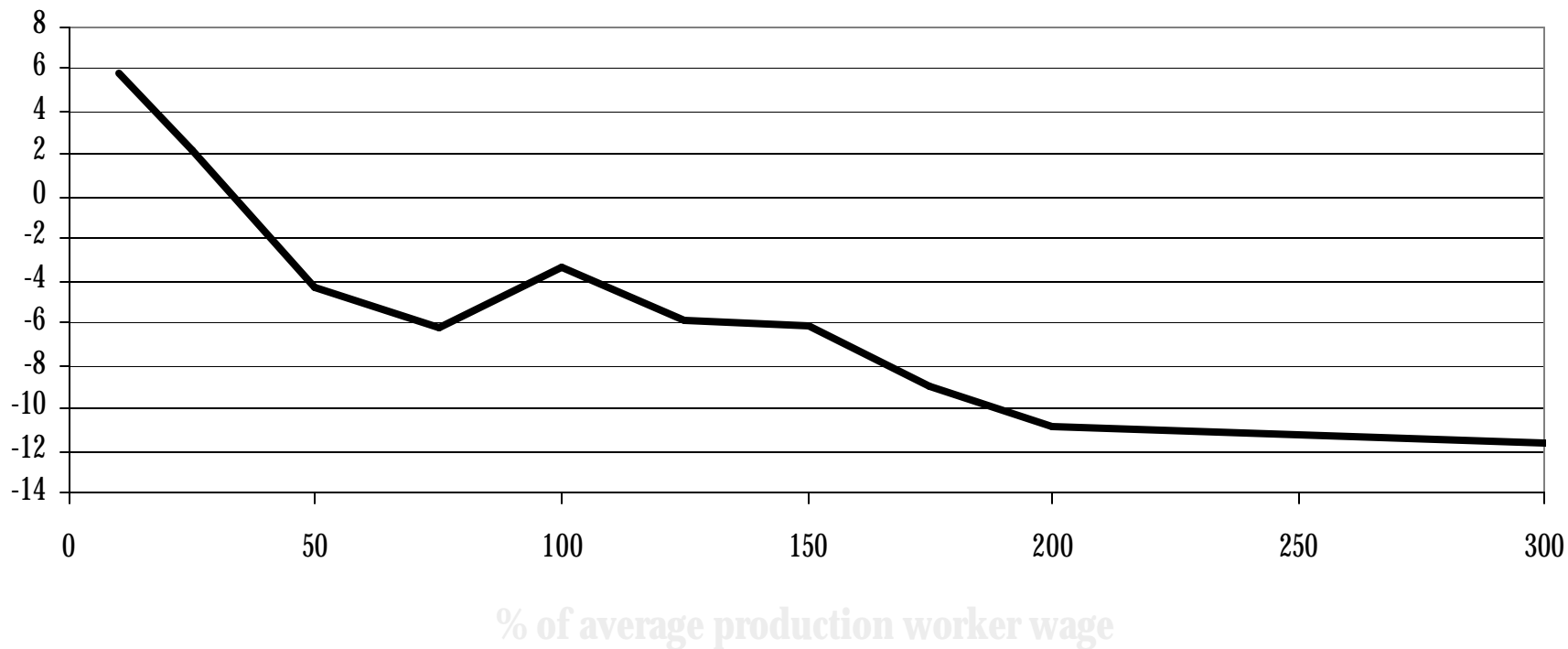


Table3

Labor markets in the US and in Europe

	Labor standards 1985-93	Employment Protection 1990	Minimum annual leave (weeks) 1992	Benefit replacement ratio (%) 1989-94	Benefit duration (years) 1989-94
France	6	14	5	57	3
Germany	6	15	3	63	4
Sweden	7	13	5	80	1.2
UK	0	7	0	38	4
European Union (1)	4.8	13.5	3.8	58.7	2.6
US	0	1	0	50	0.5

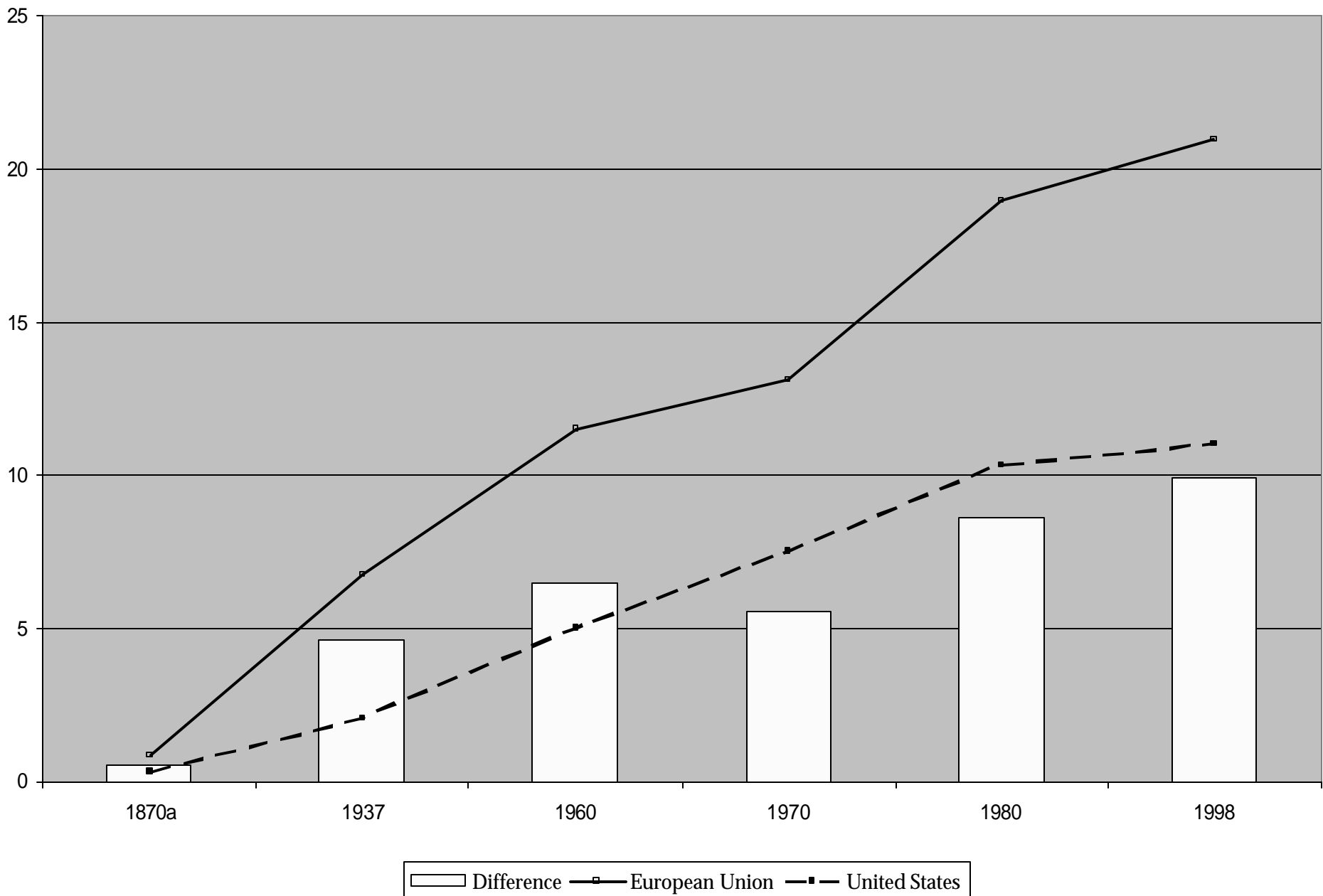
Source: Nickell and Layard (1999) and Nickell (1997)

1. Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain, Sweden and UK.

The Timing of the Welfare State

- Although the difference widens in the 1980s, it is not just a modern phenomenon.
- Nor is it particularly post-World War II
- But it isn't really there in the 1890s.
- The turning point appears to be around 1920.

Figure 2.2: Government expenditure on subsidies and transfers (% of GDP) 1870-1998
(obtained from Table 2.4)



Summary

- * Redistribution from the rich to the poor is much more extensive in Europe.
- * Some disadvantaged categories (sick, elderly, large families) also have protection in the US (although less than Europe), very few transfers to the “poor” per se in the US.

Private charity

Charity contributions are much larger in the US than In Europe:

charity per capita in the US in 2000 is \$ 691 per capita, against 141 for UK and 57 for Europe as a whole.

Not enough to make up for differences in Government spending

Explanations:

*Charity as partial substitute for public welfare

Americans don't appear to be less Altruistic than Europeans

*You can choose to whom you give charity, but not how your taxes are spent

Why Europe redistribute more?

Possible explanations

- "economic" explanations
- political explanations
- behavioral, sociological explanations

Economic Explanations

- 1) The pre tax distribution of income:
more pre tax inequality, more demand
for redistribution in a democracy.

It does not work: pre tax inequality much higher in the US than in Europe.

Gini coefficient is 38.5 in the US, 29.1 in Europe. In the US top 20 per cent gets 43.5 of pre tax income, in Europe 37.1 per cent.

This seems to have been true for a long time, even pre World War I.

2) Variability of income and openness

More open economies have more variability of income and therefore government transfers are needed to stabilize.

It does not work: very weak cross country evidence. The US GDP is much more volatile than European countries GDP.

Table 4 Economic variability in the US and Europe (Standard deviations)

Series	Sample Range	US	EU15
GDP growth	1960-1997	0.020	0.017
Total manufacturing labor productivity	1980-1996	0.026	0.016
Unemployment rate (1)	1970-2000	0.414	0.220

Greater Income Mobility within the U.S.

- It is not entirely obvious what parameter income mobility actually relates to and why that parameter influences redistribution.
- If it is just variability, then this suggests that high mobility means that American society is more equal than it seems because of averaging.
- Maybe it relates to the marginal returns to effort and the social costs of distorting incentives.

Income Mobility and Redistribution

- Probability the right reason is that income mobility is used to vilify the poor, i.e. “anyone can get rich as long as they work hard in the land of opportunity– if you aren’t rich, you don’t deserve anything.”
- So this would relate to altruism towards the poor.
- I return to this in the ideology of redistribution

Facts about Income Mobility in the U.S. and Europe

- Extensive Controversy (Fields and Ok)
- Mobility Cross Quintiles or Quartiles is the Normal Measurement
- Some debate about using occupations or income or schooling
- Within person vs. across generations

Modern Evidence

- Gottschalk and Spolaore (US/Germany)
 - 31 percent of middle quintile Germans and 34 percent of middle quintile Americans moved up over 10 years
 - 12 percent of middle quintile Americans and 16 percent of middle quintile Germans drop to bottom quintil
 - Greater immobility of poor: 60 percent of bottom quintile in the U.S. and 43 percent of bottom quintile in Germany stay in that quintile

Checchi, Ichino and Rustichini

(US/Italy)

- Inter-generational mobility based on occupation
- In Italy 11 percent of middle quintile fathers have top quintile sons
- In the U.S. this number is 14 percent
- In Italy, 21 percent of fathers in the bottom quintile have sons also in that quintile
- In the U.S., that number is 25 percent
- Middle income more mobile in U.S., bottom quintile less so.

Evidence from 19th Century

- Pesen (1974)– 90 percent of U.S. 19th century elites came from well-off families
- Thernstrom (1973) finds 40 percent of working class parents sire children who rise
- Kaebler (1985) summarizes and finds 23.5 percent mobility in the US, same in Scandinavia, slightly lower in Austria (10 percent) and England (16.5 percent)
- But Long and Ferria (unpublished) show starker differences

3) Efficiency of the tax system

Tax system is more efficient in Europe, costs of collecting taxes lower. Easier it is for the government to levy high taxes to redistribute.

The Value-Added Tax is the one piece of evidence for this.

Very weak evidence of this effect.
European tax systems are very different
from each other.

Tax evasion is probably lower in the US
than in continental Europe (survey
Measures confirm this, but)

Political Explanations

1) The electoral systems

Proportional electoral systems are associated with larger transfer spending programs in OECD countries. The US and the UK have two of the least proportional electoral systems. Northern European countries have very proportional systems.

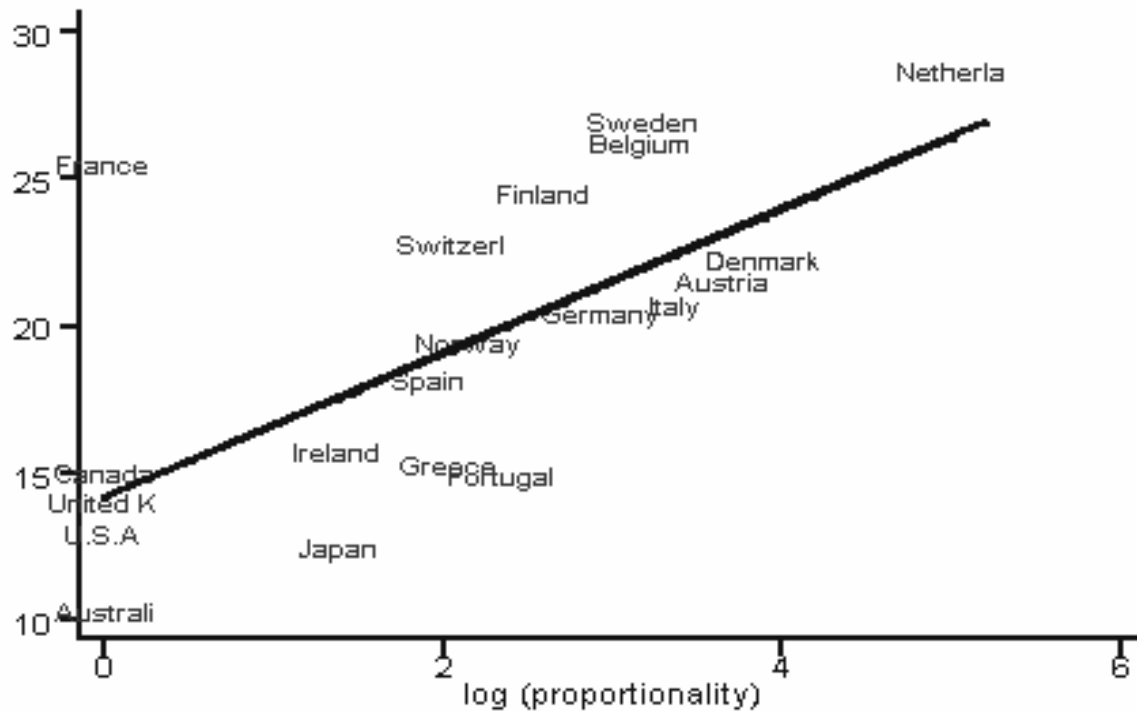
The Political Roots of the Welfare State

- Proportional Representation vs. Majoritarianism
- Representation by Land Area, not votes (Senate)
- Checks and Balances (Senate, House vs. President)
- Leaders that are not directly elected and that have long tenure (Supreme Court)
- Federalism

Figure 4

Transfers/GDP vs. Log (Proportionality)

OECD countries



How Does Proportional Representation Matter?

- Majoritarianism makes the entry of new parties difficult
- It particularly emphasizes the tastes of the median voter, not the poor
- In PR countries, there are a greater range of parties and some of these cater to the interests of the poor and labor unions
- PR also made the entry of these groups easier

Proportional Representation and Socialism

- America never got a socialist party
- Every major European nation has a major party that was (at one point) more or less committed to straight socialism
- America had a socialist movement, that was at one point very popular (Debs)
- The majoritarian system made it difficult for this party to grow and for the labor movement to start its own party.

3) Role of the judiciary system and the Supreme Court

Special role of US Supreme court.

Throughout US history at least until the mid part of the past century, Supreme Court always rejected welfare legislation arguing that it would go against private property. A famous case was the rejection of a federal income tax in 1894.

FD Roosevelt had to win a battle over the Supreme Court in the nineteen thirties to pass welfare legislation (Court Stacking)

Supreme Court struck down the National Recovery Act (NRA) in 1934 which sponsored the most European-like market planning within the U.S.

Why Different Institutions?

- American continuity blinds us to the fact that most institutions are quite volatile.
- Europe actually has much newer institutions than the U.S.
- Most of the European continental political systems were completely reworked within the 20th century.
- Institutions are not permanent– they change rapidly.

Why Did Europe Change? Why Didn't America Change?

- Institutional change generally reflected the power, especially the “military” power of the left
- In stable periods, large countries with big armies could generally suppress the power of the trade unions (U.S. and elsewhere)
- In smaller countries, general strikes were more effective
- In big countries, change came during and after wars when the army was disorganized

European Change; American Continuity

- The U.S. Constitution would be easily recognizable to Madison, Hamilton and Lincoln
- European constitutions would make little sense to Metternich and Bismarck
- Put another way– ask yourself which country's institutions as of 1890 were most friendly to the welfare state– probably the U.S.
- No King, empowered nobility, widespread franchise, etc., but US didn't change and Europe did

Why Proportional Representation?

- Proportional representation as an idea is generally credit to Thomas Hare, Carl Andrae and Mills gets some credit as a popularizer
- Idea floats widely in the US and UK
- It gets implemented within the U.S. in some places in the 1860s and 1870s
- Horace Greeley favors it to enfranchise minorities, but for this reason and the general strength of the right, it never gets steam

European Proportional Representation

- Belgium is the first mover– 1899
- As of 1890, Belgium has the most restricted franchise in Europe and is “the paradise of the landlord, the capitalist and the priest” (Marx)
- Starting in 1886 with the Worker’s Revolt, general strikes cripple the country
- Small size means that country has a minimal army and a small distance from industrial areas to the capital (as opposed to the US)

Belgian Political Change

- In the 1890s, suffrage rapidly expanded in Belgium.
- In general, the left wing had the upper hand because of the power of general strikes and they rewrote the constitution
- Proportional representation was generally favored by the left because it was thought that it would ensure seats for union leaders
- Also the Fleming/Walloon split helped PR

Next Movers

- Finland 1906
 - Autonomous part of Russia
 - General strike forces constitutional change
 - Left wing leaders put in Proportional Representation
- Sweden 1907
 - General strike forces constitutional change
 - Right wing puts in PR to keep some seats
- Portugal 1911
 - Revolution forces constitutional change
 - Left wing leaders put in Proportional Representation

World War I: The Watershed

- Switzerland– 1918
 - National mobilization throughout the war deterred Germany invasion
 - Tradition of left wing ideas (Lenin, Trotsky)
 - Long term conscripts refused to fight against a general strike which forces constitutional change
- Netherlands 1917
 - Bargain over educational reform to represent different religious groups
- Denmark – early left wing bloc

Austria, Germany, Italy

- In both Germany and Austria left wing revolutions topple the monarchies
- Berlin 1919– Spartacist uprising is eventually repressed by an alliance between the Social Democrats and the Freikorps
- But the Social Democrats (and Ebert) get the ability to write the constitution– fear of allied armies also plays a role.

Revolutions in 1919

- In Germany and Austria, left wing revolutions succeed because the armies are defeated
- Unsurprisingly, they write left wing constitutions (which only last for a short while)
- In Italy, the victorious but dispirited army is unable to quell uprisings and riots
- Constitutional reform is an attempt to deal with these uprisings– again left wing in nature.

Flip-Floppers in Greece and France

■ Greece

- Introduces Proportional Representation in 1926, eliminates it in 1926

■ France

- In 1946, when the left is ascendant, PR is included in the constitution
- After the right wing coup in 1958, PR is removed
- When Mitterand comes in he institutes PR (as a long term socialist goal) but then removes it.

Lessons from Proportional Representation

- Institutions are not just endogenous, in some cases they respond quite quickly.
- This institution is more of an institutionalization of left wing strength than a cause of it.
- Left wing strength comes from revolution and the general strike.
- These are more powerful in small countries or after military chaos.

Labor Unrest in the U.S.

- The U.S. has a strong labor movement in the 19th century that is also prone to violence.
- In 1853-54, there were 400 strikes in the U.S.
- The Bloody Haymarket Street Riot in 1883 is celebrated throughout the world at May Day.
- Homestead Riot is a long and bloody battle that pits Pinkertons against strikers

Labor's Failure in the US

- Distance between Washington, D.C. and Industrial Heartland
 - Even when strikes lasted long and were bloody, they didn't impact the national leadership directly
 - Moreover, geography meant that troops were quite different from strikes (as in Wilhelmine Germany)
- Supreme Court in the early days acted against labor
 - But weren't European institutions as bad
- Ethnic heterogeneity also mattered

Marches on Washington

- Coxey's Army 1894 (Populist Era)
 - Only 500 men at the end of the day and they were easily dispersed
- Bonus Expeditionary Force– 1932
 - 15,000 marchers
 - Fought by Douglas MacArthur with his aides Eisenhower and Patton
 - Army turned on the marchers and used machine guns to disperse them.

1863 Draft Riot New York City

- Bloodiest riot in U.S. history – uprest caused by the draft
- Led by labor organized who paralyzed the city for days
- Ultimately, the Germans turned on the Irish (turnverein patrolled German neighborhoods)
- Victorious soldiers from Gettysburg returned to NYC to quell riot
 - But what if Gettysburg had been lost

American Exceptionalism

- Ethnic Heterogeneity
 - More on that later
- Vast size
 - Large army from a different region
 - Distances between strikes and capitol
- Military Success
 - America has never really been defeated on its home soil

2) The lack of an American Socialist party: why?

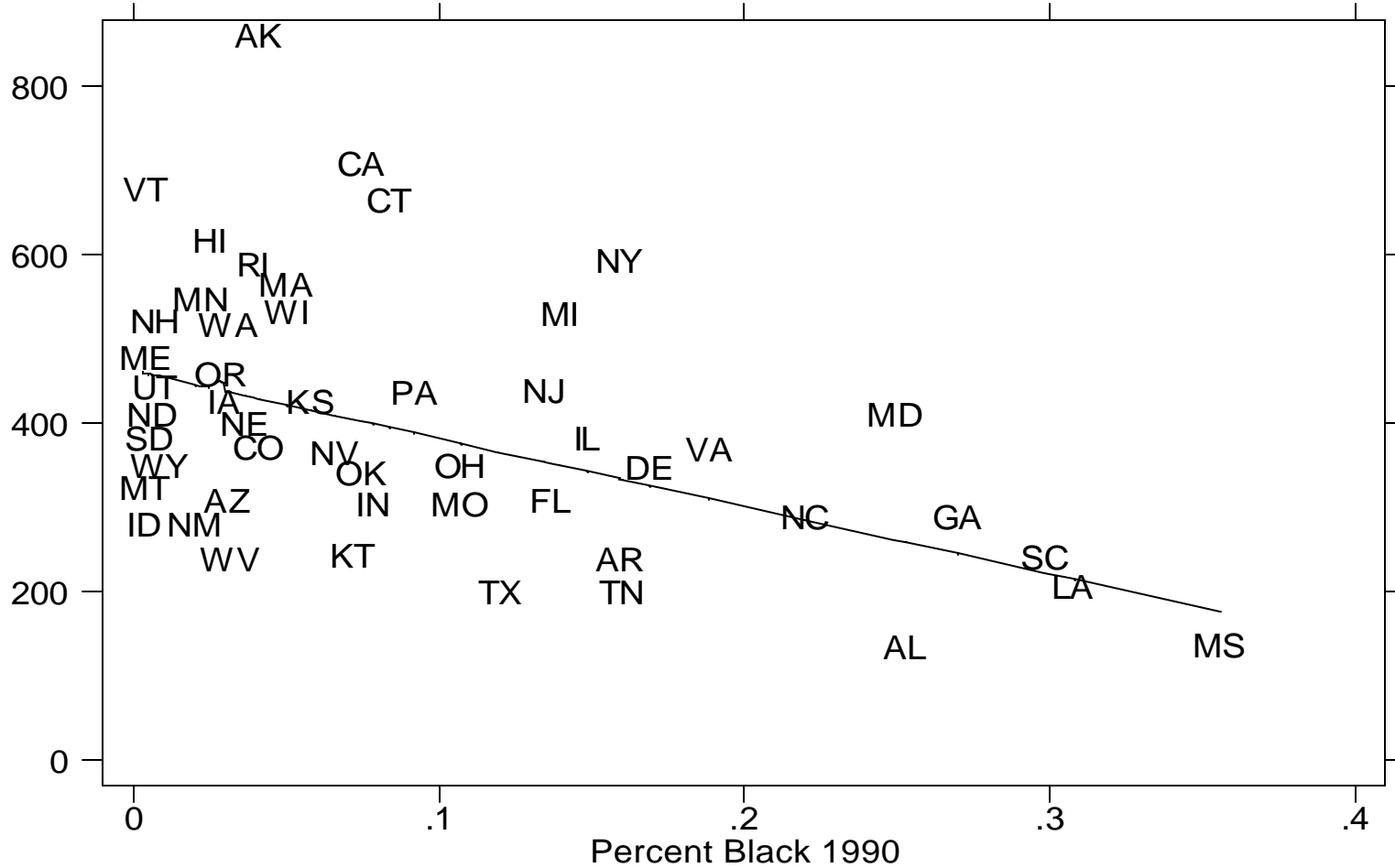
- * Racial fragmentation
- * Economic opportunities
- * Political institutions and electoral rules: the President, the Senate, the Supreme Court
 - * Density and size of the US
 - * The role of wars
- * Ideological "biases" of US Trade Unions

Racial Fractionalization and Redistribution

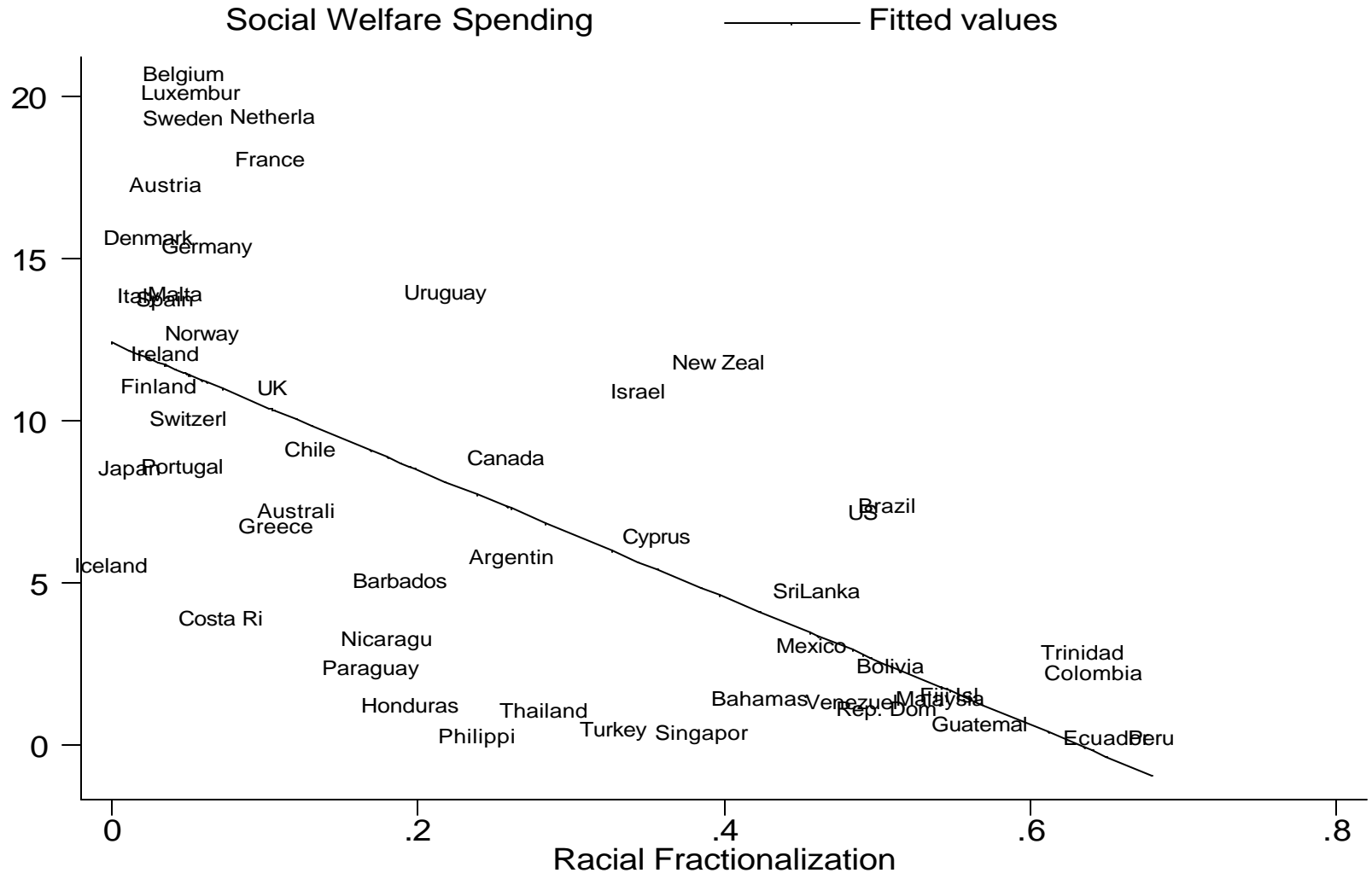
- Across states within the U.S., areas with more African-Americans are less generous to the poor.
- Across countries, more fractionalization reduces the generosity to the poor
- Cross-country regression coefficients suggest that the difference in this variable can explain $\frac{1}{2}$ of the US/Europe difference

AFDC Monthly Maximum vs. Percent Black By State

Maximum Monthly AFDC Benefit For 3 Person Family 1990



Social Spending/GDP vs. Race Fractionalization



Individual Level Evidence on Race and Redistribution

- Race strongly predicts supporting welfare and voting Democratic within the U.S., even among rich respondents
 - Race effects are much bigger than income effects on political support
- People who live among poor people of the same race are more likely to support welfare, but those who live among poor people of a different race are less likely to support welfare (Luttmer).

U.S. History

- In the 1890s and again in the 1960s, racial divisions ended up stopping left wing movements
- Modern Republican dominance is built on southern support which was the result of the civil rights battles
- Conservative Southern Senators who opposed FDR were elected by very poor states

European Politics

- Anti-Semitism played some of the same role as anti-Black racism, but it was limited because Jews were not particularly poor
- Modern right-wing European politicians play up their opposition to immigrants or other ethnic minorities
- We have yet to see if this challenges the welfare state in the long run

Two Views of Racial Heterogeneity

- View # 1: Human Beings are hard-wired to have less altruism towards people who are different than themselves
- View # 2: Human beings have the capacity to believe things about outsiders
- Either view means that the existence of poor minorities will lead majority group members to be less favorable to welfare

Political Economy of Hatred

- Hatred is the willingness to pay to hurt others (terrorism can be a version of it)
 - In the model (and the real world) willingness to pay to avoid will be another sign of hatred
- My focus is on group level hatred
- Salient examples are anti-Semitism, anti-Black behavior in the U.S. South, and anti-Americanism

Central Points

- Not the same thing as discrimination
 - Discrimination against women is common; hatred less so.
- Not automatic with fragmentation, and quite volatile
 - Franco-German hatred is a thing of the past
 - Anti-Semitism in the west is far reduced
 - Anti-U.S. hatred in the middle east is a post-war phenomenon
 - Anti-Black hatred within the U.S. waxes and wanes

Emotional Roots of Hatred

- Created by a provocation or a story of a provocation
- Darwin: “If we have suffered or expect to suffer some willful injury from a man, or if he is any way offensive to us, we dislike him; and dislike easily rises into hatred.”

Self-Defense and Vengeance

- Baumeister (psychologist) hatred stems from “seeing oneself under attack” and describes many hate crimes which “were felt to be a response to bad actions on the victim’s side.”
- Dozier “hate is a primitive emotion that marks for attack or avoidance those things which we perceive as a threat to our survival or reproduction.”

Evidence in Experiments

- The Ultimatum game has a first period action that can be seen as a provocation and a second period response
- Fehr and Schmidt (2000) write “a robust result in [the ultimatum game], across hundred of trials, is proposals that give the Responder less than 30 percent of the available sum are rejected with a very high probability.”
- Murders, Riots, Gangs and Vengeance

Chemical Processes in the Brain

- In response to provocation, our bodies manufacture chemicals (hormones like cortisol and testosterone)
- These hormones are then associated with more aggressive behavior
- In experiments (Nisbett and Cohen) people with bigger hormonal responses to a provocation had bigger aggression afterwards

The Formation of Hatred

- Hatred is always and everywhere formed by stories of past and future atrocities
 - Tales of Blacks raping white girls in the South
 - Tales of Jews killing Jesus, drinking children's blood, and the Protocols of the Elders of Zion
 - America and the Child in Barcelona
- Often these stories need repetition more than truth
 - Or sometimes they are true, but that group isn't particularly guilty

The Role of Political Entrepreneurs

- White conservatives in the south pushed race hatred in the 1880s and 1890s
- Right wing politicians in Europe (Lueger, Schonenerer, Hitler) pushed anti-Semitism
- The Czar and his agents(Ochrana gave us the Protocols of the Elders of Zion)
- Today, anti-Americanism is also used by different political groups

The Model

- Two groups: in-group and out-group– I focus on hatred of the in-group for the out-group
- Two parties competing for votes– they have exogenous policies (tax rates or t)
- In the first period, they decide whether or not to send out messages of hate

The Model's Structure

- In the second period, voters may investigate these stories at a cost
- In the third period, individuals vote and redistribution occurs
- In the fourth period, individuals decide whether or not to self-protect against the minority
- In the fifth period, individuals may be harmed by the minority

Key decisions recursively

- Will in-group members isolate themselves
 - Only when they have heard a hate creating message and not investigated
- Which candidate will voters support
 - They vote their pocketbook except
 - When they have heard a hate creating message and not investigated and then they are more likely to favor policies that hurt the minority
- Will voters investigate the message
 - If it will change their isolation behavior
- Will politicians send hate creating messages
 - If it will increase votes

Key Comparative Statics

- Private individuals are more likely to investigate hate-creating messages when
 - The minority group is large
 - The minority group isn't segregated
 - The potential harm is large and the gains from self-protection are high
- Politicians are more likely to send a hate creating message when
 - This message is unlikely to be investigated

Comparative Statics on Supplying Hatred

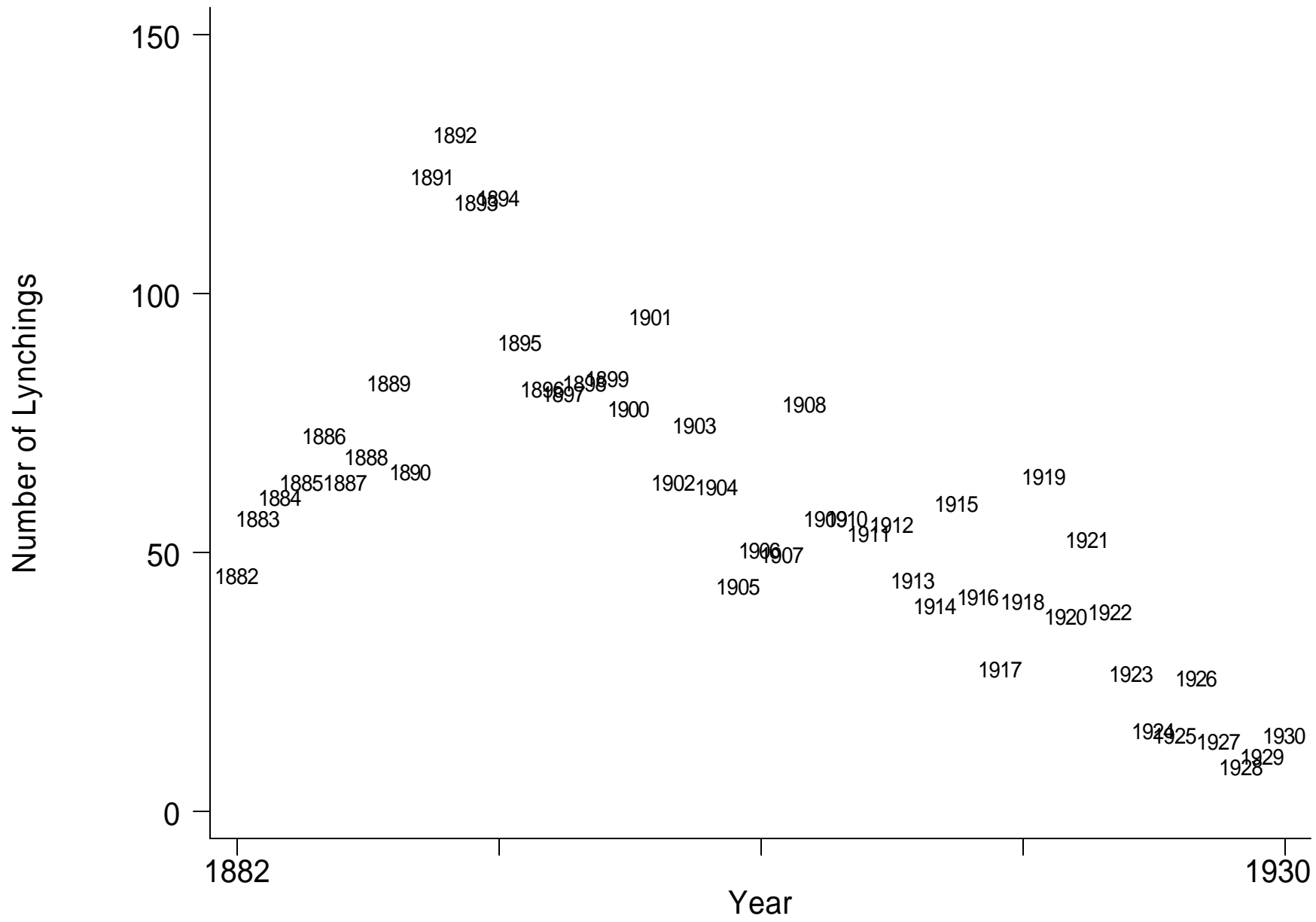
- Hatred will be more likely to be supplied when the group is potentially more of a threat (holding search constant)
- Hatred is more likely when the group is different along the policy-relevant dimension
- The right pushes hate against poor minorities
the left against rich minorities

Other Results

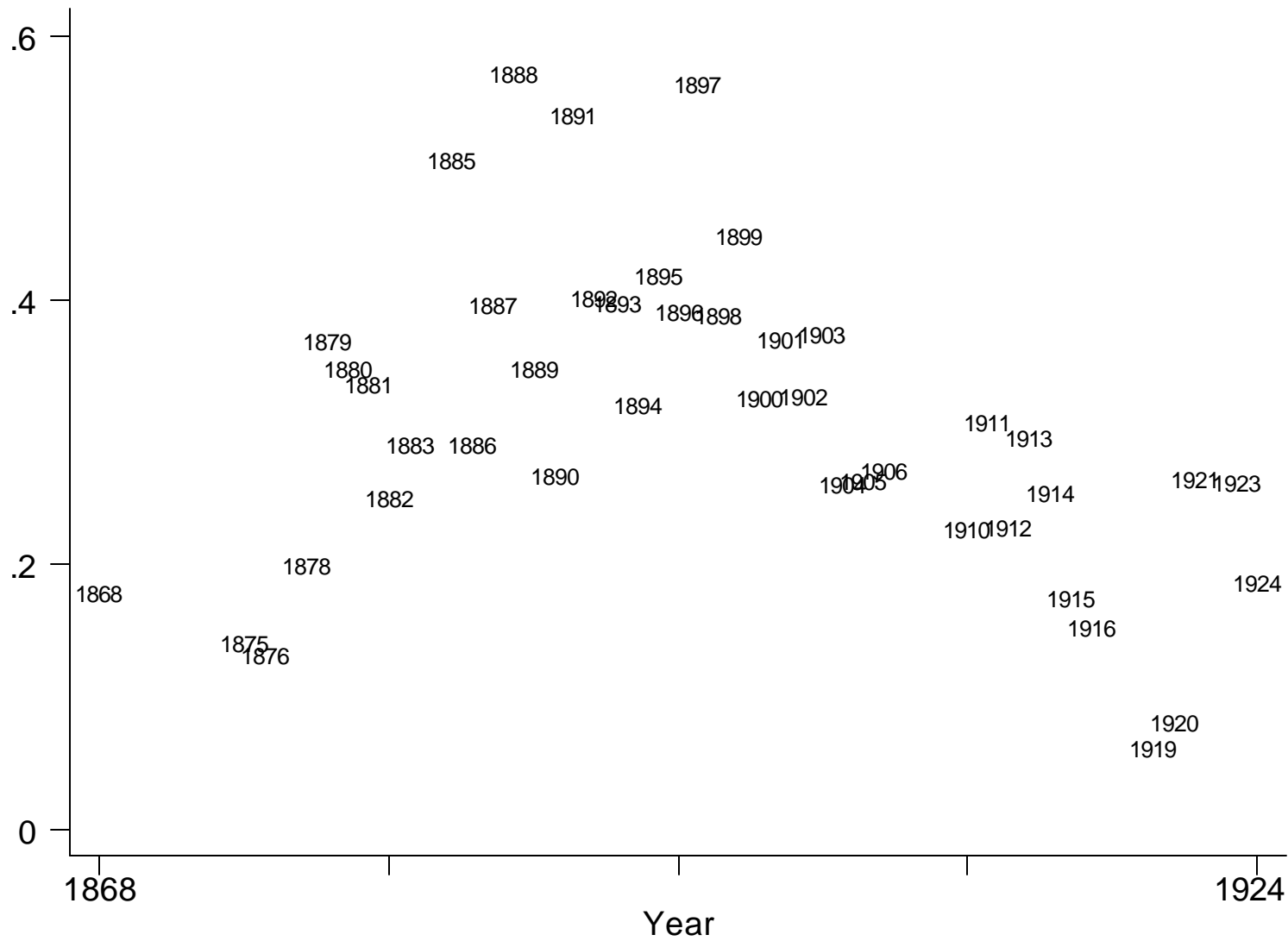
- With two issues the key is whether the group is policy relevant
- More extremism on the issue that the out-group is different on leads to more hatred
- Hating the haters can be an effective strategy
- Policies related to migration or segregation are natural complements to hatred

Race Hatred within the U.S.

- Discrimination against Blacks occurs throughout U.S. history, race history is focused in the 1870-1970 period and was built, especially from 1870-1900.
- Martin Luther King (after citing C. Vann Woodward) declared that “the segregation of the races was really a political stratagem employed by the emerging Bourbon interests to keep the Southern masses divided.”



"Negro Murder"/"January"



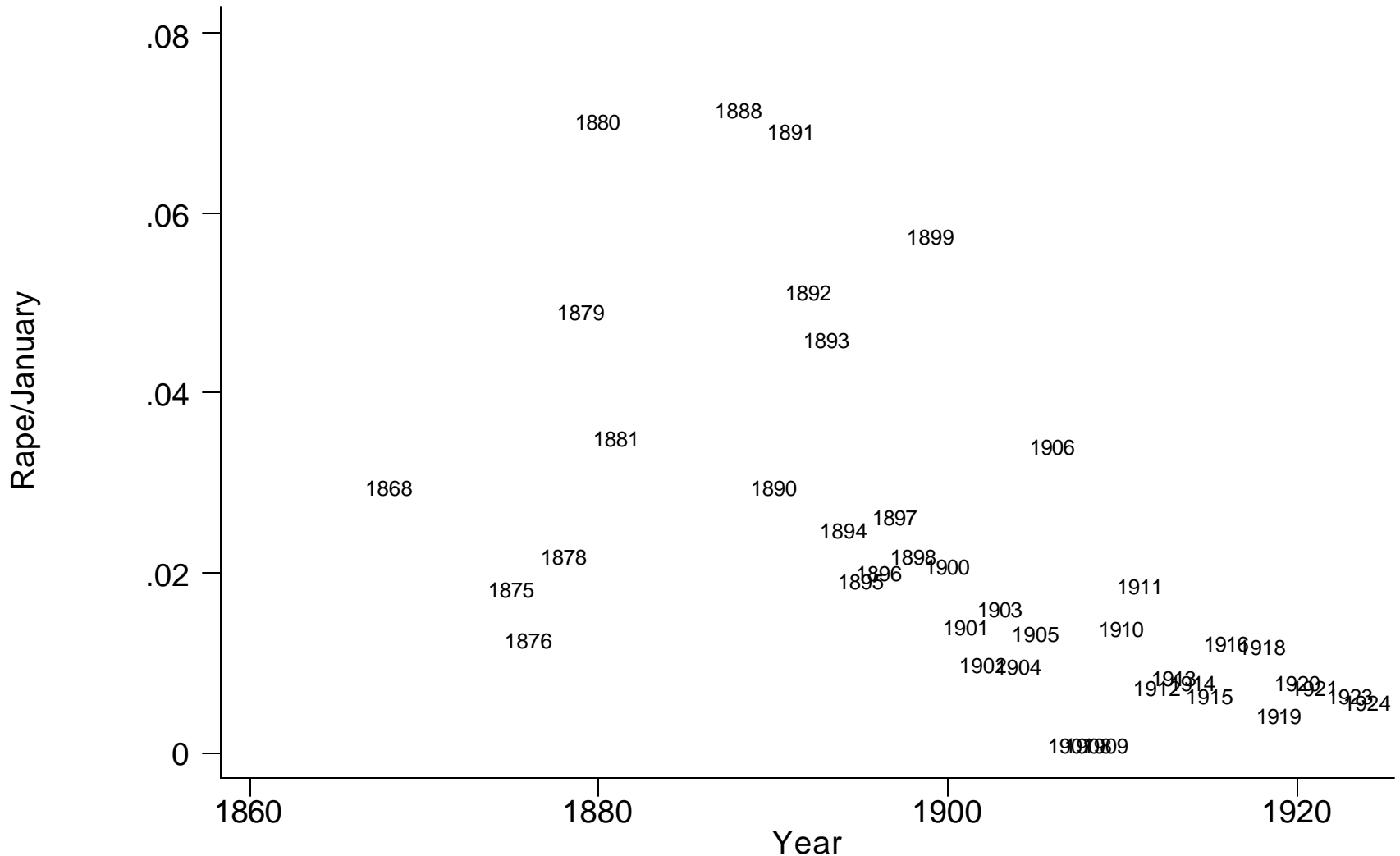


Figure 3: 'Negro Rape'/'January' in the Atlanta Constitution

Pre-Civil War

- Blacks are often seen as subhuman, but they are not seen as evil and worthy of attack.
- Generally, there was a paternalistic justification for slavery.
- A typical apologist for slavery, George Fitzhugh, wrote in 1854 that the black man “is but a grown up child, and must be governed as a child, not as a lunatic or criminal.”

Basic Pre-Civil War Story

- Eugene Genovese writes:

“Southerners from social theorists to divines to politicians to ordinary slaveholders insisted fiercely that emancipation would cast blacks into a marketplace in which they could not compete and would condemn them to the fate of the Indians or worse.”

After Civil War

- First battle is between Southern elites and the alliance between African-Americans and Republicans in the mid 1870s
- Woodward (1957) writes that “in order to gain power to overthrow the carpetbaggers, the conservatives had enlisted the support of the aggressively anti-Negro whites in the struggle for redemption.”
- First Ku Klux Klan
- But this quiets down after 1876

Understanding why race hatred rises between 1870 and 1910

- In the 1880s, depression created fertile ground for the first American party, the Populists, committed to redistribution from rich to poor.
- “More important to the success of Southern Populism than the combination with the West or with labor was the alliance with the Negro... Populists of other Southern states followed the example of Texas, electing Negroes to their councils and giving them a voice in the party organization.” (Woodward)
- “I have no words which can portray my contempt for the white men, Anglo-Saxons, who can knock their knees together, and through their chattering teeth and pale lips admit that they are afraid the Negroes will ‘dominate us.’” (Watson)

But the response was

- “Alarmed by the success that the Populists were enjoying with their appeal to the Negro voter, the conservatives themselves raised the cry of ‘Negro domination,’ and white supremacy, and enlisted the Negrophobe elements”
- “In Georgia and elsewhere the propaganda was furthered by a sensational press that played up and headlined current stories of Negro crime, charges of rape and attempted rape, and alleged instances of arrogance ... already cowed and intimidated, the race was falsely pictured as stirred up to a mutinous and insurrectionary pitch” (both from Woodward)

“Pitchfork” Ben Tillman

- Governor and Senator from South Carolina
- Reconstruction was an attempt to “put white necks under black heels,” and that “we will not submit to [an African American] gratifying his lust on our wives and our daughters without lynching him.”
- Tillman argued that among black males “murder and rape become a monomania” and that “the negro becomes a fiend in human form.”

James K. Vardaman

- Governor of Georgia who “won office by campaigning against negro education”
- He said (supporting whites who had attacked blacks in the Atlanta Riot of 1906) “I have no word of censure for the man who kills that character of destroyer of the home” (i.e. African-Americans), and
- “civilization cannot be suited to low-browed, veneered, semi-savage negroes.”

Impact for Redistribution in U.S.

- Populists were generally beaten back– Southern elites were very successful
- Populists realigned themselves so that their policies specifically excluded giving anything to African-Americans
- They thereby lost a significant voting block, especially since the group lost the ability to vote.
- The outcome was far more right wing than it would have been if blacks had been able to vote and there was no hatred

Decline of Race Hatred

- Tom Watson by 1906 said the black man “grows more bumptious on the street, more impudent in his dealings with white men, and then, when he cannot achieve social equality as he wishes, with the instinct of the barbarian to destroy what he cannot attain to, he lies in wait, as that dastardly brute did yesterday near this city, and assaults the fair young girlhood of the south...”
- Key lessons– strategic, related to policy relevance, not related to truth

Anti-Semitism in 19th Century Europe

- Political, not religious, and big in Russia, Germany, Austria, mixed in France
- Not in U.S., U.K., Italy or Spain
- Key ideological divide in the first country is king vs. constitutionalism (Kaiser in 1871)
- The Austrian empire “a political system so flagrantly out of step with the spirit of the times needed at least one strong ideological ally; this ally by a process of elimination could only be the Church.” (Kann)

19th Century Anti-Semitism

- Cohn (1956) wrote “the Right (conservative, monarchical, ‘clerical’) maintained that there must be a place for the Church in the public order; the Left (democratic, liberal, radical) held that there can be no (public) Church at all.”
- And “Jews supported the Left, then, not only because they had become unshakeable partisans of the Emancipation, but also because they had no choice; as far as the internal life of the Right was concerned, the Emancipation had never taken place, and the Christian religion remained a prerequisite for political participation.”

If Jews are on the left, then right wing anti-Semitism follows

- “from Stoecker to Hitler, rightists rarely attempted to refute socialism, preferring to cite the high percentage of intellectuals of Jewish origin among socialist publicists as proof of its subversion” (Weiss, 1996).
- In 1892, the conservative party platform embraced anti-Semitism and pledged to “do battle against the many-sided aggressive, decomposing, and arrogant Jewish influence on the life of our people” (Weiss, 1996, p. 116).

Russia, Austria and France

- In Russia, the Czar used anti-Semitism to build up support for his pro-Church regime
- In Austria, anti-Semitism was actually used against the Emperor by Lueger
- In France, the right wing tried (Dreyfus) but were defeated by left wing strength
 - Zola describes the War Office that convicted Dreyfus as a “nest of Jesuits” prone to “inquisitorial and tyrannical methods.”

Italy and Spain

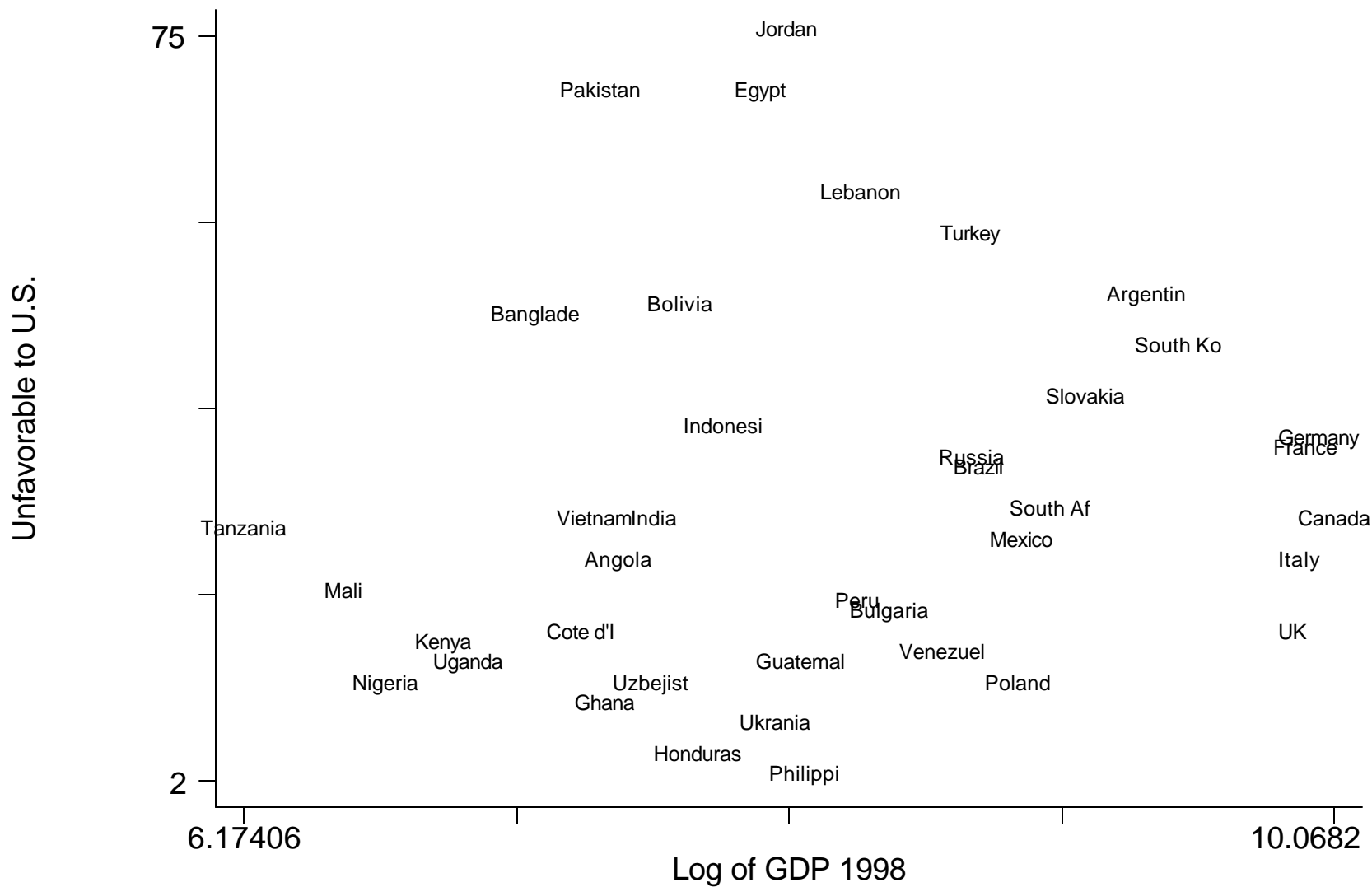
- Spain's easy– no Jews post 1492 (or at least 1600)
 - There was some anti-Masonic hatred that played a similar role (also in U.S.)
- Italy is more interesting– the modern state was founded on expropriation of the Pope
 - As such, the king and everyone in politics was excommunicated
 - As such, there was no church in politics, and Jews weren't policy relevant

U.S. and U.K.

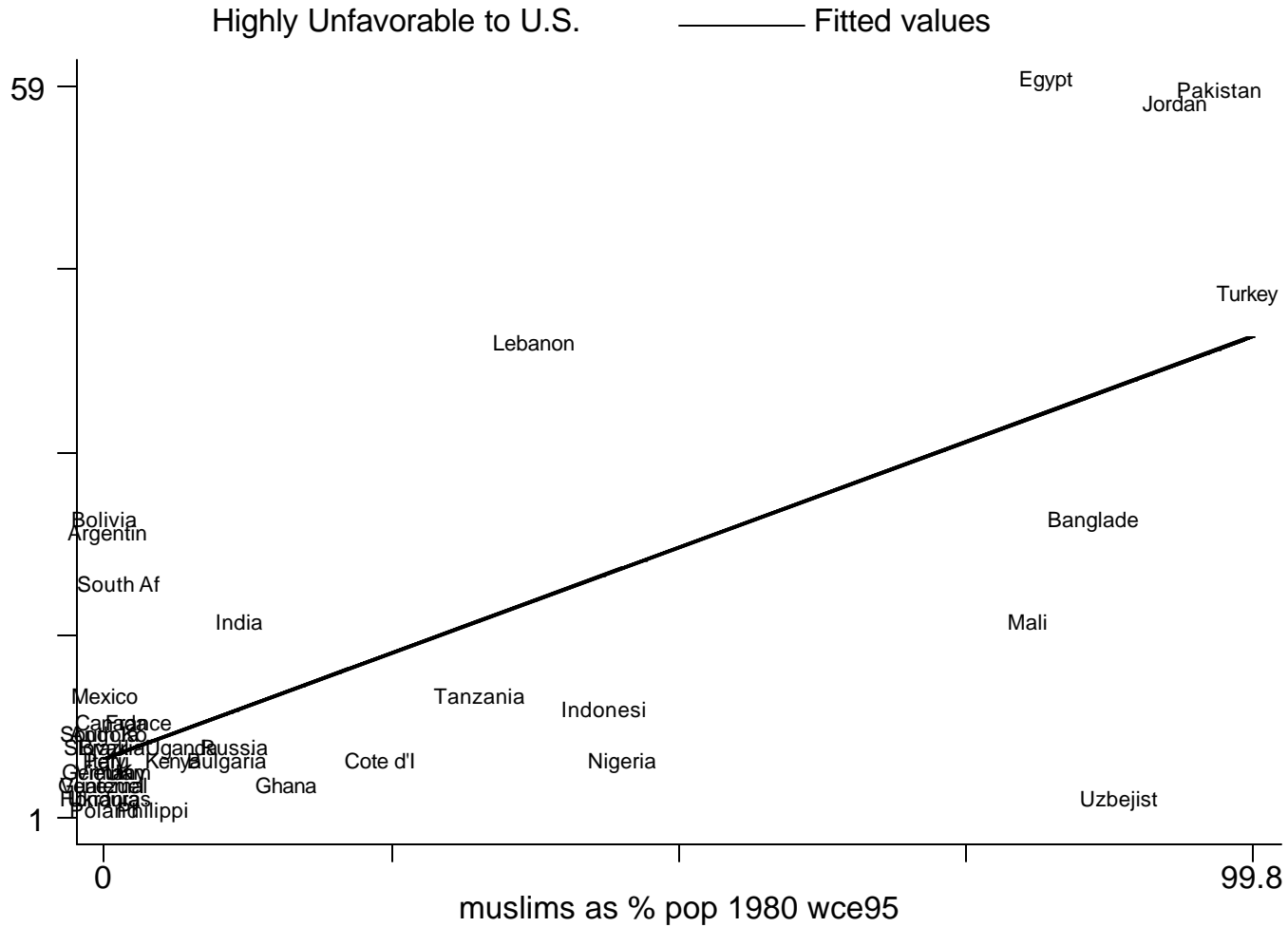
- Divine right monarchies and church and state issues were settled long before the 19th century
- As a result, Jews weren't particularly policy relevant and occupied both sides of the political aisle
- Disraeli and Judah Benjamin

Anti Americanism around the World

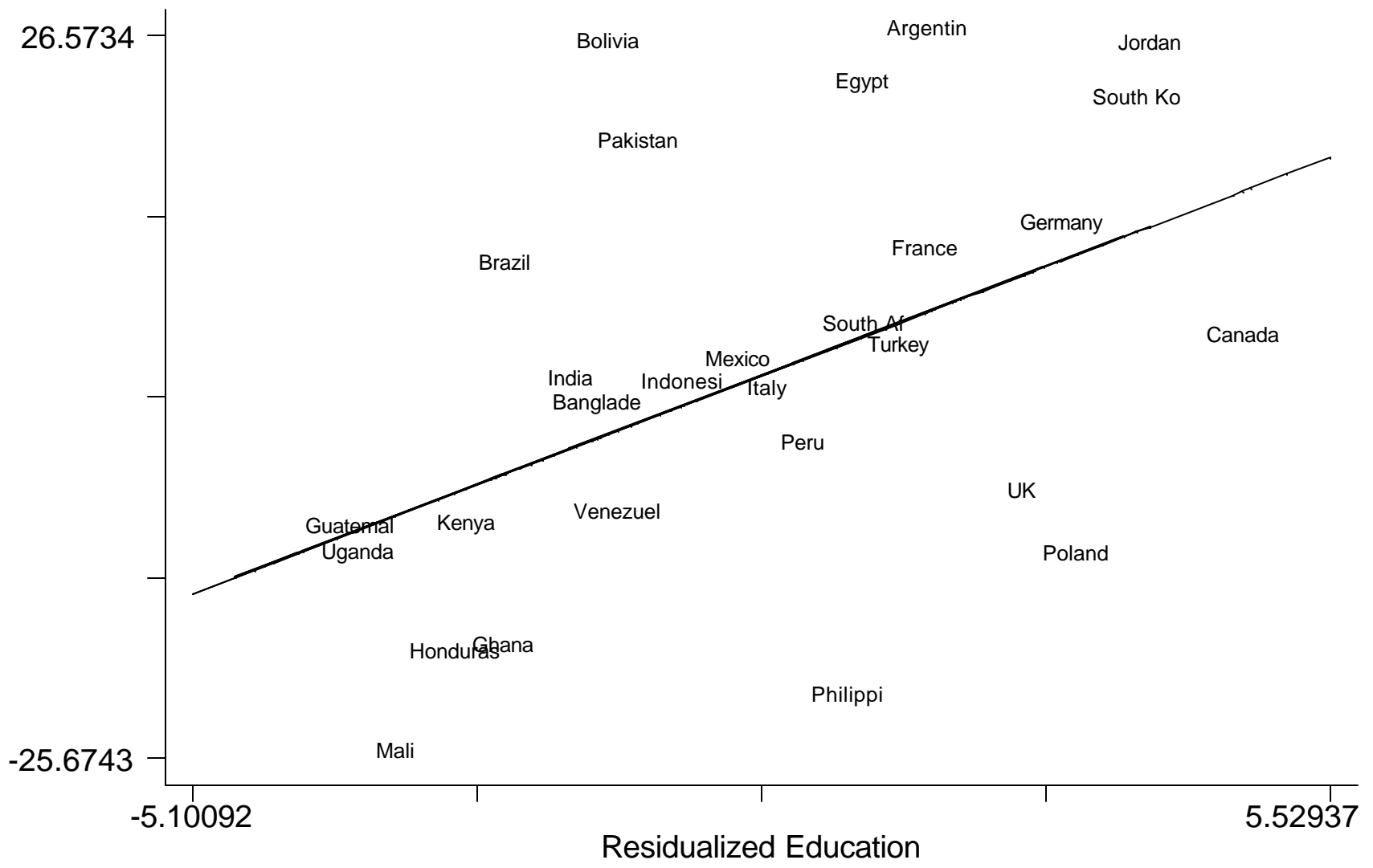
- Please tell me if you have a very favorable, somewhat favorable, somewhat unfavorable or very unfavorable opinion of the United States
- Vietnam 4% very vs. 8% for France and Canada (27 vs. 34 and 27 including somewhat
- Argentina 23 % very vs. 3% Guatemala and 2% Honduras (49 vs. 13 and 5)



Anti Americanism and Islam



Residualized Mild Anti-American — Fitted values



The Ideology of Redistribution

- Beliefs about the nature of poverty and income mobility are extremely different in the U.S. and Europe
- They do correlate, and possibly cause, low levels of redistribution in the U.S.
- But these beliefs do not appear to line up with reality (see slides above on mobility)
- Where do they come from?
 - The Indoctrination Hypothesis

Beliefs from World Values Survey

Belief	United States	Europe
Are the poor trapped in poverty?	29 %	60%
Does luck determine income?	30%	54%
Are the poor lazy?	60%	26%

What are the effects of these different beliefs?

“Sense of justice”: if you believe that luck (or inherited wealth) determines differences in income, you are more favourable to redistribution.

If you believe that individuals' effort and ability determines income, you are less favourable to redistribution

**Behavioral and sociological
explanations:**

Perceptions of poverty

Individual Level Evidence

- Americans believe that the poor are lazy; Europeans believe that the poor are unfortunate.
- At the individual level, these beliefs correlate with voting Democratic or identifying yourself as left wing.
 - 88 percent of those who think that the U.S. is spending too much on welfare think that the poor are lazy
 - 35 percent of those who think that U.S. is spending too little on welfare think that the poor are lazy
- There is no way to show causality here, but the correlations are strong and provocative.

Protestant Ethic

- * Culture based on wealth indicating your worthiness.
- * Frugality, working hard as way of showing your moral value.
- * Weberian view of protestant ethic as an engine to capitalism.

Evidence on the Religion Hypothesis

- At the individual level, protestantism doesn't correlate with these beliefs
- Across U.S. states, congregationalism doesn't correlate with these beliefs
- Across countries, protestantism doesn't correlate with these beliefs
- In short– there is little evidence suggesting that we are witnessing the long hard of Calvin.

Possibility of two equilibria

In Europe high taxes, disincentive to work and invest, a larger proportion of income is determined by inherited wealth and luck

In the US lower taxes higher investment, a larger proportion of income is determined by effort.

So both European and Americans may be right about what determines income, luck or effort.

But how can this square with the Evidence on mobility rates being Similar between the two areas

The Indoctrination Hypothesis

- Governments using education and public rhetoric convince people of the nature of poverty and income mobility— social influence not Bayes' rule determines beliefs.
- This doesn't necessarily change one's beliefs about the roots of one's own success, i.e. a French café owner may believe that luck determines income, but he still knows that he needs to work hard to get richer.
- Political beliefs may be different from real world knowledge.

Bayes' Rule vs. Indoctrination

- Exit Rates from poverty are higher in Europe than in the U.S., but beliefs are opposite.
- Work hours in the bottom quintile are higher in the U.S. than in Germany and the Netherlands (less than in some other countries).
- The difference in hours worked between rich and poor is also uncorrelated with beliefs.
- Even 19th century mobility is uncorrelated with beliefs.

Examples of Indoctrination

- The early attempt to sell America
 - 1624 John Smith: if a settler “have nothing but his hands, he may set up this trade; and by industrie quickly grow rich”
 - 1732 Georgia is “a land of liberty and plenty where [the poor] immediately find themselves in possession of a competent estate”
- The ideology of republican revolution
 - “If citizens don’t find themselves free and happy, the fault will be intirely their own” (Washington)

20th Century: U.S. vs. Europe

- “No one can deny the equality of opportunity that made us what we are” (Harding, 1921)
- “There are no limits to growth and human progress when men and women are free...” (Reagan, 1985)
- “The society in which we live is founded on privilege,” (Leon Blum, 1946)
- “unemployment with its injustice for the man.. who begs for labor and cannot get it” Lloyd George
- “In countries where the capital system of production prevails the masses of people are forced down to the condition of proletarians.” Karl Kautsky

Schooling in the U.S.

- “Every man is the maker of his own fortune,”
“even the poorest boy in our country ... has as good a chance of becoming independent and respectable, and perhaps rich, as any man in the country” McVickar (1835)
- “The road to wealth, to honor to usefulness and to happiness, is open to all, “ McDuffy (1848)
- “A course should assess the role of optimism and opportunity in the land of work” California

Schooling in Europe: 19th Century

- Weber (1979) writes that French schools taught that “hard work and rectitude were bound to bring improvement, internal and external”
- The Gregoire (shoemaker) stories
- Wilhelmine reforms attempted to show that “workers can expect justice and security only under the protection of the king” and to impart a “healthy” view of the state.

The Change in European Curriculum

- Even before World War I, the left wing German teachers union fought to teach values “compatible with the tenets of socialism.”
- In France, the big change is World War I
 - The unions were radicalized and the curriculum was too.
- In Sweden, since the 1950s the school system has taken on “a self-consciously democratic, egalitarian and secular value system.”

Evidence on Indoctrination

- Proportional representation strongly predicts beliefs about the causes of poverty.
- Land area of the country strongly predicts left wing outcomes (PR + redistribution).
- Land area also predicts beliefs
- Both of these variables seem uncorrelated with true mobility, but they are correlated with left wing power and with left wing beliefs.

Conclusions

The answer to the question of why the welfare states in the US and in Europe are different brings us back to long lasting historical and cultural differences between the two sides of the Atlantic.

- * Simple economic explanations fail.
- * Explanations based upon institutional differences go in the right direction but are incomplete because they do not tell us why institutions are different.

American Exceptionalism

- Political institutions seem to matter– particularly proportional representation.
- We interpret this as a proxy for a broad range of U.S. institutions that block transfers to the poor.
- This shouldn't surprise us– the founders of the U.S. intended these institutions to do exactly what they are doing.
- But Europe once had even more right wing institutions than the U.S.

The Deep Roots of American Exceptionalism

- European institutions changed because of general strikes and revolutions.
- These strikes were more effective in small countries with small armies and little distance between coal mines and capitol.
- In big countries, like the U.S., revolution only comes after military defeat.
- So one part of the explanation is large size and military success.

The Other Part: Ethnic Heterogeneity

- Ethnic divisions explain the other half of American exceptionalism.
- Cross-country, cross-state and individual level evidence all point to the importance of this heterogeneity in blocking redistribution.
- The history also confirms this.
- Which leaves fans of the European system on the horns of a dilemma:
Diversity or redistribution?