

Today we examine the welfare state. Today's lecture on Iraq will not be on the final (although of course you are free to use the case), and I am happy to answer any of your questions about social capital during office hours.

In many ways Alesina and Glaeser's comparative account of European and American welfare states draws from the second half of the course: institutional design — presidential vs. parliamentary systems as well as plurality vs. PR electoral systems explains about 50% of the variation in European and American welfare states. It also provides an opportunity to discuss how and whether racial heterogeneity makes it more difficult to redistribute wealth or establish collective public goods and social insurance.

Before we get into Alesina's explanations centered around political institutions and the effect of societal racial and ethnic diversity, I want us to spend a little time on why states redistribute and some of the economic theories that motivate these discussions which were only touched upon in your readings.

Just thinking very broadly:

Why do democracies redistribute?

Median Voter Theory. **Meltzer Richards**

In every democracy the median voter — the person with the income that is 50% above and 50% below everyone else has a lower income than the average income.

Assumptions of the model are that there is one person, one vote, and that taxes and transfers occur in a lump sum. You pay x amount and then all the money is pulled divided equally and redistributed.

In capitalist societies the mean income will be higher than the median income.

The model predicts that the policy will be determined by the median voter's preferences, which rationally will be to set the tax rate so there are positive tax rates and positive transfers. It also predicts that the greater the difference between median and mean income the more redistribution will occur.

Social Insurance. About addressing common risks in an efficient way. Public healthcare costs less. This may be good for business since it reduces the cost of providing healthcare. And it may even be better for people at the top end of the spectrum because they are able to get certain services for less.

Social investment theories that some welfare provision alleviates market failures

Unemployment insurance, if structured in the right way, may provide workers who lose their jobs to find another job that fits their skill set and maximizes their productivity. Without this protection they may be forced to accept the first job offer they get rather than the optimal one.

Free education may increase the skills of the population and thus the productivity levels of the economy

Public Healthcare may help keep down the price of healthcare, and therefore be good for business. The U.S. actually spends a similar percentage of its GDP on public healthcare spending than most other countries. It is just that unlike Canada, the U.S. only covers half of the population with these expenditures, while Canada covers everyone.

Iversen and Soskice have argued that certain kinds of labor protection regimes and vocational training programs may be necessary for overcoming collective action

problems in the provision of getting workers to invest in certain skills. These see labor institutions in Germany as necessary for their economies, not detriments.

Welfare may be a political tradeoff that allows unions to agree to lower wages and thus create more competitive industry [Corporatist systems]

Public goods like universities, workforce training could increase the productivity of the work force. Many of these investments would not be efficiently provided by the private sector.

Why Would Non-Democracies Redistribute

Economic reasons.

Social stability. Social functioning.

The first welfare system in the world was Bismarckian. It was an explicitly top-down program.

Why would non-democracies redistribute?

Why do democracies not redistribute so much that all incomes are equal?

There's a cost to some forms of redistribution.

But Meltzer-Richards does not describe reality. While it is true that in every affluent, developed democracy we see some level of redistribution, it is not true that the most unequal democracies redistribute more. This phenomenon has been called the Robin Hood Paradox.

A and G find that across countries and across US states, that that are most unequal pre-tax and transfer actually redistribute less, and vice versa.

So how do Alesina and Glaeser explain this puzzle? — Their puzzle is why does the US redistribute so much less than in Europe, despite being similar in a variety of ways.

Political Institutions.

1. *Socialist/ Labor Parties/ Movements*

2. *Political Institutions*

— Electoral Institutions

Plurality (Plurality electoral systems usually involve geographically delimited districts which encourages geographically targeted spending programs — pork, etc.)

PR: Less geographic delimitation, which favors universal benefits

2. PR systems are multiparty, which creates greater opportunities for labor parties, rather than centrist ones.

Iversen explains it in terms of three class groups. Because the Lower Class cannot credibly commit to the middle class that it will only soak the rich and not just the middle class, the M voters tend to ally with the rich even though they might benefit from taxing the rich. Whereas in a PR system the middle class can always leave the coalition if workers pursue policies that they do not like. Think of Nyborg's middle class party [Borgen reference].

Central vs. Decentralization. Why can't American states take up redistribution? (to a certain extent they have, but there are limits in taxation ability given that the US federal government collects more than two thirds of total taxes.. also balanced budget

requirements. may be competitiveness disadvantages for industries, also tax competition

Separation of Powers/ Checks and Balances

More Veto Points. More Opportunities to stop reform.

Not only are there separated powers in the US, but each power is divided among multiple entities (e.g. legislative powers held by House, Senate, states, and (some would say) courts and bureaucracy)

Why might the Courts be anti-welfare? (status quo bias, property rights orientation, differential access for rich)

Senate. Millionaires Club. Disproportionate influence in Ag states, small states. State Legislature. Expensive to get elected. Seniority Rules. Courts were also very anti-labor
More veto points in the U.S. We know that veto points have a status quo bias.

The Courts and the Senate historically have been a barrier for redistribution. In fact the courts overturned every major New Deal reform before Roosevelt threatened to change the constitution and add 6 new justices to the SC.

***But institutions are partly endogenous. They can be changed. As they have been in Europe. Why haven't they in the US context?**

PR depended on left power

Institutions did not change because of:

1. geography (vast space meant that disaffected could move west, also limited ability for movements to threaten the state)
2. ethnic and racial heterogeneity (divisions weakened labor movements)
3. military success (US never lost a war on its own soil). The Left Never Really could threaten the state. (In Germany the spartacist socialist revolution almost happened following Germany's defeat in WWI; in Russia, the rev happened during WWI)

2. Race. And in this regard we can think some about constructivism vs. primordialism

Find a connection between racial fractionalization and social spending both between countries and between US States

When the poor are disproportionately of a particular race, this may limit the willingness of middle and upper income people to support redistribution.

In the US the most successful movements were agrarian populist movements. But these movements could never win a national election because of racial division.

Why do Alesina and Glaeser predict that racial division will be exploited? (When the minority is small and segregated, and when they are affiliated with one political party)

What's missing from A and G?

Policy Design. They forget about the design of policies themselves The ones in the US that have been more universal like Medicare or Social Security have stuck around and not faced retrenchment pressures. While income based programs have often been targeted or eliminate (or at least not updated)

Esping-Andersen sees there are three types of the welfare state

Dimensions of welfare regime types

1. quality of social rights
2. social stratification
3. Relationship between state, market and family

Types of Welfare - Must Welfare Redistribute?

In many Latin American countries we see regressive taxes and heavy expenditures on middle class public goods — free university education, Marshall's welfare state is about social citizenship. By providing people with social rights that are inviolable, their labor is de-commodified.

This is a result of democracy -- median voter privilege

Welfare state is a way to reconcile the tension between capitalism and democracy.

Social stratification / Preserve capitalism

Is Redistribution always motivated by redistribution?

Often it has not been about income at all. Rather transferring resources from the healthy to the sick, from the young to the old, from the abled to the disabled, and from the employed to the unemployed.

The motivation has sometimes been to alleviate societal risks — including the risk of sickness, the risk of getting injured on the job, the risk of losing one's job, the risk of being old and unable to support oneself.

A *Social insurance* view of welfare has very different implications for why it might be supported, even among voters above the median in certain contexts — who nevertheless appreciate having parental leave, free child care, free health insurance, and free universities.

It may help explain why in the last Swedish election, no party had an anti-tax platform.

The right-of-center party promised not to lower taxes, and the socialist party promised to raise them, and the socialists won.

Conservative Response

---Bismarck's social welfare state: Use status-specific insurance funds to

1. Divide workers into different categories

2. Tie workers to the state

The character of the welfare state underpins various forms of social stratification.

Insiders vs. outsiders.

Deserving vs. undeserving. (Greatest Generation vs. Young)

Rich vs. the Young

Citizens vs. Non-citizens

Difference preference groupings, and lines of cleavage in the electorate.

The conservative welfare states reinforce this multiplicity of privileges.

Questions:

Do you see any of these elements at work right now, as the Affordable Care Act is implemented.

Has racial division in American public opinion shifted? (A recent poll shows that 64% of African-Americans think that Darren Wilson should be punished for killing Mike Brown, while only 22% of white Americans do).

They forget about the particular legacy of slavery and the Southern social system rather than just fractionalization. The increasing number of Latinos in California has not necessarily made the state less redistributive.

Do you think it will change as the U.S. becomes less white and more racially diverse?

Do you think that now that Europe is becoming more ethnically and racially diverse that this will undermine redistribution?

We know that views about redistribution are quite different between the US and Europe. Europeans believe that birth determines status and are trapped; Americans that anyone can pull themselves up with the right opportunities. Do you think these differences in ideology determine social welfare systems or do you think social welfare systems condition these ideologies? Can ideology change?

(Socialists ideas in both countries, but only in Europe were they institutionalized/ indoctrinated. In the US ideology dominated by the right.)

Conclusion:

As you can see from the case of social welfare, all of the variables that we discussed this semester — from institutions, to class relations, to development, history and leadership all interact in sometimes-unpredictable ways. On the one hand this can be frustrating for social scientists that seek to understand the world in terms of systems and predictable relationships. But it also makes our task far more exciting — and means that even the most intractable of problems could yet still be solved, just as the most stable of systems could be displaced.

Berman

Sheri Berman, who we read a few weeks ago, argues that civil society flourished during the Weimar era, and those mostly likely to join Nazi party were actually quite involved in associational life and activists . It was weak political institutionalization rather than weak civil society that caused the collapse. She argues that Germans joined clubs, voluntary associations, and professional organizations out of frustration with the failures of Weimar. Associations generally occurred within societal groups, rather than bridging across (and parties also failed to cross lines other than Zentrum). Could have the effect of organizing people against the system, or that served as a substitute for weak parties --- i.e. Stahlhelm veterans helping elect Hindenburg in mid-20's. Thus it was rich associational life that formed the training ground for Hitler's NSDAP party. It was Nazis who finally managed to do what the Social Dems had long done for the working class – connect associational life with political parties in an organized way that tapped into mass politics and that was cross-class in orientation. Thus, civil society did connect Germans to political life, but in ways that undermined democracy

* What does Berman's study mean for our understanding of the relationship between social capital and democracy?