

## Why Americans Don't Care About Income Inequality

Nathan Glazer

This presentation will be somewhat out of the current of the main line of presentations at the seminar of inequality. It is not based on original empirical research, as is the case with all the presentations I have attended, and I believe almost all the others. It is in a sense a metaquestion about inequality, since it asks, whatever the causes and nature of inequality in the United States, why don't Americans care much about it? Of course that raises immediately an empirical question which I will try to answer from public opinion research to demonstrate that indeed Americans don't care much about inequality: That is, they don't care much about it when we compare Americans with the people of other developed, wealthy countries, and they also don't care much about it when compared with certain periods of our own past, such as the Depression and World War II, when inequality seemed to be more of an issue.

For example, in the early days of public opinion research, which coincided with the later years of the Depression and World War II, public opinion research organizations used to ask questions such as, should there be a maximum limit on salaries or income? Jennifer Hochschild, 20 years ago, for her book What's Fair? American Beliefs About Distributive Justice (Harvard, 1981), tried to find all the questions that had ever been asked in national surveys about attitudes toward inequality. She found seven, the last in 1976, asking whether people agreed that "the government should limit the amount of money any individual is allowed to earn in a year." Nine per cent agreed. This rate of agreement was even lower than that received by an even tougher question testing attitudes on inequality, "Every family in this country should receive the same income, about \$10,000 or so," asked in 1969. That position was endorsed by 13 % of the sample. When responses are that one-sided, it is understandable that the question is dropped. I do not know if it has been asked again since 1976, but I suspect not. When we ask in public opinion surveys, what are the most important issues facing the nation today, we do not find inequality prominent--crime, education, the state of the economy, have in recent years headed the list, and I assume terrorism has recently been added.

This is in a way surprising because the United States is the most unequal of economically developed countries. And that inequality has been increasing (as it has in the other economically developed countries with which the United States is most usefully compared). I will not discuss the complex question of why inequality has been increasing, one on which there has been much

advanced and sophisticated econometric analysis. My question arises from the initial fact that inequality is not a big issue in the politics or indeed the public opinion of this country when it is in fact a big issue in reality, as demonstrated by our unique position as the most unequal of the major developed nations. Clearly one explanation of why Americans don't care about inequality will have to be put aside at the outset, and that is that they don't care about it because it is not much of a problem here.

A second possible answer has to be put aside at the outset, though that would require more sustained demonstration, that is that they don't care about inequality because whatever the peaks of income the rich reach, the poor do pretty well in America. Some do make that case (by, for example looking at measures of consumption rather than income), but the presence of the homeless, of beggars, of homeless shelters, of soup kitchens, and the like, an array of visible circumstances and institutions that we do not see in other developed nations, will lead us to conclude that the condition and circumstances of the poor should or could indeed raise questions, and should play a larger role in our consciousness and politics.

One could argue that while Americans don't care about inequality they do care about poverty or impoverishment, a distinction about which one can make a good deal, both in political philosophy and public policy, and that our policies provide a safety net that protects against impoverishment. But attractive as that thesis is--and it has been argued--in fact we do not have such a safety net, compared to other advanced and wealthy nations. While Americans may be more sympathetic to the idea of providing such a safety net than they are to the idea of reducing inequality as such, we actually do not provide, as is well known, the safety net we can find in European countries.

My own thinking on the question goes back to a paper I wrote almost 20 years ago, stimulated in part by Jennifer Hochschild's book of 1981, and to an article I wrote about 15 years ago, which asked whether the American welfare state was undeveloped, or laggard, or simply different from those of Europe. And my return to thinking about this issue, stimulated by this seminar, has been assisted by a very recent paper by professors Alberto Alesina and Edward Glaeser of our Economics department (Bruce Sacerdote of Dartmouth is a co-author), "Why Doesn't the United States have a European-Style Welfare State?" (Brookings Papers on Economic Activity, 2/2001; henceforth AGS). The two questions are somewhat different but clearly linked. The second question--why doesn't the United States have a European-style welfare state?--is logically consequent on the first--why don't Americans care about inequality? The question of why the United States does not have a European-style welfare state leads us to ask first about

its institutions, while the question of why Americans don't care about inequality leads us first to ask about the opinions and beliefs which we may assume shape our institutions. (Of course the relationship could go the other way.) But both questions lead us in the end to opinions, beliefs, values. And indeed the three economists who have made this recent inquiry into the question of why the United States does not have a European style welfare state, after first considering economic explanations and political explanations, do in the end decide that most important are the "behavioral" explanations, as they call them, which seem to be based on the distinctive beliefs of Americans. That doesn't end our regress to causes, because we would then have to ask, why do Americans have such distinctive beliefs, which leads us back to history and institutions.

Because AGS are so systematic in their approach to the question, and depend on the most recent evidence from the most authoritative sources, I will begin by laying out their argument.

The evidence that the United States is indeed a laggard or different from European welfare states will be familiar to most of you. The US does much less than European countries in redistributing income to assist the condition of the worse off. Transfers and other social benefits, which we may assume go mostly from people with more income to people with less income, though we know of course that that is not uniformly the case, amounted in 1999, according to the OECD, to 11 % of GDP in the US, and 18 % of GDP in the countries of the European Union, with a range among the larger European nations from 20 % in Germany and France to 16 % in the United Kingdom (p. 4--I will be rounding off to whole numbers regularly in this presentation). The US is particularly deficient in family benefits and unemployment and labor market programs--1 % of GDP for these, against 5 % in the European Union, and a whopping 8 % in Sweden. But it also lags behind in old age, disability, and survivor's benefits, 7 % versus 12 % in the European Union, and 15% in Sweden. AGS also argue that "marginal tax rates in the United States are higher than in Europe for low levels of income... and lower for higher levels of income." (7,8). This is surprising to me, in view of the larger role of indirect and consumption taxes in Europe, but it is not necessary to argue this matter here.

These differences also extend to the treatment of the working poor, and make it difficult to sustain the argument that Americans do care about the condition of the poor, but make a distinction between the working and the non-working poor. This may be true, but the fact is the United States is also distinctive in its lack of support for the working poor. The legal minimum wage in the US in the early 1990's was 39 % of the average wage, as against 53 % for the European Union. It also provided much less in labor standards, employment protection, and unemployment benefits (p. 13). Its unemployment benefits are

below that of most European Union countries. Only the United Kingdom matches it in miserliness--but in the UK one may get these benefits for 4 years as against 6 months in the US. It is notorious that the United States does not require employers to provide any paid vacations, while European countries mandate on average 4 weeks, France and Sweden 5.

AGE assert that this pattern of a smaller government and a smaller welfare state is evident as far back as we can go: "From the very beginning of the expansion of the public sector in the late 19th century, the United States and Europe show very distinctive patterns. Although the ratio of welfare spending was already high at the end of the 19th century, the absolute difference grew as the welfare state expanded both in Europe and the US.... " (pp. 7,8) The distinctive American pattern is then of long standing. This makes it difficult to explain the current pattern by recent political events such as the Reagan administration. It also reminds us that the recent increase in inequality seems to precede both the Reagan administration in the US and the Thatcher administration in the UK. This is not to exclude political factors in affecting inequality and poverty and the size of the welfare state, which would be silly, but it does remind us that there may be larger factors that operate independently of given administrations and their philosophies.

What then are these larger factors? They could, according to AGS, be aspects of the American economy, of the American political system, or something else. We might consider that something else social factors, or factors of deep-lying American values, or the character of beliefs and opinions, but AGS use the term "behavioral" to characterize these non-economic and non-political factors which could explain why the United States is divergent. They develop a formal economic model to explain why the United States might not have a European-style welfare state, a model which despites its formidable mathematical form operates on some simple assumptions, that economic factors will affect the self-interested political decisions of people, and these will affect the policies of government in a democracy. Some of the economic factors that distinguish the United States should according to their model lead us to expect that the US would have more of a welfare state than Europe. Thus, the United States has more income inequality than Europe, a factor that in their model favors a larger welfare state. They give a before-tax Gini coefficient for the US of 38.5. and an average for Europe of 29.6. Why then don't the larger number of those below the median of income in the US vote to improve their condition by demanding a larger welfare state, more redistribution from those above the median to those below? That is a large question, and there are a number of possible answers, which AGS are aware of, such as that political power is dependant not only on votes in a democracy but on money.

But there is another economic explanation which will play a large role in the rest of this talk and which AGS do discuss: If there is more social mobility in the US than in Europe, and if those with less income expect that in time they will have more income, they may be less concerned with the protection that a safety-net or a developed welfare state provides. It seems the evidence on whether there is actually more social mobility in the United States than in Europe is unclear--it has surprisingly been unclear since Lipset and Bendix began studying this question 40 years ago. But whatever the situation regarding the facts about social mobility, it is clear that beliefs about social mobility are very different in the United States from what they are in Europe. AGS report, using the World Values Survey, that "71 % of Americans, but only 40 % of Europeans, believe that the poor have a chance to escape from poverty." (pp.16-7) It seems even in discussing economic factors one has to go to beliefs.

AGS also discuss various distinctive American political factors--in particular, the electoral system, the absence of proportional representation, which deprives third parties and minority parties of opportunities to gain representation, and the absence of a major Socialist party--but as in their discussion of economic factors, they again settle on issues that we would consider matters of values or beliefs. Thus, why is there is no large Socialist party in the history of the United States? Perhaps factors of political structure help explain it. But just as in the case of social mobility, values or beliefs may be more important than political structure. Lipset and Marks, in their comprehensive book on this interesting question of why the United States never had a large Socialist party, are quoted by AGS, to the effect that, in contrast to European workers' movements, and as far back as we can trace them, American workers' movements demanded equality of opportunity rather than equality of results (pp. 37-38). They were more interested in opportunities for social mobility than in equality.

Finally AGS come to their "behavioral" factors, and here they hit pay dirt. Recall that in discussing economic factors, they found beliefs and values crucial--the belief that social mobility is possible, available, probable, regardless of its presence. Recall that, discussing political factors, they again came to beliefs and values--that equality of opportunity is more desired than equality of results. Discussing "behavioral" factors, they find one that is decisive, far out-ranking in the various regressions they provide any other, and that is the racial factor. The empirical evidence they give for this result is extensive. It includes a cross-country comparison relating social spending to a measure of "racial fractionalization" (p. 46), which is not very convincing to me, and a cross-state comparison with the United States relating the percentage of blacks in a state to the size

of the welfare benefit, which is rather more convincing (p. 50).

But it is beliefs, values, that seem most compelling here, beliefs and values that are in large measure dependant on American racial history and racial prejudice: "Opinions and beliefs about the poor differ sharply between the United States and Europe. In Europe the poor are generally thought to be unfortunate, but not personally responsible for their own condition. For example, according to the World Values Survey, whereas 70 % of West Germans express the belief that people are poor because of imperfections in society, not their own laziness, 70 % of Americans hold the opposite view.... 71 % of Americans but only 40% of Europeans said ...poor people could work their way out of poverty."(51)

Is it just a matter of belief, or if you will, of false consciousness, that the poor (as well as the middle class and the upper class) submit to the hegemony of prevailing ideology? AGS ask, well, is there some basis to this belief that the poor can work their way out of poverty, and to the further belief--as we will develop below--that the nonpoor owe their good fortune to their efforts? It seems there may be something factual to this: "There is a strong positive correlation between earnings and hours worked in the United States." (p. 52) People in the top quintile work longer hours than people in the middle quintiles in the United States. People in the lowest quintile work much fewer hours. Patterns in Europe are different. In Sweden, all work the same number of hours. In Italy and Switzerland, the poor work longer hours. AGS note too that there is a also a relation between the belief that luck determines income and the amount of social spending in a country. The United is lowest on social spending, and lowest too in believing that luck determines income. (58) But behind all these differences they are impressed by the racial factor. Their conclusion:

"Racial fragmentation and the disproportionate representation of ethnic minorities among the poor played a major role in limiting redistribution.... Our bottom line is that Americans redistribute less than Europeans for three reasons: because the majority of Americans believe that redistribution favors racial minorities, because Americans believe that they live in an open and fair society, and that if someone is poor it is his or her own fault, and because the political system is geared toward preventing redistribution. In fact the political system is likely to be endogenous to these basic American beliefs."(p. 61) "Endogenous" is economics-ese for saying we have the political system we do because we prefer the results it gives, such as limiting redistribution to the blacks.

Thus the racial factor as well as a wider net of social beliefs play a key role in why Americans don't care about income

inequality, and why, not caring, they have no great interest in expanding the welfare state. Does this conclusion hold up?

I believe in large measure that it does. It parallels the conclusions of political scientists and sociologists who have been studying this question for 20 years or more, and indeed it parallels with only small differences the reasons I gave 15 years ago for why the American welfare state is different. I would modify their conclusion in two key respects. I believe the specific racial factor that emerges so sharply in their regressions has to be embedded in a larger structure of opinion shaped by the history of American diversity, in religion, in ethnicity, and in race, and it is this larger structure that is the key factor in shaping the American welfare state. It has shaped it in such a distinctive pattern that, as I argued more than 15 years ago, it is not to be seen as laggard, or backward, but rather different. ("The American Welfare State: Incomplete or Different?", in Richard Rose and Rei Shiratorui, ed., New York Oxford University Press, 1986, reprinted as Chapter 9 in The Limits of Social Policy, Harvard University Press, 1989).

I do not know whether we could establish this by means of the regressions favored by economists: We would have to go back 250 years ago to ask how the increasing sectarian divisions in the original colonies affected the welfare institutions of the New England colonists, 150 years to ask how the incoming Catholic Irish were seen and how their needs were met and how the entry of this very different group affected the development of our welfare institutions, we would have to go back 100 years to ask the same questions about the incoming Italians and East European Jews. We would have to look at the history of American social institutions and note how what were originally state institutions or the institutions of a dominant and established religion, following the patterns of Europe, were broken, divided, and privatized under the impact of increasing religious and ethnic diversity. And so Harvard College, founded as an institution of higher education by the Bay State Colony and its established religion, mutated by 150 years ago into a private and independent institution, no longer supported or governed by the state or by a dominant religion, an institution of a type that did not exist in Europe. The establishment of what might have become in time a uniform state public educational system was broken by the immigration of the Catholic Irish. Immigrants were cared for by religious social welfare institutions that had already been established to take care of their coreligionists or by institutions that they started on their own. A pattern of nonstate care was established. Alongside that the American welfare state grew, much later than in Europe, and different from in Europe. In the United States, the state entered the path of modern social provision for those affected by an industrializing society late, and it never fully replaced the pre-existing order

of diversity and nonstate provision in social welfare. That pre-existing system still exists and it is very extensive. AGS give us the astonishing estimate that charitable contributions in the United States in 2000 amounted to \$691 a person, compared to \$141 in the United Kingdom and \$57 for Europe as a whole.

The United States begins, in its founding colonies, Northeastern, Southeastern, Southwestern, as offshoots of Europe bearing various characteristics of the societies from which the founding settlers came. But initial uniformities were succeeded by a diversity which overwhelmed and replaced state functions by nonstate organizations, and it was within these that many of the services that are the mark of a fully developed welfare state were provided.

Where do the blacks fit in? The situation of the blacks was indeed different. No religious or ethnic group had to face anything like the conditions of slavery or the fierce subsequent prejudice and segregation to which they were subjected. But the pre-existing conditions of fractionated social services affected them too. Like other groups, they established their own churches, which provided within the limits set by the prevailing poverty and absence of resources some services. Like other groups, too, they were dependant on pre-existing systems of social service that had been set up by religious and ethnic groups, primarily to serve their own, some of which reached out to serve blacks, as is the case with the religiously based (and now publicly funded) social service agencies of New York City. They were much more dependant, owing to their economic condition, on the poorly developed primitive public services, and they became in time the special ward of the expanded American welfare state's social services. Having become, to a greater extent than other groups, the clients of public services, they also affected, owing to the prevailing racism, the public image of these services.

The contrast with Europe is striking. European family benefits--credits or payments for each child--, which do not exist in the United States, were seen in Europe as being in effect for all: they may have been initiated because of fear of population decline, but in general state aid to help large families in ethnically and religiously homogeneous nations were seen as means of strengthening the nation. One wonders whether such benefits will be as generally accepted as the immigrant and Muslim populations of the European welfare states expand, and maintain as is typically the case today larger families. A visiting Norwegian economist notes in conversation the large families of Pakistani immigrants in Norway who can live, without working, on family benefits, and who indeed continue indeed to receive these benefits if they return to Pakistan. Even the model services of the Scandinavian countries may be strained by such developments.

There is a second respect in which I would add to or modify AGS. I believe our characteristic system of beliefs, or if you will values, while shaped by diversity and the racial factor, also have an independent origin. It owes a great deal to our founding as a pioneer society, and one founded by English settlers. This is a very complex matter, and what is English or Scottish or Welsh or Scotch-Irish, and what is Calvinist or Presbyterian or Anglican, in our founding would be very difficult to sort out, and is beyond my capacities to do so. But there is a distinctive pattern of values we see in the United Kingdom as well as in the United States, and that we can also discern to some extent in other settler societies founded by the English, centered on this belief in effort and merit and opportunity as against egalitarian provision by the state. Note a table comparing the United Kingdom with Germany, France, and the Netherlands, on income maintenance, on a measure of "egalitarianism," on the tendency to blame the poor for their condition. It comes from a paper by Rudolf Klein, "Values, Power and Policies," in The Welfare State in Crisis (OECD, 1981, pp. 169-170, reproduced in The Limits of Social Policy, p.188.)

	Income maintenance	"Egalitarianism"	Blaming the poor
Germany	12	30	23
France	12	49	16
Netherlands	14	36	12
United Kingdom	8	18	43

The United Kingdom in this comparison looks much like the United States. (The opinion data is from the mid -1970's, long before Prime Minister Thatcher's revolution.) The United States is not in this comparison, but we know from public opinion research, and some of the findings are given in AGS, that Americans believe public policy should aim at equality of opportunity more than equality of result, that they believe that success is generally deserved, and that failure is often the fault of the individual rather than of circumstances over which the individual has no control.

This complex of beliefs can be further specified. Whether it is all a form of "false consciousness" I will leave for others to discuss, but that these beliefs are generally held in the United States is not to be disputed. Note the answers given in a carefully designed national survey of 1980 (James R. Kluegel and Eliot R. Smith, Beliefs about Inequality: Americans' views about what is and ought to be, Aldine-deGrueter, 1986). Asking for reasons (more than one can be given) people are wealthy, 64 % say because of personal drive, willingness to take risks; 64 % say because of inheritance; 64% because of hard work and initiative; 47 %

because of political influence or pull; 46 % because of great ability or talent. Not all the reasons are meritorious, but most are. At the bottom are luck (26 %), dishonesty (27 %), taking unfair advantage of the poor (29 %).

And reasons for poverty?

lack of thrift, 64 %  
 lack of effort, 53 %  
 lack of ability, talent 53%  
 the poor schooling provided by society, 46 %  
 loose morals, 44 %  
 sickness, 43 %  
 low wages, 47 %  
 not enough jobs, 35 %  
 prejudice and discrimination against blacks, 39  
 being taken advantage of by rich people, 19  
 bad luck, 12 %

Not much sympathy for the poor there.

Kluegel and Smith write:

"Individuals generally perceive their own economic position as caused by internal factors, so that generalization from one's individual circumstances to those of most Americans potentially would support rather than challenge the dominant ideology...the effect of structural beliefs [i.e., that social and economic factors affect one's economic position] is usually not to overthrow the beliefs in individual causation but to produce compromise images (e.g., the idea that barriers to opportunity exist but can be overcome by strenuous individual efforts}." (p. 101)

I believe such views go very far back in American history and are related both to its pioneer founding and to its basically English origins. There is no simple way to make this case. But I note with interest that on many international comparisons the United Kingdom falls between the Continent and the United States on attitudes toward wealth, poverty, inequality, and the role of the state. It is not accident that Thatcherism was a British phenomenon, not French, German, or Italian--though these may in time and in some respects reluctantly follow.

Note that the United Kingdom has always had a far more developed system of private philanthropy and private foundations than the continental European countries. The equivalents of the great state universities of Europe are the colleges of Oxford and Cambridge, established as private endowments. In social expenditure, the United Kingdom falls between the continental European countries and the United States (AGS. pp. 4,5). In one

major cross-national study, I am intrigued to note that Australia comes closer to the United States in attitudes toward the welfare state than do West Germany and Italy. (Tom W. Smith, "Social Inequality in cross-National Perspective," in Attitudes to Inequality and the Role of Government, International Social Survey Programme, den Haag: Netherlands, 1990, p. 22). Is there such a factor as common origins in the British Isles or the impact of immigration, that leads to greater faith in equal opportunity than in government established equality?