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WHY THE US HAS DONE SUCH A POOR JOB, COMPARED TO EUROPE IN REDUCING RELATIVE POVERTY AND ACHIEVING SOCIAL JUSTICE

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TABLE OF CONTENTS

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1. Introduction

The United States is the wealthiest nation of the world and its economy has enjoyed decades of growth and prosperity-- until the current 2008 financial collapse. According to the World Economic Forum, the United States had led the world in a range of categories of higher education and training, labor market flexibility, the ability to attract global talent, the quality of corporate management and capacity to innovate. Unlike most of Europe, Russia, and Japan, US birthrates and population growth put it in a favorable position to sustain the growing elderly population. The US continues to serve as a magnet for immigrants throughout the world seeking a better life. It played a lead role in winning World War II and halting the expansion of the Soviet empire and communism that threatened the world. Elderly poverty in 2006 was less than a third of what it was in 1959. In the prosperous 90s, US poverty dropped, the decline of many large cities was halted and the number of poverty neighborhoods was reduced. American homeownership is among the highest in the world. After centuries of poverty and suppression, African Americans have finally been given a "place at the table" in America and have vastly improved their status in virtually every area of American life: politics, jobs, sports, entertainment, voting, education, mobility, and status. The US has much to be proud of.

Yet, even before the 2008 financial collapse, all has not been well in our country, particularly for the many who have not shared the benefits of national growth. In 2005, the income of the three million Americans at the top was roughly equal to that of the bottom 166 million. The top 300,000 Americans had a pre-tax income combined more than the poorest 120 million Americans (Johnston, 2006 and 2007). The top quintile of earners has about half of the national income and the bottom quintile, four percent. Most of the growth in income and prosperity the past 15 years has gone to the top 10%, a privileged few in American society. Since 2000, we have made little progress in reducing poverty. *In spite of our vast wealth, we have one of the highest degrees of inequality (after taxes and social transfers) of any advanced nation. Further, the policies of the Bush administration have only increased inequality and done virtually nothing for the poor.* It is clear that "trickle down" policies have not worked. Increased growth does not automatically increase equality (World Bank 200). Further, the very inequality of income described in this paper has contributed to the over-spending of average Americans and the financial collapse. Time will tell whether the Obama administration will increase inequality in the US. But the tax proposals would cut taxes for those earning under $250,000 a year and let lapse tax cuts for those earning over that amount

The problem of income and wealth inequality is even greater in the world as a whole. Globally, households with a net worth of one million dollars or more (excluding principal residence) grew from 4.5 million in 1996 to 9.5 million in 2006. Before the world-wide 2008 financial collapse, this group controlled an estimated $37 trillion of aggregate wealth (Robb Report, 2007). A 2008 analysis shows that there are 10.1 million millionaires owning $40.7 trillion (Cagemin/Merril Lynch). Within this elite group, wealth is greatly concentrated. In 2007 there were 946 billionaires with a combined worth of $3.5 trillion—more than the Gross Domestic Product (GDP) of all but two of the nations of the world (Japan and the US) (Thomas, 2007). This is well over the combined annual income of 2.7 billion people in the world earning $2 dollars a day. Only five hundred of the world's wealthiest people have the same income as the world's poorest 406 million (Kristof 2007). Although the 2008 financial crisis has reduced this wealth by trillions of dollars, when the world stock market and economy recovers, this concentration of wealth may be restored to its previous heights.

Of course, if the wealthiest people in the world did not have their great wealth, there is no reason to believe that the poorest would automatically be better off. Not all of the rich are as generous as Bill Gates and Warren Buffet. They have contributed tens of millions of dollars to address illness in Africa and to other problems of those left behind. Further, in spite of the great disparities in income between the top and bottom earners, substantial progress has been made in reducing world-wide poverty in the past 20 years. From 1981 to 2001, the number of people earning less than $1 a day in China alone dropped from 633 million to 211 million and world-wide from 1.4 billion to one billion. Unfortunately, those earning less than $2 a day increased world wide from 2.4 billion to 2.7 billion during this same period because of increases in India, Sub-Sahara Africa, Latin America and Middle East and North Africa. At the same time, because of the growth in world population, the percent of the population earning less than $2 a day decreased from 67% in 1981 to 54% in 2001. Progress in reducing poverty and disparity of income in both the developed and developing world is not an impossible dream (Chen, 2004). Whereas, the income of the wealthy has dropped with the current world-wide financial crisis, so have the earnings of the poor all over the world, with growth of developing countries dropping dramatically. There are over 200 million unemployed in the world and more every day.

While, it may be impossible to achieve complete equality, the point remains that the massive mal-distribution of income is morally unacceptable and represents a continued source of violence, misery, and unrest. This condition gives rise to would-be dictators, such as Hugo Chavez, who promises to redistribute income and seeks absolute power to do so. Income inequality and lack of social justice in pre-revolutionary Russia and other countries was a major contributing cause to the rise of communism, socialism, and the Soviet empire. The fact that communism was a colossal failure in providing for the welfare of its people does not deter the radicals offering utopian answers to correct an unjust society. Unless the democracies of the world can solve the problem of social injustice, the future of the world will be unstable.

This paper seeks some answers to five difficult questions:

1. How does the absolute and relative poverty and income distribution in the US compare with other advanced nations?
2. What are the most probable factors that influenced these outcomes?
3. What are the most probable consequences of this income distribution in both welfare states and our country with higher poverty? That is, while other advanced nations have achieved greater equality, have they paid a high price to achieve this? And what price have we paid for our high poverty and inequality?
4. How effective are current policies in reducing inequality and poverty?
5. How could we do better in the Unites States in reducing high poverty and inequality and in other advanced nations address slower growth?

There are excellent data collected by the Organization for Economic Cooperation and Development (OECD) countries on relative poverty. Timothy Smeeding (2006) and others have calculated data on comparisons of absolute poverty. But answers to the other questions asked in this analysis are quite subjective and there are no clear cut answers. None-the-less they are important questions and deserve to be part of public discussion and debate. Only a few of the Presidential candidates in the primary contests have addressed the issue. Poverty and inequality is not high on the agenda most Americans' concerns. From both a moral and practical perspective that should be changed.

2 Poverty, Relative Poverty and Income Distribution in Advanced Nations

There are a number of ways described in this study to measure poverty and distribution of incomes: (a) the Gini index showing relative distribution of income, (b) relative poverty as collected in OECD countries by the Luxembourg study calculated at 50% of median after-tax and transfer income, (c) relative earnings of the top and bottom deciles of earners, (d) absolute comparisons of poverty across countries compared to a single benchmark, (e) trends in income distribution, and (f) poverty trends measured in the US as defined by family size, and other factors.

a. Gini index

The Gini index measures overall income distribution in countries, with the higher the number the more unequal the distribution. Tables 1 and 2 show two different calculations of the Gini indices. Table 1 shows one calculation of the Gini index for 16 high income and middle income nations for "market income" (before tax and transfer income) and "disposable income" (after tax and government transfers). By this calculation, the US has the fourth highest market income rate of inequality of the16 high-income or middle-income countries listed (after Israel, the United Kingdom, and Poland), and the highest rate of disposable income inequality. For these nations, there was a 30 to 40% reduction in inequality after government transfers and taxes. The US has one of the lowest reductions (23%) before and after taxes and transfers.

Table 2 used World Bank calculations for many of the countries of the world in 2004. The two tables have different Gini index numbers, using both income and expenditures, but the relative order is generally the same. *The US has the third highest* *degree of inequality among 26 high-income nations (after Portugal and Singapore). The inequality of the US income distribution is comparable to that of Turkmenistan, Turkey and Georgia.* The table shows that the US also has higher inequality than 26 countries in Europe and Central Asia. The only group of countries which has a consistently higher degree of inequality is in Latin America and the Caribbean (Brandolini and Smeeding 2007a.) One study showed the US ranking at 72^{nd} in the world—that is 71 countries had greater equality than the US.

Other data show an increase in the Gini index by 8.2% in the US from 1989 to 2000, double the average increase of 4.4% for other advanced nations. During this period the Gini index dropped for only four of these countries. This shows that inequality in the US is increasing, compared to other rich countries (Michel, 2007).

b. Post and pre-tax and transfer relative income

The major way that OECD tabulates poverty in the advanced countries of the world is by calculating 50% of post-tax and government transfer income or "disposable income". Impact of taxes and government transfer payments is calculated by comparing disposable income with market income (before taxes and transfers). There are various formulations of the two types of incomes by different writers. But the data come from the same source: the Luxembourg Income Study. Timothy Smeeding's calculations show that the relative overall poverty for the US at 50% of median disposable income, adjusted for family size, is 17%, the highest of 11 rich OECD countries. (See table 3.) The average for the 10 countries is 10.3%. Table 3 also shows that the US also has the highest relative poverty rate for children (18.8%), the second highest poverty for persons in single parent families (41.4%) after Ireland, the second highest poverty for persons with two parents (13.2%) after Italy, and second highest for elderly (28.4%) after Ireland (Smeeding 2006).

Smeeding's data show that the US poverty, based on market income, is actually lower than seven of the 11 countries at 23.1%. (See table 6 below.) The average poverty for market income for the 10 countries was 27%. In this analysis, only the Netherlands and Canada show lower relative poverty based on market income.

c. Income distribution by Decile

Another way to look at relative poverty is to look at distribution by income decile. Figure 1 shows that the bottom decile in the US has the lowest percent (37%) of total median disposable income of any high-income country and third lowest of eight middle income countries, with only Mexico and Russia having a lower percent. Conversely, it has the second highest percent (212%) of median disposable income earned by the top decile, second only to Portugal . Only three middle income countries listed have their top decile earning more of the median income than the US. Thus, in the US the rich are relatively richer and the poor are relatively poorer that these advanced nations and many of the middle income nations (Brandolini and Smeeding, 2007a).

d. Absolute income comparisons

Virtually all of the OECD data reviewed for this study show poverty in relative terms. Yet the data reveal that the US is among the top ranked countries with regard to per capita income based on purchasing power parity. Table 4 shows that in 2000 the US per capita income in terms of purchasing power ($37,000) was the second highest among 19 rich nations listed, exceeded only by Norway ($39,500) (Michel, 2007). Purchasing power parity is a more revealing figure than per capita incomes because it takes into account the cost of living in different countries. In 2006, according to the International Monetary Fund, the US had the third highest per capita income of these advanced nations, only after Ireland and Norway. Only Ireland had gained more than the US during this period (IMF, 2007). To get some rough sense of what the relative poverty is in real income, table 4 shows 50 percent of per capita income for each period for each country. In 2006 that figure was $21,600 in the US, compared to only $11,450 for Portugal and $13,600 for Spain. Although per capita incomes are not the same as disposable income, they suggest that a poor person in Portugal at less than 50% of median disposable income would be worse off than a similar person in the US. Conversely, the rich in these other countries are not as rich as they are in the US—particularly after taxes are taken into account.

This is, in fact, the case. A comparison of income by deciles of different countries to the median US disposable income comes up with an absolute comparison of real incomes among these countries. Figure 1 shows that the bottom decile of workers in the US earn the lowest percent of median income of 23 rich countries in relative terms. By contrast, Figure 2 shows that, when incomes in these high-income countries are compared to a single standard (the US median income), those workers in the bottom decile in 12 of these countries earn, in absolute terms, less than the bottom decile in America. (In 10 of these countries the bottom decile workers earn more in absolute terms than in the US.) *Even more dramatic, the bottom decile in the the middle- income countries earn only a fraction of the US median income (only three and four percent of the US medium in Mexico and Russia). Further, the top decile of earners in Russia and Rumania earn less than bottom decile earners when compared to the US median* (Brandolini and Smeeding 2007b).

The conclusion is that when calculations are done on comparative absolute poverty levels, the US still has high poverty compared to many comparably rich nations, but the differences are not as extreme as when relative measures are used. Thus, the US has both a high relative and an absolute poverty level compared to many other rich nations based on disposable income (after taxes and social transfers).

e. Trends in income distribution in the US

Another way to understand what is happening in international comparisons is to look at changing income and poverty distribution in the US. This gives us a more specific sense of how income inequality has increased in the US in recent years.

Relative income changes. Some recent trends in US income distribution are:

- Earnings in the bottom two deciles in the US have been virtually stagnant in real (inflation-adjusted) dollars since 1985.
- Male median real earnings increased significantly from 1959 to 1975 but have remained virtually stagnant since then: in 2006 they were lower in real terms than they were in 1973. At the same time, real female earnings increased from $24,110 in 1973 to $32,515 in 2006, but peaked at $32,786 in 2002. Although male incomes are still higher then female incomes, the ratio of female to male earnings has improved during this period from 65% to77% (US Census, 2007).
- However, largely because of the entry of more wives into the workforce, increased female earnings, and working longer hours, the real median household income increased from $36,847 in 1966 to a peak in 2000 of about $49,000 then dropped to $48,201 in 2006 (US Census, 2007).
- The top quintile of earners increased their share of total income from 45% in 1985 to over 50% in 2006; at the same time, the bottom two quintiles (40% of the population) increased their share of income only .4% during this same period from 11.7% of the total income to 12.1% of income (US Census, 2007).
- For the bottom 99% of taxpayers, growth in income has been only 8%; for the top one percent the growth was 177% and the top .01%, 408%.
- The highest income one percent, the highest income10 percent, and fraction of the top one percent enjoyed the greatest share of total income since 1928 and 1929.
- The *increase in incomes* of the top one percent of Americans from 2003 to 2005 exceeded the total income of the poorest 20% of the population ($524 billion v. $338 billion) (Johnston, December 2007).
- The total income of the highest income one percent (1.1 million households) was $1.8 trillion in 2005, or 18.1% of the total income of all Americans, up from 14.3% in 2003. (Johnston, December 2007).
- The top households (300,000 Americans) reported significantly higher pretax incomes combined that the poorest 120 million (Johnston, November 2006).
- From 1980 to 2005 the national economy, adjusted for inflation, more than doubled, per capita income increased by 66%, but because of the concentration of income gains in the top 20%, income for the vast majority of Americans actually declined in real terms during this period. The peak year for the bottom 90% of Americans was back in 1973. 90% of the Americans missed out on the vast growth of wealth during this period. (Herbert 2007)
- In 2001, the average salaries of Chief Executive Officers in the US ($1.3 million) were double that of the level in eight advanced nations. The ratio of CEO to production worker salary in the US was 44; in Japan it was only 16 and Germany 17 (Osberg and Smeeding 2005). In 2005 the US ratio was 262 to one (Sawhill and Morton).

Growth of top US earners in international comparisons. The massive growth of the incomes by the top earners in the US can be put into perspective by some international comparisons. Figure 3 shows the long-term changes in the income share of the top decile of the population of the United States and France. What it shows for the US is the huge drop in percent of total income taken by the top ten percent of taxpayers from the 1930s to World War II, the relatively flat percentage in the 40 years from 1943 to 1983 and huge increase in the late 1970s, 1980s and 1990s. By the year 2000, the share of this privileged group matched the 1930s (over 40% of all income). France follows the same pattern up until the 1950s and 1960s at which time the growth of the income of the top 10 percent outpaced that of the US . But, starting about 1963 it began to decline to around 30%. There is a dramatic divergence starting in the 1970s, where the percent of income captured by this privileged group in the US shoots up and in France drops or stays the same. The top earners in the US are capturing more of the income in the US than in France. France is becoming more equalitarian and the US, less so (Michel, Bernstein,and Allegretto, 2007).

Upward mobility. America has taken pride in itself as the land of opportunity, which it has been for millions of immigrants, minorities and poor whites. But Miles Corak reported that the US and Britain appear to stand out as the least mobile societies among those rich countries under study. The Nordic countries and Canada seem to be the most mobile societies. A number of studies show that upward mobility is lower in the US than in Europe (Corak, 1994). In Denmark, workers are three times more mobile than in the US, and, in Canada, 2.5 times more mobile (Sawhill and Norton, 2007). In 2001, only 25% of Danish men born to fathers in the bottom fifth of incomes remained in that category, compared to 42% of US men. (Isaacs, Sawhill, and Haskins, 2007). There is a difference in mobility in the US depending on where you start in the income spectrum. Alberto Alesina argued that the tendency of middle income individuals to move upwards in America is slightly higher than in Europe, but the mobility of the poor is lower in the US (Alesina and Glaser 2004).

Black and white children typically earn more than their parents who had incomes in the bottom two quintiles; however 54% of black children born to parents in the bottom quintile remain there, compared to only 31% of white children. Conversely, 45% of black children born to middle quintile parents drop to the bottom quintile and 24% to the second quintile. Unfortunately, blacks born to parents in the middle and fourth quintile earn less on average than their parents did. (Isaacs 2007). Blacks made great progress in the past 50 years, but affluent blacks are having difficulty passing on that fortune to their children.

There is some progress in the US. After adjusting for inflation, 67% of Americans had higher level of family incomes than did their parents, but one third are falling behind. The family incomes of adults now in their thirties who were children in the 1960s have 29% higher incomes than their parents in inflation adjusted dollars ($71,800 v. $44,600). Another study found that 45% of the parent’s advantage in income is passed along to their children, and perhaps as much as 60%. Only 32% of the American men in one study fell into the top half of earners when their fathers were in the bottom half (Wessel, 2005). In the 1970s, 36% stayed in the same fifty percent of families by income; this increased to 40% in the 1990s, showing a reduction in mobility. In the 1970s 26% moved up or down two or more quintiles; by the 1990s, that number was only 21% (Johnston, June 2005).

f. Trends in US poverty

Poverty is the other end of the income spectrum from the growth of income of the top earners. The following are some poverty trends.

- As shown by Figure 4, US poverty dropped dramatically from 1959 (when poverty was first defined and counted) to the 1970s, peaked out at nearly forty million in 1993, dropped by about 7 million in the booming 1990s to 2000, then increased to 2003. Since then it has dropped a bit to 37.3 million in 2007 but still is considerably higher than in 2000. The huge tax cut and the growth of the past several years has not restored poverty to its 2000 level (US Census 2007). As Shown on Figure 4, poverty dropped the greatest with rapid national growth during the Kennedy/ Johnson and Clinton administrations and, to a lesser extent during the Reagan period. It increased in the Carter and two Bush administrations, periods of slower growth.
- The poverty rate dropped dramatically from 1959 to the 1970s then peaked out in 1983 and 1993 at about 15%, dropped to its modern low at around 11% in 2000 then increased in the current decade, then dropped slightly to 12.5% (US Census 2008).
- By age group, the most dramatic and continuous drop in poverty was for the elderly, enjoying the benefit of Social Security and Medicaid. The percent poverty for this group dropped from around 35% in 1959 to only 9.7% in 2007. (See figure 5.)
- Poverty for youth also dropped from 1959 to the 1970s, but increased in the 80s and early 90s to around 23%; dropped in the late 90s then increased since 2000, stabilizing in 2007 at 18%--the highest of any age group.
- Poverty for the large middle group (aged 18 to 64) has hovered around 11% since the 1980s (US Census 2007).

It should be noted that some believe that the definition of poverty is out of date. The definition has not caught up with the increased price of housing. Also, the definition does not take into account the relative local cost of living. A family of four earning $30,000 in Fairfax County, San Francisco, or New York would be doing much worse than the same family with the same income living in a rural area or small town, where the cost of housing is a fraction of that in the growing metropolitan areas. Perhaps 125% of the official poverty level would be a more realistic figure for persons living in higher cost areas. By that count, there are 49 million Americans living at or near poverty. This is closer to the European definition of poverty defined as 50% of median disposable income. This is 17% of the population, the same percent cited in OECD relative poverty reports for the US.

3. Causes of Trends in Relative Poverty and Growth

It is hard to determine what caused these trends—both positive and negative. . This section deals with (a) the major causes of change in poverty and inequality: government programs, (b) the underlying reasons for differences in government policies in the US and other advanced nations, (c) underlying trends in the US affecting relative growth and prosperity, and (d) factors promoting poverty and mal-distribution of wealth in the US.

a. Government policies to benefit the poor and redistribute income

The consensus seems to be fairly clear that the major reason for lower poverty among other advanced nations, using after tax and transfer disposable incomes, is that these governments and their citizens care more about equality and have made tax and transfers to reduce the disparities of incomes. Table 5 shows revenues as a percent of GDP for 20 rich nations of the world for 1975, 1995, and 2006. Only Greece, Japan and South Korea show lower relative taxes compared to the US. In 1975, the highest taxed country was Sweden with 41.6% of GDP, compared to 25.6% for the US. By 2006, taxes had increased for all but one country (Netherlands). In 2006, the top was Sweden at 50.1% of GDP going to government revenues with the US only at 28.2%. This reflected the tax cut in the US. (See table 5.)

The larger revenues in Europe are financed by higher marginal tax rates as shown in figure 6. It shows the difference in marginal tax rates between the US and 15 European nations for different income groups. Tax rates are actually higher in the US for persons earning less than 30% of average production worker wage. For every other income group, US rates are much lower.

What is critical in reducing poverty is not total government expenditures but expenditures on social welfare and pensions. Expenditures on foreign wars may contribute little to reducing poverty. Not only do the other advanced nations have higher expenditures and revenues as a percent of the GDP than the US, but they also spend more as a percent of GDP on non-health social welfare for the working-age population. These expenditures are directly and strongly related to relative poverty among the working age population as shown on Figure 7 (Forster, 2005). It shows that Japan, Mexico, and the United states had the highest relative poverty rates for disposable (after tax and transfer) incomes and the lowest expenditures on social spending for the working age populations. Denmark and Sweden have the highest social spending and among the lower rates of relative poverty. (See figure 7) Further, the gap in subsidies and transfers between the US and continental Europe started in 1870 and has been growing much bigger (Alesina and Glaeser, 2004). The Czech Republic has the lowest rate of relative poverty, but a high rate of absolute poverty, as shown in Figure 2 cited above.

In the European Union, government subsidies and transfers as a percent of GDP increased from seven percent of GDP in 1937 to 12% in 1960 and 21% in 1998; by contrast, government subsidies in the US increased from about 2% in 1937 to 5% in 1996 to 10% in 1998 (Alesina and Glaeser 2004).

The dramatic impact of government aid is shown by Table 6. After taxes and social insurance, poverty is reduced by an average of 47% in advanced nations: from an average of 27% market rate poverty to 13.8% poverty after social insurance and taxes. (Smeeding 2006). Social insurance is defined as non-means tested assistance available to everyone. After taking into account "social assistance" the average disposable income poverty rate drops to the level of 10.3% average for the advanced nations. The total percent average drop is a dramatic 60.9%. The important part of this transaction is that non-means tested assistance (such as social security) is the largest cause of drop in poverty. This is the most popular type of transfer in the US because it is not earmarked for the poor. It is more expensive because it covers middle and higher income persons.

Not only is the US relative poverty for disposable income the largest among these 11 countries (17%), but US drop in poverty from market income to disposable income is by far the smallest (26.4%). Further, as discussed in the previous section, the other rich countries have a bigger gap to make up because seven of them have higher poverty using market incomes.

Taking these calculations on market income then, it is primarily government aid, but also market forces, which produce lower poverty in most other advanced countries compared to the US.

Among the benefits for the poor and others of being in Germany or Sweden compared to US are the following:

- *Child benefits are available in Germany and Sweden for every parent without regard to income until the child reaches a certain age, and these limits can be extended if the child pursues higher education.* Family allowances do not exist in the US except for lower-income parents under welfare.
- *Typically, European countries have universal health care for everyone.* The US has medical coverage for the poor (Medicaid) and elderly (Medicare). Per capita public and private spending for health care is more than any other country in the world. Yet, 47 million Americans have no health care insurance. A frequent cause of bankruptcy in the US is medical payments. For those without insurance, the emergency room is the medical care of last resort and their health suffers. The poor are not as healthy as the middle class and rich, and this further reduces their capacity to increase their income.
- German and Swedish legislation guarantees sickness benefits replace up to 70% or 80% of gross earnings. US workers have compensation for job injuries, but only five states offer any kind of sickness benefits. There is no federal benefit.
- All three countries have provisions to replace income cost due to inability to engage in any gainful activity. But Sweden offers more generous provisions.
- Germany and Sweden rely on unlimited and unconditional plans which are meant primarily to relieve poverty. In the US, Temporary Aid to Needy Families (TANF) is limited to two years of assistance and recipients who are able to work must find employment at the end of the period.
- The US spends about half as much as Europe for old age pensions as a percent of GDP. Pension systems in Europe imply some redistribution from rich workers to rich retirees and, in addition, redistribution from richer workers to poorer (Alesina and Glaeser, 2004).

In addition to government subsidies and progressive tax payments that contribute to the more even distribution of income, the European countries, typically, have stronger government regulations relating to the labor force. European labor market regulations are presented as being pro-poor and are strongly supported by the unions and more favorable to workers than in the US. It should be noted, however, that many of these rules protect certain classes of existing workers to the detriment of outsiders. They do not all protect the poor. In France, among other countries, private employers are restricted on the grounds on which they can fire employees (Alesina and Glaeser 2004). Table 7 shows that the minimum wage laws in Europe are typically much higher as a percent of average wage than in the US. Table 8 shows that there are many more labor standards laws in Europe than in the US, more employee protections, requirements for minimum leave and longer benefit durations (Alesina and Glaeser, 2004).

In Europe often zoning regulations affect the formation of new large distribution centers to protect existing small businesses (Alesina and Giavazzi 2006). This is a volatile issue in the US where the entry of Walmart into small and medium size towns has shut down many small downtown businesses.

b. Reasons for differences in government policies

A critical question is why government policies in other advanced nations are more prone to redistribution of income than in the US? Among the reasons posited for this difference are (a) racism as a factor in being willing to help the poor, (b) left wing and socialist influence in Europe (c) relative strength of labor unions, (d) the courts and the constitution in the US, (e) view of the population toward the poor (f) views toward inequality, and (g) lack of American knowledge of unequal income distribution.

Racism. Alesina and Glaeser make the case that a major reason for difference in attitudes toward redistribution of income and aid for the poor is the degree of ethnic and racial diversity in society. Societies that have greater ethnic and racial diversity (like the US) have less inclination to help the poor because often most of the poor are racial and ethnic minorities. They make a fairly persuasive case for this thesis. Table 9 shows that the US has the highest degree of racial fractionalization of any rich nation listed on the table (by a factor of four over the next leading country), the second highest level of ethnic fractionalization (after Belgium), the fifth highest degree of linguistic fractionalization, and the highest degree of religious fractionalization.

Figure 8 shows that there is a high correlation between the degree of racial fractionalization and low social spending: the higher the racial fractionalization, the lower the social spending. There is a similar diagram for (a) the relationship between linguistic fractionalization and social spending world-wide and (b) social spending and racial fractionalization among the states in the US (Alesina and Glaeser 2004).

The thesis that people are less willing to provide benefits if many of those benefits go to linguistic or racial minorities rings true for the US. One of the most hated programs in the US was welfare. One reason may have been that it aided disproportionately black mothers viewed as "welfare queens". Historically the US South has been a center of strong resistance to social welfare programs. For this reason, welfare reform was strongly supported by most Americans. Even Social Security initially excluded agricultural laborers and domestic workers, occupations in which were concentrated blacks and other minorities. Orsberg and Smeeding (2005) argue that "race and racism remain the big ugly elephants hiding in the tent of American social policy".

One of the major reasons for the resurgence of conservative Republicanism in the US in the past 30 years was the policy of Richard Nixon to follow a "southern strategy" in a bargain with the South to go slow on civil rights. The historic civil rights legislation pushed through by the Democratic majority by Lyndon Johnson, in effect, cost the Democratic Party its dominance. Since then, the "solid South" has voted generally for conservative candidates—typically Republicans or third party candidates. One charge against the Democrats is that they favored special groups, such as blacks, gays and the poor—the underdogs in American society—to the exclusion of the middle and working class. Affirmative action for minorities was particularly hated. The religious right is following that view by placing less focus on poverty and civil rights and more focus on fighting abortion, gay marriage, and other social issues.

*Left-wing and socialist influences in Europe***.** Alesina and Glaeser (2004) believe that the strong social welfare benefits in Europe were strongly influenced by the political doctrine of proportional representation. That doctrine gave minority parties stronger representation in Europe than in the US with its two party tradition and "winner take all" electoral college. Socialist, communist, and other left-wing parties were strong forces in the creation of the welfare state in the post war period in Europe, while quite weak in the US with its labor unions who were strongly anti-communist. In spite of considerable efforts by the Soviet Union to encourage communism and socialism in America, it never took a strong foothold. (See Lipset, 1996.)

*Union strength***.** During the post-war period the unions were much more influential in Europe on formation of public policy than they were in the US. Labor strikes demanded proportional representation and strong labor laws and social welfare programs in Europe. Even today in France, union stoppages threaten to sabotage efforts at labor reform. In the past three decades union strength has dramatically eroded with global competition and the flight of industry from the Northeast and upper Midwest to the anti-union South (Alesina and Glaeser, 2004).

*Checks and balances, the courts, and localism***.** Checks and balances under the constitution and the strong courts have helped protect property rights, equal in influence to the House of Lords in England. Also the US has much more decentralization than in Europe and local governments seem less prone to redistribution efforts. The reliance on local property taxes and local city autonomy has contributed to mal-distribution of government benefits to local citizens with the greater benefits going to jurisdictions with the greatest industrial, commercial and residential property assessment. The other side of the coin is that the Supreme Court had the power and the will to throw out segregation in *Brown v. the Board of Education* and other decisions, an act which the legislature did not have the will to do, given the strong southern influence in politics. This decision had profound impact on increasing equality for blacks in America.

*View toward the poor***.** Sixty percent of the Americans think the poor are lazy, a view shared by only 26% of Europeans. By contrast, 60% of Europeans believe that the poor are trapped in poverty compared to only 26% of Americans (Alesina and Giavazzi 2006). By more than six to one, Americans believe that people who do not succeed in life fail because of their own shortcomings not because of society. Two thirds of Americans believe that success is not outside of their control. A similar number in Germany believe just the opposite.

*Views toward equality***.** Seymour Martin Lipset in his classic study of the American character, *American Exceptionalism: a Double Edged Sword* wrote that when asked to give priority to freedom or equality of position, Americans were the least likely of the citizens of 17 developed countries to choose equality. Japan, as usual, was at the opposite end of the spectrum. However, Americans emphasized social egalitarianism, respect across class lines, meritocracy and equality of opportunity. From the early 19th century the US had led the world in the proportion of its population completing elementary and high school education. And while America also predominated in the ratio of those attending college and university, the numbers and proportions increased dramatically after World War II—particularly with the GI bill (Lipset, 1996).

However, American public opinion has consistently opposed preferential treatment for deprived groups. In polls over the years, Americans showed less concern about whether income differences were too large than other advanced countries. When asked if it is the responsibility of government to reduce income differences, Americans had the largest negative vote of any nationality. However, there is strong bifurcation of opinion on thus subject in the US. The liberals take a strong view that the poor should be helped, while the conservatives feel that the poor are responsible for getting ahead or falling behind (Orsberg and Smeeding, 2005).

Part of the problem, which this paper seeks to address, is lack of information on the degree of income inequality and poverty in the US. In a poll, American citizens estimated that Chief Executive Officer salaries were about six times less than they actually were. In Japan, they guessed that CEO salaries were actually higher than they were (Osberg and Smeeding 2005). For 10 of the advanced OECD nations, citizens believed that there was a higher degree of inequality than the actually existed. This is particularly true for countries with low inequality. Citizens in the US had the lowest perception of inequality of 17 rich and middle-income nations and the second highest actual inequality, as measured by the Gini measure of income inequality (Forster, 2005).

c. Trends affecting US and European growth and equality

There are many trends in the US and Europe affecting growth and equality. Some of these trends work to the advantage of the US in terms of higher growth and higher income. Other trends help explain pre-tax and pre-transfer poverty in the US.

After being devastated by World War II for three decades, European growth exceeded that of the US, and in many countries per capita income was catching up with American levels. But in the 1980s per capita incomes in countries of continental Europe stopped converging towards American levels and began falling in relative terms throughout the 1990s. It appears that the very substantial acceleration in productivity seen in the US since 1995 has not spread to the other OECD countries as widely as might have been hoped (OECD, 2004, Alesina and Giavazzi, 2006). More specifically, the trends are as follows:

- The annual growth of per capita income using market exchange rates from 1960 to 1979 in other advanced OECD nations was about 4.3%, almost double the US growth rate of 2.2; from 1979 to 1989 it was a bit higher in these countries than the US (2.3% v. 2.2%).
- By contrast, from 1989 to 2000 and from 2000 to 2004, annual growth of per capita income was higher in the US. In each successive period it was lower for the US and other advanced countries than the previous period. (Mishel, Bernstein and Allegretto, 2007)
- Europe emerged from World War II with a per capita GDP that was less than half of the US. By the end of the 80s its GDP was 80% of the US. But in the past 20 years the convergence stopped and Europe lost ground so that the GDP per capita is 70% of the US. In Italy, it dropped to 64% of US levels (Alesina and Giavazzi 2006).
- According to International Monetary Fund data, per capita income in purchasing power parity increased in the US by $5,500 as compared to only $3,400 to $3,800 for the big European countries (Germany, France, and Italy). However, growth in the UK and many small European countries still equaled or exceeded that of US (IMF 2007). (See table 4.)
- From 1979 to 1989 America produced 18 million new jobs for a growth of 1.7% a year, compared to the non-US average of .8%; from 1989 to 2000 America produced a total of 19 million new jobs at a 1.4% growth a year compared to the non-US average for advanced nations of one percent. However, with the 2001 recession and the relatively slow recovery in the US only 2.3 million new jobs were created at a growth rate of only .4% a year, less than the average for the other advanced nations. (Michel, Bernstein and Allegretto 2007)
- From 1960 to 1973, labor productivity increased in the US at a slower rate than all but two advanced OECD countries; from 1973 to 1979 it increased at a slower rate than all but one country; from 1979 to 1989 it increased at a slower rate than all but three countries. By contrast, from 1989 to 2000 only nine countries exceeded its growth; and from 2000 to 2005, only three small countries exceeded the US growth rate. (Mishel, Bernstein, and Allegretto 2007).
- However, the US economy was expected to grow at a slower rate than that of the Euro area in 2007 (*Economist,* December 2007).
- A major factor affecting increased per capita incomes and GDP growth in the US has been the increased entry of women into the work force. Married women with children in the US increased their average time at paid work by nearly half between 1979 and 2001 and married women without children worked over 25% more hours each week than in 1979. Increased participation of women helped offset stagnant male earnings to improve household incomes. Female labor force participation in the US in 2004 (56%) was the second highest of 10 advanced nations. It was only 34% in Italy and 44% in Germany (Michel, Bernstein, and Allegretto, 2007).
- A number of experts have argued that the US has the edge over Europe because its universities are better. *The Economist* wrote that "The quality of intellectual life in America is still the highest in the world. A quarter of American adults have a university education. The country produced one third of the world's scientific papers, two thirds of the world's Nobel Prize winners, has 17 of the top 20 universities and has more

ideas-based workers than anyone else" (*Economist*, July 2005, p. 6) As ranked by Shanghai's Jaiao Ton University, the US has 35 of the top 50 universities (*Economist* September, *2005)*. Currently, only 22% of young Germans obtain a college degree compared to 31% in Britain and 39% in America (*Economist*, December, 2007). Around 2000, America was ranked number one in the world in terms of percent of adults with college education and number one in terms of numbers of college professors. France ranked 33rd and Germany 10th in percent of adults with college degrees (Kurian, 2001)

- The high quality of higher education is in the US is matched by a high degree of innovation, compared to Europe. In 2006 venture capitalists invested only about $9 billion in the EU while their American counterparts splashed out some $45 billion in new ventures (*Economist* October 2007),
- Another factor contributing to growth in per capita income and growth of the GNP in the US is that Americans put in more hours than Europeans do. In 2004 the US had the highest average hours worked (1824) of any advanced country. It was only 1441 in France. The US workers spent 46.2 weeks at work annually on average, the highest among OECD countries. These workers took 3.9 weeks off in holidays and vacations, the lowest time of these countries. Germany workers took 7.8 weeks off and it Italy, 7.9 weeks (Economic Policy Institute, 2007).
- Even the poor (earning 50% of disposable income) in America work more than the poor in Europe (an average of 1283 hours compared to an average of 902 hours for 7 advanced nations) (Smeeding, 2006).
- Another factor driving growth of the US in total GNP is population growth: in the 20th century America's population increased by 250%, whereas France and Britain rose by less than 60%. In the past 20 years the number of Americans has risen from 263 million to over 300 million. America's population is rising more than twice as fast as the European Union's and two thirds of the growth comes from natural increase, whereas almost all of the modest rise in the EU's population has come from immigrants. (Economist, July 2005).
- Italy, Germany, Spain, Japan and Eastern Europe have among the lowest birth rates in history. The over-65 population is expected to rise from 14.5% in 1995 to 22.4% by 2050. In the US the growth rate is around the rate of population maintenance, thanks, in part, to the higher birth rates of Hispanics. (BBC news, 2002)
- Most of the big European countries have had a persistent high degree of unemployment. In 2006, eight countries had unemployment that exceeded six percent, and Germany and France had unemployment over eight percent. In the US, it was 4.6%. This is a contributing factor to the need for high social welfare spending in Europe and also a possible cause of the welfare state described in the next section.
(IMF, 2007). (See Table 4.)

All of these factors help drive economic growth and growth in GDP per capita in the US compared to that of other advanced nations. Those advanced nations with higher percent of absolute poverty have to offer bigger subsidies to achieve their egalitarian societies than would be necessary in the US. However the growth factors do not, by themselves, ensure a more equal distribution of income. The factors that moved countries toward higher poverty and mal-distribution of income are discussed in the section that follows.

d. Factors promoting poverty and mal-distribution of income in the US.

While there are factors promoting US growth cited above, there are a number of factors contributing to high poverty and growing unequal income distribution in the US, offsetting these strengths. Among these factors are high number and percent of minorities in the US, high number of immigrants, the changes in family structure in the US, deregulation and increased competitiveness of American firms, the "winner-take-all" compensation strategy, changes in technology, and recent government policy.

Probably the major factor contributing to poverty and inequality in the US is the large minority population. The US has over 100 million minorities, a large part of whom are black and Hispanic. This population is larger than the population of any country in Europe, except for Russia. The US population is 31% minority. Of the rich countries only New Zealand has such a high percent. France has 12.6% and Germany only 4.8%. (*Economist,* Oct 2007). Table 9 shows comparative degree of racial, ethnic, linguistic and religious fractionalization and different advanced nations.

Most of these minority groups in the US have, on average, lower test scores in school, higher school drop out rates, poorer health, higher unemployment, are highly segregated, and have lower incomes. The Asians are an exception. They have, on average, higher education, lower drop out rates and higher incomes than native non-Hispanic whites. In 2006, white non-Hispanic American households had a median income of $52,423, Hispanics had a median income of $37,781, and blacks only $31,969. Asians had the highest income of any major group: $64,238 (US Census 2007, p.5). In the absence of the minorities the US median household income would be much higher than $48,201.

By the same token, most minority populations have much higher poverty than non-Hispanic whites. Black persons constitute 13% of the population but are 25% of the poor, with a poverty rate (24.5%) which is triple the rate of non-Hispanic Americans (8.2%). Hispanics constitute 14% of the population and are also 25% of the poor, with a poverty rate of 21.5%. The Asians have about the same rate of poverty as all whites, Hispanic and non-Hispanic (10.3%). Plainly, without the blacks and Hispanics the US would have a lower poverty rate and a higher degree of equality. Before World War II this would have been a different story, when there was a large amount of white poverty, especially in rural areas and the South.

In spite of the high poverty of blacks in the US, their progress over time has been phenomenal. Although poverty was not officially measured by modern definitions before 1959, Jaynes (1989) estimates that over 90% of the blacks were poor in 1939, as were 65% of the whites. Even by official estimates, black poverty was over 50% in 1959. The 1939 to 1974 drop in poverty for blacks was about 60%, if these estimates were correct. This represents the impact of the civil rights legislation and the great migration from the South to the North and West. Seymour Lipset argued that the progress of blacks in America since World War II was the greatest of any people in history (Lipset 1969). As late as 1960 only 18% of black males had even graduated from high school; by 2007, 87.8%. In 1960, only

2.8% of black males had graduated from college; by 2007, it was 18.5%--higher than the white male graduate rate for 1970 (*Encyclopedia Britannica* 2008, p 731 and 2008 US Statistical Abstract)).

Another factor contributing to poverty and income inequality in the US is the large number of immigrants, more than any country in the world. The US has had nearly 40 million immigrants since 1970 alone, constituting 12% of the population, the highest percentage since 1910. In 1995, there were only 24 million immigrants. Since the year 2000 over 10 million have entered the country, half of which were illegal. There are about 11 million illegal immigrants in the US. Nearly 30% of immigrants do not have even a high school education (61% of Mexican immigrants) compared to only eight percent for native Americans. Fifty-four percent come from Latin America, where the educational level is low. Fifteen percent of immigrants are in poverty (compared to only 12% of native born) and 31% are on public assistance. For non-citizen immigrants the poverty rate is 19% and for illegal aliens, 21%. But a number of Asian immigrants are highly educated: 80% of the Indians and 57% of Korean adults have college degrees (Camorata, 2007).

The median immigrant household income is $6,000 below that of native born. Immigrant children make up 20% of the children in schools nationally and 46% in California. The parents of 50 million students speak another language at home. The largest growth of the work force has been for those who have less than high school education (14%) (Camorata 2007). Sixteen percent of the poor are immigrants. Borjas argues that immigration has depressed wages for workers by three percent and for low skilled workers a much as 10% (*Economist* January 2008). Others disagree saying that the immigrants have produced new jobs that have to be taken into account.

At the same time, the immigrants have made a great contribution to American society. They have revitalizing ailing central cities, created new jobs, added to national growth and have given the US an advantage over Europe and Japan in the future because of the higher projected ratio of work age persons to retired persons. Immigrants are also a success story: the longer they are in the US, the higher their incomes (Camorata, 2007).

A combination of high number of minorities and immigrants has helped shape average outcomes on educational testing. US students have lower test scores than many advanced countries in the world whose students are more homogenous by race and language. The fairly low standing internationally has been used to criticize the American schools system. Actually, what these comparative numbers are measuring may be, in large part, not quality of education, but the diversity of students in the US schools system.

Another contributor to inequality of income in American society and the stagnation of incomes for middle class persons has been the decline of the unions. In 1980 trade union membership peaked out at 10 million, 23% of the workforce. In 1945 union members were 35.5% of the workforce. By 2006, membership was down to 15.3 million and only 12% of the workforce. The stronghold of unionism was in the North Central and Northeast regions. Several decades ago, high union wages were undercut by manufacturing plants moving to the South, which had a strong anti-union policy. In the 1950s, 1960s, and 1970s there were from 200 to 300 strikes a year involving one to two million workers each year. Starting in 1982, strikes began a steady decline to only 20 in 2006 with only 70,000 workers involved (*Encyclopedia Britannica* 2008, p- 746-7).

Manufacturing wages were further undercut by globalization and movement of manufacturing jobs overseas. The manufacturing jobs were quite well paid for persons with only high school education. Wages were further depressed through deregulation of the American economy in the 1970s where telecommunications, transportation and other industries lost their protected position and layoffs ensued in search of greater efficiency.

At least 30 million American workers have been laid off since the Labor Department began counting in 1984. In his book on layoffs Louis Uchitelle called it the "dust bowl of the golden age". Many of the laid off workers either stopped working or worked at jobs with lower pay. The fastest growing jobs are janitor, hospital orderly, and cashier—all very low paying jobs (Geoghegan, 2006). The millions of jobs lost by the move of manufacturing overseas were replaced by service jobs at lower pay and many were filled by the huge influx of immigrants. Over the past 25 years globalization has increased rewards for intellectual skills, pushing up the value of the college degree. The income gap between college graduate and those without university degrees doubled between 1979 and 1997. For those with a high school education, median earnings were $42,630 in 1972, but only $29,647 in 2002 in constant 2002 dollars (Frank 2007).

Professor Robert Frank also argues that the "winner-take-all" philosophy and changes in technology have extended the power and reach of the nation's most gifted performers. In business, as in baseball, there has been a rapid erosion of barriers that once prevented top performers from serving broader markets. There is more competition among top business performers. Their value is bid up by firms. (Frank, 2007)

Changes in marriage status have also affected poverty and income inequality. In 1950, 67% of Americans were married; by 2007 only 58% were married. The percent of divorced persons increased from 1.9% to 10.3% in this period. The persons who never married increased from 22.8% 25.2%. Persons living alone or single parent households earn less than those living in a family. In 2006, only 10.8 % of persons in families were poor while 20% of unrelated individuals were poor (US Census 2007). The lowest fifth of the population by income has an average household size of only 1.7, and the highest 3.1. Households with one low-income earner in the family more vulnerable to problems, such as the loss of a car, poor health. (Cox and Alm, 2008). In 1989 only 42% of black adults aged 20 to 39 were married, compared to 68% in 1969 (Isaacs 2007).

Although American unemployment is lower than in large European countries it was high among blacks (9%) and 64% of adults in poverty did not work in 2007 (16 million); only 12% of adult poor worked full time year around (US Census 2008). Unemployment data do not include discouraged workers who have given up looking for work and those in prison. The unemployment data only include those who are looking for work.

4. Positive and Negative Consequences of Low Inequality and the Welfare state

Countries in Europe and other advanced countries can be proud of their achievements in achieving greater income equality and less poverty in relative terms and, for many, in absolute terms. The question is what are the positive and negative consequences of this achievement? Now and in the future will these countries pay a high price for the welfare state?

It would appear, based on the data reviewed above that many advanced countries, particularly in Scandinavia, have achieved what nations have long sought to achieve: social justice, wealth, and democracy. Communism sought social justice but ended up with authoritarian government and a loss of prosperity for most of their people. In the end, the Soviet empire collapsed and both China and Russia embraced a modified form of capitalism and have been prospering since then—without achieving social equality. On the other end of the spectrum, the US achieved rapid growth, becoming the wealthiest nation in the world. At the same time, it has a large population in poverty, including many minorities, over 700,000 homeless, and ever-growing inequality of income.

a. Positive consequences of the welfare state and reduction in poverty

Some of the data show positive outcomes in human terms for countries with a high degree of equality and high social welfare spending. *One of the good predictors of a successful society is the welfare of its children.* In 2007 UNICEF did a “report card” for 21 advanced countries on six dimensions of child welfare: material well-being, health and safety, educational well-being, family and peer relationships, behaviors and risks and subjective well-being. The US, UK, Portugal and France, who were at the bottom half of rich countries on the gini index of inequality, were also in the bottom half of the composite average ranking of all six dimensions. The US and UK were ranked 20th and 21st. The Netherlands, Sweden, Denmark and Finland ranked the top four on the average index for children’s welfare were all in the top half of rich countries on the gini index. *This is not a linear correlation, but the data make it clear that countries with greater equality were countries with a child-friendly environment. Countries with high inequality and higher poverty were ranked as less child-friendly* (UNICEF, 2007).

There also was a positive relationship between child welfare and government social spending. As shown on table 10, countries with the highest revenues as a percent of GDP, on average had the highest child welfare scores; those with the lowest relative expenditures had the worst child welfare scores. By the same token, countries with the highest relative government revenues had, on average, higher life satisfaction ratings and higher equality adjusted happiness ratings. Ruut Veenhoven, the author of the satisfaction index, computed the variation of life happiness ratings in a given country, reflecting inequalities in a society, to derive an equality-adjusted happiness rating (Veenhoven 2006).

The US was ranked as seventh on the overall happiness index (allowing for ties) among the rich countries in Table 10 and 8th on the equality-adjusted happiness index. This was in spite of the fact that it had the second or third highest per capita income in purchasing power parity for two periods. It would appear that the high degree of inequality in the US affected this rating.

Thus, by these measures of welfare, the highly equal countries which also had the highest taxes, did quite well. There seemed to be little penalty on these measures, at least for the welfare state.

Worldwide, there is a broad correlation of the income of a nation with happiness. Countries that are poorest in Africa had the lowest level of stated happiness and the rich countries which are included in the study were all relatively happy. This speaks to overall wealth, but not distribution of income (*Economist,* July 2007)

A possible consequence of low poverty in advanced nations may be a low level of homicides and other violent crime. A number of studies have shown some correlation between poverty and violent crime (Shieh and Pugh, 1993). The higher poverty in the US may be one factor contributing to the fact that the US has the highest degree of homicide of these advanced nations. In 2004, 29,569 people were killed by firearms in America—100,000 since Sept 11, 2001, when the world trade tower was hit (Herbert, September 2007). In comparison with 30,000 in a recent year killed by firearms in the US, 96 died in all of Japan, 159 in England and Wales and 49 in South Korea (*Newsweek*, 2007). In addition to poverty, contributing factors to violent crimes in the US is the high degree of ownership of guns and a history of personal violence. Also, the US has a higher number of minorities many of whom are poor, living in violent poor neighborhoods, with high unemployment, and many in single parent households. Scotland, Australia, and England and Wales have higher rates of burglary (*Wikopedia* 2007). Also a number of advanced nations have higher auto theft and assault rates (Kurian, 2001).

An intriguing argument has been made that where there is a high degree of equality there is a high rate of growth. This would be the reverse of the argument that high taxes discourage growth. Alberto Alesina and Dani Rodick (1991) looked at data in 65 countries on growth and inequality. They found that countries that had lower growth rates had higher shares of national income that went to the top five percent and top 20% of earners. In contrast, higher growth rates were enjoyed by countries with a more equal distribution of income. Quintin and Saving (2008) also argue that a growing body of empirical work finds that inequality remains significantly correlated with future growth, even after controlling for other important factors. The US and Canada have greatly outpaced the growth of Latin America over the past century. The US and Canada have had higher literacy rates earlier and higher voter participation historically than Latin America. Consequently, ordinary persons in the US have had more say in shaping national policies historically than in Latin America (Quintin and Saving, 2008). However, a World Bank analysis cites two studies showing that greater equality has a positive impact on growth, three that show no impact, and two studies showing a negative impact (World Bank, 2008b).

b. Possible negative consequences of the welfare state.

In the previous section, I described the slowdown in growth in Europe after a period when it was closing the gap with the United States up to the 80s. This US advantage included the higher growth in per capita income in the US since 1989, the higher US growth of purchasing power parity per capita income than many large European countries from 2000 to 2006, the higher rate of productivity growth in the US than most European countries since 2000, the higher rate of population growth and fertility in the US than in Europe or Japan. As shown in Table 4, unemployment in Europe in 2006 exceeded six percent for eight big European countries and Canada. It exceeded eight percent for France, Germany, Spain and Belgium (IMF 2007) This unemployment for the major "core countries" of Europe has persisted for the past decade. It is not a short term phenomenon.

Based on these trends, Alesina and Giavazzi argue forcefully that:

> "Without serious deep and comprehensive reforms, Europe will inexorably decline, both economically and politically. Absent profound change in 10 or 30 years, the share of Europe in the world economy will be significantly lower than it is today, and perhaps more important, its political influence will be much trimmed. Europeans seem to be living in the dream that their past splendor and their current prosperity cannot be lost. This is a mistake. A major decline is indeed a possibility." (Alesina and Giavazzi 2006 p 3)

Recent newspaper and journal articles and the data would tend to support this negative view, particularly for Italy, France, and Germany. Recently, an Italian poll found the Italians least happy among 15 countries in Europe. The Italians have little faith in their parliament, have very low birth rates, a high percent of elderly population, and government seems to be of little help to business. Businesses want less bureaucracy and more flexible labor laws (Fisher 2007). In France from 1994 to 2003, unemployment among prime age adults ages 25 to 54 averaged 9.9 percent; for those aged 15 to 25, the average was 24%. In 2005, France's labor force (those working) was 2.7 times as large as its over-65 population; by 2020 it is projected to be only twice as large. In France, labor codes give most full time workers an employment contract that makes layoffs costly. Certainly legal standards must be met before firing someone. This contributed to high youth unemployment because firms are reluctant to hire new workers for fear that it will be difficult to fire them. Robert Samuelson writes that sooner or later, France will have to adopt policies that lower unemployment, lengthen worker hours, raise retirement ages and cut promised benefits (Samuelson, 2006). Germany has also met resistance to its reform measures.

Table 5 showed that from 2000 to 2005 annual growth in real GNP was negative for Austria, Germany, and Japan, zero for Denmark, and .3% or less for Sweden, Norway, Finland, Spain. Per capita income in purchasing power was less than $33,000 for Germany, France, Japan, Spain, Portugal, and New Zealand—considerably below the OECD average of $36,400. The rate of growth of these incomes from 2000 to 2006 was much lower than in the more prosperous Scandinavian countries, Spain, and Ireland.

The big issue is what caused this decline? Was it high taxes? A number of advocacy publications in the US have argued, on the one hand, either that higher taxes produce slower growth or, on the other hand, they did not have any effect. These arguments were generally supporting or against tax cuts in the US and were not undertaken by objective outside economists who were not advocating a particular public policy. (See for example US Congress. Joint Economic Committee, 1997.)

The fact that taxes have grown over time in Europe might support the hypothesis that as taxes increased, growth was depressed. In 1960, the total government spending for Europe averaged 29% of GDP (about the level of the US today); in 1970 it was 37%; in the 80's, it was 47% of GNP, and in the 1990s, 50%. (Alesina and Giavazzi, 2006). It was in the 1980s that European growth was overtaken by the US in many areas. It could also be argued that when countries with a low base-line (like Europe after World War II and developing countries today) start to grow their initial pace is more rapid than countries already rich and developed. But after a while "catch up" lags. That happened to both Europe and Japan. It may happen to China in the future.

Ann Bernasek argues that there is little evidence that tax rates are an important factor in determining the nation's economic prosperity. Reviewing the literature on the topic in 1993 two economists, William Easterly and Sergio Rebelo concluded in a paper that the evidence that tax rates matter in growth is disturbingly fragile. (Easterly and Rebelo, 1993). In another report that looked at the growth of the country from 1950 to 2002, authors found that periods of strong productivity growth actually occurred when the top tax rates were the highest. He also showed that countries with high tax rates were among the most affluent (Bernasek, 2005). The international economist, Angus Maddison reached the same conclusion that "it is difficult to reach strong conclusions on the influence of the welfare state on economic development because the evidence does not warrant them.. There is no evidence that high welfare state expenditure has been disastrous for economic incentives and economic growth as early nineteenth century laissez-fair liberals would have predicted" (Maddison 1995, p 414).

The other side of the argument is presented by Paul Cashin. He developed and applied an equation that calculated the impact on growth of GDP per worker by (a)enrollment in secondary education (b) initial GDP per worker (c)expenditures on social security and welfare and (d)public investment. He found that higher expenditures on social security and welfare inhibited growth of GDP per worker in his equation using data from 93 countries. However, the other side of the coin was that if revenue from taxes is used for productive government spending, then growth can be promoted. Thus, governments need to optimize the level of taxes and social spending to achieve national growth (Cashin 1994).

A recent OECD study found that the combined effect of a one percentage point increase in the overall tax rate accounts for a decline in the level of national output of about .6 to .7%. However other factors also influence national output. Increased foreign trade exposure has a 4% impact, controlling the variability of inflation two percent, controlling the rate of inflation .4 to .5% and a persistent .1% increase in research and development activities would have a long run effect of raising output per capita by 1.2%. Thus, the effect of high taxes may be offset by other policies (OECD 2004). Looking at the impact of state taxes on growth in the US, The Center for Budget and Policy Priorities found that many other factors than tax burden have an impact on state growth: expenditures on education, infrastructure, highways, and public health. Low tax states, such as Alabama, had about the same growth rate as high tax states from 1995 to 2005 (Lav, 2007b).

To test these hypotheses on the impact of welfare state taxes on growth I ran several equations showing the correlation between (a) government revenues at a percent of GPD in 1975 for advanced nations and per capita growth from 1970 to 80 (b) government revenues as a percent of GDP for 1995 with growth from 1990 to 2000, and (c) the government revenues as a percent of GDP in 2006 with unemployment in 2006. The countries covered and data are from table 5, unemployment is from table 4. I ran one regression with Korea, which is non-typical in both low taxes and high growth, and one without Korea.

The results of the first two regressions are shown on Figure 9, which excludes Korea. It, surprisingly, shows a slightly positive slope of .00438 comparing 1975 tax revenues with 1970 to 1980 growth, representing a slightly positive relationship between taxes and growth. This is contrary to expectations. A similar result is obtained by comparing 1995 revenues with 1990 to 2000 growth: a slightly positive slope of .00459. Figure 10 shows a higher slope when comparing 2006 revenues as percent of GDP and 2006 unemployment for advanced nations. This shows that higher taxes are associated to a mild degree with higher unemployment. The regression shows a slope of .07797, more significant than the other regressions, but fairly modest.

The lack of negative relation between taxes and growth would support the skeptics cited above. Also, other questions remain. If taxes are an impediment to growth, why did Europe and Japan outpace the US after World War II up to 1980. At that time, European taxes were lower than they were now but still higher than that of the US. It is quite obvious that there were factors other than taxes involved. Ireland has outpaced growth of everyone in Europe since 1990, but still has a tax rate higher than in the US.(See Table 5.) (Yet Ireland is one of the few countries to show lower taxes in 2006 than in 1995!)

If taxes were not the determining factor in slowing European growth, what is causing the slowdown? Alesina and others cite restrictive labor laws which make it difficult to fire workers in France and other countries (Alesina and Giavazzi, 2006). The OECD economists seem to agree. A 2004 OECD report indicated that the disappointing performance has been worsened in Europe by often misguided labor market policies. They argue that these policies have managed to depress employment rates and per capita incomes (OECD, 2004). The new president of France has been citing the need to deregulate the economy and labor laws as a high priority. His proposals have been met with country-wide strikes and student unrest.

Other problems cited above in depressing OECD growth are poor quality of universities and relative lack of innovation, compared to the US. Perhaps another factor is the changing attitude toward work in Europe. It was pointed out in the previous section that Europeans work fewer hours than do Americans and take longer vacations. Is this the impact of the welfare state and high unemployment benefits or a preference for more leisure time and less focus on money?

One of the concerns of Americans opposed to welfare is that government assistance reduces the incentive to work. This is a key reason for welfare reform. It was a success from the viewpoint of the taxpayer: welfare levels have been cut in half and more single mothers are working. However, they are still poor after welfare struggling with low paying jobs. What has happened in Europe? Typically, non-elderly poor households work fewer hours than poor Americans do. The average number of hours worked by non-elderly single parent poor households in seven rich countries is 500 annually, compared to 1069 in the US. (See Table 11.) There are similar ratios for all poor households and those with children. This argument may also be turned around: more poor Americans are working because they are receiving low wages and are still poor.

It should be noted that both welfare states in advanced nations and the US with its relatively low expenditures as a percent of GDP are being outpaced by growth in the developing world, especially China and India. Last year the global economy entered its fifth year of over 4% annual growth—the longest period of such strong expansion since the early 1970s. In the past decade growth in East Asia was 10%, in South Asia over 8%, Eastern Europe almost 7%, and in Africa over 6%. For the past decade, developing economies have outpaced the advanced economies (*Economist* January 26, 2007). Further, it is the US, not Europe, that is threatening the world financial structure with its sub-prime mortgage crisis and housing down-turn.

5. Effectiveness of Recent US Policies on Reducing Inequality and Poverty.

I reported above that the consistent growth of jobs and national output helped reduce poverty in the US. There was a rapid drop in poverty in the second half of the 1990s. (See Figure 4.) A contributing factor to this drop in poverty was the Earned Income Tax Credit passed during the Clinton Administration. Welfare reform seems to have a positive effect in reducing welfare dependence and increased the number of working mothers formerly on welfare. Consumption increased for some single mothers (Meyer and Sullivan, 2007). But it probably did little to reduce poverty because these jobs the mothers got are sporadic and low paid. The primary purpose of welfare reform, it can be argued, was to reduce dependence and the burden on the taxpayer, not to reduce poverty. Then during the 2001 recession, poverty started to increase again, then it stabilized and dropped slightly, but in 2006 it was not as low as it was in 2000.

Because of the rapid growth in income of the top 10% of society, inequality has continued to grow. This is in spite of the fact that in the 90s economic growth was strong and sustained. The World Bank says that the empirical literature is quite unanimous that growth does not have a systematic effect on reducing inequality (World Bank 2008a).

The major policies of the Bush administration have served to increase inequality, rather than decrease it. By 2006, the bottom three quintiles received very little benefit as a percent of their income of the tax cuts to stimulate the economy (less than 2.5% of after tax income). Only 12% of the bottom quintile received any tax cut at all. By contrast, the top .1% received a $230,136 tax cut or six percent of after tax income. The top 10% received a nearly $9000 tax cut or 4.4% of after tax income. The top quintile of earners received 71% of the tax benefits. Thus, the rich got richer under the stimulus package (Burman, 2007).

If the tax cut had a massively positive effect on national growth, it may have offset some of the unequal impact. But there seems to be little evidence that it has. As of November 2005, the recovery in job growth from the last recession was the second lowest recovery since World War II. The annual growth in jobs from 2000 to 2004 in Europe (.7%) exceeded that of the US (.4%)—in spite of the massive tax cut. Further the number of jobs created per year from 2000 to 2006 was 1.2 million, compared to 1.4 million in the 1990s (BLS, 2007). *Private sector job growth from 2001 to 2007 during the Bush administration has been the slowest for any administration except for G.H.W. Bush and Eisenhower* (Norris 2008). The highest growth was in the high-tax Johnson administration.

One impact of the tax cut and huge increase in military spending was the huge deficit. In 2001 there was a national surplus of $126 billion. Since then to 2006, we have had deficits totaling $1.5 trillion. The total US deficit as a percent of GDP is the highest among the advanced European nations (*Economist,* Dec 22, 2007). It now stands at $9.2 trillion. This huge deficit will serve to increase payments on interest owed, increase dependence on China and other countries to buy our bonds and put the burden on future generations. The Congressional Budget Office wrote that permanently large deficits can erode the growth of future living standards by reducing national savings, slowing the accumulation of wealth and degrading economic performance (US Congressional Budget Office, 2005).

Adam Carasso estimates that some $746 billion is "spent" either in direct subsidies ($212 billion) or on tax subsidies ($534 billion) aimed at promoting upward mobility. However 72% is delivered through employer provided work tax subsidies and mostly benefits the middle and high-income households; 28% is channeled through programs that favor lower-to moderate-income persons (Carasso, Reynolds and Steurerle, 2007).

The lack of federal oversight of the housing finance industry has permitted huge financial losses because of defaults on sub-prime mortgages. Those losses have spread to the major financial institutions in the US and throughout the world and have contributed to talks of recession. This should make poverty and inequality even worse.

One policy of the past several decades has served to reduce world poverty, although that was not its intention. That is free trade, which has resulted in the booming economies in developing world, particularly China—which has experienced a 400 million drop in people earning less than one dollar a day. Another trend reducing poverty and unemployment in South America has been the huge influx of immigrants to the US, both legal and illegal. But, as reported above, this has only increased our own poverty.

What is sad is that not only are we doing little to reduce poverty and inequality, but it has hardly been a topic in the current elections. Only one Democratic candidate who recently dropped out of the race for the primary elections, Edwards, has focused on attacking poverty and inequality.

6. Some Brief Suggestions on How Europe and the US Can do Better

The other advanced nations of the world and the US have two opposite problems in the past decade: the US needs to reduce poverty and inequality as a matter of social justice and the other nations need long term efforts to increase national growth. In fact, the recent housing slump has provided a need for us to be also concerned about growth in the short run. A number of policies have been suggested in the literature to address these problems. I have added a few ideas of my own.

a. What Europe and other advanced nations can do better

Other advanced nations who have experienced high unemployment and slower growth in the past decade, like France and Germany, have something to learn from us to restore economic vitality. The chief economist of OECD recommends reform in Europe to improve labor force participation, raising productivity, raise skill levels, particularly through improvements in secondary education, and improve colleges and universities and increase the quality of their teaching and research (OECD, 2007). A example of successful reforms is in Sweden, which has made it easier and cheaper to hire, offering tax credits to employers taking on people who have been jobless for a long time and providing tax incentives to lure domestic jobs out of the black market. It has cut unemployment to half of the French rate, but it still has the highest tax rate in Europe (Cohen 2007). Tax incentives and other reforms in Ireland have produced phenomenal growth in the past decade, an exception to the pallid growth elsewhere in Europe.

Alesina and Giavazzi (2006) who have been most critical of economic performance in Europe have recommended that Europeans need to:

- Liberalize labor markets (as Sarkozi as trying to do in France).
- Reform higher education to improve quality of education and increase research and development.
- Reform the judicial systems and reduce the time needed to open a business.
- Reduce deficits by cutting back some of the generous benefits of the welfare state. As the number of elderly rises and workers decrease, they will not be able to support the generous pension system in the future.
- Learn from the US how to deal with racial minorities.

b. Some things we can do better

The Brookings Institution says that research indicates that outcomes for children can be improved through home visiting to new parents, early childhood education, more qualified teachers in every classroom, along with more access to healthcare and to a college education (Isaacs 2007). Other suggestions are to reduce non-marital births and increase marriage, improving schools, helping disadvantaged mothers. Another helpful move would be to address the transportation needs of low income minority families who, because of segregation and housing prices, often live far from the growth centers of job locations (Covero, Sandoval and Landis).

Rather than focus on particular solutions, which are beyond the scope of this paper, above all, we need to put poverty and the plight of minorities back on the national agenda. Unless we have identified poverty and social justice as a subject that needs to be addressed, little will be accomplished. Achieving justice for minorities is an unfinished business. A good part of the social inequality and overall poverty rate in America is the high poverty rate of many of our 100 million minorities and 40 million immigrants. We must find solutions that will not alienate the majority population and that will benefit working class America, in general, not just minorities.

In light of our $9 trillion national debt and the huge looming crisis in Medicare and Social Security, we need to revisit the tax cuts which primarily benefit the wealthy. As we have seen above, higher taxes need not be associated with slower growth. We also need to find a way to pay for future growth of Medicare, Medicaid and Social Security as our society ages. Part of the solution may be to find a better and less costly way to address the health care needs of the nation. We have the highest per capita and absolute public and private health care expenditures in the world, but 47 million people are not covered by any insurance and we do not have the best health and the highest longevity.

We also need to seriously examine the successes in Europe and realize, as documented above, that they have not paid a serious price for these successes. Skeptics argue that nothing works in the reduction in poverty. Most advanced nations have shown otherwise. They have achieved a happy balance of prosperity, democracy and social justice. We can learn from them in social justice and they can learn from us in economic vitality and innovation.

Postscript. The core of this paper was written before the current financial crisis. Although I have updated some of the statistics, I have not tried to show the causes of the current crisis. I have a separate paper on that. Nor have I tried to recommend solutions to that crisis. If I had the answers, I should be in the administration. I haven't received the call yet. However, addressing the problem of income inequality in America has to be a central thrust of any attempt to get us back on the right track.

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Table 1. Gini indices of market income and disposable income in 16 countries (per cent)

Country	Year	Gini index for market income [1]	Gini index for disposable income [2]	Absolute reduction [3] = [1]-[2]	Percentage reduction [4] = [3]/[1]
High-income economies					
Denmark	2000	42	23	20	47
Finland	2000	38	25	14	36
Netherlands	1999	39	25	14	36
Norway	2000	41	25	16	39
Sweden	2000	46	25	21	45
Germany	2000	48	28	21	43
Switzerland	2000	36	28	8	22
Taiwan	2000	33	30	3	9
Canada	2000	42	30	12	28
Australia	2001	48	32	17	34
United Kingdom	1999	51	34	17	33
Israel	2001	52	35	17	33
United States	2000	48	37	11	23
Middle-income economies					
Czech Republic	1996	44	26	18	41
Romania	1997	38	28	10	27
Poland	1999	50	29	21	41

Notes: Observations for disposable income are bottom-coded at 1% of the mean of equivalent disposable income and top-coded at ten times the median of unadjusted disposable income. Changes in disposable incomes due to bottom- and top-coding are entirely attributed to market incomes. Both market and disposable incomes are adjusted for household size by the square-root equivalence scale.
Source: Authors' calculations from the Luxembourg Income Study database, as of 10 March 2007.

Table and notes from Brandolini and Smeeding (March 2007), p. 18

Table 8. Labor Markets in the United States and in Europe

Country	Labor standards 1985–93[b]	Employment protection 1990[c]	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
United Kingdom	0	7	0	38	4
European Union[a]	4.8	13.5	3.8	58.7	2.6
United States	0	1	0	50	0.5

Note:
[a] Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, and United Kingdom.
[b] Index that combines several measures of labor market regulation and ranges from 0 to 10 with 10 the maximum.
[c] Measure the strength of legal restrictions on hiring and firing and ranges from 0 to 20 with 20 the maximum.

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

From Alesina and Glaeser (2004) p. 41

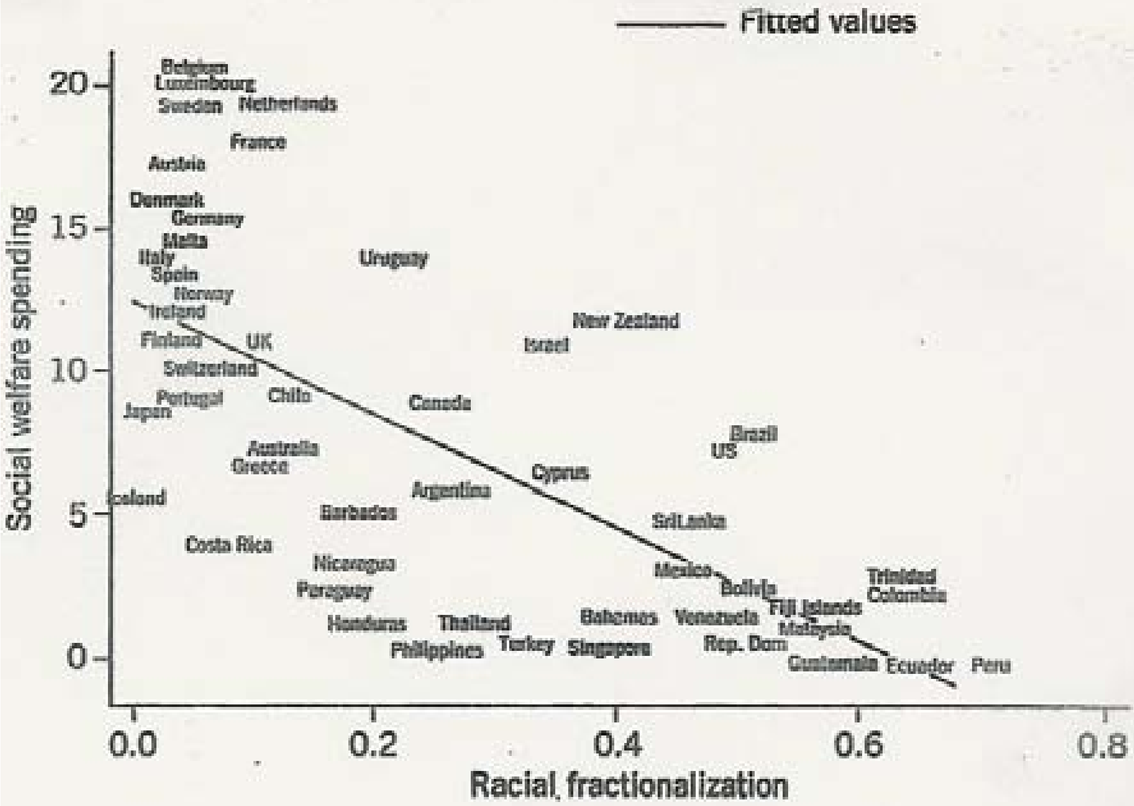
Table 9. Fractionalization Indices

Nation	Racial fractionalization[a]	Ethnic fractionalization[b]	Linguistic fractionalization[b]	Religious fractionalization[b]
Austria	0.03	0.11	0.15	0.41
Belgium	0.05	0.56	0.54	0.21
Denmark	0.02	0.08	0.10	0.23
France	0.10	0.10	0.12	0.40
Germany	0.06	0.17	0.16	0.66
Italy	0.02	0.11	0.11	0.30
Netherlands	0.11	0.11	0.51	0.72
Norway	0.06	0.06	0.07	0.20
Portugal	0.05	0.05	0.02	0.14
Spain	0.03	0.42	0.41	0.45
Sweden	0.05	0.06	0.20	0.23
Switzerland	0.05	0.53	0.54	0.61
United Kingdom	0.10	0.12	0.05	0.69
United States	0.49	0.49	0.25	0.82

Notes:
[a] From authors' calculations.
[b] From Alesina et al. (2002).

From Alesina and Glaeser (2004)

Figure 8. Racial Fractionalization and Social Welfare Spending



From Alesina and Glaeser (2004), p 141

FIG. 9. Government tax revenue percentage vs. 10 year growth (*excluding* S. Korea)

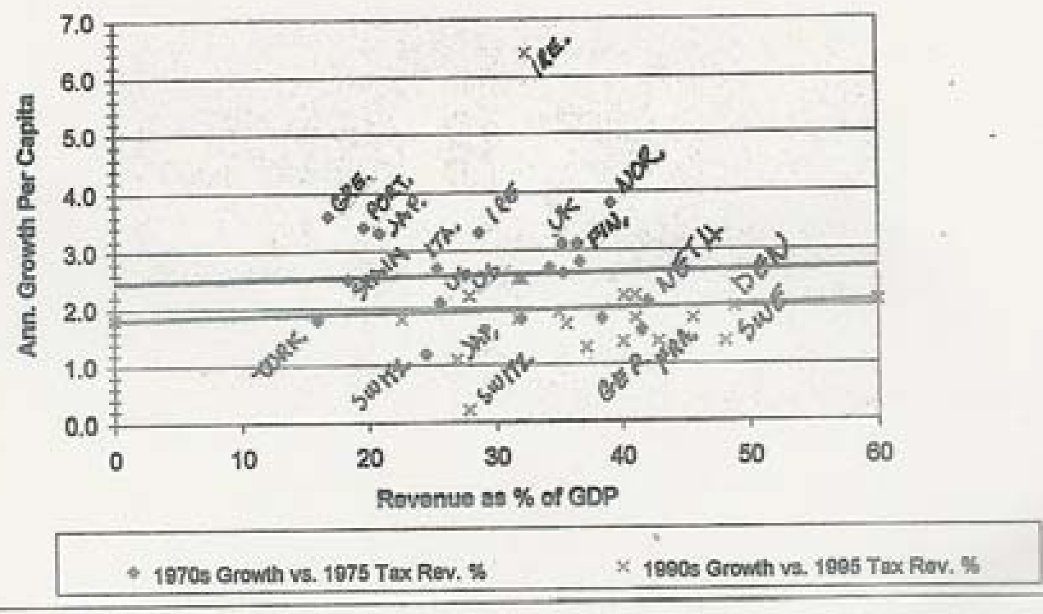


FIG. 10. 2006 Revenues as % of GDP vs. 2006 unemployment rate

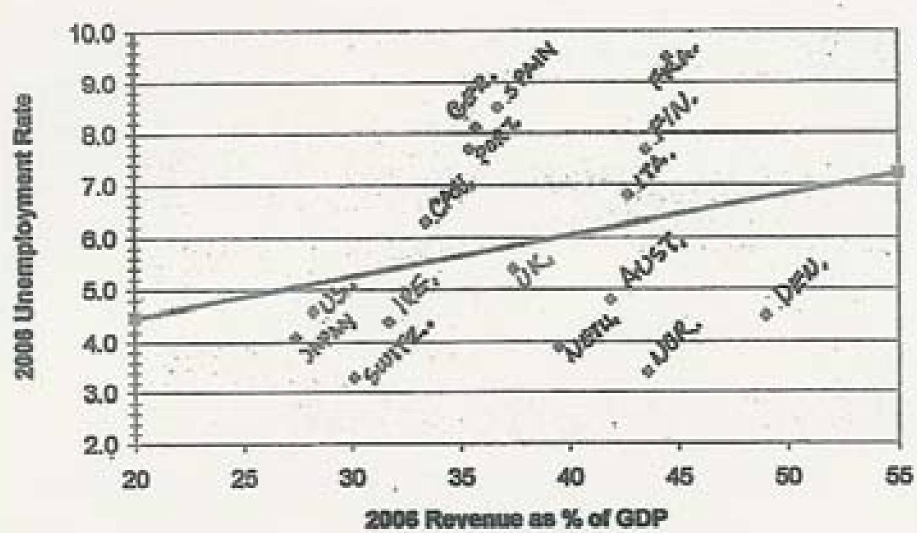


Table 2. World Bank's estimates of inequality levels: income and expenditure Gini indices

Country	Year	Gini index	Income group
<u>High-Income economies</u>			
Expenditure			
Taiwan	2000	0.24	HIC
Italy	2000	0.31	HIC
Israel	2001	0.35	HIC
Greece	1998	0.36	HIC
Income			
Finland	2000	0.25	HIC
Japan	1993	0.25	HIC
Sweden	2000	0.25	HIC
Belgium	2000	0.26	HIC
Denmark	1997	0.27	HIC
Norway	2000	0.27	HIC
Austria	1997	0.28	HIC
Germany	2000	0.28	HIC
Luxembourg	2000	0.29	HIC
Netherlands	1999	0.29	HIC
France	1994	0.31	HIC
Ireland	2000	0.31	HIC
Switzerland	1992	0.31	HIC
Australia	1994	0.32	HIC
Republic of Korea	1998	0.32	HIC
Canada	2000	0.33	HIC
United Kingdom	1999	0.34	HIC
Spain	2000	0.35	HIC
New Zealand	1997	0.37	HIC
United States	2000	0.38	HIC
Portugal	1997	0.39	HIC
Singapore	1998	0.43	HIC
<u>Middle East and North Africa</u>			
Expenditure			
Yemen	1998	0.33	LIC
Egypt	2000	0.34	LMC
Algeria	1995	0.35	LMC
Morocco	1998	0.38	LMC
Jordan	2002	0.39	LMC
Tunisia	2000	0.40	LMC
Iran	1998	0.43	LMC
<u>South Asia</u>			
Expenditure			
Pakistan	2001	0.27	LIC
Bangladesh	2000	0.31	LIC
India	1999/2000	0.33	LIC
Nepal	1996	0.36	LIC
Sri Lanka	2002	0.38	LMC
<u>East Asia and Pacific</u>			
Expenditure			
Mongolia	1998	0.30	LIC
Indonesia	2000	0.34	LMC
Lao PDR	1997/1998	0.35	LIC
Vietnam	2002	0.35	LIC
Cambodia	1997	0.40	LIC
Thailand	2002	0.40	LMC
China	2001	0.45	LMC
Philippines	2000	0.46	LMC
Income			
Malaysia	1997	0.49	UMC
<u>Europe and Central Asia</u>			
Expenditure			
Hungary	2002	0.24	UMC
Bosnia & Herzegovina	2001	0.25	LMC
Armenia	2003	0.26	LMC
Uzbekistan	2000	0.27	LIC
Bulgaria	2003	0.28	LMC
Romania	2002	0.28	LMC
Serbia & Montenegro	2003	0.28	LMC
Slovenia	1998	0.28	HIC
Croatia	2001	0.29	UMC
Kyrgyzstan	2002	0.29	LIC
Lithuania	2000	0.29	UMC
Belarus	2000	0.30	LMC
Kazakhstan	2003	0.30	LMC
Albania	2002	0.31	LMC
Poland	2002	0.31	UMC
Estonia	1998	0.32	UMC
Russian Federation	2002	0.32	UMC
Tajikistan	2003	0.32	LIC
Latvia	1998	0.34	UMC
Azerbaijan	2001	0.36	LMC
Macedonia	2003	0.36	LMC
Moldova	2001	0.36	LIC
Turkey	2002	0.37	UMC
Georgia	2002	0.38	LMC
Turkmenistan	1998	0.41	LMC
Income			
Czech Republic	1996	0.25	UMC
Slovak Republic	1996	0.26	UMC
Ukraine	1999	0.29	LMC
<u>Latin America and the Caribbean</u>			
Expenditure			
Trinidad & Tobago	1992	0.39	UMC
Nicaragua	2001	0.40	LIC
Jamaica	2001	0.42	LMC
St. Lucia	1995	0.44	UMC
Peru	2000	0.48	LMC
Panama	2000	0.55	UMC
Income			
Venezuela	2000	0.42	UMC
Uruguay (urban)	2000	0.43	UMC
Guyana	1998	0.45	LMC
Costa Rica	2000	0.46	UMC
Dominican Republic	1997	0.47	LMC
Mexico	2002	0.49	UMC
El Salvador	2002	0.50	LMC
Argentina (urban)	2001	0.51	UMC
Chile	2000	0.51	UMC
Honduras	1999	0.52	LMC
Colombia	1999	0.54	LMC
Ecuador	1998	0.54	LMC
Paraguay	2001	0.55	LMC
Bolivia	2002	0.58	LMC
Guatemala	2000	0.58	LMC
Brazil	2001	0.59	LMC
Haiti	2001	0.68	LIC

Notes: Economies are classified by the World Bank according to 2004 per capita gross national income in the following income groups: low-income economies (LIC), $825 or less; lower-middle-income economies (LMC), $826–$3,255; upper-middle income economies (UMC), $3,256–$10,065; and high-income economies (HIC), $10,066 or more.
Source: World Bank (2005, Table A2, pp. 280–1).

Table and notes from Brandolini and Smeeding (March 2007 p. 17

Table 3. Relative Poverty Rates: Percent Below 50 Percent Median Adjusted Income, by Type of Household, in Eleven Rich Countries

	Poverty Rate (percent of population poor[1] and rank)					
	Overall[2] (Rank)	Households with Children (by number of Parents)[3,6]			Elders[4] (Rank)	Childless[5] (Rank)
Nation (year)		All Children (Rank)	(1 Parent) (Rank)	(2 Parent) (Rank)		
United States (00)	17.0 (1)	18.8 (1)	(41.4) (2)	(13.2) (2)	28.4 (2)	11.2 (3)
Ireland (00)	16.5 (2)	15.0 (3)	(45.8) (1)	(10.8) (3)	48.3 (1)	13.1 (1)
Italy (00)	12.7 (3)	15.4 (2)	(20.1) (8)	(15.1) (1)	14.4 (6)	8.4 (6)
United Kingdom (99)	12.4 (4)	13..2 (4)	(30.5) (6)	(9.1) (5)	23.9 (3)	8.4 (6)
Canada (00)	11.4 (5)	13.2 (5)	(32.0) (4)	(10.1) (4)	6.3 (10)	11.9 (2)
Germany (00)	8.3 (6)	7.6 (7)	(33.2) (3)	(4.4) (8)	11.2 (7)	8.7 (5)
Belgium (00)	8.0 (7)	6.0 (9)	(21.8) (7)	(4.3) (9)	17.2 (5)	5.9 (11)
Austria (00)	7.7 (8)	6.4 (8)	(17.9) (9)	(5.1) (7)	17.4 (4)	7.0 (9)
Netherlands (99)	7.3 (9)	9.0 (6)	(30.7) (5)	(7.6) (6)	2.0 (11)	6.4 (10)
Sweden (00)	6.5 (10)	3.8 (10)	(11.3) (10)	(2.2) (10)	8.3 (9)	9.8 (4)
Finland (00)	5.4 (11)	2.9 (11)	(7.3) (11)	(2.2) (10)	10.1 (8)	7.6 (8)
Overall Average	10.3	10.1	(26.6)	(7.6)	17.0	8.9

Source: Author's calculations of LIS files.

Notes:

[1]Poverty is measured at 50% median adjusted disposable income (ADPI) for individuals. Incomes are adjusted by e=0.5 where ADPI=unadjusted DPI divided by household size (s) to the power e: $ADPI = DPI/s^e$.

[2]All types of persons regardless of living situation.

[3]Households with children (under age 18, excluding ever married persons and heads and spouses) and no elderly (above 64). Children, and the non-elderly adults living with them in the same household, are further split into one- and two-parent columns.

[4]Adults aged 65 and over living in units with only elderly persons.

[5]Childless are couples or singles where there are no elderly, nor children.

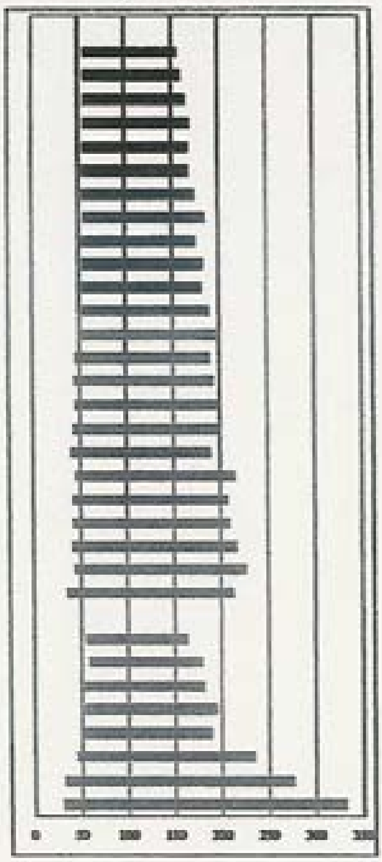
[6]Other households include elderly and non-elderly persons living in the same households (often multiple generation families with children) and are omitted from this table. See footnote 8.

From Smeeding (2006)

Figure 1. The distribution of disposable income in 32 high- and middle-income economies

	P10 (Low income)	P90 (High income)	P90/P10 (Decile ratio)	Gini Index
High-income economies				
Denmark 2000	57	155	2.8	0.225
Norway 2000	57	159	2.8	0.251
Finland 2000	57	164	2.9	0.247
Sweden 2000	57	168	3.0	0.252
Netherlands 1999	56	167	3.0	0.248
Slovenia 1999	53	167	3.2	0.249
Austria 2000	55	173	3.2	0.260
Luxembourg 2000	57	184	3.2	0.260
Belgium 2000	53	174	3.3	0.277
Switzerland 2000	55	182	3.3	0.280
Germany 2000	54	180	3.4	0.275
France 2000	55	188	3.4	0.278
Taiwan 2000	52	196	3.8	0.296
Canada 2000	48	188	3.9	0.302
Japan 1992	46	192	4.2	0.315
Australia 2001	47	199	4.2	0.317
Italy 2000	45	199	4.5	0.333
Ireland 2000	41	189	4.6	0.323
United Kingdom 1999	47	215	4.6	0.343
Greece 2000	43	207	4.8	0.338
Spain 2000	44	209	4.8	0.340
Israel 2001	43	216	5.0	0.346
Portugal 2000	45	226	5.0	0.363
United States 2000	37	212	5.7	0.370
Middle-income economies				
Slovak Republic 1996	56	162	2.9	0.241
Czech Republic 1996	59	179	3.0	0.259
Romania 1997	53	180	3.4	0.277
Hungary 1999	54	194	3.6	0.295
Poland 1999	52	188	3.6	0.293
Estonia 2000	46	234	5.1	0.361
Russia 2000	33	276	8.4	0.434
Mexico 2000	32	331	10.4	0.491

Length of bars represents the gap between high and low income individuals



Notes: P10 and P90 are the ratios to the median of the tenth and 90th percentiles, respectively. Observations are bottom-coded at 1% of the mean of equivalent disposable income and top-coded at ten times the median of unadjusted disposable income. Incomes are adjusted for household size by the square-root equivalence scale. See note to Table 1 for the definition of high- and middle-income economy.

Sources: Authors' calculations from the Luxembourg Income Study database, as of 10 March 2007 (figures coincide with those reported in http://www.lisproject.org/keyfigures/ineqtable.htm) and the European Community Household Panel database, Waves 1–8, December 2003 for Portugal; statistics for Japan were computed according to the same methodology as all other figures by Tsuneo Ishikawa for Gottschalk and Smeeding (2000).

Figure and notes from Brandolini and Smeeding (March 2007) p. 5

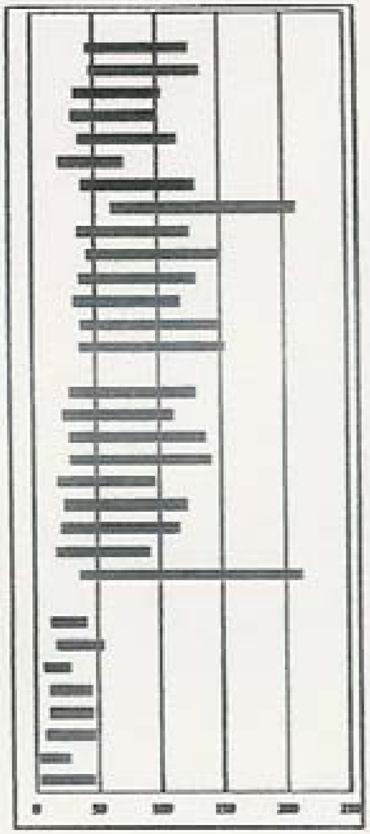
TABLE 4. COMPARATIVE PER CAPITA INCOMES USING PURCHASING POWER PARITY 2000 AND 2006 AND 2006 UNEMPLOYMENT SELECTED ADVANCED COUNTRIES

Country	**2000 per cap Income (000)**	**50% of per cap inc. (000)**	**2006 per cap income at (000)**	**50% of per cap inc (000)**	**gain 00-06 (000)**	**2006 unemp.**
Norway	$39.6	$19.8	$44.6 (1)	$22.3	$5.3	3.4
US	**37.7**	**18.8**	**43.2 (3)_**	**21.6**	**5.5**	**4.6**
Switzerland	33.1	16.6	38.7 (4)	19.3	5.6	3.3
Ireland	31.4	15.7	44.6 (2)	22.3	13.2	4.4
Denmark	31.4	15.7	36.9 (6)	18.4	5.5	4.5
Austria	31.3	15.6	36.3 (4)	18.5	5.0	4.8
Netherlands	31.0	15.5	36.9 (5)	18.4	5.9	3.9
Canada	30.5	15.2	35.5 (7)	17.7	5.0	6.3
Australia	29.7	14.8	33.0 (10)	16.7	3.3	4.3
Belgium	29.9	14.8	34.7 (9)	17.3	4.8	8.2
Japan	28.4	14.2	32.5 (11)	16.2	4.1	4.1
France	28.3	14.1	31.8 (12)	15.9	3.5	9.5
Finland	28.2	14.1	35.5 (7)	17.7	7.3	7.7
UK	27.9	13.9	35.4 (8)	17.7	7.5	5.4
Germany	27.9	13.9	31.3 (13)	15.6	3.4	8.1
Italy	27.2	13.6	31.0 (14)	15.5	3.8	6.8
Spain	22.9	11.4	27.9 (15)	13.6	5.0	8.5
New Zealand	22.6	11.3	25.8 (16)	12.9	3.2	3.8
Portugal	18.9	9.4	22.9 (17)	11.45	4.0	7.7
Non-US Average	28.0	14.6	36.4			

SOURCE: Table 8.2 Andrew Michel *The State of Working America.* 2006 data (International Monetary Fund "Report for Selected Countries and subjects") http://www.imf.org/exernal/publs/ft/weo/2007/02/weodata/weorept.aspx?sy=2004&ey=20.. Accessed Jan 22, 2007

Figure 2. The distribution of real disposable income in 32 high- and middle-income economies

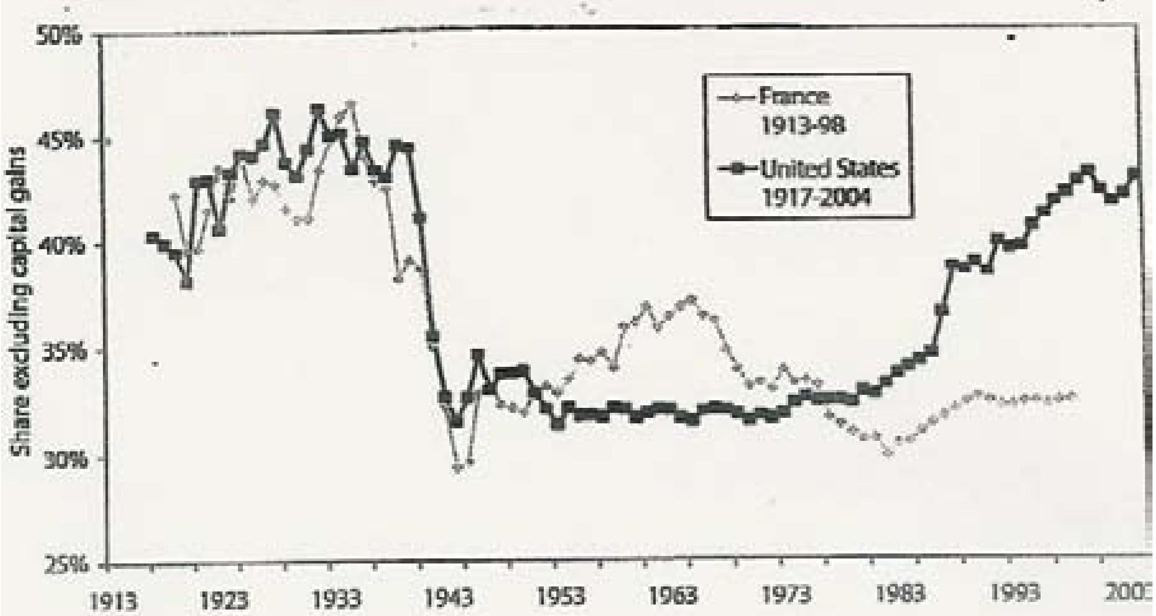
	Real P10 (Low income)	Real P90 (High income)	P90/P10 (Decile ratio)	Real median
High-income economies				
Denmark 2000	45	125	2.8	80
Norway 2000	48	134	2.8	84
Finland 2000	36	103	2.9	63
Sweden 2000	34	99	3.0	59
Netherlands 1999	39	116	3.0	69
Slovenia 1999	23	73	3.2	44
Austria 2000	41	129	3.2	73
Luxembourg 2000	65	209	3.2	114
Belgium 2000	38	125	3.3	73
Switzerland 2000	45	150	3.3	82
Germany 2000	39	130	3.4	72
France 2000	34	117	3.4	62
Taiwan 2000	39	150	3.8	76
Canada 2000	39	152	3.9	81
Japan 1992			4.3	
Australia 2001	30	129	4.3	65
Italy 2000	25	111	4.5	56
Ireland 2000	30	136	4.6	72
United Kingdom 1999	31	141	4.6	66
Greece 2000	20	96	4.8	46
Spain 2000	25	121	4.9	58
Israel 2001	23	115	5.0	53
Portugal 2000	18	91	5.0	40
United States 2000	37	212	5.7	100
Middle-income economies				
Slovak Republic 1996	14	40	2.9	25
Czech Republic 1996	18	54	3.0	30
Romania 1997	8	27	3.4	15
Hungary 1999	12	44	3.6	25
Poland 1999	12	45	3.6	24
Estonia 2000	9	47	5.1	20
Russia 2000	3	26	8.4	10
Mexico 2000	4	46	10.4	14



Sources: Authors' calculations from the Luxembourg Income Study database, as of 10 March 2007, and the European Community Household Panel database, Waves 1–8, December 2003 for Portugal; statistics for Japan were computed according to the same methodology as all other figures by Tsuneo Ishikawa for Gottschalk and Smeeding (2000). Real P10 and P90 are the percentage ratios to the US median of the tenth and 90th percentiles, respectively; real median is expressed as a percentage ratio of the US median. Observations are bottom-coded at 1% of the mean of equivalent disposable income and top-coded at ten times the median of unadjusted disposable income. Incomes are adjusted for household size by the square-root equivalence scale. Consumer price indices and purchasing power parity conversion factors from local currency units to international dollars are from International Monetary Fund, *World Economic Outlook*, September 2006 edition.

Figure and notes from Brandolini and Smeeding (March 2007) p. 9

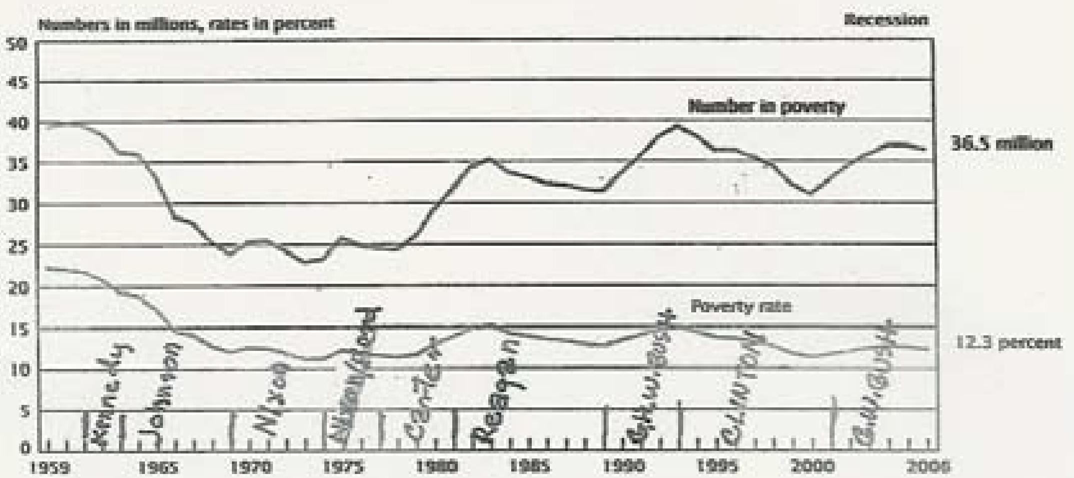
Figure 3. Top decile income share in France and in the United States



ource: Piketty and Saez (2001).

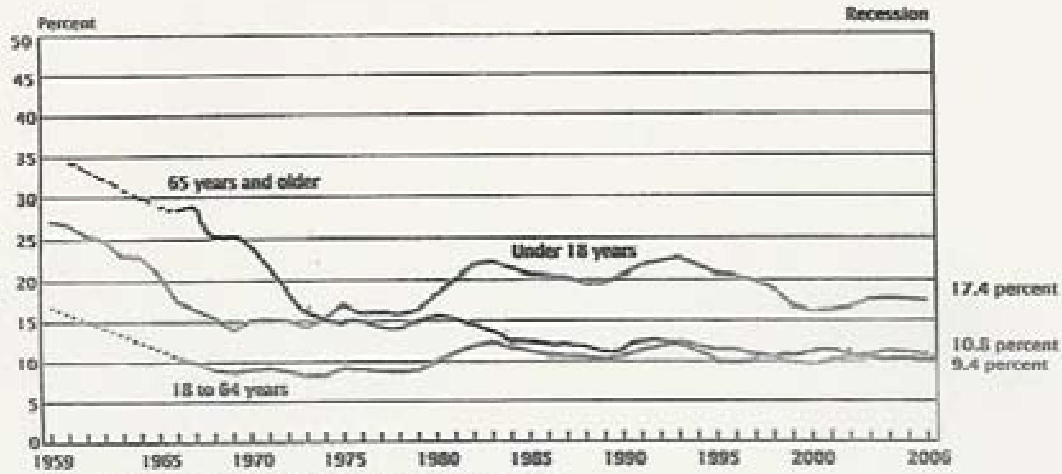
igure 8E from: Mishel, Lawrence, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007*. n Economic Policy Institute Book. Ithaca, N.Y.: ILR Press, an imprint of Cornell University Press. 2007.

Figure 4 **Number in Poverty and Poverty Rate in the US : 1959 to 2006**



Note: The data points are placed at the midpoints of the respective years.
Source: U.S. Census Bureau, Current Population Survey, 1960 to 2007 Annual Social and Economic Supplements.

Figure 5. Poverty Rates by Age in the US: 1959 to 2006



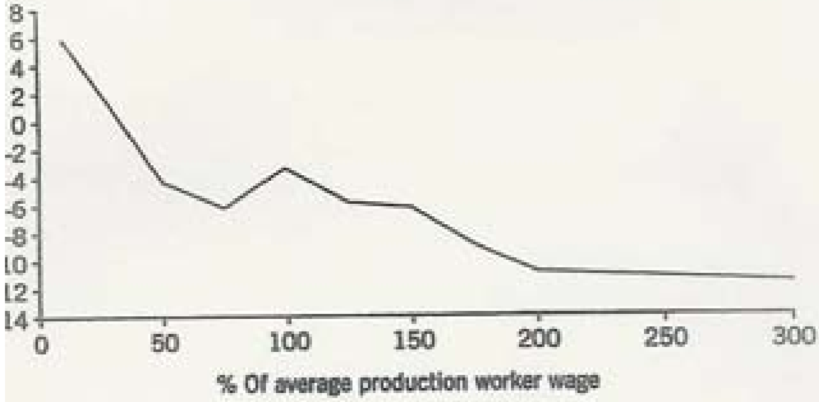
Note: The data points are placed at the midpoints of the respective years.
Data for people aged 18 to 64 and 65 and older are not available from 1960 to 1965.
Source: U.S. Census Bureau, Current Population Survey, 1960 to 2007 Annual Social and Economic Supplements.

TABLE 5. O.E.C.D. GOVERNMENT REVENUES FOR SELECTED YEARS AND PER CAPITA AND TOTAL GROWTH FROM THE 1970'S TO 2004

Country	**1975 revenue (% of GDP)**	**Ann. Growth per capita 1970-80**	**Rev. (% of GDP) 1995**	**2006**	**Annual Gro. per capita 1990-2000**	**Ann Gro real GNP 2000-2004**
Sweden	41.6%	1.6%	48.1	50.1%	1.4%	.3%
Denmark	38.4	1.8	48.8	49	2.0	.0
France	35.4	2.6	42.9	44.5	1.4	.6
Norway	39.2	3.8	41.1	43.6	2.2	.1
Average growth		*2.45*			*1.75*	*.25*
Finland	36.5	3.1	45.6	43.5	1.8	.3
Italy	25.4	2.7	40.1	42.7	1.4	1.5
Austria	36.7	2.8	41.1	41.9	1.8	-.1
Netherlands	42.1	2 .1	40.2	39.5	2.2	.7
Average growth		*2.68*			*1.80*	*.6*
United King.	35.3	3.1	35.0	37.4	1.9	.7
Spain	18.4	2.5	32.1	36.7	2.5	.3
Germany	34.3	2.7	37.2	35.7	1.3	-.2
Portugal	19.7	3.4	31.7	35.4	2.5	.4
Average growth		*2.93*			*2.05*	*.35*
Canada	32.0	1.8	35.6	33.4	1.7	2.0
Turkey	16.0	1.8	22.6	32.5	1.8	na
Ireland	28.7	3.3	32.5	31.7	6.4	2.4
Switzerland	24.5	1.2	27.8	30.1	0.2	.6
Average growth		*2.03*			*2.53*	*1.67*
United States	**25.6**	**2.1**	**27.9**	**28.2**	**2.2**	**.4**
Greece	16.9	3.6	31.7	27.4	1.8	na
Japan	20.9	3.3	26.9	27.4	1.1	-.5
South Korea	15.1	5.8	19.4	26.8	4.1	na
Average growth		3.7			*2.3*	*-.03*
Non-us average		2.79	35.8	37.3	2.1	.6

SOURCE: OECD data cited in " Taxes in Developed Nations Reach 36% of GDP" by David Cay Johnston *New York times* (Oct 18, 2006) 2004 growth figures from EPI. 1995 figures from Finfacts news center 2007

Figure 6. Difference in Marginal Tax Rates, in %, between the US and EU 15 (Excluding Denmark). The Difference equals the US Marginal Tax Rate Minus the Unweighted Average European Marginal Rate for Each Income Class.



From Alesina and Glaeser (2004), p 37

Table 6. **The Antipoverty Effect of Government Spending: Percent of All Persons Poor**[1]

Nation (year)	Market Income[2]	Social Insurance (and Taxes[3])	Social Assistance[4]	Percent Reduction: Social Insurance[5]	Percent Reduction: Overall[6]	OECD Social Expenditures on Nonelderly[7]
United States (00)	23.1	19.3	17.0	16.5	26.4	2.3
Netherlands (99)	21.0	9.6	7.3	54.3	65.2	9.6
Sweden (00)	28.8	11.7	6.5	59.4	77.4	11.6
Germany (00)	28.1	10.6	8.3	62.3	70.5	7.3
Canada (00)	21.1	12.9	11.4	38.9	46.0	5.8
Finland (00)	17.8	11.4	5.4	36.0	69.7	10.9
United Kingdom (99)	31.1	23.5	12.4	24.4	60.1	7.1
Belgium (00)	34.6	8.9	8.0	74.3	76.9	9.3
Austria (00)	31.8	9.1	7.7	71.4	75.8	7.4
Italy (00)	30.0	13.7	12.7	54.3	57.7	4.3
Ireland (00)	29.5	21.2	16.5	28.1	44.1	5.5
Average	27.0	13.8	10.3	47.2	60.9	7.4

Source: Author's calculations from the Luxembourg Income Study; OECD (2004).

Notes:

[1]Poverty rates are for persons living in households with adjusted incomes below 50 percent of median

[2]Gross market income, including earnings, income from investments, occupational (private and public sector) pensions, child support and other private transfers. In four countries (i.e., Belgium, Austria, Italy and Ireland) market income is net of taxes and social contributions.

[3]Includes effect of taxes and social contributions as well as social insurance for countries where market income is gross, and only social insurance in countries where it is net.

[4]This is the same as poverty rate on disposable income. Refunds from the Earned Income Tax Credit (US) and the Family Tax Credit (UK) are treated as social assistance, as are near-cash food and housing benefits such as food stamps and housing allowances.

[5]Market income rate minus social insurance rate as a percent of market income rate.

[6]Market income rate minus social assistance rate as a percent of market income rate.

[7]Total Nonelderly Social Expenditures (as percentage of GDP), including all cash plus near cash spending (e.g., food stamps) and public housing but excluding health care and education spending. Numbers refer to the most recent (2000) values available from OECD (2004).

From Smeeding (2006)

Table 7. **Minimum Wages in the United States and Europe**

	Ratio of minimum to average wage (Percentages)	Ratio to mean hourly pay in manufacturing (Percentages)	Ratio to mean hourly pay in manufacturing (Percentages)	Ratio to mean hourly pay in manufacturing (Percentages)
Source	OECD Jobs Study 1994[a]	OECD[b]	Eurostat[c]	Summary index[d]
Period/year	1991–4	end-1997	2001	1991–2001
France	0.50	0.68	0.63	0.63
Germany	0.55	—	—	0.55
Sweden	0.52	—	—	0.52
United Kingdom	0.40	—	0.44	0.44
European Union	0.53	0.56	0.53	0.55
United States	0.39	0.36	0.34	0.34

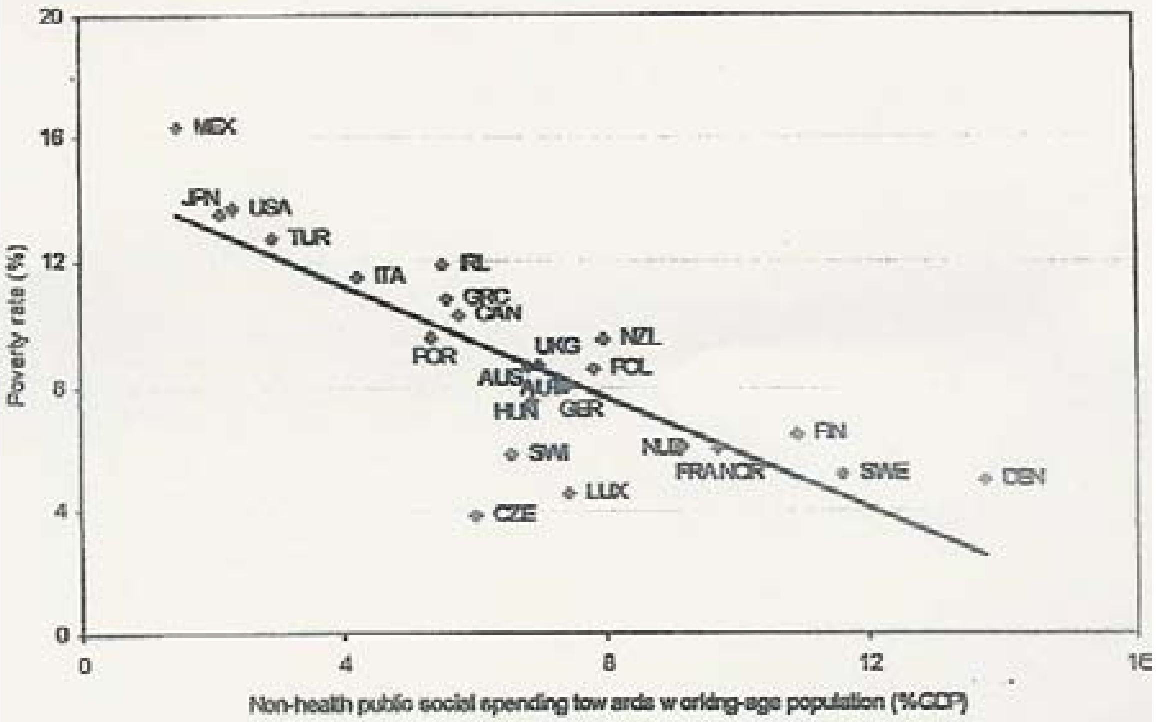
Notes:

[a] Reported from Nickell and Layard (1999), using OECD Jobs Study (1994). European Union average: Austria, Belgium, Germany, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, United Kingdom.

[b] Employment Outlook, 1999. European Union average: Belgium, France, Greece, Luxembourg, Netherlands, Portugal, Spain.

[c] European Union average: Belgium, France, Greece, Ireland, Luxembourg, Netherlands, Portugal, Spain, United Kingdom.

Figure 7. Relative Poverty among the working-age population and social spending



Note: Social sending is defined as public social spending, excluding, health old-age and survival benefits, as a share of GDP. Poverty rates are measured with respect to a threshold set at half of the median equivalized housed disposable income.
SOURCE: OECD social Expenditure database and date from OECD income Distribution questionnaire.

From Forster and D'Ercole (2005). p. 29

TABLE 10. INEQUALITY, GOVERNMENT REVENUES AND HAPPINESS AMONG RICH NATIONS

Country	1995 Rev. % of GDP	2006 per cap income At PPP (000)	inequality gini index	Overall happi-ness index	equality adjusted happiness	child wel-fair index
Sweden	48.1%	--	.24	6.2	70	5.0
Denmark	48.8	$36.9	.27	8.2	76	7.2
France	42.9	31.8	.31	6.5	58	13
Norway	41.1	44.6	.27	7.6	69	8.7
Average	**45.2**	**37.7**	**.28**	**7.13**	**68.2**	**8.4**
Finland	45.6	35.5	.25	7.7	71	7.5
Italy	40.1	31.0	.31	6.9	62	10.0
Austria	41.1	36.3	.28	8.1	72	13.8
Netherlands	40.1	36.9	.29	7.5	70	4.2
Average	**41.7**	**34.9**	**.29**	**7.5**	**68.7**	**8.8**
UK	35	35.4	.34	7.1	64	18.2
Spain	32.1	27.9	.35	6.9	62	8.0
Germany	27.2	31.3	.28	7.1	65	11.2
Portugal	31.7	22.9	.39	6.0	53	13.7
Average	**31.5**	**29.8**	**.34**	**6.7**	**61**	**12.7**
Canada	35.6	35.5	.33	7.6	68	11.8
Turkey	22.6	--	.37	5.2	42	--
Ireland	32.5	44.6	.31	7.6	69	10.2
Switzerland	27.8	38.7	.31	8.1	75	8.3
Average	**29.6**	**39.6**	**.33**	**7.1**	**63.5**	**10.0**
United States	27.9	43.2	.38	7.4	67	18.0
Greece	31.7	--	.36	6.4	55	11.3
Japan	26.9	32.5	.25	6.2	55	--
So. Korea	19.4	--	.32	5.8	53	--
Average	**26.4**	**37.8**	**.33**	**6.4**	**57**	**14.6**

Sources: Column one is 1995 % of government revenues of GDP (Finfacts News Center). The order reflects 2006 expenditures as shown in table 5, from the strong welfare states to the weakest. Column two shows per capita income at purchasing power parity (IMF) as shown in table 4. Column three is the gini index for selected years from table 2 (World Bank).Column 4 shows the happiness index for the 90s with ten showing the highest level of life satisfaction and 0 showing the least satisfaction (Veenhoven 2006). Column 5 shows the happiness index adjusted by the degree of disparity in responses within a country, adjusting the overall happiness index for equality. The final column is a composite index of 6 child welfare measures with the lower scores showing the highest welfare (UNICEF 2007.

Table 11, Total Annual Hours Worked[1] by Head and Spouse in Nonelderly Poor Households[2]

Nation (year)	All Nonelderly Poor Households: Market Income[3]	All Nonelderly Poor Households: Disposable Income[4]	Nonelderly Poor Households with Children: Market Income[3]	Nonelderly Poor Households with Children: Disposable Income[4]	Nonelderly Single-Parent Poor Households: Market Income[3]	Nonelderly Single-Parent Poor Households: Disposable Income[4]
United States (00)	1,150	1,283	1,552	1,621	1,087	1,069
Netherlands (99)	489	741	830	891	351	311
Germany (00)	371	526	684	687	471	558
Canada (00)	947	963	1,339	1,338	626	498
Belgium (00)	463	737	1,125	1,375	219	179
Austria (00)	861	1,412	1,498	1,681	898	553
Ireland (00)	699	650	900	807	420	330
Average	711	902	1,133	1,200	582	500

Source: Author's calculations from the Luxembourg Income Study.

Notes:

[1]Annual hours of work in each nation for heads and spouses living in poor households, classified by type of households. See footnote 6 on nations not included.

[2]Households composed by persons aged under 65.

[3]Households whose market income is lower than half the median adjusted disposable income of all households.

[4]Households whose disposable income is lower than half the median adjusted disposable income of all households

From Smeeding (2006).