

The Political Economy of Redistribution in the U.S. in the Aftermath of World War II - Evidence and Theory*

ROEL BEETSMA

MN Chair in Pension Economics, University of Amsterdam and CEPR[†]

ALEX CUKIERMAN

Interdisciplinary Center, Tel Aviv University and CEPR[‡]

MASSIMO GIULIODORI

University of Amsterdam[§]

November 8, 2015

Abstract

We present legislative, historical and statistical evidence of a substantial upward ratchet in transfers and taxes in the U.S. due to World-War II. This finding is explained within a political-economy framework with defense spending responding to a war threat and a median voter in the population who interacts with a (richer) agenda setter in Congress in setting redistribution. While the setter managed to cap redistribution before the War, the War itself raised the status-quo tax burden and improved tax collection technology, strengthening the bargaining power of the median voter as defense spending receded. This permanently raised the level of redistribution.

Keywords: World-War II, Great Depression, ratchets, transfers, taxes, redistribution, agenda setter.

JEL codes: E62, E65.

*This is a substantially revised version of Beetsma et al. (2009). We thank two anonymous referees and the editor for insightful suggestions on previous versions of the paper. We benefitted from discussions with Frank Bohn, Price Fishback, Joel Mokyr, Torsten Persson, Ward Romp, Howard Rosenthal, Charles Stewart and Alan Taylor, and reactions of participants in seminars at Amsterdam, Kiel, Nijmegen, Princeton and Tel-Aviv Universities and at the Israeli Economic Society Meeting (June 2009), the CEPR-ESSIM Meeting (May 2012), the Economic History Association of Israel Meeting (December 2012) and the European Public Choice Society (April 2013) on earlier versions of the paper. The usual disclaimer applies.

[†]Dept. of Economics and Econometrics, Univ. of Amsterdam, P.O. Box 15867, 1001 NJ Amsterdam, The Netherlands; phone: +31.20.5255280; fax: +31.20.5254254; e-mail: R.M.W.J.Beetsma@uva.nl.

[‡]School of Economics, Tel-Aviv University, Tel-Aviv 69978, Israel; phone: +972.3.6409909; fax: +972.3.6409908; e-mail: alexcuk@tau.ac.il.

[§]Dept. of Economics and Econometrics, Univ. of Amsterdam, P.O. Box 15867, 1001 NJ Amsterdam, The Netherlands; phone: +31.20.5254011; fax: +31.20.5254254; e-mail: M.Giuliodori@uva.nl.
