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Upfront

**As Luck Would Have It: Why the U.S. and Europe have such
different social spending policies.
By Jeanene Harlick**

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Stanford Social Innovation Review
518 Memorial Way, Stanford, CA 94305-5015
Ph: 650-725-5399. Fax: 650-723-0516
Email: info@ssireview.com, www.ssireview.com

As Luck Would Have It

Why the U.S. and Europe have such different social spending policies

"If you're born poor, you're better off in Europe. But if you're born rich, or born poor and have a lot of [initiative], you're better off in the U.S.," explains Alberto Alesina, summarizing an article he published with co-author George-Marios Angeletos in the September 2005 issue of the *American Economic Review*.

In their article, Alesina, a Harvard University economist, and Angeletos, an economist at the Massachusetts Institute of Technology, address a long-standing puzzle in economics: Why do Western Europeans support welfare programs more than Americans do? Both groups' markets rest on nearly identical economic and political pilings. Yet taxing and social spending are much higher in Europe.

The authors posited – and presented a mathematical model to prove – that Europe-U.S. differences in government taxing and spending policies stem from the societies' different beliefs about the role of luck in becoming poor. Using data from a variety of sources, including the World Values Survey, government budgets, and studies of human behavior, the authors first found that Americans generally believe that poverty is a byproduct of laziness, and that wealth is within the grasp of anyone who works hard enough. Europeans, on the other hand, believe poverty is a trap from which it is hard to escape, while wealth largely results from luck, birth, and connections.

These differing societal beliefs, rooted in history, have led Europeans and Americans to create public policies and markets that reinforce their beliefs, creating a cycle that is hard to break. In the United States, low taxes and minimal welfare programs encourage people to work more and invest in their careers and education. Because many Americans' personal experience is that the more they work, the more money they make, the nation's taxation and social spending priorities seems relatively predictable and fair.

Europe's high taxes and increased social spending, on the other hand, create a less predictable and fair market. Even when Europeans work little, they still receive a

decent income, thanks to welfare programs. At the same time, higher-earning Europeans have much of their income taken away by taxes – Europeans shoulder a 50 percent higher tax burden than Americans. This dissuades Europeans from working as hard or investing as much in their careers and education as Americans.

Different taxing and spending policies also affect social mobility in the two regions. In the United States, it's easier to move up the socioeconomic ladder, because hard work really does pay off, write the authors. In Europe, however, it's harder to move into a higher income bracket by simply working more because so much income ends up going to the government.

In both systems, market results end up reinforcing the cultural beliefs that created the market dynamics in the first place, producing a sort of self-fulfilling prophecy.

Despite differing beliefs about what causes poverty, Europeans and Americans are equally concerned with fairness, Alesina and Angeletos report. Both populations believe that income inequality caused by bad luck or corruption should be remedied. But the different taxing and spending policies of each region make luck look like a minor player in the United States, and a major one in Europe. In Europe, the social class into which people are born – a matter of luck – affects later income more than it does in the United States. In the United States, however, the bad luck of being born into a low class can more easily be overcome by hard work, the authors say.

While Alesina and Angeletos did not study how charitable spending – higher in the United States than in Europe – fits into their model, Alesina acknowledges that Americans' contributions help make up for the U.S. government's minimal social investment. Even taking that fact into account, however, Alesina said that poor Europeans fare better than poor Americans. "There's a lot of charity in the U.S., but it's not enough, for example, to allow every person in the U.S. to have a European-style pension," he says. "There's just not enough money donated." –*Jeanene Harlick*

In the Mood for Creativity

Happiness, not melancholy, sparks innovation

Contrary to the popular notion of the tortured genius, recent research confirms that you don't have to cut off your ear to whip up wondrous works of creativity. Instead, good

moods are more likely to spark inventiveness than bad ones are, report Teresa Amabile, Sigal Barsade, Jennifer Mueller, and Barry Staw in their September 2005 *Administrative Science Quarterly* article.

Administrative Science Quarterly article.

Amabile, who heads the Entrepreneurial Management Unit at the Harvard Business School, and her colleagues at the Wharton School and the University of California at Berkeley tracked the influence of mood on creativity in organizations. Their participants were 222 workers at seven companies (three high-tech, two