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THE NATURE OF THE CURRENT SOCIAL SECURITY SYSTEM
OF THE UNITED STATES AND A COMPARISON WITH
THE SOCIAL SECURITY SYSTEM OF THE CZECH REPUBLIC

bakalářská práce

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BACHELOR THESIS TOPIC

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Guides to writing a thesis:

1. The main objective of this paper will be to examine the nature of the current social security system in the US and to compare it with the system established in the Czech Republic. I will try to formulate a comprehensive theory on the nature of the current social security system in the US based on an analysis of existing literature and research papers. I will also make a comparison of the social security systems of both countries and discuss possible improvements. Even though there are certain non negligible differences preventing full equivalence, I will try to transform either side as objectively as possible. My paper will be useful for understanding the different nature of American and European-style social security systems as well as ideas for providing possible improvements and predictions.

Length of thesis: 45 pages

Selected bibliography:


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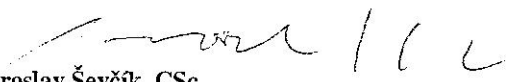
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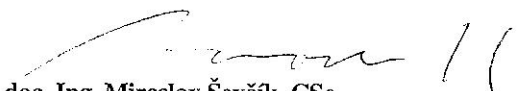
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Declaration of Authorship

I, Martin Rejka, declare that this thesis titled, “The nature of the current social security system of the United States and a comparison with the social security system of the Czech Republic” is my own and I have written it by myself. I confirm that I have clearly acknowledged all relevant sources and where I have quoted from the work of others, the source is always given.

Martin Rejka

16. 05. 2013

Abstract

The main objective of this paper is an analysis of the US social security system. The American social security system is much less generous than European systems. The hypothesis that I test in this paper is that the level of redistribution in the US is low because people's demand for it is low. Economical models suggest three main groups of explanations - economical, behavioural and political. Economical explanations are the weakest of the three, often providing contradictory results. Discrimination, rooted in the vast racial heterogeneity of the US, along with the electoral system are the most convincing explanations. The secondary objective is a practical comparison of the US' social security system with the system established in the Czech Republic and a suggestion of the possible improvements. Both systems show high level of oppositeness and apart from the health care system, there is very little to be applied from one system in the other one.

Key words: social security, welfare, redistribution, The United States of America, The Czech Republic

JEL classification: I31, I32, I38

Abstrakt

Hlavním cílem této práce je analýza sociálního systému Spojených států amerických. Americký sociální systém je daleko méně štědrý než evropské systémy. Hypotézou, kterou testuji v této práci, je to, že nízká míra redistribuce ve Spojených státech je zapříčiněná nízkou poptávkou po redistribuci. Ekonomické modely naznačují tři hlavní skupiny vysvětlení – ekonomická, behaviorální a politická. Ekonomická vysvětlení jsou z nich nejslabší a často poskytují protichůdné závěry. Diskriminace, zakořeněná ve značné rasové heterogenitě Spojených států, spolu s většinovým volebním systémem poskytují nejpřesvědčivější vysvětlení. Sekundárním cílem této práce je praktické porovnání amerického systému se sociálním systémem v České republice a navržení možných vylepšení. Oba systémy vykazují vysokou míru odlišnosti a s výjimkou systému zdravotní péče zde není téměř žádný prostor pro vzájemné přejímání opatření.

Klíčová slova: sociální zabezpečení, blahobyť, redistribuce, Spojené státy americké, Česká republika

JEL klasifikace: I31, I32, I38

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Introduction

The US' social expenditure as a percentage of GDP ranks below the average of OECD countries. European countries seem to redistribute on a larger scale than the US. Figure 1.1 shows development of the social expenditure for selected countries. The difference between the US and Europe has narrowed over the past few years, but now it seems to be widening again. The OECD average is somewhere between the US and Europe, which suggests polarity of the US and Europe.

Examination of this difference is the main objective of this paper. Social policy has played a greater and greater role over the past decades (Figure 1.1 shows increasing share of social expenditure), so I feel that it is necessary to understand how it works and which variables affect it. Knowledge of the social system mechanism can be used for designing effective policies as well as for predicting impact of a particular policy.

The hypothesis that I test throughout this paper is that the US' social system redistributes relatively little, compared to other developed countries, because Americans demand a lower scale of redistribution. Current literature suggests three major groups of explanations for this phenomenon: economic, behavioural and political. The economic explanation stands on pecuniary justification. It examines both explicit and implicit costs of redistribution, but it turns out to be a weak explanation. Combined public and private social expenditure are merely the same among many developed countries, so one cannot say that one system is more or less effective. The second group, behavioural explanation, relies on two phenomena that are essentially similar: racial prejudice and reciprocal altruism. Racial structure and consequential discrimination are one of the most important variables in redistributive mechanisms. American heterogeneous society has conditions for discrimination. Some theories say that discrimination is natural and some even justify it for pecuniary reasons. The third group of political explanations is also very important. The relationship between electoral system and the scale of redistribution is thought to explain up to 50% of the difference between the US and Europe. The factor of political history affects an individual's and general society's beliefs, which also facilitates formation of the social system.

To make the picture complete, I need to supplement the theory with some practical examples. For this purpose I chose to compare it to the social system of the Czech

Republic. The Czech Republic represents a fundamentally different country with rich history, including socialist and feudal eras as well as a vastly different racial structure.

The structure of the paper is as follows. In the first chapter, I examine the nature of the US' social system. The first chapter is divided into three subchapters representing the three leading explanations. The first one deals with economic explanation; it examines subjective and objective inequality, social and job mobility and the costs of redistribution. In the subchapter of behavioural examination, I pay greater attention to discriminatory behaviour and reciprocal altruism. The last subchapter examines important political factors of redistribution: the electoral system, political history and the nature of the legal system. The second chapter provides a comparison with the Czech system. At first I sketch a brief theoretical background and concept of both social systems and then I compare them practically by an analysis of several social benefits and services provided in both countries. The last chapter summarizes and concludes the results.

1. The nature of the American social security system

Social security can be simply described as a redistribution of resources, and as it stands, it is just a kind of market and therefore it incorporates supply and demand sides. The demand side is driven by citizens of a particular country and their economical needs and behavioural peculiarities. This force is counterbalanced by economical needs of corporations and politicians, which both affect the government – the supply side. Both supply and demand sides are bounded by institutional framework and historically conditioned conventions. I take a closer look at each of the described factors in following subchapters. I examine the economical explanation first, then behavioural and in the end of this chapter political.

1.1. Economical explanation

Economical explanation is built on certain people's incentives such as maximizing of income or minimizing expenses. Rationally thinking people compare the possible options of costs and benefits and choose the option that gives them highest profit. The hypothesis that I test in this chapter is that Americans are demanding smaller redistribution because of pecuniary reasons.

Economical explanation of redistribution is tightly connected with the need of money and the perception of inequality. This can be further divided into two seemingly different justifications - subjective and objective (for some explanations). "Seemingly" is used intentionally, because Azpitare and Sarabia (2012) prove that there is a close functional relationship between subjective and objective measures of inequality (under general assumption of income distribution).

Inequality

The first tool to measure inequality is the Gini index¹. As figure 2.1 shows, the Gini index, both pre-tax and after-tax, is over the past 40 years constantly higher in the US, meaning larger income inequality of American households. Especially the after-tax Gini index shows greater difference. This is a proof of that European countries (represented by

¹ Gini index is a tool that measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini index of 0 represents perfect equality, while an index of 1 (100%) implies perfect inequality. (The World Bank; 2013)

the Czech Republic) redistribute resources from the rich to the poorer on a larger scale, generating more equal² society. Alessina, Gleaser and Sacerdote (2001) provide two possible explanations why it is so. The first one is that the poor in the countries with higher income inequality are somehow incapable to influence politics, meaning that voting power is not unit equivalent to a person, but rather positively dependent on one's wealth. "One person one vote" rule is then replaced by "one dollar one vote" rule. Low gap between pre- and after-tax Gini indexes would then explain relatively weak position of American poor, predominantly represented by African-Americans and Hispanic, who are incapable to pressure the government in their favour (this idea is further developed in the third subchapter – Political explanation). The second explanation that Alessina suggested was that pre-tax Gini index is a poor indicator simply because there are lots of other government policies affecting inequality, but this explanation turned out to be rather weak.

Social and job mobility

Social and job mobility can be observed from two points of view. We can look at it as commonly perceived, subjective, chance to improve an individual's situation or more rigorously as an objective chance to freely change one's occupation or location.

First I focus on the objective point of view. The US has one huge advantage over the EU that stands above others – political and language homogeneity. Even though the EU has nearly twice as much potential in terms of human capital, the EU simply cannot compete with the physical (and with it connected social and occupational) mobility of workers in the US. The first barrier to workers mobility is language. There are 23 official languages spoken in the EU, the share of people who speak them is shown in Figure 2.2. While in the US about 80% of all people have English as their native language and another 15% claim to speak it "very well" and better³ (Kominski and Shin; 2010), the situation in the EU is different, with only about 51% of people speaking English, of which 38% have it as their second language. (Less significant situation of other languages as a second language is notable only for German, French and Spanish with around 10% of additional language knowledge). The second group of barriers to workers mobility are different norms and laws. Despite extensive efforts to integrate European labour markets, the EU

² Equal is not meant in a meritocratic sense of word, but as equal in terms of the final distribution of income, regardless of effort spent.

³ Giving a total of 95% people who speak the same language (English) "very well" and better.

is still far from the American, much more homogenous and stable, legal environment. There is still a large number of protective rules preventing engaging in economical activities in other countries. Given those language and legal boundaries, the vast majority of European workers are bound to work in their home country with a limited number of opportunities to find a better job and limited vertical upward movement that is associated with it. Those two major issues then cause that people are less effective than if the EU, respectively the whole Europe, had homogenous legal systems and spoke one language. Decreased efficiency may quite possibly be one of the roots why people in Europe demand more redistribution than Americans.

Empirical evidence is consistent with the proposition stated above. Moscarini and Thomsson (M&T, 2007) came up with a model focusing on an occupational mobility in the US. Results of their model showed that from 1994 to 2006, on average, 3,5% employees a month changed their job⁴ (three-digit job notation⁵). Kambourov and Mankovski (K&M, 2006) attempted a similar model before M&T. A model based on PSID⁶ data for men aged 23-61, not self-employed, heads of household and in private sector shown annual 20% three-digit job mobility between years 1968-1997. Given the restrictions of K&M model and repeated within-year transitions, the results of M&T model are consistent with the results of K&M model. Resemblance of the results of both studies gave us a firm view on the occupational mobility in the US. Whereas we have reliable studies for the American labour market, models for the EU are hard to establish due to its vast heterogeneity. Study of the European Foundation for the Improvement of Living and Working Conditions (Erszébet and Péter; 2007) says that on average⁷ only 21% of Europeans have experienced upward or downward movement since they entered the labour market, 50% experienced horizontal movement and 28% stayed without any movement whatsoever. For example, in Germany, supposedly the strongest European economy, vertical job mobility was recorded only for 7% of employees. The study also says that occupational mobility with upward movement is lowest in post-socialist conservative countries such as the Czech Republic, whereas horizontal mobility is pretty frequent. This is explained by reliance of Europeans on transfers and by high degree of

⁴ In this case, as a job change is considered a change at the three-digit occupation level established by the US census.

⁵ Three-digit job notation is a system that assigns each group of jobs (jobs with similar characteristics) a three-digit code. (For example: 033 – Occupations in computer systems technical support)

⁶ The Panel Study of Income Dynamics

⁷ EU 25 – members before enlargement in 2007

occupational specificity of the schooling system, especially during the reign of socialist regimes. The majority of job changes in Europe happens within the same class, meaning little to no income growth potential.

Subjective point of view is tightly connected with a phenomenon called “American exceptionalism”. This term refers to the belief that the US is different from other countries. Krislov (2001) says that it is a concept of a country generating newer, purer and more natural society, but not necessarily better. Alexis de Tocqueville (2012) wrote:

“The position of the Americans is therefore quite exceptional, and it may be believed that no democratic people will ever be placed in a similar one. Their strictly Puritanical origin — their exclusively commercial habits — even the country they inhabit, which seems to divert their minds from the pursuit of science, literature, and the arts — the proximity of Europe, which allows them to neglect these pursuits without relapsing into barbarism — a thousand special causes, of which I have only been able to point out the most important — have singularly concurred to fix the mind of the American upon purely practical objects. His passions, his wants, his education, and everything about him seem to unite in drawing the native of the United States earthward: his religion alone bids him turn, from time to time, a transient and distracted glance to heaven. „

This concept endows the Americans with an “exceptional” mentality that gives them belief that “the opportunity is there” and that it is up to one’s self to catch it. On this basic thought is based that American rejection of excessive redistribution. Americans, unlike Europeans, reject redistribution not because they think that they do not need it, but because they feel that the generous social and job mobility may bring them more wealth (Alesina and Glaeser; 2006). Given those propositions, I reckon that this is one of the reasons why no left-wing party ever received enough power in the US (this idea is further developed in the third subchapter – Political explanation).

The costs of redistribution

Redistribution is inseparably connected with administrative expenditures on the side of governments and attempts to pay as little taxes as possible on the side of taxpayers. Both of those forces reduce its efficiency. However, I reckon that a greater portion of this ineffectiveness is caused by governments. Not only that governments create legal framework, that is seldom good enough to prevent legal tax evasion, but governments,

respectively its members, create a corrupt environment favourable to high income individuals and firms.

Alesina, Gleaser and Sacerdote (2001) came up with a proposition that there might be more redistribution, if European countries used less distortional means of taxation, as well as expressed a belief that taxation in Europe is not much more efficient than taxation in the US. With one explanation come Adema, Fron and Ladaique (2011), who say that tax breaks for social purposes are highest in the US, with over 1% of GDP. Tax break is in essence the same as cash benefit and can be also classified as a social expenditure. There is just one major difference - the money does not have to flow through hands of government bureaucrats, which means that tax break is more efficient. This concept, as much of others described, is also inclined towards a smaller scale of redistribution. Another interesting thing that Adema, Fron and Ladaique (2011) mention is, that despite common belief that certain social systems are more expensive than the others, it is not so if we count both public and private expenditures. For example the share of private and public expenditures on GDP of Austria, Canada, Denmark, Finland, Italy, Japan, the Netherlands, Portugal, the United Kingdom and the United States differs just by a few percentage points. Composition of public social spending also showed some interesting facts. The US spend very little of their GDP on things that are, in my opinion, not unconditionally mandatory⁸. The US spent only 2% of GDP on income support to the working class, whereas the OECD average is 3,9%. Similar situation is in social services excluding health services – the US 0,9% of GDP and OECD average 2,1%. See Figure 2.3 for further details. Those results would mean that the American government is more efficient than European's. But let's take a look at it from the people's point of view.

World Values Survey (2011) asked people all over the world numerous questions also regarding their attitudes towards government issues. One of the questions asked whether the government should take more responsibility or if people should. People answered on a scale of 1 to 10 (1 meaning government should take more responsibility and 10 meaning people should take more responsibility). 19,1% of people asked in the US answered 9 or 10 (which I suppose to be a firm conviction that people should take more

⁸ Unconditionally mandatory expenses are in my opinion those that avert imminent health and existential treat or help to retain human dignity.

responsibility), while just 8,3% of the European sample⁹ answered 9 or 10. Figure 2.4 shows the remaining data and illustrates trends for both samples. As stated above, the US trend tends towards more responsibility in people's hands, while the one of the European sample shows the opposite. This is another piece of evidence that Americans are in general reluctant to entrust their money to the government and a general sign of distrust in government (emphasizing bad government efficiency).

Summarizing this subchapter is not as easy as it might look. Its general idea is built around the hypothesis that Americans are demanding a small social system based on pecuniary reasons. I examined both subjective and objective sides of the problem. Some of the results turn out to be contradictory, but most of the measures turn out to be consistent with the hypothesis, yet too weak to explain why the American system is so different.

1.2. Behavioural explanation

Behavioural explanation is, unlike economical, much more dependent on the conclusions of numerous studies rather than raw data. To convey plausible conclusions one must establish a comprehensive model based on an individual's or collective behaviour, which is a lot more complex than quantitative analysis. The previous explanation is based on an assumption that people's actions are determined by potential gain in terms of money. But this approach is not the case, instead, its core is built around Becker's cost-benefit analysis explaining human behaviour by converting various qualities, preferences and values into monetary form (as a net present value). Current literature suggests two major roots of behavioural explanation of redistribution. The first one is racial prejudice based on Becker's theory of discrimination and the second one is reciprocal altruism.

Racial prejudice

Racial relations in the US seemed to be optimistic after World War II and were hoped to be eliminated soon. There has been certain progress and changes in attitudes, but this progress was too slow and small. The gap between White and Black barely narrowed even in the prosperous 90's (Dent; 2005).

⁹ As the survey is lacking data for the Czech Republic, I chose to compare it with a non-weighted average of selected European countries (the Netherland, Germany, and Slovenia).

There is a vast theoretical source for racial prejudice and discriminate in general. Models can be divided into two basic groups – competitive and collective. Competitive models examine individual's behaviour that may lead to discrimination, while collective models look into group acts against each other (Autor; 2003). Most of the literature focuses on the collective models, and so does one of the most important works on this topic – Becker's Economics of discrimination (1971). The core of his work is in the discrimination of economically equivalent people of a different race, sex, religion, social class or other non-pecuniary considerations. Becker introduces psychological costs of an individual to deal with such a person - that affects the final desire of people to hire them, buy things from them, or simply be among them and interact with them.

Racial prejudice regarding wealth redistribution is caused by parallel participation of two or more ethnic/racial groups in the same social system. Quite naturally, one of the groups has to be more successful than the other(s). The flow of social transfers then logically goes from the successful to the unsuccessful¹⁰. The larger is the group of the unsuccessful, the more has to be transferred, which inherently brings greater disutility and consequential opposition to redistribution to the successful¹¹. Figure 2.5 shows racial/ethnic structure of the US. With over 35% people belonging to racial and ethnic minorities, we can say that the American society is racially very heterogeneous. Irwin Katz (1991) says that animosity to members of other social groups may be stronger if experienced directly, than indirect experience such as hearsay¹². Much denser presence of racial and ethnic minorities, commonly perceived as problematic or transfer abusers, gives Americans much more opportunities to directly meet members of such social groups and develop a stronger opinion about them, predominantly negative. Economical aspect of discrimination is also worth consideration; Anne Kreuger (1963) says that Whites¹³ may increase their wealth by discriminating at the expense of the minority and adds, that in plausible economical circumstances it may be very hard for the

¹⁰ Successful/unsuccessful is in Europe rather replaced by fortunate/less fortunate, because Europeans, unlike Americans, think that their lives are more or less affected by fortune; more to this topic in the following subchapter.

¹¹ Becker (1971) believes that people are more likely to spend money on transfers to the members of their own group. Members of other group receiving benefits are perceived as lazy people who take advantage of them

¹² Becker (1971) has a similar opinion and says that people discriminate only a little against those who are not in a direct contact and that some kind of a direct contact must be made to develop a desire to discriminate more. That emphasizes that a direct contact with people of a different race/sex/age/religion/etc. may be the cause of discrimination.

¹³ It does not necessarily have to be Whites; it may be any other group as well. (Example of Whites is probably used because they usually represent the majority that discriminates.)

discriminated group to retaliate discrimination. But it is important to mention that the overall economical gain of both groups will lower when one group discriminates, than when no one discriminates. Becker (1971) also says that the economical effect may be neutralized if there are enough non-discriminating subjects. However, due to the US' mentioned vast heterogeneity and dense presence of minority groups in certain areas, this may be hard to achieve. In spite of Becker's model being aimed at discrimination of workers by employers, it can be applied even on our case of redistribution. Alesina, Gleaser and Sacerdote (2001) found that there is a strong negative relationship between the size of the black minority and the generosity of the social programs across the US (with a raw correlation of 49%). Even if there would be states with substantially better welfare support, high transaction costs, and relatively low costs to adjust the level of welfare support would prevent the poor taking advantage of them. Another result was that members of the Black race are 23,2% more likely to ask for greater redistribution, probably because they are more poor than Whites¹⁴. Discrimination behaviour regarding races can be rationally justified though. If one realizes that a majority, or at least a non-negligible minority, of another ethnic group presents certain threat or danger, it may be vital to avoid and discriminate such group. This is because the costs of damage as a consequence of mistaken trust usually exceed the benefits of mistaken mistrust. In some cases it might even make the discriminated person fear, self-doubt and perform worse than if they were treated equally (Dent; 2005). Such behaviour helps to create stereotypes, which also facilitates further spread of discrimination and consequently denial of wealth redistribution.

Altruism

Previous subchapter examined the reason why people might be against redistribution; in this chapter, I look at possible reasons for greater redistribution. Altruism is in essence the opposite of discrimination – people care about other people's wealth for no obvious (pecuniary) reason – no direct or indirect compensation or benefit is expected in return. Ahmad, Batson and Tsang (2002) defined altruism as one of four motives for community involvement, with an ultimate goal to increase wealth of one or more individuals. Its strengths are seen in its power and its possible generalization to group of which the other is a member (the same force that can be observed in discrimination). On the other hand,

¹⁴ 23,6% poverty rate of Black vs. 7,7% of Whites (Alesina, Gleaser and Sacerdote; 2001)

its weakness is that it might be limited only to individuals for whom empathy is felt. As the most commonly proposed source of altruism is empathy – other-oriented feeling dependant on the perceived welfare of others. But many of the most pressing social problems, such as homelessness, drug addiction or certain diseases, may evoke little empathy. Another issue pushing altruism according to Ahmad, Batson and Tsang (2002) is that in case the altruistic help does not increase public wealth, it may even diminish it. This is a consequence of bounded rationality. Even though I think this would be a topic for an entire paper on its own, I sketch a brief example. Assume a wealthy altruistic entrepreneur who feels like doing something good for local kids builds a playground. This is certainly beneficial as long as the kids enjoy playing there, but what if their interests shifts to music or painting instead?

Even the opinions on who might need help differ significantly between the US and Europe. European poor are generally thought to be “unfortunate and victims of society”, while in the US, the poor are recognized to be lazy. For instance, 70% of West Germans believe that the poor are poor because of society; whereas in the US the same fraction of people believes that it is due to laziness (Alesina, Gleaser and Sacerdote; 2001).

Reciprocal altruism is inseparably connected with trust. List and Fehr (2002) say that the higher is the trust, the higher level of efficiency we can expect. In other words – higher trust lowers transaction costs. Dent (2005) adds that people usually achieve better results in transactions based on trust than in transactions based on “carefully worked out relationships”. Altruism therefore works best if one party expects the other to act the same way, either by reciprocating altruism or at least not abusing it. Alesina, Gleaser and Sacerdote (2001) say that potential voters will be against redistribution if they perceive the poor as lazy and abusing redistribution, which is the case of the US. This happens because altruism is not the only thing that flourishes when reciprocated; unfairness does as well. Another explanation provides Dent (2005) - a person’s perception of one’s or certain group’s trustworthiness is derived not only from his direct interaction with such people, but also from the general opinions and beliefs of the whole society¹⁵. Therefore, logically, one favours predominantly his own group to the others. This is also connected with the explanation examined above, racial prejudice. General Social Survey (2013)

¹⁵ Imprisonment rates in the US differ vastly throughout races. Imprisonment rate of males for Whites is 478, for Blacks 3 023 and for Hispanics 1 238 (per 100 000, Carson and Sabol; 2012), suggesting animosity of the White, less criminal, majority against minor, but substantially more criminal, races.

asked people how they perceive the use of welfare by four different racial/ethnic groups – Whites, Blacks, Hispanic Americans and Jews. Figure 2.6 shows aggregated data for 1972-2012. It is pretty clear that those four races/ethnics can be divided into two groups with the same mutual characteristics. Whites and Jews are generally perceived as people who provide for themselves, while Blacks and Hispanic Americans are thought to be more dependent on welfare support. A further interesting explanation is that Americans are generally more comfortable with punishments¹⁶. A punishment in this sense of the word means that people indirectly cut back on social expenses by voting for political parties that support low wealth redistribution because they think that the poor are lazy and deserve to be punished. Americans also overwhelmingly support the death penalty and are inclined towards militarism – they spend much more on defence and wars than Europeans do. Europeans, on the other hand, have experienced two disastrous World Wars as well as fascist and communist regimes, which might have discredited most kinds of vengeful punishment. (Alesina, Gleaser and Sacerdote; 2001)

I examined only blanket redistribution so far, in the form of social transfers controlled by governments; however, this is not the whole picture. Americans are in fact significantly more inclined towards redistribution on an individual and private level. Americans participate more than Europeans in charitable and humanitarian organizations. Figure 2.7 displays data registered in the World Values Survey (2011) for a question regarding charitable or humanitarian organization membership. An equal-weighted sample of three European countries (Germany, the Netherlands and Slovenia) is compared to the US sample. Despite significant prevalence of non-participants in both samples (over 70%), Americans actively participate nearly 2,5 times as much as Europeans. This means that Americans are not calling for smaller redistribution because they are miserly. They are actually willing to spend their money helping someone else more than redistributive Europeans, but they want to spend it on issues that they can influence, they can choose by themselves, and they feel deserve their money. I think that this is a part of that famous “American freedom” - the right to choose what I want to do with my property instead of handing it to the government and letting them decide to whom it should be given. Table 2.1 shows the ranking of top 7 countries by charity contributions per capita by charity category. The US is clearly the greatest contributor in total and leading (ranked 1st or 2nd)

¹⁶ For instance General Survey asked Americans whether the courts punish too hard or not. 80,6% of respondents answered that the punishments are not harsh enough, while only 6,1% thought that courts punish too harsh. (General Social Survey; 2013)

contributor in all of the examined categories except for one. That “sudden” drop in ranking is in the category of contributions to social services, where the US ranked 4th (this category is the most relevant for this paper). Zehavi’s (unpublished manuscript) finding is that Americans are not so exceptional in private expenses on social services because the government crowds-out private donations. But this does not happen because of the government expenses, but because the government creates a public perception that non-profit organizations are linked to the state¹⁷. And since potential private donors prefer donating to institutions that are not linked to the state, they donate to institutionally independent charities.

Both racial discrimination and reciprocal altruism have the same roots – difference among people and mainly their perception by others. Results of studies show that racial discrepancies are strong forces in redistribution process, even more than for example income or any other variable (Alesina and Gleaser; 2006). Whether in the direct form of repressing, or in the indirect form by favouring, the result is about the same. Those findings might be especially useful for some European countries that endorse multiculturalism, because heterogeneity similar to the US’ one may arise.

1.3. Political explanation

While economic incentives are initiated nearly instantly, behaviour and the political environment take more time to develop. Behaviour is connected with society and stays relatively constant within one generation¹⁸. Political institutions and conventions may however take even longer to change, especially in the US. The political and general history of a particular country then affects society in the long term. Certain aspects of redistribution may be quicker though. An example of this is any kind of voting or public expression of, predominantly negative, opinions about particular political situation. But the electoral system, political history and subconscious incentives caused by legal system seem to be the most important.

¹⁷ A stamp of approval “awarded” to some charities by state surely helps, but this is valid only to some extent. While support and assurance that the donor’s money are not being embezzled helps, deeper institutional dependence on the government does not – charities may be then seen as “a part of the government”.

¹⁸ Mannheim (Pilcher; 1993) defined a generation as a group of people who experienced significant event. This event or a set of events then affect behaviour of the particular generation. The likelihood of a generation to develop a new consciousness (behaviour) is dependent on the pace of social change and presence of important events. Mannheim points out that a generation may not necessarily develop its original and distinctive consciousness. In times of accelerated social change, basic attitudes need to change more quickly. That might be the reason of the low evolution of behaviour in the US, because there has not been a significant social change over the past decades.

In the first paragraph, I examine relationship of the electoral system and public spending, then I take a closer look at the historical evolution of the political system, and the third paragraph of this subchapter is dedicated to the constitutional aspect influencing the level of redistribution.

Relationship of the electoral system and public spending

I examine two studies that reached the same conclusion that the electoral system and the scale of redistribution are dependant (at least within OECD countries). Milessi-Ferreti, Perroti and Rostagno (2002) and Persson and Tebellini (2004) propose a hypothesis that electoral systems based on majority rule will favour programs that can be targeted on particular electoral districts, whereas systems based on proportionality will favour programs targeted on universal (blanket) spending. MFPR examined OECD countries and countries in Latin America and tried to distinct expenses that can be targeted geographically and transfers that can be easily targeted across social groups. Strong support for the given hypothesis has been found from the sample of OECD countries, whereas evidence from the Latin American countries turned out to be weak. PT established a model based on IMF data and reached the same conclusion. Plural systems are designed to attract potential voters by election campaigns promoting universal spending and vice versa. Since the US is a federalised country and its electoral system is based on majority rule, those results may be one of the most crucial explanations of low American redistribution¹⁹. Results of the studies show that this relationship may explain up to 50% of the difference between the US and Europe. Of course we cannot take it as the only explanation because the American society would surely not change much if it only adopted for example the Swedish, proportional electoral system (Alesina, Gleaser and Sacerdote; 2001). There are still other important variables that cannot be neglected.

Factor of political history

A political system is tightly connected with the general history of a particular country. It is therefore vital to examine historical evolution of particular country to get a clearer view of the nature of its political system.

¹⁹ Alesina and Gleaser (2006) say in their work that one half of the wealth redistribution differences between the US and Europe can be explained by this.

There are three extraordinary historical forces that differentiate the US from Europe. They are the absence of large and successful Socialist and Communist parties, the Civil War and the “open frontier” in the west. Some might object that the Civil War is equivalent to both World Wars that Europe had experienced. That is partly true; any war is in essence destructive, but there is a huge difference in its cause. While both World Wars were external, the Civil War was internal. This inherently brought division and distaste among people within the US (while the European countries decimated by the two World Wars experienced a greater portion of cohesiveness). This division further grew after the Civil War, because the social security system was loaded by veteran pensions. Growing pensions and a consequential general mistrust after the Civil War is one of the factors why any attempt to replace a relatively small welfare system, present at that time, by a universal redistribution failed. There was even an income tax during the Civil War that had not been challenged by the courts back then; however, after the Civil War the courts declared it to be unconstitutional and revoked it²⁰. (Alesina, Gleaser and Sacerdote; 2001)

Non-existence of a successful Socialist or Communist party is probably the most significant political reason for low redistribution. Marx and Engels attributed it to the lack of a feudal era in American history, which prevented formation of clear-cut class differences. (Alesina, Gleaser and Sacerdote; 2001) A force that probably helped to develop present American, capitalist, society was the original settlers – Pilgrim Fathers. It may seem odd to name the Pilgrim Fathers as the source of today’s US’ capitalism; they were English Puritans who left because of the greedy and corrupted “Old World” and set up colonies in America based on Plato’s idea of communistic village. But this setup had not lasted long. Thanks to its initial success and the new wave of European immigrants, capitalism and private ownership emerged quickly (Walzer; 1963). Sombart (1909) added that American capitalism may not produce an equal output for everyone, but it offers an equal chance for everyone. Class struggle, widespread in Europe, is not typical for Americans, because “there is no stigma of being class apart that almost all European workers have”

²⁰ In 1894, the 16th Amendment added to The Constitution was found to be unconstitutional by the Supreme Court, but the 1909 ratification process passed it through. Even nowadays is the 16th Amendment sometimes disregarded for supposedly wrong ratification process, but this is merely due to slightly different interpretation of the law.

The “open frontier” in the West represents a variation of the racial and ethnic issues described above. It strengthens individualism and favours equality of chances rather than equality of outcomes (Alesina, Gleaser and Sacerdote; 2001). A factor related to this is the relatively low population density of the US. Figure 2.8 shows population density of the OECD countries. Despite the US being the third largest country by number of inhabitants, its low population density is more than obvious. Alesina, Gleaser and Sacerdote (2001) also say that redistribution is in many ways a response to the physical power of the poor and the possible threat of riots and revolution. Stigler (1971) expressed essentially the same theory in his Theory of Economic Regulation. He said that densely concentrated groups of people are more likely to obtain favourable legislation because their transaction costs to organize and enforce what they need are lower than those of diffused groups. The low population density of the US is then just another obstacle to push more redistributive programs through.

Nature of the legal system

American and European legal systems are very different and the courts play different roles in each system. The only European legal system that is similar to the American one is that of the UK, but not even that one can be matched with the uniqueness, independence and power of the American one. Because each legal system is based on the constitution, its amendments and other laws that are part of the constitutional order, I only examine those basic legal documents.

The first thing to note is that the US Constitution consists of negative rights and is the oldest among OECD members. My initial thought was that there could be a certain relationship between the share of social expenditures and the date of origin of a particular constitution. A very weak negative relationship shown in figure 2.9, however, ruins my attempt to formulate a hypothesis that the US Constitution is a cause of the low level of redistribution because of its age. N. M. Guariglia (American Exceptionalism is Found in the Constitution; 2012) proposes a different point of view. The US Constitution is indeed old, but also different. B. Obama said, that it is sometimes hard to change the constitution (Sink; 2012). But that is the idea upon which the constitution is designed; it ought to be difficult to allow the government to do things “on our behalf”. Guariglia adds that we must distinguish between positive and negative rights; negative rights are those that come from nature, whereas positive rights come from the government. For example, South

African positive right to own a house (Constitution of the Republic of South Africa; 1996) creates space for a possible problem when someone, who does not have a house, claims his right to own one (which would necessarily involve violation of someone else's right). America's "right to own a house" from 1977 eventually resulted in the recent sub-prime mortgage crisis and subsequent recession. The Constitution of the US is sometimes thought to be old fashioned and not suiting the modern era of the 21st century. But Guariglia argues that it is the exact opposite. It is the positive rights that are regressive and the negative rights that are progressive. Positive rights, found in most of the other constitutions, are much older than negative rights, progressive and "exceptional", rights of the US Constitution.

Let's take a closer look at the US constitution and compare it with the Czech one. The parts that are crucial for this paper are not exclusive parts of both constitutions. For the US, The Bill of Rights is crucial. It represents the first ten Amendments to the US Constitution. The crucial part for the Czech Republic is not an exclusive part of the constitution either. The Chart of Fundamental Rights and Basic Freedoms is, however, a part of the Czech constitutional order; it has the same legal power as the constitution.

The first ten Amendments to the US Constitution represent a set of negative rights. All of the Amendments are formulated to grant an individual or a group of people a particular right that cannot be violated, rather than a right to do something. "Shall not be violated", "shall not be infringed" and "the right of trial by jury shall be preserved" are some of the expressions found in those Amendments. Probably the most important part for the redistribution issue is a part of the 5th Amendment – "No person shall be... (...), nor be deprived of life, liberty or property, without due process of law; nor shall private property be taken for public use without just compensation." (The Bill of Rights). I believe that this paragraph is the most important for Americans and their common belief of freedom and property. The situation in the Czech Republic is different. The Chart of Fundamental Rights and Basic Freedoms proceeds from The Universal Declaration of Human Rights (in the US it is The Bill of Rights that declares human rights); however, some vital parts are different. The first thing to note is that it contains positive rights – "right to universal health care", "right to free education" or "right to strike" (Listina základních práv a svobod) This might create distortional effects as in the South African example above. If there is something free, or someone has a constitutional right to do something, people will most likely take advantage of it.

While the US rights say what is not to happen, the Czech ones say what may happen, respectively what is an individual's right to do or ask for. That is a huge difference. It may create environment in which people value and bravely protect their property against giving it to the society on the American side, and environment in which people abuse their rights at the expense of the whole society on the side of the Czech Republic.

I sense that there is a non-negligible relationship between the structure of the legal system, respectively constitution and the demanded level of redistribution, but it remains a bit of a mystery. Whether people make decisions deliberately or subconsciously, based on the general knowledge of the legal system, calls for a deeper and more complex analysis.

2. A comparison with the system established in the Czech Republic

Geographical, demographical and many other important factors predetermine both countries to be different. In fact, they are vastly different. The US is roughly 124 times larger than the Czech Republic and has about 30 times more inhabitants, which implies a 4 times lower population density. Another striking difference is the history of both countries. On one hand, the Czech state that dates back to the 9th century AD, while the US has just about four hundred years of settlement history, which are relevant proof of the different society evolutions. The issue related to historical development and diversity of Europe is the number of wars. Countless of important war conflicts in Europe involving the Czech Republic are in contrast to a mere handful of wars that have been fought in the US. I could carry on listing major differences, but there is no point in it; both countries are so different, that general comparison makes no sense. What makes sense though is a comparison of the both social security systems.

2.1. Theoretical concept of the social systems

American system

Many of the key features of the American social security system are mentioned and examined in the previous chapter. A majority electoral system is in effect and the legal system is based on negative rights protecting freedom and property. Another thing to point out is that, relative to the Czech Republic, there has not been much evolution in the US' society. A pretty short history and no feudal era prevented establishment of the social classes and the capitalism established by early settlers still remains in existence. Despite the federal basis of the country and decentralization, there are a huge number of options from which an individual may choose what he wants to do. The labour market is flexible, unlike in Europe. There are no legal boundaries in travelling and working in a different state and an absolute majority of people speak English.

Even though it may seem that the US is more united than Europe, it is not necessarily true for all aspects. Common citizenship does not grant unity. For instance, if a war is fought within one country, it necessarily divides its citizens; that is the case of the American Civil War. (European wars were mostly “country vs. country”, which resulted in animosity among countries, but a greater cohesiveness among people within the country.) The cause of the war, racial relations, was another important feature that shaped the current American welfare system. A denser presence of relatively poor and negatively

perceived minorities, such as Black and Hispanic Americans, is a strong force in the development of the system. The American perception of rights is based on freedom and protection of one's property. Any attempt to redistribute more collides with those common values²¹.

Czech system

The situation in the Czech Republic is different; it is a small centralized country with a proportional electoral system and rich historical development, both social and political. The positioning of the Czech Republic in the centre of Europe brought a significant disadvantage when wars were fought; damage and consequential deprivation after the World Wars surely swayed people to favour greater redistribution. Due to the vast heterogeneity of Europe, Czech people have very limited opportunities to move and work abroad. The viable market for an average Czech person is basically just the Czech Republic. Language skills²² and different legislatures are huge barriers to move to another country. (Maybe with the exception of Slovakia, which has a forthcoming legislature for Czech citizens and the language is similar.) Ethnical and racial structure is, relative to the US, very homogeneous, which prevents excessive racial/ethnic animosity and is, therefore, one of the reasons for the higher redistribution in the Czech Republic.

The Czech lands have also gone through a long feudal era. That has helped to establish social classes, which played a deeper role in the era of communism. The communist and socialist era did not only bring deeper social stratification. A belief that the state should take care of its citizens or a belief that the state should provide free health care or education, as well as many others, became deeply rooted in people's minds. There were no social politics before 1989 in the form as we know it nowadays. It could be characterized as state interventions in the social sphere. There was no unemployment²³; instead, there was free medical care as well as education and small differences in people's wages or wealth. Elimination of social problems, such as poverty and unemployment, was one of the key goals of the socialistic ideology, so it is

²¹ Values that are common for the majority, of course, redistributing less is not a goal for everyone, for example the poorer surely favour more redistribution. Unfortunately for them, their political force is not strong enough to affect it.

²² The number of people who can speak at least one additional language in the Czech Republic is 49% and this number is decreasing. Only 27% can speak English and 15% German well enough to hold a conversation. Omitting English speaking countries, this is the worst result together with Spain, Portugal, Hungary and Bulgaria. Also 25% people think that knowledge of other language is useless (2nd highest result, after Portugal)(European Commission; 2012)

²³ Unemployment was even illegal.

understandable that those problems did not exist.²⁴ Probably the worst feature was that the only subject involved in the sphere of social decision making was the state. Roles of other subjects, such as individuals, families or charities, were repressed or eliminated. (Krebs; 2010) There were three key phases of the political and social change after the collapse of the communist regime in 1989: creation of the new institutions, retrenchment and putting social policy back on the political agenda (Kuchař, Mašková and Ochrana; 2004). The current social system in the Czech Republic is sometimes called “a welfare state”. This means that an individual’s well-being is not only the issue of one’s self or his family but also an issue of the whole society, and therefore the state should take care of its citizens (Krebs; 2010).

Comparison

Many forces have shaped and are still shaping the US’ welfare system to favour people who provide for themselves rather than supporting those who do not. Some potential explanations are mentioned in the previous chapter as well as strong pieces of evidence that people in the US demand lower redistribution. The Czech social system is much more affected by historical development. The wars that were fought in the Czech lands united people rather than divided them. The destruction after the wars and following the socialist era played a huge role in societal beliefs. People probably got used to the generous care from the state during socialism, and that may be the reason why the Czech Republic redistributes more. War on the other side of the Atlantic Ocean only brought further animosity that originated in the different beliefs of the agricultural South and the industrial North. Political and legal systems are also very different; Czechs vote proportionally, which gives better chance to the political parties that push universal social spending programs, and recognize Continental law, while Americans use majority rule for elections (political programs are more regionally targeted) and recognize Common law.

2.2. How it works

The theoretical concept is a useful and necessary tool to understand the nature of the particular social security system. However, it does only imply the effect of social policy

²⁴ In fact they did exist, but they were just hidden or artificially removed by socialist governance (Krebs; 2010).

on real life. To get a better insight into the impact, one must take a closer look at how both systems work.

American system

The US is known to be a liberal country, and its social security system is aligned with this thought. There is no unified social security system in the US; federalism assigns many important functions to states. Public and social assistance, medical schemes and other welfare programs are administrated by states and the power of central government is very limited. Most of the expenses are funded by payroll taxes, but there is a relatively large supply of private welfare provision – especially in health care.

Czech system

The Czech Republic is a centralized country, so the role of welfare provision is entitled to the central government. The Czech social system is also funded by payroll taxes²⁵. Private provision of welfare based on individual insurance is gaining popularity. (Especially since 2012, when a new pension reform was passed, and the number of new pension insurance contracts rocketed – Figure 3.1 shows detailed data.) Relatively large and generous supply of benefit programs is conditioned by mandatory contributions.

2.3. Role of the social benefits

An even more practical approach is to analyse particular social policies and services. I describe some of the most popular and widely used benefits and services that are part of the welfare system. There is a fair amount of benefits and services that do not exist in both countries simultaneously; or work a bit differently; however, I try to match those that have the same purpose to compare them.

As a representative worker in following simplified²⁶ models, a 40-year old citizen with average national income²⁷, who always meets requirements for each of the examined benefits (except for the US health care), is used. As a currency unit serves PPP \$, 2013 and the calculated benefit amounts are approximate to retain the simplicity of the model.

²⁵ A part of the contributions is officially called “social security insurance”, but the nature of those contributions is essentially the same as taxes.

²⁶ I intentionally simplify the models by neglecting minor deviations to make them easier to understand and interpret; minor deviations are negligible for our purpose.

²⁷ Base year 2011; prices in U.S. dollars (PPP 2013); annual income of the U.S. citizen – \$55,450; annual income of the Czech citizen \$19,650

Unemployment benefits

Unemployment benefits are provided in both countries; in the Czech Republic, they are provided by the government, and in the US, they are from state governments (United States Department of Labour; 2010). Funding in both countries is through payroll taxes, in the US by jointly state and federal. The average American worker receives 28% of his previous income, while the average Czech worker receives 57% of his previous income. The share of the previous income further grows if the worker participates in requalification courses in the Czech Republic.

USD (PPP, 2013)	Monthly unemployment benefits	Share of previous income
US	1280	28,21%
CZ	934	57,11%

Both systems are similar in that benefits are based on the previous income and that benefits are provided only for a limited time and both systems require worker discipline to be eligible for the benefit. The main difference is that in the US, each state administrates its own unemployment insurance system and that the benefit covers a substantially lower portion of previous income (28%) than in the Czech Republic (57%).

Paid sick leave

In the US, no law guarantees workers any number of paid sick days in case of his/her sickness or sickness of a family member. There is just a guarantee of up to 12 weeks of unpaid sick leave for companies under FMLA²⁸. Four districts, however, passed regulations to establish paid sick leave. In San Francisco, a worker earns one hour of paid sick leave for every 30 hours worked: workers in small companies up to 40 hours a year, in larger companies (more than 10 workers) up to 72 hours a year (Office of Labour Standards Enforcement; 2007). In Washington DC, workers may earn up to 7 days of paid sick leave in large companies (100+ workers), 5 days in middle-sized companies (25-99 workers) and 3 days in small companies (The United States of America; 2008). An attempt to establish paid sick leave in Milwaukee was ruined due to conflict with Wisconsin state law that bans any kind of paid sick leave. The Service Act in

²⁸ Family and Medical Leave Act

Connecticut mandates paid sick leave up to 40 hours a year for service workers in companies with over 50 workers (The United States of America; 2013).

Czech laws guarantee paid sick leave from the 4th day of sickness (first three days are unpaid). The first three weeks, excluding the first three days, are paid by the employer; the state pays from the 22nd day onward. The amount paid is based on income for the last 12 months and is regressive. There is a maximum of 380 paid sick leave days.

USD (PPP, 2013)	Total sickness leave benefit	Share of previous income
US	0	0%
CZ	708	43,28%

Our representative worker gets sick for 30 days and he cannot work. Since there is no federal law guaranteeing paid sick leave, the American worker does not get any compensation. The Czech worker receives about 43% of his income.

Retirement benefits

Retirement benefits in the US administrates the OASDI²⁹ federal program funded through payroll taxes (The United States of America; 2013). The Social Security Administration keeps record of workers' earnings throughout their careers (35 years with highest income are considered); the monthly retirement benefit is based on the earnings record upon the age when the worker decides to retire. The system is regressive, bend points are applied in the calculation³⁰. The Czech retirement benefit system is administrated by Czech social Security Administration and is similar to the US'. It is also funded by payroll taxes, regressive and bend points are applied in the calculation of the benefit. One important distinction is that the final benefit has two components – one fixed and one variable³¹.

²⁹ Old-Age, Survivors, and Disability Insurance

³⁰ Workers benefit is based on Primary Insurance Amount (PIA). PIA is calculated as 90% of average indexed monthly earnings (AIME) up to \$791 (1st bend point for 2013), 35% of AIME between \$791 and \$4,768 (2nd bend point for 2013) and 15% of AIME above 2nd bend point (The Official Website of the U.S. Social Security Administration; 2013)

³¹ The fixed component is \$169. Variable component is computed as an annual assessment base of earnings, multiplied by coefficient of the general assessment base growth for each particular year, which is subject to three bend points – 100% of the assessment base up to \$826, 27% of the assessment base between \$826 and \$2,178, 19% of the assessment base between \$2,178 and \$7,511 and 6% of the assessment base above \$7,511 (Česká správa sociálního zabezpečení; 2013).

USD (PPP, 2013)	Monthly retirement benefit	Share of previous income
US	1606	35,39%
CZ	903	55,20%

To make this model work, the representative worker is at the retirement age; the AIME³² of the American worker is stated to be \$3,585, the assessment base³³ for the Czech worker to \$1,115 (based on historical average earnings and assumption of being “average” for the entire period). Not surprisingly, the Czech benefit covers considerably more than the American one, 55% vs. 35%, or roughly the same share as in the case of unemployment benefits. This share is called pension replacement rate and it is crucial both for the expenditure side and for the well-being of the retired. Since populations of both countries are getting older, to sustain the social systems people must either retire later, or accept lower replacement rate.

Health care

The US, Mexico and Turkey stand as the only members of the OECD that do not have universal or near-universal health care systems. Provision of health care insurance relies on private insurance (usually provided by employer) and two major programs³⁴, Medicare and Medicaid. Medicare is a federal program financed through payroll taxes³⁵ and people aged 65+ as well as younger people with disabilities are eligible. Medicaid is a jointly funded (state-federal) program for low income individuals and families as well as people with certain diseases. People who are not eligible for either of those programs must either have private insurance or they stay uninsured (then they have to cover their medical expenses). In the light of recent debates, I feel it is necessary to mention even some of the key points of “Obama’s” health care reform. The major change of the reform is mandatory insurance and broadened Medicaid eligibility (even for the currently uninsured). Other changes are: penalties for companies who do not offer insurance to their employees, innovations in the insurance market, or contributions to low income families to get insurance (Kovářová; 2011). The Czech health care system is universal,

³² Average indexed monthly earnings; see second footnote on p. 24.

³³ See the third footnote on p. 24.

³⁴ Other programs, less significant, are Civilian Health and Medical Program of the Uniformed Services, State Children's Health Insurance Program or Veterans Health Administration.

³⁵ A minor source of funds also comes from other income taxes, or from interest earned on the trust fund investments (50)

mandatory and based on contributions derived from income. Contributory expenses of children, retirees, unemployed people seeking jobs and other eligible groups are paid by the state. There is also a law stating that a doctor must provide medical assistance in case the patient's life is in danger even if the patient is uninsured (Dvořák et. al.). The doctors in the US can simply refuse to do so (Krátká; 2013).

Since the representative worker in the US is not eligible for Medicare or Medicaid, he has to cover 100% of his medical expenses (either by establishing a private insurance or by direct payments). Even though the Czech system is universal, patients must still pay some fees to cover certain drugs and services. The financial participation in health care costs is, in the case of the Czech Republic 8,8% (Davidová, Ivanovič and Práznovcová; 2008).

Social support benefits

There are certain programs in the Czech Republic to help needy families in difficult life situations. One of them is child allowance. Child allowance is applied to every child in a family, whose income does not exceed 240% of the family subsistence level. The current subsistence level for a complete family with one child up to 6 years of age and two children between 6 and 15 years of age is \$870. Assuming the second parent does not receive any income, the income of our representative worker fits into the 240% of the subsistence minimum for this particular family (\$2,088), and the family is therefore eligible for child allowance – \$36.3 for the youngest child and \$44.2 for each of the older children (Ministerstvo práce a sociálních věcí; 2013). Another benefit is called parental benefit. It is available for a parent who takes care of a new-born child on a daily basis for up to 4 years of the child's age. The maximal amount that can be paid over the entire period is \$15,960 (Ministerstvo práce a sociálních věcí; 2013). Paid maternity leave is also available for mothers in the Czech Republic. Benefits are paid for up to 28 weeks (37 weeks in case of giving birth to more than one child) after the birth. The monthly benefit for our representative worker would be \$1,116, which is nearly 70% of the previous income. None of those three mentioned benefits is available in the US. Parental leave does not exist in any form, and maternity leave exists only in form of granted 12 unpaid weeks (United States Department of Labour; 2013). In the US, however, certain programs exist to support the needy, like TANF for example³⁶. But they present obsolete

³⁶ Temporary assistance for needy families

mean-tested benefits with strict work requirements (Center on Budget and Policy Priorities; 2012), that are to the detriment of the poor and differ vastly across the states, which is why they need to be rethought (Ozawa; 2004).

USD (PPP, 2013)	CZ	US
Child allowance (monthly)	125	0
Parental leave (total)	15 690	0
Maternity leave (monthly)	1 116	0

A summary of the social support benefits shows that people in the Czech Republic are treated much more generously than those in the US. A thing to note is that paid maternity and parental leave is, in the case of the Czech Republic extremely high; the combined expenses on maternity and paternal leave per one child are the highest among OECD countries, over 90% of GDP per capita (OECD Family Database; 2012).

2.4. Comparison of the social systems

In the beginning of this chapter, I mentioned that the general comparison of the US and the Czech Republic makes no sense because the differences are too substantial.

Comparison of the social systems shows that both social systems are also very different. The Czech system seems much more generous, the American on the other hand, much more liberal. One prefers to make his own decisions and take care of himself, and the other one rather gives his money to the government to take care of him. American people happen to more frequently represent the first case, Czech people on the other hand, the latter case. But which one is better? Historical development, racial structure and external forces shaped both societies in different ways. I do not think that one can say that one social system is generally better. Both of the systems are suited for the particular country. Using Hayekian (Hayek; 1994) terms “cosmos” and “taxis”, both systems represent “cosmos”. Of course each system has its unique advantages, and it would be plausible if we could take those advantages and transfer them to the other system. It is a tempting idea to synthesize “the best” out of all social systems to create one that is “perfect”. But that would result into destruction of “cosmos”, which would be replaced by “taxis” and would not work. The “best features” of a particular system are truly the best only when operated in the same conditions.

There is actually one part of the American welfare system that could be, in my opinion, replaced for a greater good though, which is the health care system. The American health care system is not only the most expensive (see Figure 2.3) but is also not particularly good in terms of the health care itself. Life expectancy at birth in the US is among the lowest in the OECD sample and differs from the top countries by up to 4 years (OECD; 2011). There must be something wrong if the most expensive health care is not among the best. The greater part of “Obama’s” health care reform will become effective next year, so we may expect certain improvement.

Both systems, of course, need changes and evolution. The systems are indeed changing over time, but in a natural way. If there is one major problem that scares present social policy makers, it is aging of the population. Health care is getting better and people are live longer. That burdens social systems by increasing the number of elderly people and by consequentially increased expenses on pension benefits and health care expenses. That is currently solved mostly by two solutions. The first one is to increase the age when people retire and the other one is to lower the replacement rate. I do not think that this is the best way. It only entrusts more and more money to governments. But due to the mentioned demographic change, it is a must; there is a trade-off relationship between the benefit level and the age when people retire. It can be tweaked by several other tools though. One of them is to give people negative incentives to retire earlier, or positive incentives to retire later. But this would require certain institutional changes – for example reduction of the employee protection. Since it is expensive to employ older people many employers may tend to favour younger workers. Other thing is that, in most countries, life expectancy is linked to benefit levels instead of linking life expectancy to retirement ages. When life expectancy increases, consequential cuts in benefits threaten the poor the most and present a risk of old-age poverty. Low linkage of the benefits to income is also favourable to the poor. On the one hand, this improves the financial stability of the pension system, but on the other hand, it financially destabilises the whole social system, because cuts for the already poor mean that they are bound to use other social benefits and safety nets (Pensions at a Glance, 2011).

A good solution, in my opinion, would be to teach people how to save money. Some financial advisors recommend at least 70% of the pre-retirement income in retirement (which is far away from the American 35%). If one saves 1% of the annual income from the age of 25 and decides to retire at the age of 65, it replaces 3.8% of the retirement

income. If an average American increases this saving rate to 10%, it replaces 38% of his pre-retirement income, which together with retirement benefits makes that desired 70% level (My Financial Awareness; 2008). But this is a tricky task in terms of how to make people save more. There are basically two ways how to do it. The first one is to try to persuade people that it is for their greater good and hope they will follow it, the other one is to simply force them. I do not think that the first option would be very effective, because people encounter with incentives to save more on a regular basis, yet it does not seem to do the job well. Maybe it is because consequences of a poor financial management are not that apparent as for example consequences of poor driving skills – that represents one of the areas where we let ourselves to be forced to act somehow. The other problem of the first option is that it involves a fair portion of moral hazard – people may rely on the state that it will not let them suffer in poverty no matter if they participate or not. The other option – forcing people to save, seems to be more effective - Chilean pension reform based on this idea passed in 1980 and turned out to be successful (Ferguson, 2008). Another way present private accounts monitored by governments. However, Liebman (2002) is concerned that individual accounts would establish proportional funding and consequential decline of redistribution and growth of poverty.

We are living in the age of consumerism and the future is on the side for many. This seems vital especially in the case of the US, where the retirement benefits cover a substantially lower portion of previous income.

Conclusion

Why is the social security system of the United States so different? There are three groups of explanations for that – economic, behavioural and political. Economic explanations on the one hand turn out to be proposed wisely, but on the other hand, the results are the weakest out of the three groups. Even though Americans do not trust the government much, there is no proof that the American social system is more or less expensive than the others. The total sum of public and private expenditures differs just a little among developed countries. The US offers probably the best conditions for social and job mobility and, together with the concept of “American exceptionalism”, stands as a good reason not to provide excessive help. Much stronger proofs are provided by behavioural explanations. Behavioural explanation stands on two phenomena – discrimination and altruism. The vast heterogeneity and competitive environment of the US’ society present ideal conditions for discrimination. 35% of people belong to racial or ethnic minorities that are predominantly more criminal and poorer. The denser presence of such groups’ members gives the members of the majority group greater chance to meet them, interact with them and consequently develop greater degree of animosity. Examination of Altruism showed that Americans perceive the poor as lazy, while, for example, Europeans perceive them as unfortunate. Political explanations also turn out to be significant, especially electoral systems. Studies show that an electoral system based on majority rule almost predetermines the scale of redistribution to be low. I must not forget to mention political history; there has never been a feudal or socialist era in the history of the US, and the low population density prevented establishment of physically strong groups favouring greater redistribution. I sense that part of the redistribution scale has its roots in the legal system. The US Constitution is based on negative rights protecting freedom and private property, which suggests greater opposition to give up one’s money for the benefit of others. All in all, I do not think that any of the explanations would work alone. There are countries with greater heterogeneity, less proportional system or greater freedom. What makes the US’ social system so unique is that it combines these factors. Knowledge of the nature of the American social security system may be useful for tailoring social policies according to the predicted future social development in Europe.

Theoretical comparison of the social systems suggested that both social systems will be fundamentally different. Long feudal and social era of the Czech Republic, relative

homogeneity of the society or a limited social mobility predestine the Czech social system to be a lot more generous towards the poor. Examined social benefits in the Czech Republic are almost double the US' ones, provided that the particular benefit exists in the US.

To retain sustainability, both social systems, like the social systems in most other developed countries, need structural changes. It is necessary to individually suit every change to a particular country. But change in the system itself alone is not, in my opinion, sufficient. I reckon that being able to save a part of income rather than borrowing additional money will turn out to be crucial for our well-being in retirement, as well as for general stabilization of the social system.

Figures and tables

Figures

Figure 1.1

Public social spending in selected OECD countries (percentage of GDP, 1960-2012)

Data source: Social Expenditure Database, OECD, 2013

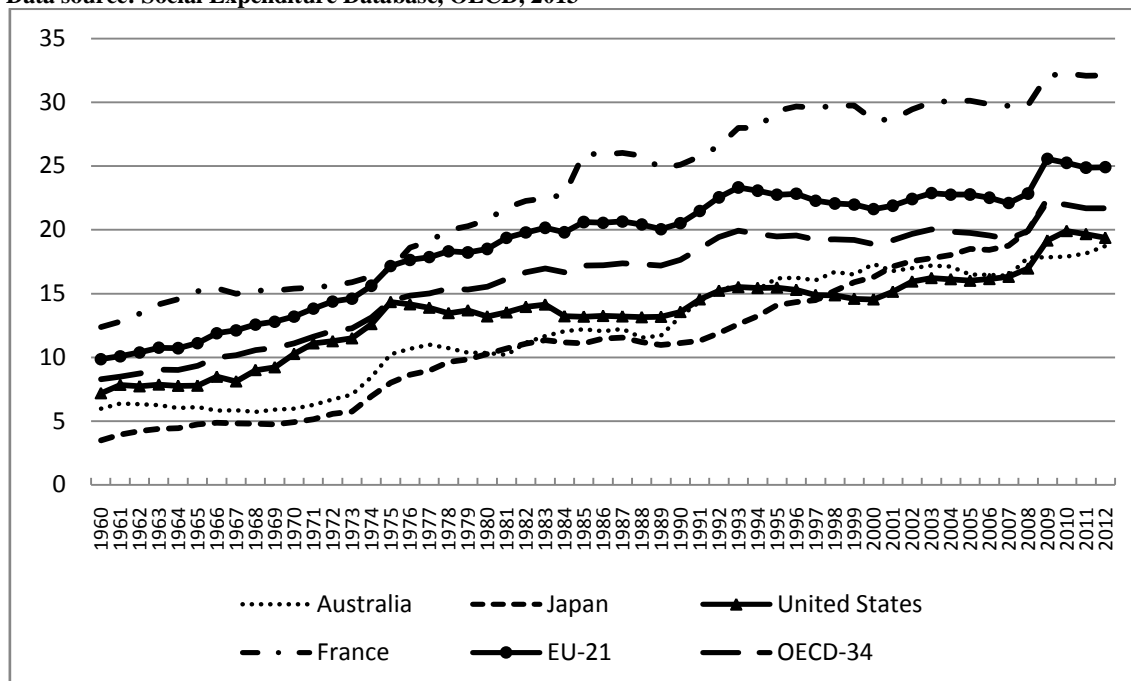


Figure 2.1

Gini Index

Data source: OECD.StatExtracts, 2013

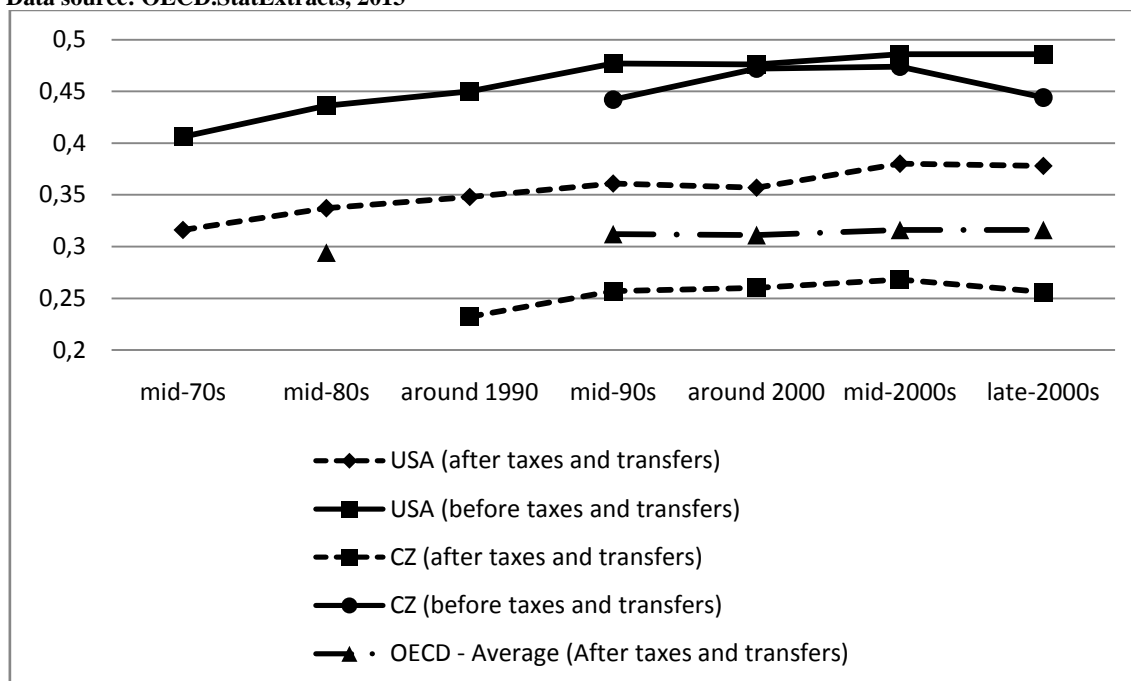


Figure 2.2

Dominant languages of the EU

Data source: Europeans and their languages, 2012

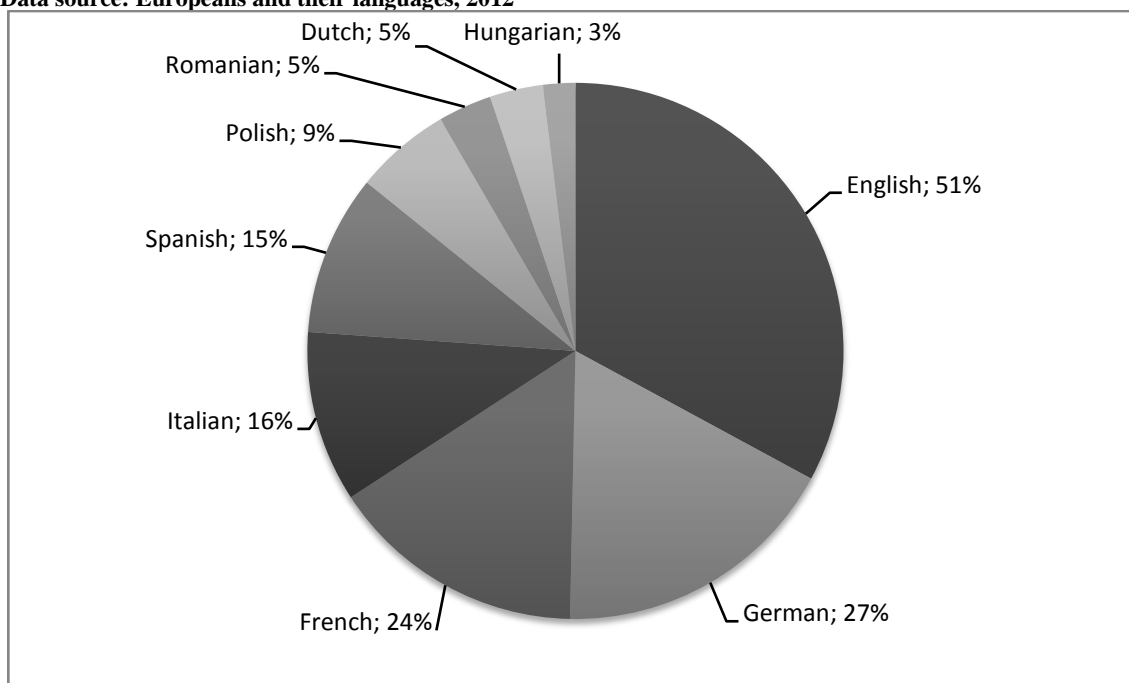


Figure 2.3

Structure of public social expenditures

Data source: Social Expenditure Database, OECD, 2007

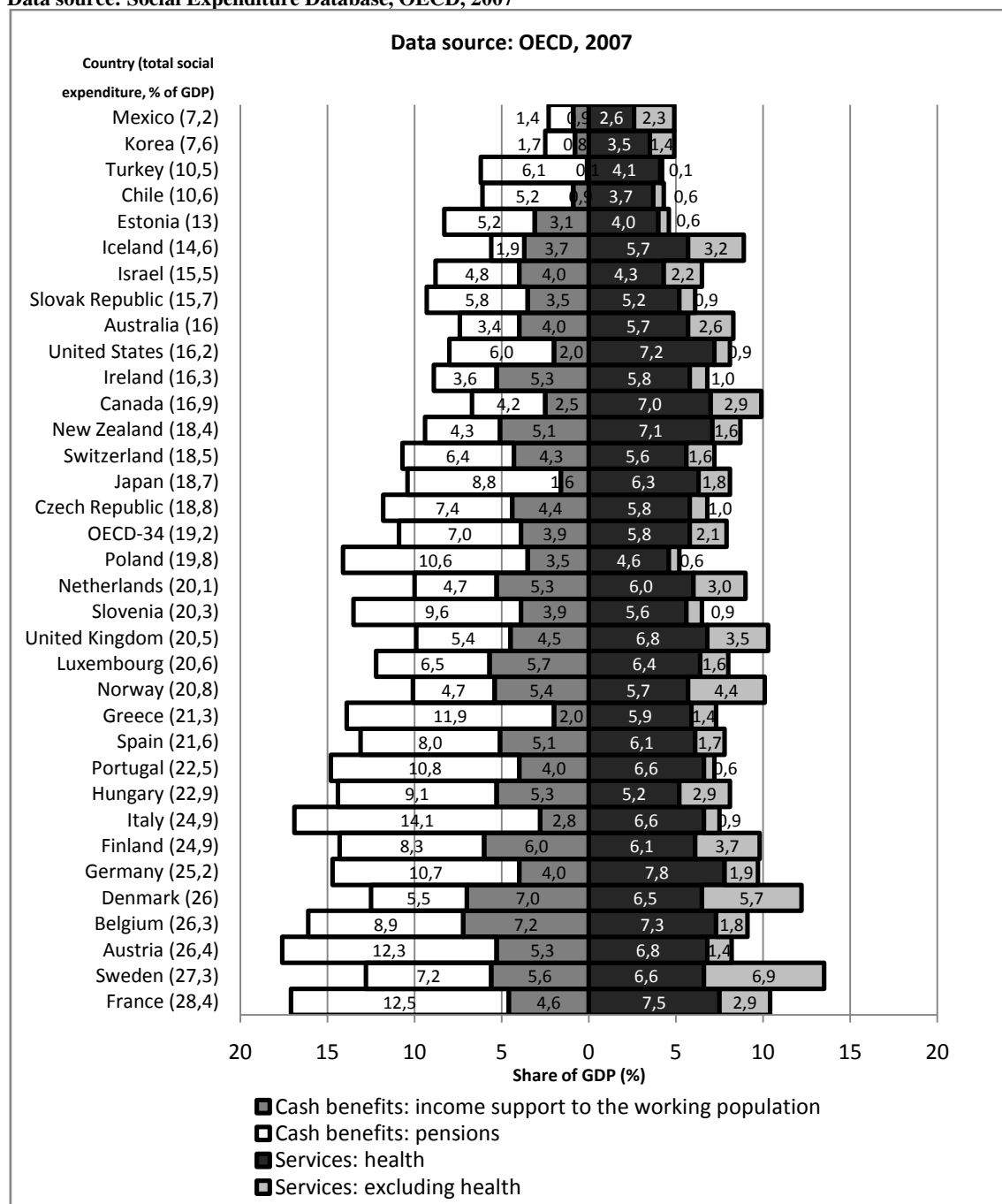


Figure 2.4

Government/people's responsibility

Data Source: World Values Survey, 2013

Note: People answered on a scale 1-10, 1 meaning government should take more responsibility and 10 meaning people should take more responsibility

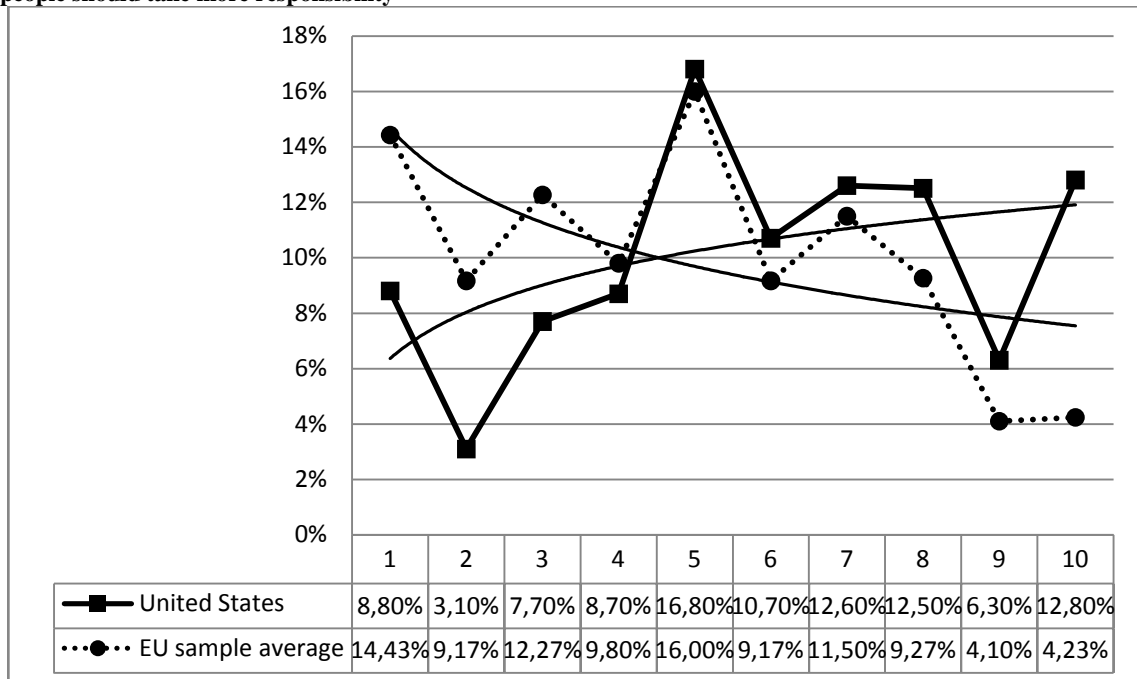


Figure 2.5

Racial structure of the US

Data source: Population Estimates. U.S. Census Bureau, 2011

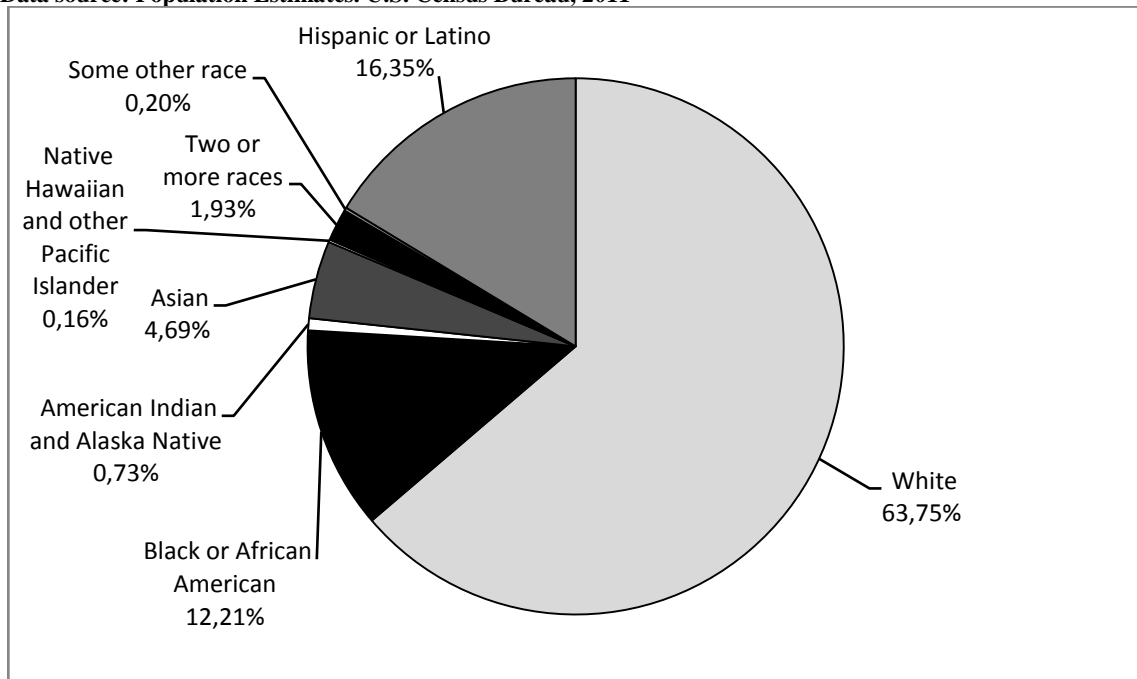


Figure 2.6

Do people in these groups tend to prefer to be self-supporting or do they tend to prefer to live off welfare?
Data source: General Social Survey, 2013

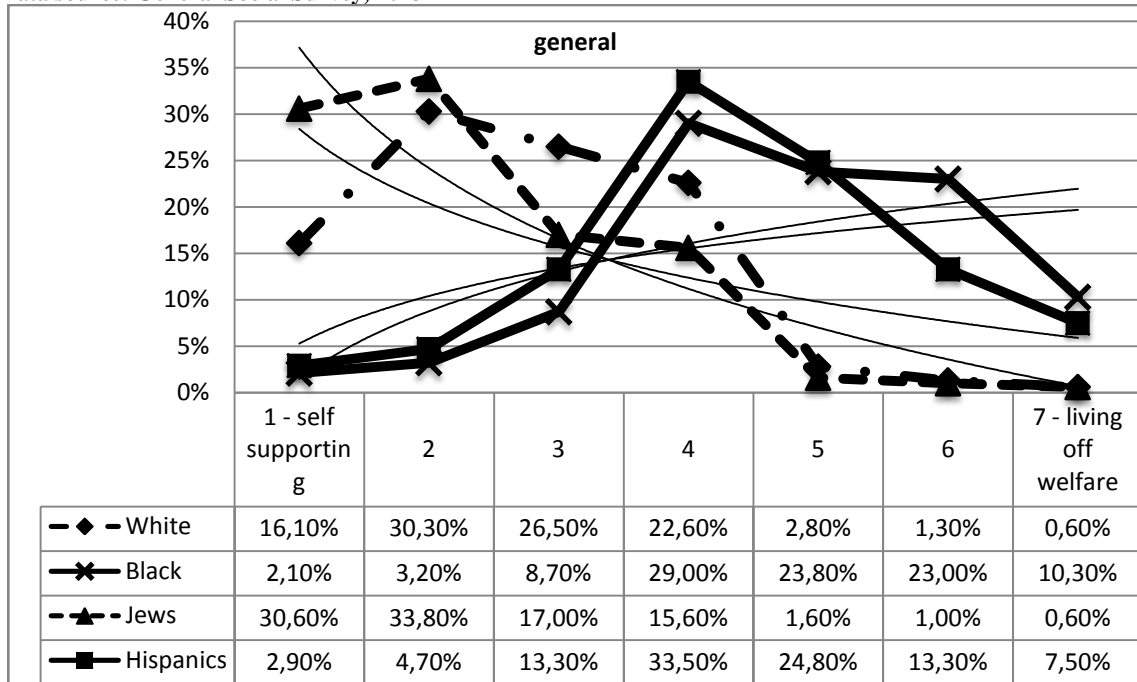


Figure 2.7

Charity participation in the US and non-weighted average of selected European countries (GER, NED, SLO)
Data source: World Values Survey, 2013

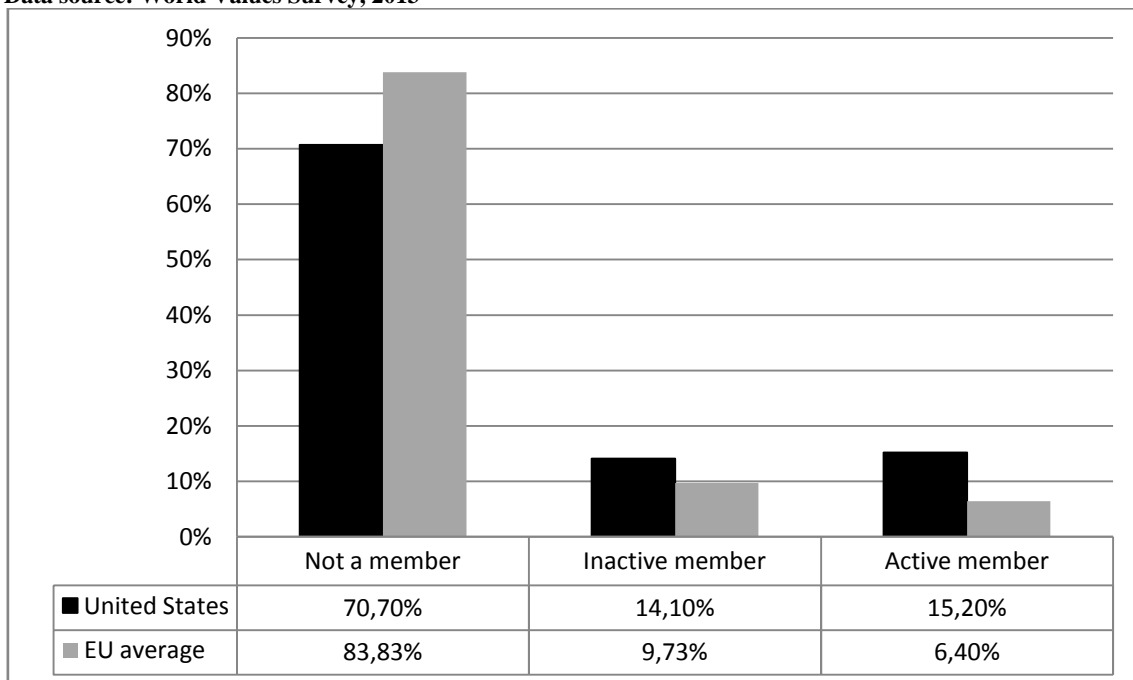


Figure 2.8

Population density; inhab./km²

Data source: OECD Broadband statistics, 2005

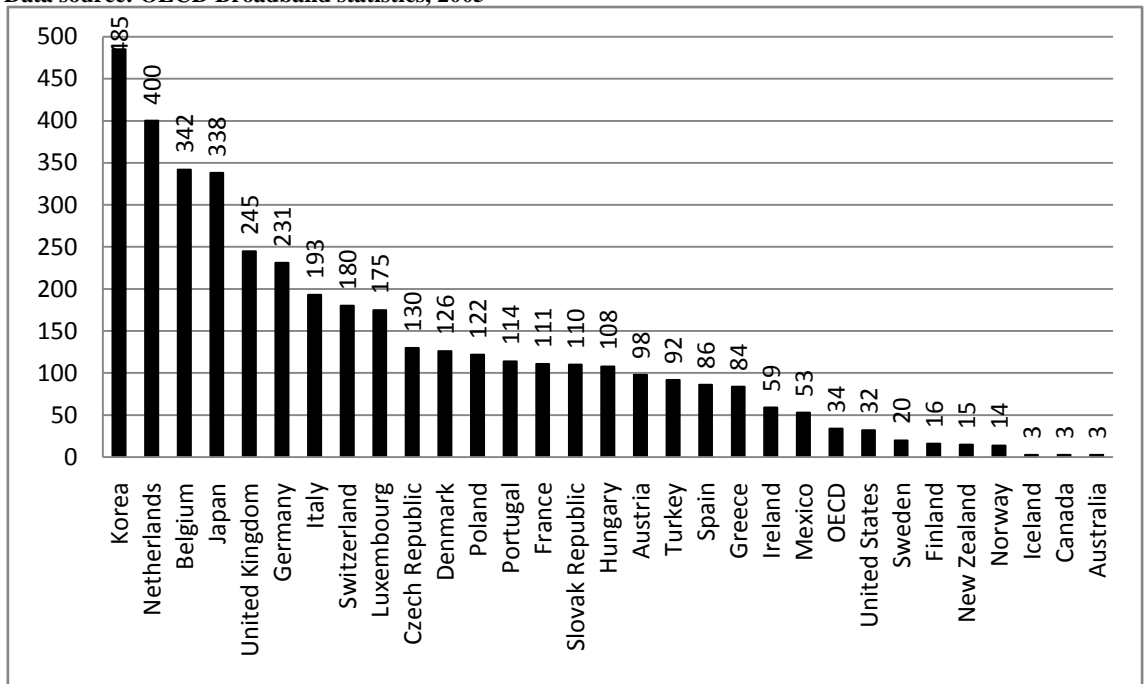


Figure 2.9

Relationship of social expenditure and origin of the constitution

Data source: Social Expenditure Database, OECD, 2013

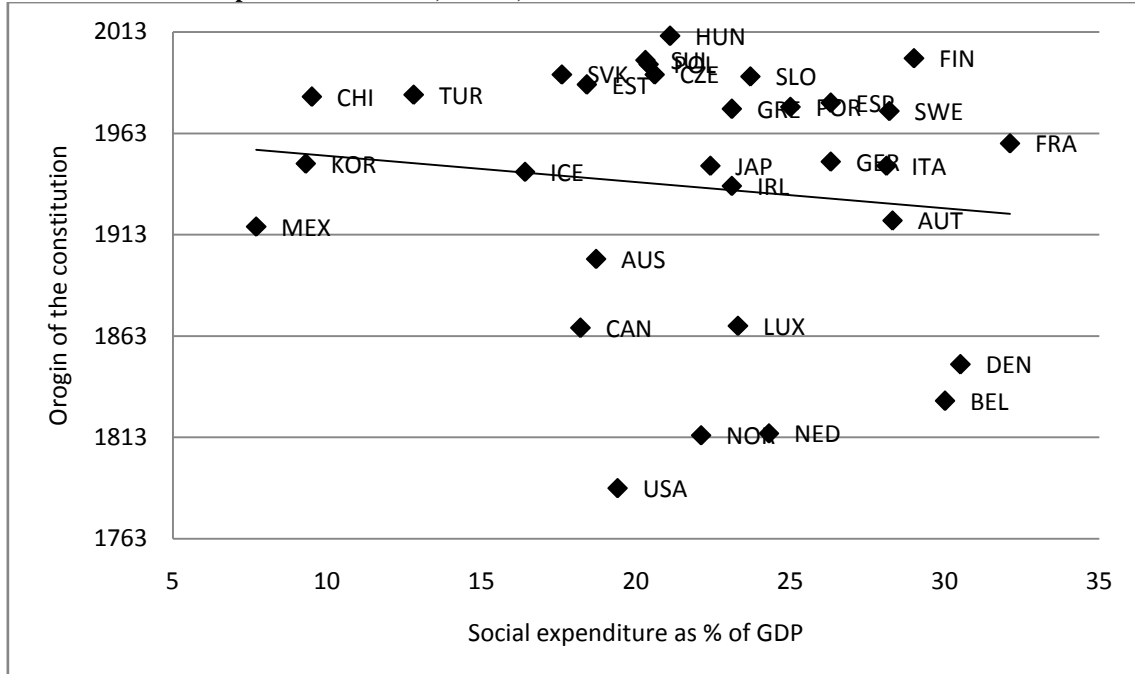
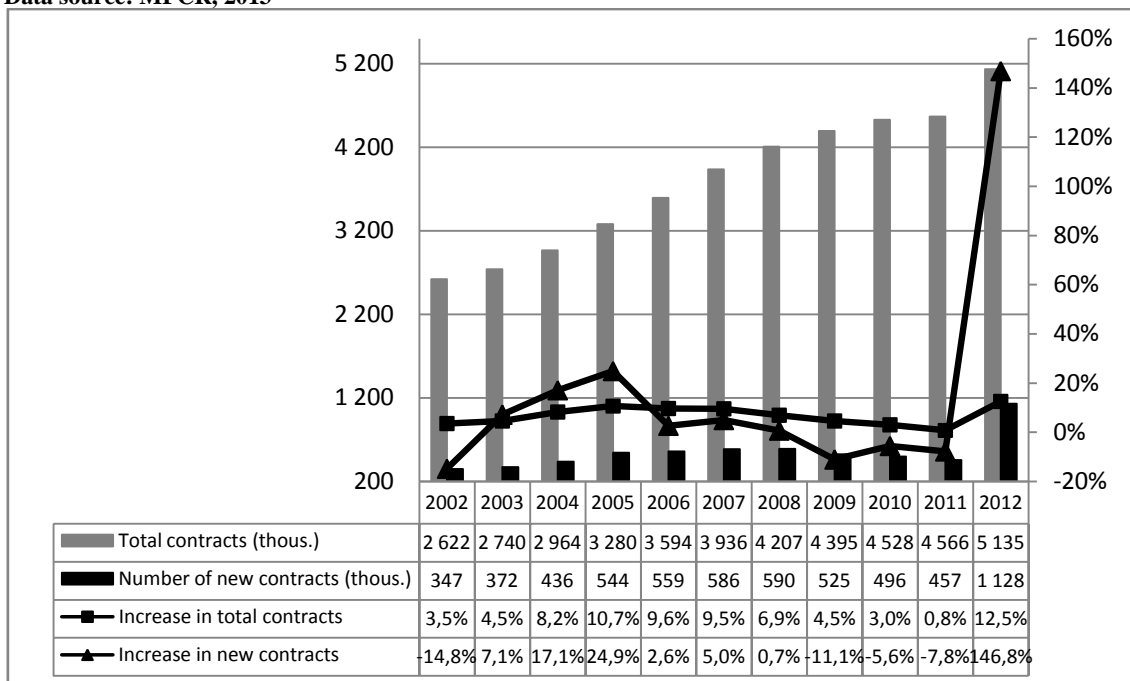


Figure 3.1

Number of private pension insurance contracts

Data source: MF CR, 2013



Tables

Table 2.1

Private annual charity contribution per capita by charity category

Data source: Zehavi (unpublished manuscript)

Rank	Total	In \$ (1995)	Health	In \$ (1995)	Education	In \$ (1995)	Culture	In \$ (1995)	Social services	In \$ (1995)
1	US	258	US	59	Israel	87	US	50	UK	42
2	Israel	202	Israel	30	US	64	Spain	41	Belgium	38
3	Spain	123	Ireland	27	Sweden	32	Sweden	32	Austria	34
4	Sweden	121	Canada	18	Argentina	25	Israel	23	US	30
5	Belgium	118	Belgium	13	France	24	Belgium	23	Ireland	26
6	UK	117	Spain	11	Finland	23	Netherland	19	Israel	26
7	Netherlands	105	UK	10	UK	20	Finland	16	Spain	19

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