

Abstract

The paper presents evidence of an upward ratchet in transfers and taxes in the U.S. around World-War II. This finding is explained within a political-economy framework involving an executive who sets defense spending and the median voter in the population who interacts with a (richer) agenda setter in Congress in setting redistribution. While the setter managed to cap redistribution in the pre-war period, the War itself pushed up the status-quo tax burden, raising the bargaining power of the median voter as defense spending receded. This raised the equilibrium level of redistribution. The higher share of post-War transfers may thus be interpreted as a delayed fulfillment of a, not fully satisfied, popular demand for redistribution inherited from the Great Depression.

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

JEL codes: E62, E65, N11, N12.