

# The Curley Effect: The Economics of Shaping the Electorate

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James Michael Curley, a four-time mayor of Boston, used wasteful redistribution to his poor Irish constituents and incendiary rhetoric to encourage richer citizens to emigrate from Boston, thereby shaping the electorate in his favor. As a consequence, Boston stagnated, but Curley kept winning elections. We present a model of using redistributive politics to shape the electorate, and show that this model yields a number of predictions opposite from the more standard frameworks of political competition, yet consistent with empirical evidence.

## 1. Introduction

Early in World War I, a wounded British officer arrived in Boston to recruit citizens of the then-neutral United States to fight in the British army. He politely asked the by then legendary Irish mayor of Boston, James Michael Curley, for permission. Curley replied, “Go ahead Colonel. Take every damn one of them.” This statement captures Curley’s lifelong hostility to the Anglo-Saxons of Boston, whom he described as “a strange and stupid race,” and his clear wish that they just leave. Throughout his four terms, using a combination of aggressive redistribution and incendiary rhetoric, Curley tried to transform Boston from an integrated city of poor Irish and rich protestants into a Gaelic city on American shores.

Curley’s motivation is clear. In his six mayoral races between 1913 and 1951, he represented the poorest and most ethnically distinct of Boston’s Irish. The city’s Brahmins despised him because of his policies, his corruption, and his rhetoric, and always worked to block his victory. Curley’s expected share of Boston’s vote was, to a first approximation, strictly increasing in the share of

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poor Irish among the Bostonians. Unsurprisingly, he tried to turn Boston into a city that would elect him.

We call this strategy—increasing the relative size of one’s political base through distortionary, wealth-reducing policies—the Curley effect. But it is hardly unique to Curley. Other American mayors, but also politicians around the world, have pursued policies that encouraged emigration of their political enemies, raising poverty but gaining political advantage. In his 24 years as mayor, Detroit’s Coleman Young drove white residents and businesses out of the city. “Under Young, Detroit has become not merely an American city that happens to have a black majority, but a black metropolis, the first major Third World city in the United States. The trappings are all there—showcase projects, black-fisted symbols, an external enemy, and the cult of personality” (Chafets, 1991:177). Zimbabwe’s President Robert Mugabe abused white farmers after his country’s independence, openly encouraging their emigration even at a huge cost to the economy.

The Curley effect turns traditional views about the requirements for good government on their head. Writers like Olson (1993) argue that sufficiently forward-looking leaders would avoid policies that harm their electorate. But the Curley effect relies critically on forward-looking leaders: when it operates, longer time horizons raise the attraction of socially costly political conduct. Others follow Tiebout (1956) in arguing that large response elasticities to bad policies serve to limit them: “the fiscal discipline that is forced upon these units [local governments] emerges from the mobility of resources across subordinate governmental boundaries within the inclusive territorial jurisdiction” (Brennan and Buchanan, 1980:178). With the Curley effect, in contrast, large response elasticities make bad policies more, not less, attractive to incumbents.

In this article we formalize the Curley effect. By differentially taxing different groups of voters, the incumbent leader can encourage emigration of one of the groups, and maximize the share of the voters who support him. While benefiting the incumbent, these taxes may actually impoverish the area and make both groups worse off.

We assume that the incumbent has an innate appeal to the lower-status group. This appeal results from ethnic or class identity, and is one determinant of the voting decision. Our model differs from that of Alesina, Baqir, and Easterly (1999), who focus on the variations in the preferences for public goods across ethnicities but do not consider changes in the electorate. Our model also follows the work on inefficient redistribution through public employment and other means (e.g., Clark and Ferguson, 1983; Alesina and Rodrik, 1994; Persson and Tabellini, 1994; Shleifer and Vishny, 1994; Coate and Morris, 1995; Alesina, Baqir, and Easterly 2000; Robinson and Verdier, 2002). More generally, our work relates to the large body of research on inefficient but politically motivated public policies (e.g., Barro, 1973; Aghion and Bolton, 1990; Persson and Svensson, 1989; Besley and Coate, 1998). Our innovation is the idea that such wasteful redistribution and other public policies shape the electorate by influencing the migration decision.

## 2. A Model

In this section we formalize the basic elements of the Curley effect in a general voting model. In Sections 3 and 4, we apply this model to emigration.<sup>1</sup> We consider the case with two groups, or classes, or ethnicities in the jurisdiction, and all voters—as well as the incumbent—belonging to one or the other.

The leader chooses how much to redistribute from the disfavored to the favored group. Denote the tax that he imposes on each member of the disfavored group by  $q$ , where  $q$  is the same for each member of that group. Here  $q$  equals zero when there is no redistribution, and is positive when the leader favors his own group. Note that  $q$  can also be interpreted as a bias in the provision of public services toward the favored group. Our main question is whether the leader chooses  $q > 0$  as opposed to  $q = 0$ .

The benefit of this redistribution to the leader's group is also a function of the ratio of the number of voters in the competing group to the number of voters in his own group. We denote this ratio by  $\pi$ . If each member of the other group is taxed  $q$ , then each member of the leader's group receives  $\tau\pi q$ , where  $\tau < 1$  is a parameter that captures the waste associated with redistribution. In this model, redistribution is always inefficient: it makes the community as a whole worse off because it wastes resources.

Leaders influence the composition of the electorate as people migrate in response to the choice of  $q$ . We assume in this section that the value of  $\pi$  is falling with  $q$ , and later formally model how migration alters the shape of the electorate.

### 2.1. The Voting Process

We use a simple voting framework: the incumbent maximizes the share of the electorate that supports him against a potential challenger. In our working paper (Glaeser and Shleifer, 2002), we examine a more complex model where the incumbent is assumed to maximize the likelihood of winning the election (see Aranson, Hinich, and Ordeshook, 1974), and obtain very similar results.

There are two central elements of our voting framework. First, voters care about the ethnic or class identity of the candidates (see Verba, Ahmed, and Bhatt, 1971; Akerlof and Kranton, 2000). This reflects the prospective feature of voting, since the identity of a candidate predicts his future policies. Second, the politician's past policies influence voters as well. This is a retrospective feature of the voting decision (Fiorina, 1981; Alesina and Rosenthal, 1995).

Voters' preferences for the incumbent depend on three components: group membership, past policies, and idiosyncratic support for the candidate. The

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1. In our working paper (Glaeser and Shleifer, 2002), we also consider the case of social mobility. The two groups are social classes, each associated with a political party, and the policy in question is the education or indoctrination of one class aiming to prevent the political rather than the physical migration of that class to the other party. We argue that some of the policies of the Labour party in the United Kingdom aimed to discourage college education so as to prevent the shift of the "working class" to the Conservative party.

idiosyncratic component of voter preferences is captured by assuming that each voter receives utility  $j$  from supporting the incumbent against the opponent, where  $j$  is symmetrically distributed around zero with density  $f(j)$  and cumulative distribution  $F(j)$ , where  $f(\cdot)$  is single-peaked and converges to zero as  $j$  goes to positive or negative infinity.

The group membership component of voter preferences is captured by assuming that voters also get utility from the leader's group (ethnicity or class) membership and policies. If a leader from the voter's own group is elected, the voter receives utility of  $v_0/2$ . If a leader from the other group is elected, the voter receives utility of  $-v_0/2$ . These preferences are independent of past policies and are best thought of as representing a pure taste for one's own ethnicity or class.

Finally, individual preferences respond to the incumbent's past policies. In particular, members of the leader's own group get utility of  $v_1(\tau\pi q)$  if he is reelected, where  $v_1(0) = 0$  and  $v_1'(\cdot) > 0$ . Members of the other group get utility of  $-v_1(q)$  if the incumbent is reelected. The influence of past policies can be thought of as retrospective voting, as government patronage to buy votes, or as a measure of "consistency" of policies over time.

Policies determine the outcome of the election in two ways. First,  $q$  has a direct effect coming through the tastes of the two groups. Second,  $q$  influences the composition of the electorate. When the incumbent faces an opponent from the other group, members of his own group support him when  $j + v_0 + v_1(\tau\pi(q)q) > 0$  and thus his share of votes from his own group is  $1 - F(-v_0 - v_1(\tau\pi(q)q))$ . Members of the other group vote for him when  $j - v_0 + v_1(-q) > 0$ , so his share of their votes is  $1 - F(v_0 - v_1(-q))$ . The incumbent's total share of votes is

$$1 - (F(-v_0 - v_1(\tau\pi(q)q)) + \pi(q)F(v_0 - v_1(-q)))/(1 + \pi(q)).$$

When the incumbent faces an opponent from his own group, its members vote for him when  $j + v_1(\tau\pi(q)q) > 0$  and his share of their votes is  $1 - F(-v_1(\tau\pi(q)q))$ . Members of the other group vote for him when  $j + (v_1(-q)) > 0$  and his share of their votes is  $1 - G(-v_1(-q))$ . The share of votes that the incumbent receives when facing an opponent from his own group is  $1 - (F(-v_1(\tau\pi(q)q)) + \pi(q)F(-v_1(-q)))/(1 + \pi(q))$ .

We assume that the opponent comes from the leader's own group with a fixed<sup>2</sup> probability  $p$ , and from the other group with probability  $1 - p$ . The incumbent's expected share of votes then equals

$$P(q) = 1 - \frac{(1-p)F(-v_0 - v_1(\tau\pi(q)q)) + pF(-v_1(\tau\pi(q)q))}{1 + \pi(q)} - \pi(q) \frac{(1-p)F(v_0 - v_1(-q)) + pF(-v_1(-q))}{1 + \pi(q)}. \quad (1)$$

2. We have also considered a case in which  $p$  is itself determined by the composition of the electorate. It yields qualitatively similar results.

Differentiating Equation (1) with respect to  $q$ , and using the fact that  $f(x) = f(-x)$  (from symmetry), yields

$$P'(0) = -\frac{\pi'(0)(1-p)}{(1+\pi(0))^2}(F(v_0) - F(-v_0)) - \frac{\pi(0)v'_1(0)}{1+\pi(0)}(1-\tau)((1-p)f(v_0) + pf(0)). \quad (2)$$

A positive value of  $q$  raises support for the electorate if and only if  $P'(0) > 0$  or

$$\frac{-\pi'(0)}{\pi(0)(1+\pi(0))}(F(v_0) - F(-v_0)) > v'_1(0)(1-\tau)\left(f(v_0) + \frac{pf(0)}{(1-p)}\right). \quad (3)$$

If we follow Grossman and Helpman (2001) and assume that  $j$  is uniformly distributed on the interval  $[-a/2, a/2]$ , then an increase in  $q$  (from zero) increases the share of support for the incumbent if and only if  $(-\pi'(0)v_0)/(\pi(0)(1+\pi(0)))$  is greater than  $((1-\tau)v'_1(0))/2(1-p)$ . This condition gives the basic logic of the Curley effect. The effect occurs when the impact of policies on the shape of the electorate (i.e.  $-\pi'(0)$ ) is large, when ethnic preferences (i.e.,  $v_0$ ) are important, and when the waste involved in redistribution (i.e.,  $(1-\tau)v'_1(0)$ ) is not too extreme. This generalizes directly to Proposition 1:

*Proposition 1.* If  $(-\pi'(0))/(1+\pi(0)) > (1-\tau)v'_1(0) \bullet (f(0)\pi(0))/((1-p)/p)$ , then there exists a value of  $v_0$ , denoted by  $v_0^*$ , where a marginal increase in  $q$  from zero has no impact on the electoral support for the incumbent. For values of  $v_0$  above  $v_0^*$ , the incumbent strictly prefers redistribution, and for values of  $v_0$  below  $v_0^*$ , he chooses  $q = 0$ .

- (a) If we write  $v_1(x) = \bar{v}_1(x) + vx$ , then an increase in  $v$  raises  $v_0^*$ .
- (b) If  $\partial\pi'(0)/\partial\tau \leq 0$ , then  $v_0^*$  falls as  $\tau$  rises.
- (c) If we write  $\pi(q) = \bar{\pi}(q) - \pi_0q$ , then  $v_0^*$  falls as  $\pi_0$  rises. More generally,  $v_0^*$  rises with any parameter that increases the value of  $\pi'(0)$  (i.e., brings it closer to zero) falls with any variable that decreases the value of  $\pi'(0)$ , as long as these parameters do not change  $\hat{\pi}$ .
- (d) The value of  $v_0^*$  rises with  $p$ .

*Proof.* For all proofs see the appendix.

The condition  $(-\pi'(0))/(1+\pi(0)) > (1-\tau)v'_1(0) \bullet (f(0)\pi(0))/((1-p)/p)$  is necessary to ensure that at some value of  $v_0$ , the gains from shaping the electorate dominate the social costs of redistribution. This condition is likely to hold when government policies influence the electorate (i.e.,  $\pi'(0)$  is large in absolute value), the social and electoral costs of redistribution  $(1-\tau)v'_1(0)$  are small, and the probability of facing a challenger from another group is high.

Proposition 1 makes several of the key points of the paper. The incumbent pursues more redistribution if more people vote along group lines (base proposition), if past choices have little direct effect on voters' preferences (part a), if redistribution entails less waste (part b), and if redistribution has a greater

effect on the shape of the electorate (part c). Leaders are less likely to engage in costly redistribution toward their group when their opponent is more likely to come from their own group (part d).

A key feature of our model, which distinguishes it from much of the public choice literature, is that leaders derive utility from holding office (they want reelection), but not from governing a richer area. Much of the public choice literature (Brennan and Buchanan, 1980; Olson, 1993) assumes the reverse: leaders care mostly about the size of the government they run, which can be bigger in a richer community. In practice, politicians often care about both the wealth of their community and the probability of reelection—and this concern mitigates the Curley effect.<sup>3</sup> In this situation, incumbents will try to enrich the community while also shaping the electorate. In the urban context, this might mean that they try to create jobs for nonresidents, who expand the tax base without being able to vote.

### 3. Application to City Politics and Emigration

Suppose for concreteness that the leader is a mayor of a city, that his own group is the Irish, and that the other group is the English (or alternatively have Irish or English ancestors). Clark (1975) shows that patronage and ethnically targeted spending are particularly important in U.S. cities with large Irish populations.

After the mayor chooses the value of  $q$ , both English and Irish voters can move in or out of the city. Over a long enough time horizon, voters move so that their utility levels in the city are equal to their utility levels outside the city. We denote the reservation utility of the Irish as  $U_I(N_I)$  and the reservation utility of the English as  $U_E(N_E)$ , where  $N_I$  is the number of Irish voters and  $N_E$  is the number of English voters. We assume that  $U'_I(N_I) > 0$  and  $U'_E(N_E) > 0$ . These assumptions say that the supply of residents of a given ethnicity is upward sloping: the more Irish voters live in Boston, the more the marginal Irish newcomer must be paid to live in the city.

The final element of the model is the labor market. In our model, the workers and the voters are the same. We assume an aggregate constant returns to scale production function  $f(N_I, N_E)$ . The wage is then equal to

$$(\partial f(N_I, N_E)) / (\partial N_I) = W_I(N_I, N_E)$$

for the Irish, and

$$(\partial f(N_I, N_E)) / (\partial N_E) = W_E(N_E, N_I)$$

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3. A natural question is which institutions might mitigate the Curley effect. Generally the anti populist institutions, which give disproportionate weight to property owners, would work in that direction. These include unlimited campaign contributions, checks on policies coming from less “populist” branches of government, policies decided by wider electorates (as in the case of the Massachusetts-wide anti-rent-control referendum), but also term limits that reduce the relatively long-run benefits of out-migration to the incumbent. Of course, many of these institutions entail social costs as well.

for the English. The constant returns to scale assumption means that wages for both groups are determined entirely by the ratio of the English to the Irish, which we have denoted by  $\pi$ . We can then write the wages as  $W_I(\pi)$ , where  $W'_I(\pi) \geq 0$ , and  $W_E(\pi)$ , where  $W'_E(\pi) \leq 0$ . The wage of each group is assumed to be decreasing in its number, that is, labor demand curves slope down. We also assume that a positive number of voters from each group always live in the city.

For any value of  $q$ , the spatial equilibrium is determined by the two equalities

$$W_I(\pi) + \tau\pi q = U_I(N_I), \text{ and} \quad (4)$$

$$W_E(\pi) - q = U_E(\pi N_I). \quad (5)$$

We are interested in comparative statics around an equilibrium with no redistribution, so we let  $\hat{\pi}$  and  $\hat{N}_I$  (and  $\hat{N}_E = \hat{\pi}\hat{N}_I$ ) solve  $W_I(\hat{\pi}) = U_I(\hat{N}_I)$  and  $W_E(\hat{\pi}) = U_E(\hat{\pi}\hat{N}_I)$ . This is the same definition of  $\hat{\pi}$  as we had before.

Differentiation of Equations (4) and (5) leads us to our first comparative statics:

$$\frac{\partial \pi}{\partial q} = \frac{\tau\pi^2 U'_E(N_E) + U'_I(N_I)}{U'_I(N_I)(W'_E(\pi) - N_I U'_E(N_E)) - \pi U'_E(N_E)(W'_I(\pi) + \tau q)}, \text{ and} \quad (6)$$

$$\frac{\partial N_I}{\partial q} = \frac{W'_I(\pi) + \tau q + \tau\pi W'_E(\pi) - \tau\pi N_I U'_E(N_E)}{U'_I(N_I)(W'_E(\pi) - N_I U'_E(N_E)) - \pi U'_E(N_E)(W'_I(\pi) + \tau q)}. \quad (7)$$

In both Equations (6) and (7), the denominator is the same, and it is negative. There are two parts of the denominator. The first part is the effect of an increase in  $\pi$  on the utility of the marginal Englishman (which is unambiguously negative), multiplied by the slope of the supply curve of the Irish. The second part is the slope of the supply curve of English (times  $\pi$ ) times the impact of an increase in  $\pi$  on the utility of the marginal Irishman, which is unambiguously positive. Thus the overall denominator is negative.

The numerator in Equation (6) is the sum of the slopes of the supply curves of both groups. These terms are positive, so Equation (6) is negative and the proportion of the English in the electorate falls as the tax rate on them increases.

The numerator in Equation (7) cannot be easily signed. There are two positive and two negative terms in it. The first two terms in the numerator are positive: the slope of the Irish wages with respect to the share of English and  $\tau q$ . Because the denominator is negative, these terms represent the negative effect that the transfers can have on the Irish utility. The first term reflects the negative effect of the English mobility on Irish wages; the second term reflects the negative impact of the English exodus on the tax base. The last two terms in the numerator of Equation (7) are both negative. Because the denominator is negative, they both reflect the basic positive effect that redistribution to the Irish has on the Irish utility.

Differentiating Equation (6) leads to the next proposition. Recall that  $v_0^*$  is the level of the intrinsic ethnic preference for the incumbent above which he

wants to redistribute and below which he does not. Thus an increase in  $v_0^*$  means a lower likelihood of redistribution.

*Proposition 2.* The value of  $v_0^*$  falls as  $\tau$  rises.

- (a) If we write  $W_I(\pi) = \tilde{W}_I(\pi) + \omega_I(\pi - \hat{\pi})$ , then  $v_0^*$  is rising with  $\omega_I$ .
- (b) If we write  $W_E(\pi) = \tilde{W}_E(\pi) - \omega_E(\pi - \hat{\pi})$ , then  $v_0^*$  is rising with  $\omega_E$ .
- (c) If we write  $U_E(N_E) = \tilde{U}_E(N_E) + \mu_E(N_E - \hat{N}_E)$ , then  $v_0^*$  is rising with  $\mu_E$  if and only if  $\pi W'_I(\pi) + N_I U'_I(N_I) > -\tau \pi^2 W'_E(\pi)$ .
- (d) If we write  $U_I(N_I) = \tilde{U}_I(N_I) + \mu_I(N_I - \hat{N}_I)$ , then  $v_0^*$  is rising with  $\mu_I$  if and only if  $\tau \pi(N_I U'_E(N_E) - W'_E(\pi)) > W'_I(\pi)$ .

The comparative static on  $\tau$  has already been discussed. As redistribution becomes more wasteful, leaders indeed do less of it (near  $q = 0$ ). At higher levels of  $q$ , this result becomes less clear, because lower values of  $\tau$  have the attractive aspect of further repelling the members of the opposing group. Parts (a) and (b) show that higher wage elasticities make redistribution less attractive to the leader. Intuitively, higher wage elasticities mean that redistribution changes wages rather than the voting composition. Since the attractive aspect of redistribution to the leader is its impact on who stays and votes, redistribution that only impacts wages is less desirable.

The intuition on the reservation utility comparative statics in parts (c) and (d) is more complex. Higher values of  $\mu_E$  and  $\mu_I$  would seem to make the population less mobile, making redistribution less attractive. There is, however, a countervailing force. One of the factors that keeps the Irish from moving in is that the English are moving out, thereby reducing the Irish wage. If  $\pi W'_I(\pi) + N_I U'_I(N_I) < -\tau \pi^2 W'_E(\pi)$ , then higher  $\mu_E$  and the relative immobility of the English mean that the Irish move in relatively more aggressively in response to higher redistribution. Likewise, when

$$\tau \pi(N_I U'_E(N_E) - W'_E(\pi)) < W'_I(\pi),$$

the Irish immobility makes the English more mobile.

Equation (7) is positive as long as  $N_E U'_E(N_E) - \pi W'_E(\pi) > q + W'_I(\pi)/\tau$ . If redistribution causes the number of Irish to rise, then the average welfare of the Irish in the city must also rise because  $U'_I(N_I) > 0$ . We can now determine whether redistribution helps or hurts the Irish voters of the city. This leads to Proposition 3:

*Proposition 3.* When  $q = 0$ , there exists a value of  $\tau$ , denoted by  $\tau^*$ , which equals  $W'_I(\pi)/(N_E U'_E(N_E) - \pi W'_E(\pi))$ , at which higher redistribution neither hurts nor harms the Irish.

- (a) For  $\tau > \tau^*$ , the Irish are helped by incremental redistribution; for  $\tau < \tau^*$ , the Irish are hurt by it.
- (b) If we write  $W_I(\pi) = \tilde{W}_I(\pi) + \omega_I(\pi - \hat{\pi})$ , then  $\tau^*$  is rising with  $\omega_I$ .



- (c) If we write  $W_E(\pi) = \tilde{W}_E(\pi) - \omega_E(\pi - \hat{\pi})$ , then  $\tau^*$  is falling with  $\omega_E$ .  
 (d) If we write  $U_E(N_E) = \tilde{U}_E(N_E) + \mu_E(N_E - \hat{N}_E)$ , then  $\tau^*$  is falling with  $\mu_E$ .

Proposition 3 shows, first, that redistribution can actually harm the Irish. This can occur because the English and Irish are complements in production. When taxes drive the English out, they can make the Irish worse off. The first, unsurprising, comparative static tells us that this negative effect of taxes is more likely to occur when it entails greater social losses ( $\tau$  is lower). But even when redistribution entails no waste, it can still hurt the Irish because  $W'_I(\pi)/(N_E U'_E(N_E) - \pi W'_E(\pi))$  can be greater than one.

Proposition 3 also shows that the welfare reduction of the favored group is more likely to come about when the decrease in the number of English has a stronger negative effect on Irish wages. In addition, the mobility of the English (captured by a low value of  $\mu_E$ ) also makes redistribution more detrimental to the Irish (because more of the English leave). Finally, a greater elasticity of the English wage actually leads to smaller losses for the Irish. The reason is that a change in the proportion of the English has a large positive effect on English wages, which stems their own out-migration.

#### 4. Historical Evidence on the Curley Effect

In this section we review the cases of two American mayors and one of an African president who practiced Curleyism. Their policies and rhetoric led to emigration and other outcomes consistent with the predictions of the model.

##### 4.1. James Michael Curley

In the case of Boston Mayor James Michael Curley, the dominant political factors appear to have been his own longevity, the mobility of voters, and Curley's own ethnic appeal. Since policies do not impact migration instantly, longevity is vital, and Curley's political longevity was almost unique. Since the Curley effect for cities operates primarily through migration, massive suburbanization taking place in Boston in the first half of the 20th century, predominantly by Curley's Anglo-Saxon opponents, is central to understanding Curleyism. Finally, as the model makes clear, the incumbent politician must have an innate advantage in appealing to the members of his own group, and Curley was nothing short of remarkable in his ethnic Irish appeal.

James Michael Curley's electoral career spanned 55 years between his first election to the Boston Common Council in 1900 and his final defeat for the mayoralty in 1955. Curley was first elected as mayor of Boston in 1913. He lost his 1917 run for reelection, but was reelected three more times over the next 40 years, in 1921, 1929, and 1944. He lost elections for mayor in 1917, 1937, 1940, 1949, and 1951. Curley was also elected governor of Massachusetts in 1934, and was defeated for that office in 1924 and 1938. He served as a congressman during 1911–1914 and 1943–1946. Curley's access to opportunities to shape the electorate through politics is almost unprecedented.

Over this time period, the composition of Boston's population shifted dramatically. In 1900, Boston was still in part a Yankee city: Curley lost in 1917 to Andrew Peters, a Brahmin candidate. During the early 20th century, however, many Bostonians migrated to the suburbs, such as Brookline and Newton, powered by the streetcar and then the automobile. Boston's small geographic boundaries made this exodus particularly easy. By 1950, the Brahmins had departed. As noted by contemporary observers, "the Yankees have girt their garments well about them, snatched up their skirts, that so much as a hem might not be defiled by contact with 'foreigners,' and have betaken them elsewhere in a spirit little and shallow, if not mean and snobbish" (Gamm, 1999:25). The last Brahmin mayor of the city was elected in 1925 (when Curley was precluded by statute from running again).

There could be no Curley effect without Curley's ethnic appeal. In part, Curley's ethnic politics had its roots in the long-standing battles between the English and the Irish. The English discriminated against the Irish, and the Irish resented this discrimination. Curley also came from a poor neighborhood and represented the average Irishman, not the Lace Curtain Irish identifying with the first Irish mayor of Boston Hugh O'Brien and future President John F. Kennedy. Curley's roots in the city's Irish community gave him a natural identity, and electoral appeal. His large family (seven children), his faithful religious observance (every week at Our Lady of Lourdes), and his home in the Irish area of Jamaica Plain all reinforced his ethnic identity. According to O'Connor, "He may have cultivated a rich and mellifluous speaking voice, but none of his followers—scrubwomen, teamsters, dockworkers, streetcar conductors, policemen, firemen, housewives—doubted for a minute that 'Jim' was still 'one of us.'" Jack Beatty begins his biography of Curley by describing the 100,000 overwhelmingly Irish mourners attending Curley's wake. According to Beatty, "For the Irish-Americans among them, especially, he was a political and cultural hero, an axial figure in their annals."

How did Curleyism work? What were the policies that favored the Irish and hurt the English Bostonians, and so encouraged their emigration? There are three main areas where Curley seems to have practiced ethnic favoritism: the distribution of public goods and patronage, financial transfers, and perhaps as importantly, his rhetoric.

On the first day of his first administration, Curley announced what may have been his boldest scheme for massive redistribution from Protestant Boston to his Irish supporters: his plan to sell the Boston Garden and use the proceeds to build parks in the neighborhoods of the city. This proposal "sent Yankees into fits of apoplexy" (O'Connor, 1995:187). It was shelved, but was eventually followed by decades of favoritism in the allocation of public buildings:

While Curley built playgrounds in Dorchester and Roxbury [Irish wards], he let Scollay Square become a place where ugly tattoo parlors and sleazy burlesque houses blighted the historic landscape. While he planned extensive bathhouses in South Boston, the docks and piers along Atlantic Avenue rotted on the pilings. While he laid out miles of paved sidewalks in

Charlestown and East Boston, the cobblestones of Beacon Hill fell apart and the old lampposts came tumbling down (O'Connor, 1995:206).

In his first administration, "Curley cited as his greatest accomplishments the beginnings of an \$11 million expansion of the Boston City Hospital and of the Strandway, a beach-lined motor parkway set along the Dorchester Bay side of the South Boston peninsula." These were vast projects that not only employed hundreds, if not thousands, of Curley supporters but also delivered public services disproportionately to Curley's Irish base: "Curley produced numerous social, medical and recreational facilities for his low-income supporters in the neighborhoods that fringed the downtown area." Such projects would continue throughout his terms.

Curley's building was one means of redistributing from the English to the Irish, but he also engaged in more direct financial transfers. Curley's preferred form of redistribution was public employment (generally at above-market wages), not welfare, and he made sure that this public employment went overwhelmingly to his Irish (and other ethnic) supporters, not to his Protestant enemies. In his autobiography, he details a "reform" (Protestant) member of the city council who offered to be city treasurer and to donate the bulk of his salary to a charity of Curley's choosing. Curley told him that he would only get the job if "he could find in the city records a single instance wherein any Irish Catholic ever received a city appointment to any position higher than policeman until Hugh O'Brien was elected Mayor in 1885."

In Curley's first year as mayor, he raised spending considerably and "raised the salaries of lower-paid workers." "Curley cut the pay of the higher officers of the police and fire departments, but approved raises for police patrolmen and privates. He cut the salaries of school doctors, but not of school custodians" (Beatty, 1992:138). Patronage and public projects were the tangible tools of redistribution in Boston.

Still, Curley's unending rhetorical war on the Anglo-Saxons, his histrionic ethnic baiting, may have been the hallmark of his mayoralty. Curley accused the English of having a temperament inclined toward "political chicanery and hypocrisy," and railed against "the inhumane numb-skulduggery of the Yankee overlords." "The day of the Puritan has passed, the Anglo-Saxon is a joke, a newer and better America is here," he said, and "the New England of the Puritans and the Boston of rum, codfish and slaves are as dead as Julius Caesar" (O'Connor, 1995:188). Instead, he favored a Boston filled with "a virile, intelligent, God-fearing, patriotic people like the Irish." Such rhetoric should perhaps be viewed not only as evidence of intent to favor one's own community, but also as a form of redistribution, given its likely impact on both Irish and English voters.

Boston did not thrive during the Curley era. Between 1910 and 1950 it had the lowest population growth rate of any city in the United States with a population of more than 300,000 in 1910. Boston's population rose by only 19.5% in this period, compared to 39.3% for Massachusetts, and 63.9% for the United States as a whole. The relative wealth of the city also fell. Were Boston's Irish hurt as well?

This is harder to answer. One clue is that the overall Irish population also rose by only a small amount over this time period. Beatty recognizes that “many [Irish] Bostonians were worse off in 1950 than they or their families had been in 1914, and Curley was the major reason why” (1992:501). He notes that many of the public-sector opportunities created by Curley came at the expense of other, private-sector opportunities, but does not reach a final quantitative judgment.

#### 4.2. Coleman Young

Coleman Young was elected the first black mayor of Detroit in 1973 in a four percentage point victory over John Nichols, the white police commissioner. The election split along racial lines. Every white precinct and more than 90% of the white vote favored Nichols. Every black precinct and more than 90% of the black vote favored Young. Detroit’s long tradition of institutionalized racism and racial hostility exploded in the 1967 riot, among the deadliest and most destructive in U.S. history (Sugrue, 1996). Six years later Young was able to mobilize black voters and become mayor.

Between 1970 and 1990, the share of blacks in Detroit’s population grew from 43.7% to 75.7%. Young’s electoral strength expanded as well. In no subsequent election was Young’s margin of victory as small as in 1973. In 1977 Young beat Ernest Browne, a moderate black candidate whom he described as “the great black white hope,” by 18 percentage points. In 1983 Young beat his last white opponent by 32 percentage points. In his final two elections, Young defeated a black opponent, Tom Barrow, by 20 percentage points in 1985 and 12 percentage points in 1989.

Unlike Curley, Young always claimed to support integration. The closest he got to asking whites to leave was in his inaugural address, when he urged thug-gish policemen (overwhelmingly white in his view) to “hit the road.” Still, according to L. Brooks Patterson, a former Oakland County prosecutor, ‘Coleman Young has made it very clear that the honkies are not welcome. . . . When he vacates his throne . . . you’ll find a warming.’ Jacoby (1988) writes that Young “encouraged the black city to cut itself off.” She cites observers such as *Detroit News* columnists Pete Waldmeir, writing that Young “was trying to drive whites out and he cut their services,” and Irene McCabe, saying that Young “wanted everything black and treated whites as second-class citizens.”

We cannot be sure that Young’s actions were strategically designed to drive the whites out. Suburbanization, the decline of the automobile industry, and racist hostility to Young were also important factors. But it is hard to ignore the impact of Young’s 20-year rule. Whites didn’t just suburbanize—they moved directly outside of Detroit’s city limits (Glaeser, Khan, and Rappaport, 2000). They weren’t just moving to lower-density suburbs, they were specifically escaping Young’s regime. A 1980 poll showed that 70% of Detroit’s whites agreed with the sentence, “Ever since blacks became the majority in Detroit white people are often discriminated against here.” Young’s policies created an overwhelmingly black city that overwhelmingly supported him.

Young's racial favoritism can be seen in his tax policy and his distribution of city services. A 1982 referendum tripled the commuter tax from 0.5% to 1.5%, and raised the residents' income tax rate from 2% to 3%. This tax, which had no impact on Young's poorer black supporters, strengthened the incentive for the better off to leave Detroit. City governments rarely pass income taxes, presumably because of the adverse migration effects. Young eagerly sought to tax his richer constituents to fund redistribution, arguably to drive them out.

Young initiated large building projects that put his supporters on the payroll. He lobbied for federally supported public housing—an absurdity in a city with huge amounts of housing selling for less than new construction costs (Glaeser and Gyourko, 2002)—to keep his supporters, as opposed to whites, as city residents. At the same time, Young cut back on the basic services that white Detroiters valued, such as police and fire. In 1976 he cut the police force by 20%, which along with his other attacks on the police department, perpetrated lawlessness in Detroit. Trash collection declined by 50% during Young's early years.

Young's other strategies also followed closely the logic of the Curley effect. Young tried to generate jobs and tax revenues without residents. The most obvious example of this is Young's continuing, but unsuccessful attempts to bring a casino to Detroit. Gambling would create revenues, but also repel middle-class voters. It was a perfect strategy for a mayor who wanted to raise income and tax revenues without attracting voters. Young also strongly supported Henry Ford II's Renaissance Center, a business complex that would generate tax revenues while keeping white voters in the suburbs. Young's other construction projects had a similar flavor of Curleyism.

Did Young hurt Detroit? Did he hurt the black residents of Detroit? There is no question that Detroit was in much worse shape when Young left office than when he first entered it. Its population fell from 1.51 million in 1970 to 1.03 million in 1990, a 32% decline. The unemployment rate as a percentage of the civilian labor force rose from 10.3% in 1969 to 20.6% in 1990. The percentage of households living below the poverty line rose from 18.6% to 29.8%. Nearly all the victims of this unemployment and poverty were Young's black supporters. Over Young's 20 years, surely in part due to his policies, Detroit became an overwhelmingly black city mired in poverty and social problems. While some of black Detroit was worse off before Young, it is hard to believe that a less confrontational mayor would not have helped his constituency more.

#### 4.3. Why not New York and Chicago?

Not all American mayors pursue the policies of James Curley and Coleman Young. Most conspicuously, neither the mayors of New York City during the age of Curley nor the mayors of Chicago during the Young period engaged in ethnic baiting and redistribution. The question is why?

During the age of Curley (between 1914 and 1950), New York had five mayors who served for more than a year, three of whom—Hylan, Walker, and O'Dwyer—were Tammany Hall candidates. The other two mayors were reformers supported by Republicans as well as wealthier New Yorkers, and hence are less likely champions of Curleyist policies. Yet even if we look

at the Tammany mayors, all of whom were of Irish ancestry, none appears to have tried to shape the electorate through redistribution.

It might be argued that the horizons of these mayors were far too short for them to realize any electoral gains from shaping the electorate. Tammany Hall, however, was one of the most long-lived and far-sighted political institutions in U.S. history, so short horizons are an unlikely explanation. It seems more plausible to us that physically, New York City was much larger than Boston: 303 square miles compared to Boston's 48. In the first half of the 20th century, getting people to move outside New York City and commute to work was a far harder proposition than getting them to move to Brookline. As Proposition 1(c) shows, when redistribution has a smaller effect on the shape of the electorate, less of it will be pursued. Finally, it is also possible (though not covered by our model) that Tammany politicians were more interested in the pecuniary (relative to electoral) benefits of their policies than Curley, which argued against driving out the rich.

The mayors of Chicago in the last 30 years have also eschewed Curleyist policies. The mayor who would have been most tempted to pursue them was Harold Washington, the first African American mayor of Chicago, elected along racial lines. Chicago's territory is twice as large as Detroit's, although commuting now is not nearly as costly as it was 50 years ago. Perhaps more relevant for the case of Harold Washington is the fact that he was 60 years old when he was elected, and did not have a personal (or for that matter institutional) reason to make major long-term investments in shaping the electorate. In this instance, as in the model, a politician's short horizon was socially beneficial.

These observations about the Tammany mayors of New York and Harold Washington are merely conjectural. However, they do tentatively corroborate our view that, contrary to the standard Tiebout model, long horizons of politicians and high response elasticities to tax policies can encourage, rather than deter, bad policies.

#### 4.4. Robert Mugabe

Postindependence African leaders who saw whites as their political opponents often took concrete steps to encourage white emigration. Zimbabwe's Robert Mugabe clearly understood the workings of the Curley effect, and like Curley spoke openly about his desire for white emigration. In 1985 Mugabe said:

Those whites who have not accepted the reality of a political order in which the Africans set the pace will have to leave the country. We are working with those whites who want to work with us. But the rest will have to find a new home (Meredith, 2002:56).

Mugabe recognized whites as his opponents and took steps calculated to get them to migrate out. Because whites had human and physical capital vital to the functioning of the economy, their exodus—encouraged by Mugabe—impoverished Zimbabwe.

Immediately after his first election, Mugabe actually reached out to whites. He claimed that he wanted to draw a “line in the past” and get over the 20 years of revolution that had wrecked Ian Smith’s Rhodesia. According to Meredith (2002), many white farmers favored Mugabe’s election because they thought it would bring peace. For a while Mugabe did treat the small group of elite white farmers well, recognizing their economic importance and making sure that they did not fear expropriation. The whites were responsible for the bulk of Zimbabwe’s exports. Good treatment of the minority whites was also vital for foreign aid.

But in 1981, when a bomb exploded in his party’s headquarters, Mugabe thought (probably correctly) that dissident whites were responsible. He responded by announcing that “my government is bound to revise its policy of national reconciliation and take definite steps to mete out harsh punishment to this clan of unrepentant and criminal savages” (Meredith, 2002:52), and then harassing and imprisoning white leaders. After whites opposed Mugabe in the 1985 elections, he undertook a more widespread policy of attacking white farmers. Apparently he did not mind the economic costs and urged his opponents to “take their money and fly away” (Meredith, 2002:129).

Yet the most egregious Curleyist policies followed Mugabe’s loss in a referendum in 2000. His control over the country was being challenged by the Movement for Democratic Change (MDC), launched in 1999. The MDC had black leadership and represented trade unions, student groups, and human rights organizations. It was by no means a white organization, although the whites supported it. In 2000, to counter the MDC’s calls for constitutional change, Mugabe presented his own new draft constitution. It supported the status quo except for inserting a clause that obligated Britain to pay for any land that Mugabe decided to expropriate. Mugabe presented this draft constitution for a referendum and for the first time, he was soundly defeated.

In response to this political threat, Mugabe stepped up his actions against whites. He initiated a series of “invasions,” in which 1500 white farms were seized by marauders whom Mugabe claimed to be independent. “It soon became evident not only that the invaders were being paid but that prominent Zanu-PF [Mugabe’s party] officials, army officers, CIO agents, and even police officers were actively involved in directing events” (Meredith, 2002:169). According to Didymus Mutasa, a Mugabe loyalist, “The whites have themselves to blame because they shot themselves in the foot by mobilizing people to throw away the draft constitution” (Meredith, 2002:169). Mugabe ultimately acknowledged the political roots of the invasions, and said that the whites “mobilizing, actually coercing, their labour force on the farms to support the one position opposed to government, has exposed them as not our friends, but enemies.”

Farm invasions were not garden-variety redistribution. They did not create much wealth, if any, for Mugabe’s supporters. They were only a means of attacking Mugabe’s political enemies. As the Catholic Bishop of Bulawayo said, “the government and Zanu-PF had twenty years to solve the land question and they still had no plan and no commission to tackle the land issue.” The goal of the invasions was not to redistribute, but rather to “revenge against the ‘No’ vote during the constitutional referendum in February and to make sure that

Zanu-PF remains in power indefinitely” (Meredith, 2002:185). All that mattered was pain for the whites, no matter what the waste.

But was Mugabe actually encouraging emigration? For the Curley effect to operate, the incumbent’s harmful actions must shape the electorate. It is a fact that thousands of whites fled Zimbabwe after the invasions, as Mugabe announced: “Britain says it will take 20,000 people. They are free to go. We can even assist them by showing them the exit” (Meredith, 2002:180). Mugabe’s policies encouraged the emigration not only of whites, but also of skilled blacks who opposed his regime.

Twenty years after Mugabe took over, Zimbabwe descended into a mire of poverty, corruption, and anarchy. Mugabe himself did not appear to care for wealth, but he did single-mindedly pursue power and office. To that aim, his policies induced the whites, and others with skills and capital, to flee. He pursued these policies knowing, and encouraging, the emigration that would follow. Meredith (2002) concludes his book on Mugabe by writing: “But there was a crude logic to Mugabe’s actions. His sole purpose had become to hold on to power. Whatever the cost, his regime was dedicated towards that end. Violence had paid off in the past; he expected it to secure the future.”<sup>4</sup>

## 5. Conclusion

In this article we have shown how differential taxes on groups of voters, such as ethnicities, races, or classes, can shape the electorate. We argued that some political leaders use such taxes to increase the likelihood of reelection by encouraging the emigration of voters opposing them. Moreover, these taxes can be attractive to a political leader, even if the consequence is the impoverishment of both the overall community and their own supporters. We call such policies the Curley effect, and claim that they describe the tactics of numerous politicians, including American mayors James Curley and Coleman Young, and Zimbabwe’s President Robert Mugabe.

Our theoretical models, as well as empirical examples, all share a central conceptual theme. Specifically, it is generally thought in economics, following the fundamental research of Tiebout (1956) and Brennan and Buchanan (1980), that elastic response by the voters to tax and other policies disciplines the government. Good policies bring in resources and voters; bad ones keep them out. With the Curley effect, this result is reversed. When politicians seeking to stay in power use distortionary policies to force out their political opponents, the more elastic response renders bad policies more, rather than less, attractive. The Curley effect, and more generally the economics of shaping the electorate, might thus shed light on a broad range of government policies that appear too bad to be true from alternative perspectives.

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4. One can also see a (milder) Curley effect operating in Canada in the form of the policies pursued by *Partie Quebecois* in gallicizing Quebec, such as discouraging the use of English. These policies drove Anglophones from Quebec, raised the electoral prowess of *Partie Quebecois*, and impoverished the province relative to the rest of Canada.



## Appendix: Proofs of Propositions

*Proof of Proposition 1.* Define

$$h(v_0) = -\frac{\pi'(0)(1-p)}{(1+\pi(0))^2}(F(v_0) - F(-v_0)) \\ - \frac{\pi(0)v_1'(0)}{1+\pi(0)}((1-\tau)(1-p)f(v_0) + pf(0)).$$

When  $v_0$  equals zero,  $h(v_0) = -pv_1'(0)(1-\tau)f(0)/(1-p) < 0$ . As  $v_0$  goes to infinity,  $h(v_0)$  goes to

$$-(\pi'(0)(1-p))/(1+\pi(0))^2 - (\pi(0)v_1'(0)/(1+\pi(0)))(1-\tau)pf(0)$$

and if

$$(-\pi'(0)/(1+\pi(0))) > (1-\tau)v_1'(0)(f(0)\pi(0)/((1-p)/p)),$$

this limit is positive.

Differentiation gives us that

$$h'(v_0) = \frac{-2f(v_0)\pi'(0)}{\pi(0)(1+\pi(0))^2} - \frac{\pi(0)}{1+\pi(0)}v_1'(0)(1-\tau)(1-p)f'(v_0). \quad (\text{A1})$$

The first component of this expression is positive. As  $f'(x) < 0$  for all positive  $x$  (from single-peakedness), the expression is positive. Combining the facts that  $h(0) < 0$ ,  $h'(v_0) > 0$ , and  $h(v_0) > 0$  for a large enough value of  $v_0$  guarantees us that there exists a unique value of  $v_0$  at which  $h(v_0) = 0$ . We denote that value by  $v_0^*$ .

If we use the notation  $h(v_0^*, x) = 0$  for any other parameter  $x$ , then differentiation tells us that  $(\partial v_0^*)/(\partial x) = -(\partial h(v_0^*, x))/(\partial x)/(\partial h(v_0^*, x))/(\partial v_0^*)$ . Since  $h'(v_0) > 0$ , the sign of  $(\partial v_0^*)/(\partial x)$  must be the opposite of  $(\partial h(v_0^*, x))/\partial x$ . If  $v_1(x) = \tilde{v}_1(x) + vx$ , then  $(\partial h(v_0^*, v))/(\partial v)$  equals  $-(\pi(0)/(1+\pi(0)))(1-\tau)((1-p)f(v_0) + pf(0))$ , which is negative.

Differentiating with respect to  $\tau$  yields

$$\frac{\partial h}{\partial \tau} = -\frac{\partial \pi'(0)(1-p)(F(v_0) - F(-v_0))}{\partial \tau (1+\pi(0))^2} \\ + \frac{\pi(0)}{1+\pi(0)}v_1'(0)((1-p)f(v_0) + pf(0)),$$

which is positive as long as  $\partial \pi'(0)/\partial \tau \leq 0$ .

If  $\pi(q) = \tilde{\pi}(q) - \pi_0 q$ , then  $(\partial h(v_0^*, x))/(\partial \pi_0)$  equals

$$((1-p)/(1+\pi(0))^2)(F(v_0) - F(-v_0)),$$

which is positive. Moreover, any other variable that increases  $\pi'(0)$  has a negative effect on  $h(v_0^*, x)$  and any other variable that decreases  $\pi'(0)$  increases

$h(v_0^*, x)$ . Finally,  $(\partial h(v_0^*, x))/\partial p$  equals  $((\pi'(0))/(1 + \pi(0))^2)(F(v_0) - F(-v_0)) - (\pi(0)v_1'(0)/(1 + \pi(0)))(1 - \tau)(f(0) - f(v_0))$ , which is negative.

*Proof of Proposition 2.* Differentiation tells us that  $(\partial \pi'(0))/\partial \tau$  equals  $(\pi^2 U'_E(N_E))/(U'_I(N_I)(W'_E(\pi) - N_I U'_E(N_E)) - \pi U'_E(N_E) W'_I(\pi))$ , which is clearly negative and satisfies the condition in Proposition 1(b). It is clear that  $\omega_I$ ,  $\omega_E$ ,  $\mu_E$  and  $\mu_I$  do not change the equilibrium level of  $\tilde{\pi}$ . Differentiation then yields

$$\frac{\partial \pi'(0)}{\partial \omega_I} = \frac{(\tau \pi^2 U'_E(N_E) + U'_I(N_I)) \pi U'_E(N_E)}{(U'_I(N_I)(W'_E(\pi) - N_I U'_E(N_E)) - \pi U'_E(N_E) W'_I(\pi))^2} > 0, \text{ and}$$

$$\frac{\partial \pi'(0)}{\partial \omega_E} = \frac{(\tau \pi^2 U'_E(N_E) + U'_I(N_I)) U'_I(N_I)}{(U'_I(N_I)(W'_E(\pi) - N_I U'_E(N_E)) - \pi U'_E(N_E) W'_I(\pi))^2} > 0.$$

Then  $(\partial \pi'(0))/(\partial \mu_E) = ((\pi W'_I(\pi) + N_I U'_I(N_I) + \tau \pi^2 W'_E(\pi)) U'_I(N_I))/(U'_I(N_I)(W'_E(\pi) - N_I U'_E(N_E)) - \pi U'_E(N_E) W'_I(\pi))^2$ , which is positive if and only if  $\pi W'_I(\pi) + N_I U'_I(N_I) > -\tau \pi^2 W'_E(\pi)$ . Finally,

$$\frac{\partial \pi'(0)}{\partial \mu_I} = \frac{(-\tau \pi W'_E(\pi) + \tau \pi N_I U'_E(N_E) - W'_I(\pi)) \pi U'_E(N_E)}{(U'_I(N_I)(W'_E(\pi) - N_I U'_E(N_E)) - \pi U'_E(N_E) (W'_I(\pi) + \tau q))^2},$$

which is positive if and only if  $\tau \pi (N_I U'_E(N_E) - W'_E(\pi)) > W'_I(\pi)$ .

*Proof of Proposition 3.* Redistribution increases the number of Irish if and only if  $h(\tau) = N_E U'_E(N_E) - \pi W'_E(\pi) - W'_I(\pi)/\tau > 0$ . If the number of Irish increases, then  $U_I(N_I)$  increases, which implies that  $W_I(\pi) + \tau \pi q$  must increase as well. If the number of Irish decreases, then  $W_I(\pi) + \tau \pi q$  must fall. At  $q = 0$ , the values of  $\pi$  and  $N_E$  are independent of  $\tau$ . When  $\tau$  equals  $W'_I(\pi)/(N_E U'_E(N_E) - \pi W'_E(\pi))$  (a positive number), then  $h(\tau) = 0$ , and the rest of the proposition follows from  $h'(\tau) = W'_I(\pi)/\tau^2 > 0$ .

The value of  $\tau^*$  satisfies  $\tau^* = W'_I(\pi)/(N_E U'_E(N_E) - \pi W'_E(\pi))$ . Thus if  $W_I(\pi) = \tilde{W}_I(\pi) + \omega_I(\pi - \hat{\pi})$ , then

$$\tau^* = (\tilde{W}'_I(\pi) + \omega_I)/(N_E U'_E(N_E) - \pi W'_E(\pi)).$$

At  $q = 0$ , the values of  $\pi$  and  $N_E$  are unaffected by  $\omega_I$ , so  $\partial \tau^*/\partial \omega_I = 1/(N_E U'_E(N_E) - \pi W'_E(\pi)) > 0$ . If  $W_E(\pi) = \tilde{W}_E(\pi) - \omega_E(\pi - \hat{\pi})$ , then at  $q = 0$ , the values of  $\pi$  and  $N_E$  are unaffected by  $\omega_E$ , so  $(\partial \tau^*)/(\partial \omega_E) = -(W'_I(\pi)\pi)/(N_E U'_E(N_E) - \pi W'_E(\pi))^2 < 0$ . Finally, if  $U_E(N_E) = \tilde{U}_E(N_E) + \mu_E(N_E - \hat{N}_E)$ , then the values of  $\pi$  and  $N_E$  are unaffected by  $\mu_E$ , so  $(\partial \tau^*)/(\partial \omega_E) = -(W'_I(\pi)N_E)/(N_E U'_E(N_E) - \pi W'_E(\pi))^2 < 0$ .

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