

Fighting Poverty in the US and Europe: A World of Difference

By Alberto Alesina and Edward Glaeser

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This is an interesting and important book, although its argument could have been presented in half, or even one-third, the number of pages. There is a lot of repetition, probably reflecting the fact that the book originates in a number of discrete papers and has not been carefully edited.

The question Alesina and Glaeser address is why Europeans spend so much more on the welfare state than Americans do. Their answer lies partly in America's political institutions, which have successfully defended the rights of private property owners for more than 200 years while European institutions have been turned upside down by wars and revolutions, and partly in America's ethnic diversity.

The book begins by outlining the sharp differences between US and western European social policies. EU governments on average soak up 45% of their countries' GDP, compared with 30% in the USA, and this mainly reflects the differences between them on welfare state spending. Whether it be family payments, government health programmes, age pensions, sickness and accident compensation or poor relief, the US government is consistently less generous than those in Europe (although individual Americans are a lot more generous in making charitable donations). Furthermore, American income tax is less 'progressive', the labour market is less regulated, and post-tax incomes are more unequal.

Despite the fact that they are both economists, the authors rule out economic explanations for these differences. It is not the case, for example, that Europe has more people in need of government assistance; nor do Americans enjoy noticeably greater opportunities for upward mobility which would allow them to improve their incomes through their own efforts. Alesina and Glaeser conclude that the explanation must lie elsewhere – in politics and in sociology, rather than in economics.

Like many others before them, they link the stunted development of a welfare state in America to that country's failure to develop an effective socialist movement. The weakness of US socialism is in turn explained by geographical factors (the huge size of the country made it difficult to build a national movement) and by racial and ethnic fragmentation (class solidarity was constantly cross-cut by ethnic divisions). All of this is probably true, but much of it has been said before. Where the book is more original is in its claim that US political institutions have also played a key role in blocking redistributive social policies, and that these institutions have survived because socialism never became strong enough to overturn them.

Rehashing the Tiebout thesis, the authors argue that federalism (decentralised powers) helped put a cap on tax increases because adjacent jurisdictions have had to compete to attract and keep high-earning businesses and residents. They think the powerful US Supreme Court has played a crucial role by striking down various attempts at redistributive and regulatory interventions. And they suggest that, while European-style voting systems based on proportional representation (PR) promoted higher welfare spending, the US majoritarian system encouraged politicians to target spending at their own local constituencies rather than support more extensive welfare programmes.

Despite extensive use of least squares regression to 'demonstrate' the association between PR and a big welfare state, I found this last part of their argument unconvincing, for it is not obvious that PR will produce compromises with radical parties that want to drive up welfare spending rather than to coalitions with moderate centre parties which would put a brake on

radical change. Be that as it may, Alesina and Glaeser claim that distinctive political institutions explain about half the variance in welfare spending between the US and Europe.

The other half is explained by ethnic heterogeneity. Their basic hypothesis here is that high welfare spending will only develop in homogenous populations, for taxpayers resent their money being transferred to people very different from themselves. This hypothesis is tested against international data, and against variations in spending between the different American states, and in both cases it holds up very strongly. But having established the correlation, the authors have to explain it. Why are voters in ethnically heterogeneous populations so loathe to support the development of an inclusive welfare state?

The authors reject the sociobiologists' idea that there is something 'natural' about people's tendency to 'favour their own', arguing instead that racial and ethnic identities have been played up by US politicians to divide and rule the working population. Put simply, America never got a welfare state because racist leaders discouraged poor whites from identifying with poor blacks.

Perhaps this explanation is right, but the argument gets confused. We learn, for example, that Goldwater, Nixon and even George Wallace (in his earlier days) won the support of southern whites without appealing to race, but if this is the case it would seem to undermine the authors' claim that a racist agenda was cynically fomented by right-wing political leaders to build support for their anti-welfare policies. Alesina and Glaeser say Americans have been 'indoctrinated' by politicians to believe that poor blacks are lazy and that there is plentiful opportunity for them to improve themselves if they were willing to make the effort, but this explanation rests on a very crude version of the 'dominant ideology' thesis which few serious sociologists would endorse. Ideology is much more subtle than brute indoctrination.

What this book lacks is a sophisticated analysis of the historical development of national cultures. It provides some important clues to understanding the social policy differences between Europe and the US, and it musters some valuable empirical evidence along the way, but it never gets to grips with the fundamental cultural division between continental Europe and the 'Anglo' world (including Australia, as well as the US and the UK) which arguably underpins the divergence in their welfare states.

Because it is so concerned to contrast the US against everybody else, the book is blind to some deeper similarities between America and the other 'Anglo' countries. In a number of graphs it is obvious, for example, that the UK, Canada and Australia share more in common with America than they do with western Europe, but the authors never see this, and they constantly struggle to explain why the UK persistently crops up as an outlier from the rest of the EU.

Towards the end of the book there is a feeble attempt to take account of the possible impact of Protestantism as a cultural factor shaping the emergence of social policy differences between countries, but the core explanation arguably goes much deeper even than religion. As I have suggested elsewhere, the Anglo cultures share a centuries-old tradition of individualism which has radically demarcated them from continental Europe and which almost certainly helps explain why they have proved so resistant to the strongly corporatist welfare models that emerged in countries like Germany, France and Italy.

At the end of the book, the authors speculate that increased immigration may be weakening the traditionally strong European welfare states, and I have no doubt they are right. But their explanation for this – that right-wing parties are playing the race card to wean voters off high welfare spending – strikes me as superficial. The key explanation, surely, is that big welfare states depend upon strong collective sentiment – a popular sense of unity and shared identity. Such collective sentiment was never strong in the Anglo countries due to their individualistic

cultural inheritance, which is why they ended up with relatively weaker welfare state models. Historically, collectivist sentiment was much stronger in continental Europe, but it is now being weakened there too as a result of the influx of culturally-dissimilar immigrants. It is not racism that is undermining support for the welfare state in continental Europe, but is rather the erosion of a strong sense of national uniformity.

Reviewed by Peter Saunders