

Continental drift
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Andrew Leigh dissects poverty, race and voting systems.

Many an Australian tourist, sporting a round-the-world ticket, will have had the opportunity to compare poverty in the United States and Europe first hand. Spend a few hours on the streets of any major American city, and the nation's stingy social welfare spending quickly becomes apparent. A childless American worker who loses their job will typically receive six months of unemployment insurance. After that, many will be entitled to nothing more than food stamps. In Europe, poverty rates are visibly lower, with high minimum wages, universal health care, redistributive pension plans and strongly progressive taxes the norm.

Although the gap is often remarked upon, few have attempted to explain why the American and European welfare systems are so different from one another. In a new book, *Fighting Poverty in the US and Europe: A World of Difference* (Oxford University Press), two economists from Harvard University, Alberto Alesina (an Italian) and Edward Glaeser (a New Yorker), take up the challenge. Their goal is not to judge whether the US system is better than the European one, but to explain why there is such a disparity between the two. And their answers can help us to understand not only the trans-Atlantic gap, but also our own Australian welfare system, and the future of generous welfare states in the rich world.

At the outset, Alesina and Glaeser dismiss a variety of "economic" explanations such as the theory that America doesn't need a generous welfare state because the poor of today will be the rich of tomorrow. Carefully analysing the evidence, the duo find no support for the notion that income mobility in America is substantially higher than in Europe. Instead, they conclude that two factors are behind the differences in social welfare spending between the US and Europe: voting systems and racial diversity.

Voting systems affect redistribution by changing the incentives of politicians. In majoritarian systems, where each politician represents a single electorate (as in the US and Australian House of Representatives), politicians' main incentive is to look after the interests of their local areas. This kind of geographic pork-barrelling is rarely aimed at helping the rich or poor, but at boosting the interests of one region's residents over the rest of the country.

By contrast, under systems of proportional representation (as in many European countries and New Zealand), several politicians represent the same district. This leads to a different incentive rather than aligning themselves with a region, politicians tend to develop class-based affiliations, increasing the pressures for universal programs, which often redistribute resources from rich to poor. Alesina and Glaeser show that across countries, proportional representation leads to more social spending, and more income redistribution. Many European countries adopted proportional representation amid the

instability following World War I, a period when the US did not experience the same unrest.

The remaining difference in welfare spending, Alesina and Glaeser conclude, can be explained by the fact that the US is more racially diverse. A variety of studies on prejudice have shown that people tend to be hostile to those who are different from them along some salient dimension. Often, the most important dimension is race or ethnicity. In the US, a quarter of the population is African-American or Hispanic. In Sweden, 95 per cent of the population are of the same race, ethnicity and religion. The potential to exploit racial antipathy will therefore be considerably greater in the US than Europe.

That racial diversity is an obstacle to forging a common coalition around distribution from rich to poor has often been noted. Writing in the 19th century, Karl Marx and Friedrich Engels anticipated that America's ethnic divisions would impede the growth of a US socialist movement. During the first half of the 20th century, while Europeans harnessed the power of the state to build a nascent welfare system, racial politics in the American south was blocking redistribution. And when Democratic president Lyndon Johnson finally implemented civil rights reforms in the 1960s, the result was to hand political control of the south to the Republican Party.

Race and redistribution are powerfully linked. Alesina and Glaeser show that US states that are more ethnically diverse tend to have more negative attitudes towards welfare, and lower levels of social welfare spending. The same pattern holds internationally countries with more racial and ethnic heterogeneity also tend to spend less on welfare programs. The simplest interpretation of this finding is that people are less generous to those who are different from them, but Alesina and Glaeser also highlight another factor: politicians who use racial hatred to discredit redistributive policies. Barry Goldwater, Pat Buchanan, Jorg Haider, Jean-Marie LePen and Pauline Hanson have all used hatred against racial minorities as a way of building an anti-redistribution constituency.

Attitudes towards redistribution, Alesina and Glaeser argue, are not first-order explanations, but products of political indoctrination: "American beliefs about the poor should be seen as the result, not the cause, of successful American anti-redistribution politicians. European beliefs are the direct result of the dominance of European socialism." The notion of America as the land of opportunity, and the prevalent class-consciousness in many European nations have little to do with underlying realities after all, income mobility is similar in the US and Europe. Attitudes about welfare are not inherent, but largely driven by structural factors: proportional representation voting systems in most European countries, and ethnic diversity in the US.

Can Alesina and Glaeser's theory explain Australia's attitudes and policies towards welfare and progressive taxation? To check this, I went back to the same surveys that Alesina and Glaeser use for the US and Europe, and calculated the results for Australia. On a range of indicators, Australians' attitudes towards poverty seem to be closer to the US than Europe. Asked whether the poor are trapped in poverty and hence presumably deserving of welfare only 39 per cent of Australians agree, much closer to the US (29 per

cent) than Europe (60 per cent). Another question that would tend to favour redistribution is whether luck determines income. Just 40 per cent of Australians agree, slightly above the US (30 per cent), but well below Europe (54 per cent). Asked whether the poor are lazy, nearly half (49 per cent) of Australians agree, again much closer to the US (60 per cent) than Europe (26 per cent).

Consistent with these views, Australia's welfare system is closer to the US. Our social welfare spending comprises 18 per cent of national income, considerably closer to that of the US (15 per cent) than Europe (25 per cent). In policy terms, Australia is sometimes said to be in the mid-Atlantic. But we are nearer the Statue of Liberty than the canals of Amsterdam.

Australia's politics are more similar to the US system than to most of Europe, with our House of Representatives elected by majoritarian voting, and our Senate elected by proportional representation (Australia adopted a "multiple majority-preferential" system for the Senate after World War I, and the "quota-preferential proportional representation" system immediately after World War II). Yet there is one important respect in which the Australian constitution is more pro-redistribution than most other countries. Compulsory voting ensures that the poor are not underrepresented in the voting booths, as occurs in nations with voluntary voting.

So our mostly majoritarian voting system seems to help understand why Australia is anti-redistribution. What about racial and ethnic diversity? A useful measure of diversity is the fractionalisation index, which varies from 0 (a society that is perfectly homogenous) to 1 (a society with an infinite number of tiny groups). On a measure of ethnic fractionalisation, Australia (0.09) is lower than both Europe (0.19) and the US (0.49). But in terms of linguistic diversity, Australia (0.33) is higher than both Europe (0.23) and the US (0.25). According to the model put forward by Alesina and Glaeser, our high level of linguistic diversity helps explain Australia's relatively small social welfare sector.

Another way of looking at the question is to compare more ethnically diverse Australian suburbs with less diverse suburbs, holding constant other factors such as income. Here, the general pattern is the opposite to that found in the US. Across Australia, people in more ethnically or linguistically diverse suburbs are more likely to agree that "income and wealth should be redistributed". The exception is Queensland, where the US pattern holds those in more diverse suburbs tend to oppose redistribution. This probably reflects the fact that in recent years, racially driven politics has been stronger in Queensland than in any other state (in 1998, One Nation held one-eighth of the seats in the Queensland Parliament). It is possible that the same pattern also holds in the Northern Territory, but the sample was too small to test.

Finally, what does Alesina and Glaeser's paper predict about the future? It is unlikely that the US, Europe or Australia will witness major changes to their voting systems, meaning that proportional representation in Europe will keep most European welfare systems more generous than that of the US and Australia. But something else that is likely to change is racial and ethnic diversity. Strong pressures for immigration from developing countries

make it likely that rich nations will become more ethnically diverse. At the end of World War II, 10 per cent of Australian residents were born overseas (2 per cent in a non-English speaking country). In the most recent census, 23 per cent of Australians were born overseas (15 per cent in a non-English speaking country).

Diversity enriches Australia in many ways. From a pure economic standpoint, it supplements our labour market with much-needed skills. And thanks to our immigration points system, several studies have found no evidence that immigration increases the unemployment rate in Australia. In a deeper sense, immigration is valuable because it weaves new threads into our cultural tapestry. Native-born children have much to learn from their migrant peers, just as adults can gain a deeper understanding of the world from yarning over the back fence with their foreign-born neighbours. And our restaurants would be bland imitations of themselves without the flavours brought by successive waves of Italian, Thai and Vietnamese immigrants.

But we should not gild the lily. Immigration is also likely to create the opportunity for anti-welfare politicians to build a constituency against redistribution. The rise of the One Nation Party was not a unique Australian phenomenon, but the same sort of anti-minority, anti-welfare demagoguery that has worked well in the US, and is now increasingly emerging in Europe. As Alesina and Glaeser's provocative book shows, there is a tension between high immigration and the maintenance of a redistributive welfare system. Those who support both may well find that unless the case for redistribution is made frequently and forcefully, rising diversity may start to undermine the welfare state.

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