

Diversity, Trust and Redistribution

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Since the time of European settlement, Australia has been shaped by immigration. Successive waves of newcomers from Europe, the Americas, Asia, the Pacific, and the Middle East have enriched Australia in many ways. From a pure economic standpoint, immigration supplements our labour market with much-needed skills. And thanks to our immigration points system, studies have found little 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.

Yet the impact of immigration goes beyond the economic and the culinary effects. Two other areas that are less commonly discussed are the relationship between ethno-linguistic diversity and interpersonal trust, and between diversity and support for a generous welfare state. The results of a succession of studies suggest that we may have to work harder if we are to make Australia both diverse and high-trust, and to combine high levels of immigration with a generous welfare state. The first part of this paper focuses on the evidence on trust and diversity, while the second part reviews data on trust and support for a redistributive welfare state. The final section concludes with some tentative suggestions as to how these issues may play out over future decades.

Trust

In regions where people trust one another, institutions, markets and societies seem to work better. Trusting societies have more effective bureaucracies, schools that function more efficiently, less corruption, and faster growth. Trust acts as a kind of “social glue” that enables business and communities to operate more effectively. For these reasons, social capital, once solely the domain of sociologists, has increasingly attracted attention from economists.

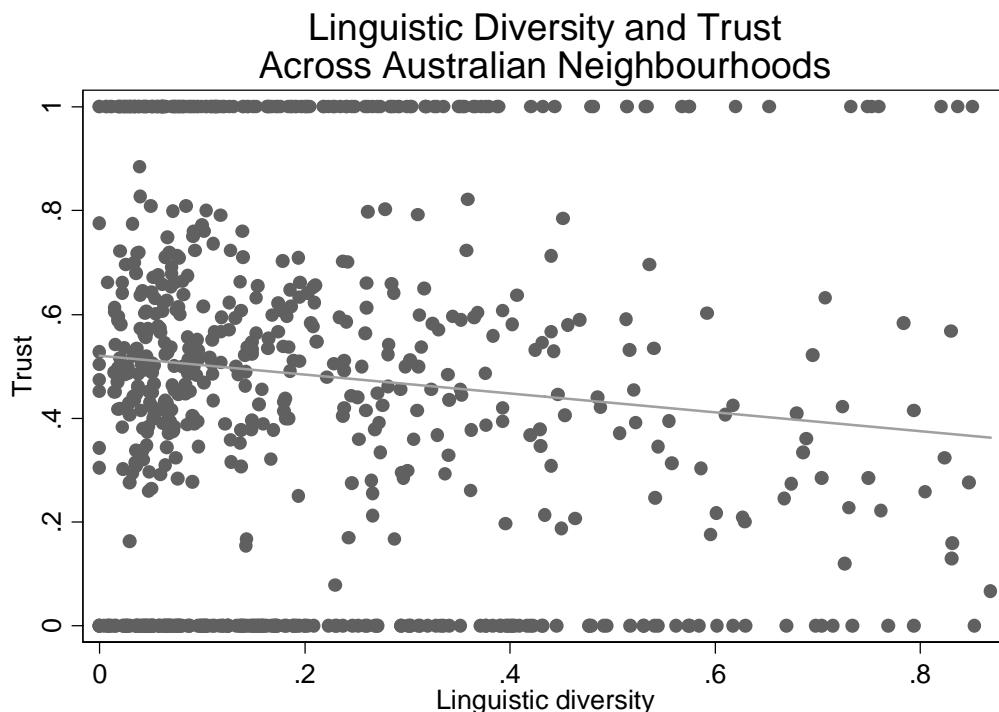
An important question in this research is why people in some areas are more trusting (or trustworthy) than others. To better understand patterns of trust across Australia, I used data from the Australian Community Survey (carried out by Edith Cowan University and NCLS Research), which asked over 6000 respondents whether they agreed with the statement that “Generally speaking, you can’t be too careful in dealing with most Australians”.¹ Responses to the question were used to class people as trusting or distrusting.

Using multiple regression analysis, it is possible to test the effect various demographic factors, holding other factors constant. At an individual level, gender makes little difference, but better educated people, and those who work full-time, are more likely to be trusting. By contrast, longer commuting times are associated with lower levels of trust, which may be due to the fact that commuting time crowds out social activities.

It is also possible to observe the effect of neighbourhoods, and to see how trust changes when we observe similar individuals who live in different communities. At a neighbourhood level,

trust is higher in rural Australia than in cities, and higher in richer neighbourhoods than in poor ones.

Neighbourhood-level analysis also throws up a startling finding – albeit one that is consistent with the studies cited above: trust is lower in ethnically diverse neighbourhoods. Residents of multi-racial neighbourhoods are more likely to agree that “you can’t be too careful in dealing with most Australians”. In particular, neighbourhoods where many languages are spoken tend to have lower levels of trust, suggesting that the main issue may whether people can communicate effectively with those living nearby.



The negative correlation between trust and ethnic diversity in Australia is similar in size to results found in the United States by economists Alberto Alesina and Eliana La Ferrara.² It also accords with studies looking at diversity in other contexts requiring cooperation. In fruit-picking teams on a British farm, more ethnically heterogeneous teams picked less fruit.³ Across United States counties, higher ethnic fractionalization is associated with a lower rate of completing and returning the 2000 Census questionnaire, an action which secures significant federal grants for the community.⁴ Racially heterogeneous school districts and counties in the United States are more willing to forego the economies of scale that come from consolidation.⁵ And analysing companies that served in the United States civil war, more ethnic diverse companies appear to have had higher desertion rates.⁶

Even in developing countries, the same patterns show up. Across Indian regions, more caste or religious fractionalization is associated with lower levels of public goods provision.⁷ Across communities in Northern Pakistan, infrastructure projects are better maintained where there is less heterogeneity in terms of clan, religious and political divisions.⁸ Across Kenyan school districts, ethno-linguistic fractionalization is associated with worse school facilities and less voluntary fundraising.⁹ And across countries, there is a negative correlation between ethnic fractionalization and growth, which researchers William Easterly and Ross Levine

attribute to ethnic diversity making it more difficult for communities to agree on the provision of public goods and pro-growth policies.¹⁰

Redistribution

Another context in which diversity may have unexpected effects is in the political support for redistribution.¹¹ In a recent book, Alberto Alesina and Ed Glaeser explore why the American and European welfare systems are so different from one another.¹² They conclude that two factors explain why America spends 15 percent of national income on social programs, compared with 25 percent in Europe. The first is voting systems. The second is racial diversity.

The impact of voting systems operates as follows. In majoritarian systems, where each politician represents a single electorate (as in the United States 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.

For present purposes, what is more interesting is the relationship that Alesina and Glaeser observe between welfare spending and racial diversity. After careful scrutiny of the evidence, they conclude that about half the difference in welfare spending between the United States and Europe can be explained by the fact that the United States is more racially diverse. In part, this is due to simple prejudice. 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 United States, a quarter of the population is African-American or Hispanic. In Sweden, 95 percent of the population are of the same race, ethnicity and religion. The potential to exploit racial antipathy is therefore considerably greater in the United States 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 nineteenth century, Karl Marx and Friedrich Engels anticipated that America's ethnic divisions would impede the growth of a United States socialist movement.¹³ During the first half of the twentieth 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. Across the United States, 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 there is also another factor: politicians who use racial hatred to discredit

redistributive policies. Pat Buchanan, Joerg Haider, Jean-Marie LePen and Pauline Hanson have all used hatred against racial minorities as a way of building an anti-redistribution constituency.

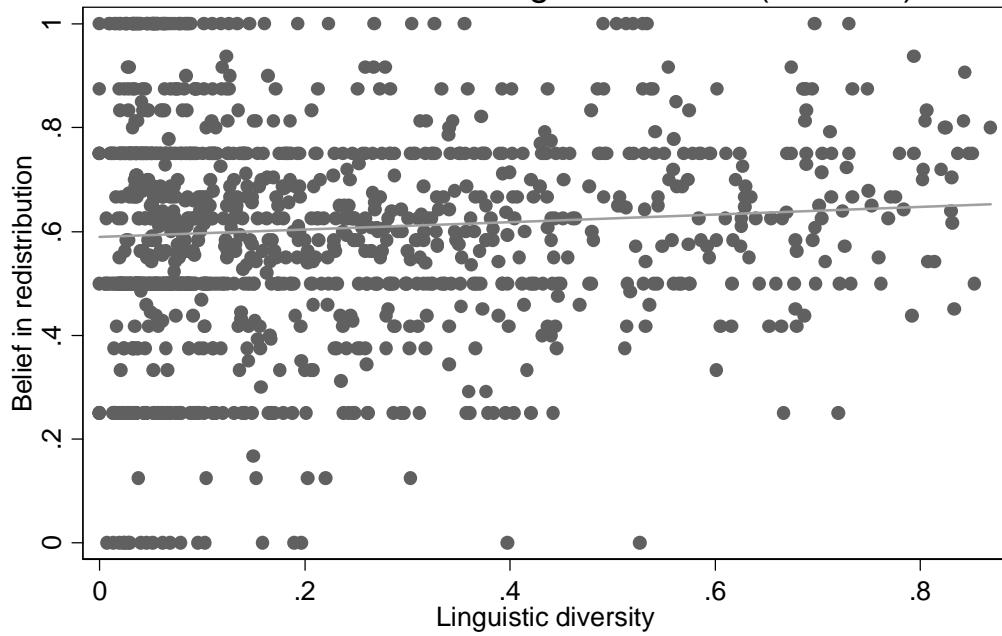
Can such a theory explain Australia's attitudes and policies towards welfare and progressive taxation? To check this, I went back to the same surveys, and calculated the results for Australia. On a range of indicators, Australians' attitudes towards poverty seem to be closer to the United States than Europe. Asked whether the poor are trapped in poverty – and hence presumably deserving of welfare – only 39 percent of Australians agree, much closer to the United States (29 percent) than Europe (60 percent). Another question that would tend to favour redistribution is whether luck determines income. Just 40 percent of Australians agree, slightly above the United States (30 percent), but well below Europe (54 percent). Asked whether the poor are lazy, nearly half (49 percent) of Australians agree, again much closer to the United States (60 percent) than Europe (26 percent).

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

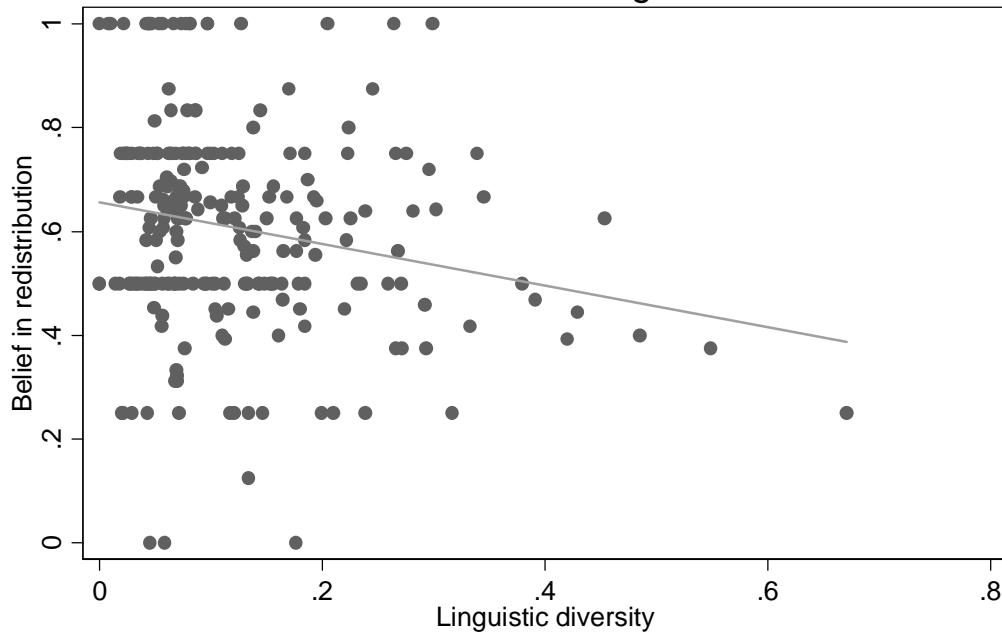
Compared to the United States and Europe, how racially and ethnically diverse is Australia? A useful measure is the fractionalization index, which varies from 0 (a society that is perfectly homogenous) to 1 (a society with an infinite number of tiny groups). On a measure of ethnic fractionalization, Australia (0.09) is lower than both Europe (0.19) and the United States (0.49). But in terms of linguistic diversity, Australia (0.33) is higher than both Europe (0.23) and the United States (0.25). Our high level of linguistic diversity helps explain Australia's relatively small social welfare sector.

What about patterns across Australia? To test this, I pooled the views of about 4000 Australians, surveyed in Australian Election Studies between 1993 and 2001, I then tested whether people in ethnically diverse Australian suburbs are more or less likely to agree with the statement that "income and wealth should be redistributed". Holding constant other factors such as income, I find little relationship between diversity and beliefs about redistribution. The exception is Queensland, where the United States 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 conceivable that the same pattern also holds in the Northern Territory, but the sample was too small to test this.

Linguistic Diversity and Belief in Redistribution Across Australian Neighbourhoods (excl Qld)



Linguistic Diversity and Belief in Redistribution Across Queensland Neighbourhoods



Diverse Futures

Over the coming decades, it is a safe bet that most developed countries will become more ethnically and linguistically diverse. Several factors will drive pressure for high levels of immigration: among them the growing political constituency for family reunion, the falling cost of airfares, and large wage gaps between developed and developing nations. For

Australia, this represents more of the same. At the end of World War II, 10 percent of Australian residents were born overseas (2 percent in a non-English speaking country). In the most recent census, 23 percent of Australians were born overseas (15 percent in a non-English speaking country). More than most countries, immigration will continue to shape Australia into the twenty-first century.

A spate of studies suggest that continued high levels will most likely bring a raft of economic and social benefits to Australia. But we should not gild the lily. Most likely, higher diversity will lead to lower levels of interpersonal trust. 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 United States, and is now increasingly emerging in Europe.

One ‘solution’ would be to reduce diversity by drastically cutting our immigration intake. Although this might raise levels of trust, it would probably be detrimental to Australian society on balance. Lower immigration would impose an economic cost, as much-needed skills could not be imported. And there would be social costs too – families denied any chance of sponsoring their close relatives are less likely to participate wholeheartedly in Australian society.

The challenge for policymakers is how to maintain the current high levels of immigration while mitigating the impact on our social and political fabric. When it comes to interpersonal trust, one useful strategy would be to focus more attention on the problem itself: building local trust in immigrant communities. With regard to political support for a redistributive welfare system, the challenge is upon those who are concerned about inequality to frequently and forcefully make the case for redistribution.

A final hope is that over time race and ethnicity become less salient divisions in Australian society. Robert Putnam, who is conducting research on diversity and social capital in the United States, argues that diversity reduces trust since people “act like turtles”, hunkering down to avoid those who are somehow different.¹⁴ Yet he also sees hope in the declining importance of the Catholic-Protestant divide in America over the past half-century:

“Growing up in a small Ohio town in the 1950s, I knew the religion of just about every kid in my 600-person high school ... When my children attended high school in the 1980s, they didn’t know the religion of practically anyone. It simply didn’t matter In my lifetime, Americans have deconstructed religion as a basis for making decisions. Why can’t we do the same thing with other types of diversity?”

On the issue of diversity and immigration, the challenges for Australia and the United States are surprisingly similar. The big question is: will those who support diversity, trust and redistribution recognise the tensions between their goals, or will they hunker down like turtles?

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Notes

¹ This section draws on A. Leigh, “Trust, Inequality, and Ethnic Heterogeneity” (2006) *Economic Record*, 82(258): 268-280.

² Alesina, A and La Ferrara, E. (2002), ‘Who trusts others?’, *Journal of Public Economics*, 85, 207-34.

³ Bandiera, O., Barankay, I. and Rasul, I. (2005), ‘Cooperation in collective action’, *Economics of Transition*, 13(3), 473–498.

⁴ Vigdor, J.L. (2004), ‘Community Composition and Collective Action: Analyzing Initial Mail Response to the 2000 Census’, *Review of Economics and Statistics*, 86(1), 303-312.

⁵ Alesina, A, Baqir, R, and Hoxby, C. (2004), ‘Political Jurisdictions in Heterogeneous Communities’, *Journal of Political Economy*, 112, 348–396.

⁶ Costa D.L.; Kahn M.E. (2003a), ‘Cowards and Heroes, Group Loyalty in the American Civil War’, *Quarterly Journal of Economics*, 118(2), 519-548.

⁷ Banerjee, A, Iyer, L and Somanathan, R. (2005), ‘History, Social Divisions, and Public Goods in Rural India’, *Journal of the European Economic Association*, 3(2-3), 639-647.

⁸ Khwaja, A. (2002), ‘Can good projects succeed in bad communities? Collective action in public good provision’, *mimeo*, Cambridge, MA, Harvard University.

⁹ Miguel, E. and Gugerty, M. (2005), ‘Ethnic diversity, social sanctions, and public goods in Kenya’, *Journal of Public Economics*, 89(11-12), 2325-2368.

¹⁰ Easterly, W and Levine, R. (1997), ‘Africa’s Growth Tragedy, Policies and Ethnic Divisions’, *Quarterly Journal of Economics*, 112(4), 1203-1250.

¹¹ This section draws upon Leigh, A. (2004), “Race, Redistribution and Welfare” *AQ: Journal of Contemporary Analysis* 76(6):35-38

¹² Alesina, A. and Glaeser, E. (2004), *Fighting Poverty in the US And Europe: A World of Difference*. Oxford: Oxford University Press

¹³ See Lipset, S. and Marks, G. (2000) *It Didn’t Happen Here: Why Socialism Failed in the United States*. New York: W.W. Norton and Co

¹⁴ Quoted in Goldsmith, W.M. (2006), ‘Prof. Disputes Paper’s Portrayal’, *Harvard Crimson*, 26 October