

America the Unusual

FIGHTING POVERTY IN THE U.S. AND EUROPE: A WORLD OF DIFFERENCE

BY ALBERTO ALESINA AND EDWARD L. GLAESER

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In 1906, the German economist Werner Sombart famously asked, “Why is there no socialism in the United States?” In the century since Sombart posed that provocative question, numerous social scientists have offered their own answers. Most notable is the sociologist Seymour Martin Lipset, who has spent much of his career trying to explain what he calls “American exceptionalism.” Yet no one has been able to provide a definitive answer.

Part of the problem is multicausality. People generally agree that there are several factors at work. But it’s not clear which factors are most important, or what combination of factors provide the most reasonable answer.

In *Fighting Poverty in the U.S. and Europe: A World of Difference*, Harvard University economists Alberto Alesina and Edward Glaeser bring the tools of modern economics to bear on a similar question: Why do European countries typically have significantly larger welfare states than does the United States?

They begin their discussion with a brief recap of some of the relevant facts. Government expenditures in the United States are equal to roughly 30 percent of gross domestic product (GDP), compared to about 45 percent for continental Europe as a whole and more than 50 percent in some individual European states, such as Sweden. Much of the difference in the figures can be attributed to Europe’s more generous social welfare programs, which on net tend to shift income from the wealthy to the poor.

Economic (Non) Factors

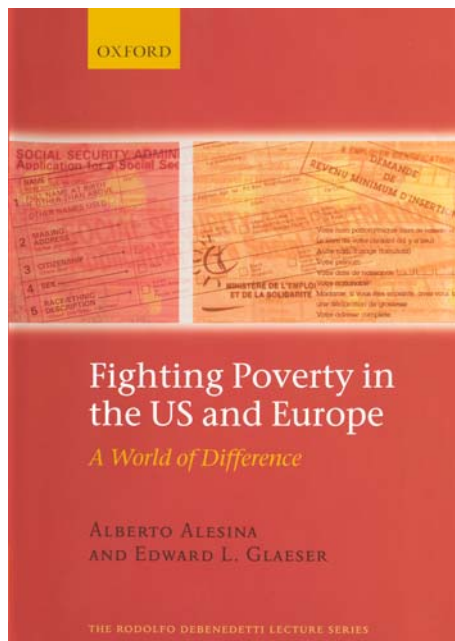
Like their predecessors, Alesina and Glaeser find that there are multiple reasons for such cross-Atlantic differences. But somewhat to their surprise, they conclude that those variables which economists might expect to lead to more redistribution of wealth do not have much explanatory power.

For instance, one might surmise that there would be more demand for redistribution in countries with high levels of pretax inequality in order to reduce the dispersion in wealth. But the United States, by any measure, has significantly greater pretax inequality than continental Europe. So if this argument were correct, we would see more redistribution in the United States, when in fact we see the opposite.

A similar argument is that demand for redistribution could be determined by social mobility. Those countries that tend to see smaller shares of their populations move up the income distribution over the course of their lives might seek a more active role for the state in the economy. This argument has some empirical support. Members of the middle class in the United States tend to be more upwardly mobile than the European middle class. But when you look at the poorest members of society, the situation is quite different. Europeans living in poverty are more likely to improve their economic standing over time than are the poor in the United States. As a result, Alesina and Glaeser are “led to believe that the differences between the United States and Europe are not the result of greater American mobility.”

Another possible economic explanation for Europe’s greater level of income redistribution could depend on the relative efficiency of tax systems. If European tax collection produced smaller social losses, then the cost of the welfare state would be lower. Alesina and Glaeser reject this argument with the following, almost rhetorical question: “Could it really be possible that the tax collectors in Italy are so much more effective than the American Internal Revenue Service?”

Finally, the authors consider economic stability as a possible reason. The welfare state is often seen as protecting people from sudden changes in the economy. So you might expect that places where economic ups and downs are more frequent or severe would have larger welfare states. But the variability of growth and unemployment rates is greater in the United States than in Europe. Yet, as we have seen, the U.S. welfare state is considerably less generous, making this argument implausible.



Political Factors

“Our examination of explanations which we labeled as purely ‘economic’ has left us almost completely empty-handed,” Alesina and Glaeser conclude. They turn next to what they label “political” explanations — those that “emphasize the state, the political arena, and political institutions” — and here they find more success.

At first, this may not seem like a very fruitful area of inquiry. After all, the United States and the countries of continental Europe that Alesina and Glaeser examine are all liberal democracies. How, then, could those countries’ political systems explain the difference in the sizes of their welfare states?

The answer is that most European democracies have significantly different rules for implementing public policies than does the United States. In particular, most European states have systems of proportional representation that make it possible for fringe parties, such as the Socialist and Communist parties, to gain entry to the political system and build coalitions with more mainstream left-of-center parties. Once in power, the fringe actors often can influence the platform of the broad left-wing coalition, pushing it to adopt more radical proposals, which lead to greater redistribution of income.

In contrast, the American winner-takes-all system tends to encourage candidates to move more closely to the positions of the median voter, as the economist Anthony Downs explained in his seminal 1957 book *An Economic Theory of Democracy*. Such a system makes it difficult for third-party candidates to win office, or even for more ideologically extreme candidates within a major party to gain power. Consider that of the 435 members of the U.S. House of Representatives, 434 belong to one of the two major parties. Bernie Sanders of Vermont, an Independent, is the only exception.

But this begs the question: What caused the states of continental Europe to adopt systems of proportional representation? After all, those systems are relatively new, with most being adopted in the 20th century. Alesina and Glaeser offer two explanations.

First, labor strikes in the early 1900s effectively shut down economic life in the smallest states of continental Europe (Belgium, the Netherlands, and Switzerland) as well as in those states where the population is highly concentrated in one or two cities (Finland and Sweden). As a result of these crippling strikes, the labor movement was able to effectively push for electoral reform. Second, in many of the larger states of continental Europe (Austria, Germany, and Italy), systems of proportional representation were adopted following World War I, when those countries were in economic and political disarray. So although the United States is a much “newer” country than most of the states of continental Europe, its political institutions tend to be significantly older and more

stable. Perhaps most important, they are designed to make radical change relatively difficult to achieve.

Race and Ideology

Alesina and Glaeser argue that race also can help explain differences in the American and European welfare states. The United States is a much more diverse society than any of the countries of continental Europe, and in America poverty tends to be highly concentrated among minority groups. “As a result, it is much easier to convince a white middle-class person in the United States to think that the poor are ‘different’ (read black) than to convince a white middle-class person, say, in Sweden,” Alesina and Glaeser write. Such “racial divisions and racial preferences appear to deter redistribution,” they conclude.

This argument may generally be correct. But one is left wondering how the passage of Great Society programs, which

greatly expanded America’s welfare state, fits into this story. Those programs, of course, were passed in the mid-1960s, as the Civil Rights struggle also was gathering steam. It’s true that widespread backlash against those programs, as well as laws that helped protect civil rights, arguably cost the Democrats support in the South and thus retarded

further expansion of the welfare state. But it’s not clear how Medicaid and the Department of Housing and Urban Development, both of which benefited minorities disproportionately, would have passed initially if race was the important factor that Alesina and Glaeser suggest.

Also, the authors may not have paid sufficient attention to ideology. This is understandable: Ideology is hard to measure. But it surely was an important factor in explaining why America’s Founders established the political system they did. And that is true even if one also accepts, as Alesina and Glaeser do, that the Founders had a large economic stake in passing a constitutional structure that placed relatively tight limits on government. Ideology also helps us understand why that political system remained largely unchanged during the Great Depression. The New Deal significantly expanded the role of the state, to be sure, but America’s fundamental political structure remained intact, even in a time of extreme crisis.

Conclusion

At the outset of the book, Alesina and Glaeser inform readers that their “interest is in the explanation of why the welfare state, not in its costs and benefits.” Overall, they have made an important contribution to this enduring debate. One hopes that they will now turn their formidable analytical powers toward answering that question which they have left unaddressed: What have these quite different welfare states meant for the economic well-being of the United States and continental Europe? Such a discussion would make for an excellent companion volume. **RF**

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