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## **WELFARE POLICIES IN THE UNECE REGION: WHY SO DIFFERENT**

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Thank you very much for this wonderful and way-too-generous introduction and for the honour of being chosen to deliver this important lecture named after such a great economist and public figure like Gunnar Myrdal.

I am going to address three questions in my lecture. The first, on which I will spend the most time because it sets the stage for addressing the other two, is: why in the United States is there much less concern for redistribution from the rich to the poor than in Western Europe? This question is the subject of a book written with my colleague, Edward Glaeser, entitled *Fighting Poverty in the US and Europe: A World of Difference*, published in 2004 by Oxford University Press. My remarks on this question are drawn from that book. The second issue I will address is the difference between European welfare states; and the third question that I will address quite briefly is: given these different welfare system options, what kinds of choices are offered to new democracies in Central and Eastern Europe? What kinds of choices do these countries have?

So let me start with the first question: why does Europe redistribute more? I want to keep this question very general at this stage without going into too much detail about the specifics of various redistributive programs. I want to explain the basic fact that in Europe there is much more concern about taking from the rich to give to the poor than there is in the United States.

In the book we document this fact in detail but I won't bore you here with a lot of data. Very briefly, the size and composition of government spending in Europe in general is much larger and much more targeted toward redistribution than in the United States. The size of government, namely, spending as a per cent of GDP is roughly about 50 per cent in Europe versus 30 per cent in the United States. The size of welfare spending in Europe is close to 20 per cent and even more than 20 per cent in some Nordic countries, while it is roughly 10 per cent in the United States. So there's a big difference in spending, particularly in social spending. In the history of the US there have been periods with the New Deal and the great society in which social spending went up – but, broadly speaking, the European welfare state has always grown at a faster rate than the American one.

Note that one of the largest government-spending items is pensions, and while one might argue that pensions are not really redistributing from the rich to the poor but, if anything, they redistribute from the young to the old, most pension systems in differing degrees do a bit of both. You get proportionally more if you are poor and old than if you are rich and old, so the pension systems indirectly also serve the purpose of redistributing from the rich to the poor. The European pension systems, even though quite different from each other, by and large do more of that type of redistribution than the American system. For instance, the German system is not very redistributive; the Swedish system is much more so. Part of the redistribution goes through the taxation system as well: European tax systems tend to be more progressive than the American tax system. Therefore the American rich pay much lower taxes than the European rich. Finally, a host of labour market regulations in Europe are meant to protect the workers. One may argue whether these regulations really protect the very poor or whether they hinder their entry into the labour market. That's a big

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issue of course which I will not talk much about today but, by and large, the labour market regulations are meant – at least it is the intention of the policy makers – to somehow protect the disadvantaged.

I think it is fair to conclude that Europeans are much more concerned about inequality than Americans and they try to do more to correct for inequality and reduce poverty. Of course we should remember that inequality and poverty are not the same – one may be in favour of fighting poverty but not inequality per se. This is a critical policy distinction, but it is not an issue I want to address here. Certainly Europeans are concerned about both.

In the book we go through three possible explanations for why Americans have chosen a very different social model than Europeans. For lack of a better word we classify them into three types: purely economic explanations, political explanations and what we call behavioural and sociological explanations.

Let me go through the first type, namely, the economic explanations. The standard explanation is that there is more redistribution in Europe because there is more demand for it. If there is more pre-tax inequality in Europe there is more demand for redistribution because in a democracy, if there are lots of people who are poor, they demand more policies to correct for inequality and the political system delivers it. This explanation really does not work because in fact it is the other way around – even before taxes and transfers there is more inequality in the United States than in Europe. Thus, even though there is more inequality in the US before taxes there are still fewer policies to correct these inequalities in the United States relative to Europe. One aspect of this is that not only is there more inequality of income in general in the United States but there is also more inequality of wages, which of course are a part of income, and particularly large differences in average wages and low wages in the US. This limited inequality in European wages relative to the United States has had important implications for the smooth functioning of labour markets and technological adoption. So there is no evidence that there is more pre-tax inequality in Europe; in fact there is less. Moreover, despite less inequality to correct for, there is more redistribution in Europe

The second type of economic argument has to do with social mobility. The argument goes as follows: American poor have more opportunity to rise out of poverty and therefore there is less need for redistribution because American society is more mobile and there is more opportunity for people to make their own fortune – the self-made men or women in the United States versus the more static class-based societies in Europe. I will return to this issue later on as this is a very important point, but for the moment I only want to point out that there is very little evidence that in reality there is more social mobility in the US than in Europe. However, Americans are indeed convinced that there is a lot of social mobility in their country, while Europeans don't think that there is much social mobility in Europe. Therefore, either the Americans are wrong in overestimating how much social mobility there is in their society, or Europeans are way too pessimistic about how much European social mobility there is. The Europeans and Americans look at similar societies and the Americans see a lot of mobility while the Europeans see a lot of immobility – clearly they cannot both be right. Since economics alone doesn't take us very far, let us move quickly to a more promising and in many ways more interesting topic, namely, political explanations.

Several economists and political scientists have made the point, which I believe is correct, that proportional electoral systems – those in which many parties, even small parties, get represented in the legislature – tend to produce more redistributive spending. In fact, many groups manage to get their foot in the door of political representation and demand transfers for those that they represent. Northern European countries have proportional electoral systems, while the United Kingdom and the United States have majoritarian systems. Research by Gian Maria Milesi-Ferretti, Roberto Perotti and

Massimo Rostagno, as well as by Torsten Persson and Guido Tabellini shows a very strong correlation between the degree of proportionality of the electoral system and the size of transfers over GDP. The measures of proportionality used by different authors vary but the correlation is strong.

The second political point is a fairly obvious but very important fact, namely, that the socialist or communist parties did not play a significant role in the United States. In Western Europe, however, socialist and communist parties have had an important role in the birth and growth of the welfare state. The question is, of course, why a socialist and communist party did not initially develop in the United States, which is an issue I'll return to later on.

The third political argument is that in the United States the constitutional system is structured in a way that historically has been prone to defend private property against expropriation and redistribution. Until at least the middle of the last century the Supreme Court was a bastion for the defence of private property. One of the most famous rulings of the Supreme Court occurred in 1894 when the court declared unconstitutional a provision for the introduction of a federal income tax on the grounds that it was violating private property. It took about twenty years and an amendment to the Constitution to introduce a federal income tax in the United States in 1916.

Institutions are chosen by citizens. So the question is: why did the United States adopt institutions that are non-redistributive prone? Proportional representation in most European countries was introduced right after the First World War and it was indeed the result of pressure from the growing communist and socialist parties, which at the time were a minority, trying to get a foot in the political door. This was precisely why the United States did not introduce a proportional system. Legislators in the United States were afraid of two things: the representation of the (small) communist party which existed in the US as well and the representation of various waves of immigrants and racial minorities. In the 1920s and 1930s some cities in the United States introduced proportional representation for local elections and in fact we do have some examples of socialist mayors elected in some cities and an increasing proportion of black representatives in the cities. Precisely because of that, soon virtually all cities abandoned proportional representation. Today, the only city in the US which has proportional representation in elections is Cambridge, Massachusetts, which is in fact the bastion of the American left.

Now that leads to the next question that has kept people fascinated starting with Marx and Engels: why did a strong American communist party never develop? Marx and Engels were aware they would not have had much luck in the United States and they were pessimistic about the possibility of a communist revolution or even a strong communist party in the US. They were right. One of the reasons for this, already understood by Engels, is the racial fragmentation of the United States. The United States is a county of immigrants and the different waves of immigrants settled in the US – sort of next to each other. If you were the latest immigrant you were viewed by other workers to be as much of an enemy as the business community. If you were an Irish worker who arrived with the first wave of immigration, the second wave, say of Italians, was viewed by Irish workers as enemies, and that precluded class solidarity.

The second reason is economic opportunity. The United States was a country with an open frontier in the west and the pressure of poverty in the eastern cities and rural areas could be decreased by migration to the west. The open frontier was a way for people to find their fortunes. The same was not true in Europe – no open frontier existed for residents of cities such as Brussels or Paris. The openness of the western frontier created a lot of economic opportunities for American immigrants to move in that direction and relieve social tension. Related to this issue is the density and size of the United States. In the nineteenth century, while fairly densely populated cities in the European

countries saw the birth of socialist and communist ideas, the US was instead an open country with distantly-spaced cities, which reduced the opportunity to organize working parties.

The role of wars is also extremely important. Both the First and Second World Wars were catastrophes that created much misery and destruction in Europe and also proved to be the birthplace of the communist party. First, the social cohesion of the armies created fertile grounds for communist ideas. Also, the wars themselves weakened the armies that were not able to suppress potential insurrections. The United States had never lost a war against an outside power and particularly not a war fought on its own territory. The US did experience the catastrophe of the Civil War from which there were long-lasting political repercussions, but in the last century did not experience either world war on its territory.

In Europe, socialist and communist parties developed strong ties with the trade unions, both ideologically and in terms of political strategy and political action. The trade unions in the United States have a very different role than the European trade unions. American trade unions are now weaker but throughout history even when they were more powerful they had much less of a public role than European unions. American trade unions saw their role as one of bargaining with their counterparts in the business community for higher wages or better working conditions. They never saw the government as an ally and American history shows that the government was not an ally of the unions. The unions actually wanted to keep the government out of their business while in Europe the unions, especially in social democratic countries, had a very different approach – government and unions often worked together and cooperated in building welfare systems.

Finally, the American constitution, even though it has been revised and amended, remains a document written by a minority of wealthy white men more than two centuries ago. It reads very differently from the constitutions written more recently in Europe, the constitutional assembly of which shows a fairly open extensive representation of social and communist parties. If you compare the American constitution to any European constitution, for example, or even the aborted new constitution for the European Union, you note a very different emphasis on defending private property versus ensuring social rights. For instance, in the proposed European constitution I counted fifty-five social rights that should be guaranteed to every European citizen and there was only a minor reference to defending private property. Constitutions do matter in influencing how institution and policy work.

The third type of explanation, although harder to define in standard economic terms, has to do with something that we call behavioural or sociological-ideological factors. The perception of poverty in the United States and in Europe is very different – this can be seen in casual observation and by looking at surveys. Basically, and to make it slightly provocative, Americans believe that the poor are lazy and Europeans believe that the poor are unlucky. There is a well-respected World Value Survey which has been undertaken since 1971 in about sixty countries around the world. According to this survey, 69 per cent of Americans versus 29 per cent of Europeans believe that the poor could become rich if they tried hard enough. Americans believe that the poor are poor because they don't work hard and Europeans believe the poor are poor because society is unfair. I actually remember when I was working on the above-mentioned book with my colleague, Ed Glaeser, in Washington at the Brookings Institution (Ed was on leave there) and we were taking an elevator with an African-American janitor. Ed and I were talking about this part of the book. When one of us mentioned this particular statistic – the perception by Americans that the poor are lazy – this janitor stepped in and said, "Of course the poor are lazy – if they worked hard they could become rich." This was a janitor – I don't think there is any janitor in Europe who would share this view.

Using data from the World Value Survey one can easily see a positive correlation between the perception that poor people are trapped in poverty and the amount of social spending as a per cent of GDP. That is, in countries where belief about the social determinants of poverty are stronger, social spending is higher.

So the next question is: why do Americans and Europeans think differently? There are a few potential explanations. One is the Protestant ethic, namely, that Protestants and Calvinists view success almost as a religious sign of being chosen, and therefore economic success is viewed as something that everybody should strive for – that if you fail there is something “wrong” with you. We actually looked at whether this perception of poverty is correlated with religion. We considered whether American Protestants feel differently than American Catholics or American Jews about poverty. We did not find any correlation, but there could be something more subtle than that: even if you are a Catholic and you live in a country that is historically dominated by the Protestant ethic you change your attitude. In any event, the data do not suggest much of a correlation between religious affiliation in the United States and the perception about poverty.

Potentially a more important explanation is that of racial fragmentation. I think it is a fact of life (perhaps unpleasant, but still a fact) that people of different races and of different ethnicities look at each other with some suspicion. There is a lot of experimental evidence that shows that trust travels much faster and much better within the same race. Of course there is racism, but even leaving racism aside, cooperation is easier within races than across races. It follows that when differences in income are correlated with race, one may feel less generous in terms of welfare. There is a lot of evidence in the United States, for example, even controlling for income and other individual characteristics, that whites are less favourable to social spending than non-whites. The interpretation is that white Americans feel that a lot of welfare spending goes to minorities and therefore they are less favourable than they would otherwise be in a more homogeneous society. Survey evidence shows, however, that whites overestimate the fraction of welfare expenditure that goes to minorities, that is, they underestimate the extent of poverty among whites.

Incidentally, and this is an important point which I will return to before the end, to the extent that Western Europe is becoming more and more racially mixed because of immigration from Asia and North Africa and so on, I think that the same kind of social pressure that we see in the United States about the welfare state and racial mix will appear in Europe.

Please note by the way, that the above does not mean that Americans are not generous. Donations to private charities per capita are much higher in the United States than in Europe. One explanation is that Americans feel that by choosing a specific charity they reach the “deserving poor”, as opposed to the “generic poor”.

The third argument is also a fascinating one – namely, the self-selection of immigrants. After all, with the exception of the slaves, those who went to the United States went out of choice. It is reasonable to assume that those immigrants who left Europe to go to the US were those who were more reliant upon themselves – they were prepared to try for their own individual fortune rather than stay home and possibly fight a revolution. Perhaps those who went to the United States were those who had a culture of individualism.

The fact that the United States, much more than any European country, is a melting pot of immigrants has a lot to do with the choice of social policies. There is a very close link between one’s belief about society and one’s preference for redistribution. If you believe that luck determines income or the other way around – that bad luck determines poverty – then automatically you’re prone to feel that these differences have to be corrected aggressively by the government. If you think instead that

individual ability and effort determines differences in income, then you are probably less aggressive in your view about the fact that these differences need to be corrected. Detailed studies of survey evidence show that those who believe that society is fair – namely, that people get what they deserve through their effort and work ethic – believe that redistribution should be small while those who believe that society is unfair are those in favour of a more aggressive intervention of the government.

In summary, why in Europe is the redistribution much larger and more aggressive than in the United States? I think the answer is a combination of these historical, philosophical, sociological and political reasons all intermixed in the different histories of the two places. The more you think about this the more you realize that the American and European perception of whether inequality is acceptable is very different on the two sides of the Atlantic. Americans live in a more unequal society than Europe and are much less concerned about inequality, while Europeans are extremely concerned, almost obsessed I would say, about it. It is enough to argue that any new policy that could potentially increase inequality would be a political loser in the European political debate. In the United States inequality is instead increasing and, while there is concern about it, only the (far) left advocate strong measures to correct this trend.

Now let me turn to the second question on which I will spend less time, namely, the differences between European welfare state models. There is a standard classification that is debated in the literature between three or four types of systems – the Nordic system, the Anglo-Saxon system and the Continental and Mediterranean systems – which are sometimes separated but here will be kept together. Of course the Nordic system is found in the Scandinavian countries, the Anglo-Saxon would be the American, United Kingdom, Australian, and New Zealand type of system and the Continental-Mediterranean would be found in the others – France, Germany, Greece, Italy, Portugal and Spain.

The Nordic system is the most generous – they have the highest level of social protection, universal welfare provision and extensive fiscal intervention in the labour market. But it is interesting actually to pause on this point because the Nordic countries, especially recently, have done what economists think is the right thing, namely, they have eliminated much of the existing firing costs and regulation in the labour and product markets that impede the smooth functioning of the markets and they have maintained generous unemployment compensation. They made what I think is the right choice – mainly protecting people and not jobs – not preventing firms from firing people but protecting (at least temporarily) those who are fired.

The Anglo-Saxon system that we already discussed is much less generous – social protection is the last resort. It has lower unemployment subsidies, lower transfers and lower pensions. However, tax rates are also much lower. Thus, the disincentive effects of taxes are less prominent in these countries. This system may be less egalitarian than the Nordic system, but at least it allows for free market function.

Finally, the Continental and Mediterranean systems often concentrate on pensions and they have heavy intervention in the labour market with lots of regulations, such as very high firing costs. These systems are considered to be the least efficient of the three. In fact the Continental and Mediterranean welfare systems are the losers in this comparison because they are almost as expensive as the Nordic system but they are much less efficient in transferring resources from the truly rich to the truly poor, especially the Mediterranean system. With their labour regulation, France, Germany, Italy and Spain create obstacles to employment and generate pockets of insiders that oppose labour market reform. These are older unionized workers who want to prevent labour turnover and generate obstacles of entry to new generations of young workers.

The fact that the Continental and Mediterranean systems are the least well functioning is highlighted by some interesting data from the OECD. These data show a comparison of risk of poverty before and after social transfer. More precisely, these are the percentages of the population at risk of poverty before and after social transfer; the bigger the difference before and after social transfer the more successful a system is. We go from a case like Greece where, at least according to this data, the social transfer does absolutely nothing at reducing poverty because there are as many people at risk of poverty before as there are after social transfers, to a system like that in Denmark and Sweden which is extremely efficient because there are a lot of people before transfer who are at risk of poverty but a very small number after transfer. These data are unfortunately not available for the United States, but the United Kingdom does less well than the Nordic system in terms of reducing risk of poverty but is also much cheaper as the taxes are much lower. Another example of a system that does not work well is the Italian system. Even though tax rates in Italy are high and the welfare system in that country is quite expensive, it doesn't transfer that much – it is not as bad as Greece but certainly is

**At risk of poverty before and after social transfers**

	<i>Before</i>	<i>After</i>	<i>Year</i>
Denmark.....	31	11	2004
France .....	26	14	2004
Germany .....	24	16	2004
Greece .....	20	20	2004
Italy .....	23	19	2004
Netherlands.....	23	11	2002
Norway .....	26	11	2004
Sweden .....	30	11	2004
United Kingdom .....	29	18	2003

**Source:** A. Alesina and F. Giavazzi, *The Future of Europe* (Cambridge MA, MIT Press, 2006).

not particularly successful at moving a lot of resources from the very rich to the very poor. In the case of Italy, which is a case I know more about than others, much of the problem is that Italian social spending is directed too much toward pensions in a way that often does not necessarily favour the truly poor.

If it is true that the Nordic system is so successful then the question is: can it be easily exported to other countries in Western Europe or perhaps new democracies all over the world? Unfortunately, the answer is not so clear. First of all, this system is quite expensive. For a country like Poland, to impose the kind of taxation needed to support the welfare system of Scandinavian countries may be quite “expensive”, i.e. the tax burden may significantly reduce growth. A Nordic country may afford not to grow particularly fast or to bear the cost of high taxation but for a country that needs to catch up this level of taxation may be problematic. In addition, traditionally social democratic countries in northern Europe are relatively small and homogenous, with a very high degree of social capital, social cohesion, low tax evasion and much social solidarity. It may be very difficult to export this system to a country with a much lower degree of social trust like France, Greece, Italy or Spain. Here is a revealing story.



Someone I know employed a Danish part-time worker in the summer in Italy. At some point instead of working 20 hours per week she started to work 30 hours per week for the family and she immediately called the Danish employment agency telling them that her subsidy had to be cut because she was working 10 hours more than planned. I can't think of another non-Nordic country where young employees would have done the same with their government – they probably would take the extra ten hours under the table and would certainly not have called the employment agency.

This small example captures something important. The Nordic countries are becoming the “heroes” of the European left because in the last few years they seem to have had very decent and quite sustained growth and a very generous welfare state. I hate to throw cold water on this enthusiasm but for the reason just discussed a moment ago one has to be a little bit sceptical about how exportable the system is to the rest of Europe or Latin America or Central and Eastern Europe. Also, we should not forget that the Nordic countries are on the rebound from fairly deep recessions in the 1990s. Whether the Nordic country system can easily be exportable is actually a very tricky issue.

Let me go to the final issue I wanted to talk about, very briefly: what are the choices for Central and East European countries in terms of a welfare state? The collapse of communism can generate two types of reactions in people regarding the role of government intervention. One is to jump to the extreme – to take an ultra-liberal position – to really hate the state and be moved to the extreme of the super liberal state in a way that Milton Freedman would advocate. Or, the other reaction is that people after many years of communism become used to a state that does everything. Therefore even though they may embrace capitalism, they want a state that takes care of people from the moment they are born to the moment they die.

I think it is fair to say that in a transition economy there are likely to be both of these reactions in different countries, and at different points in time there have been both types of reaction – even some movement from anti-state liberalism to a much more pro-state anti-free market stance. Some countries have oscillated up to now and different countries have taken different routes so we see a little bit of both extremes. I did a study with a colleague of mine at Harvard, Nicola Fuchs-Schündeln, and we looked at a very interesting policy experiment offered by the reunification of Germany. As you know Germany was separated in 1945 as a result of the Second World War – the separation being dependent upon bargaining between the allies and the Soviets. As we economists say, it was a fairly exogenous decision imposed on the Germans. The East Germans did not choose to become communists. Even the demarcation of the border between East and West Germany is actually cut through pre-existing regions of Germany and so, for example, some Prussians ended up in the East, some Prussians ended up in the West. The German reunification itself, from the German point of view, is also pretty much exogenous in the sense that it would not have happened without the collapse of the Soviet Union.

To put it differently, the German example offers an especially “clear” case of testing the preferences of similar people, i.e. the Germans diverge, having lived for fifty years under different regimes.

We use surveys taken first in West Germany and then again when East and West were reunified about the attitudes of people toward the state. We looked at several questions about what the state should do in terms of welfare and in particular there were four questions – whether the state should or should not have: responsibility for financial security when unemployed; responsibility for financial security when sick; responsibility for financial security of the family (which means transfers to poor families); and responsibility for the financial security of the old. We have data from these surveys from 1997 and 2002, when the surveys were taken. In 1997, as you can see, many more people in East Germany responded that they were strongly favourable to government intervention in these areas and

when you compare 1997 to 2002 you see that the East Germans are becoming slightly less favourable to the state in 2002 relative to 1997. Now these are just raw averages of the responses but if you do a pretty detailed statistical analysis, as we did, then you discover that indeed what happens is precisely what these raw numbers show – mainly that East Germans were much more pro-state than West Germans.

This is especially the case for the older East Germans, and in fact you find the longer some lived under a communist regime in East Germany the more they were pro-state. In most Western European countries in general people become more right wing and more against the state when they become older. In East Germany, it is the opposite – the older you are the more pro-state you are. The young East Germans, however, look much more like the young West Germans. There we find some convergence – in 2002 East Germans looked more like West Germans in terms of their preference for state intervention; but a convergence is not that fast – namely, even fifteen or sixteen years after the

**Germany – areas for which the state should be responsible (survey percentages),  
1997 and 2002**

		<i>West Germany sample</i>	<i>East Germany sample</i>
1997	Financial security when unemployed	63.24	78.85
	Financial security when sick	34.50	52.76
	Financial security of the family	32.78	49.06
	Financial security when old	38.46	56.09
2002	Financial security when unemployed	65.33	76.64
	Financial security when sick	40.01	51.81
	Financial security of the family	32.10	46.65
	Financial security when old	36.70	48.51

**Source:** A. Alesina and N. Fuchs Schuendeln, *Good bye Lenin (or not?): The Effect of Communism on People’s Preferences*, NBER Working Paper, No. 11700 (Cambridge, MA), October 2005.

reunification, the East Germans are still much more pro-government than the West Germans. Also East Germans tend to vote more for leftist parties so the conclusion is that Germany may have actually received quite a large political shock from liberalization.

As I mentioned before, the German case may not apply to every former communist country. In fact, there might be a lot of oscillation from very much pro-state to very much anti-state. But what are the realistic choices for former communist countries? First of all, countries at this level of income cannot afford the Nordic-type welfare system. We know that the size of government, and especially of social spending, is increasing with the level of per capita income. Poorer countries need first to grow out of poverty and then can afford to collect the fiscal revenues to support an encompassing welfare state. Even in the Nordic countries, high marginal tax rates cause economic distortions, which would be very damaging at lower levels of development. If new democracies cannot afford a Nordic-style welfare system they may as well adopt a “lean and mean” Anglo-Saxon welfare-type system which is cheaper and does not have the inefficiencies of the Continental and Mediterranean systems. We have shown above that Continental and Mediterranean welfare systems are at the same time expensive in

terms of tax revenues needed and not very efficient at redistributing resources from the rich to the poor. Their reliance on pensions is excessive and labour protection laws create major obstacles to the smooth functioning of labour markets.

Let me conclude by adding some policy considerations. Thus far I have tried to be as judgment free as possible in the sense that in the book and with the discussion today I have tried to make no judgment of whether the Americans are right and the Europeans are wrong or vice versa. Here in this context let me make a few policy implications that perhaps more reflect my views.

My view is that Western European countries, particularly those in the Continental and Mediterranean areas, have gone too far in social protection in ways which have created too many inefficiencies, in particular in the labour market, and have not created enough competition in the product market. These welfare systems were introduced in a period after the Second World War when there was a great need for reducing the suffering of people. During the economic boom of Europe in the 1960s the systems were made even more generous. Since growth was high and things seemed to be going well, the pension systems were made too generous and labour laws were made quite intrusive; then the shock of the 1970s and 1980s made these welfare systems unsustainable because they reduced growth. Together with changes in the life expectancy, the reduction and trend of growth created large burdens for these welfare systems. As discussed, this is particularly true for the core of Europe – the large European countries of France, Germany, Italy and Spain – the Continental-Mediterranean Europe. I think that countries in Central and Eastern Europe that are developing post-communist welfare systems should not make the same mistake. They don't have much choice other than adopting a lean welfare-type system in the Anglo-Saxon tradition. Thank you.