

Development, Democracy and
Welfare States:
Latin America, East Asia and
Eastern Europe

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The Big Questions

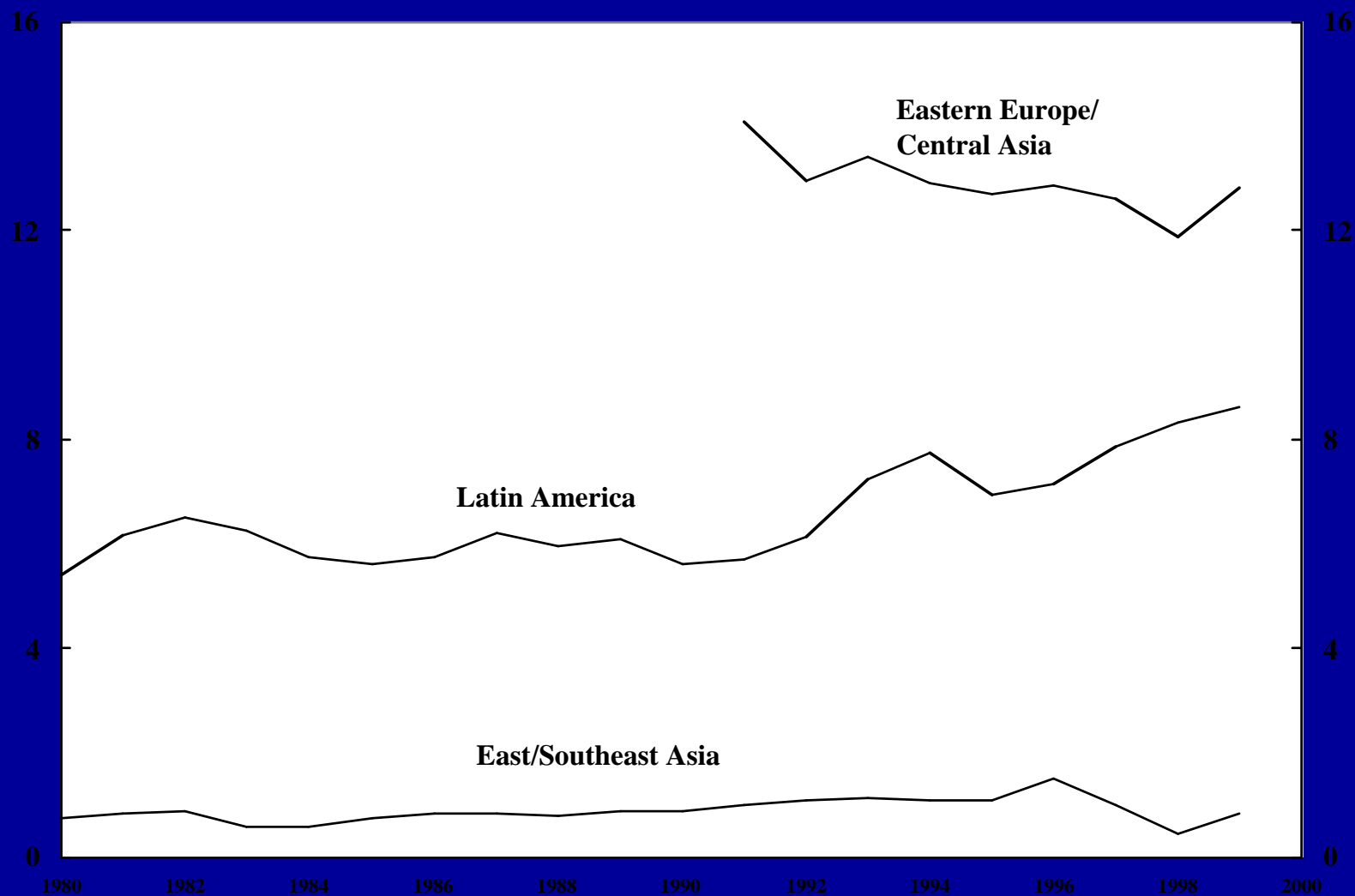
- What accounts for variation in provision of social insurance and services across countries?
 - Why universal health care in some countries vs. others?
 - Why more generous unemployment insurance in Europe than US and other Anglo-Saxon countries?
 - Within Europe, why variations in provision of services (child care, family allowances, active labor market policies)
- In general, little attention to middle-income developing countries

Theoretical Orientation

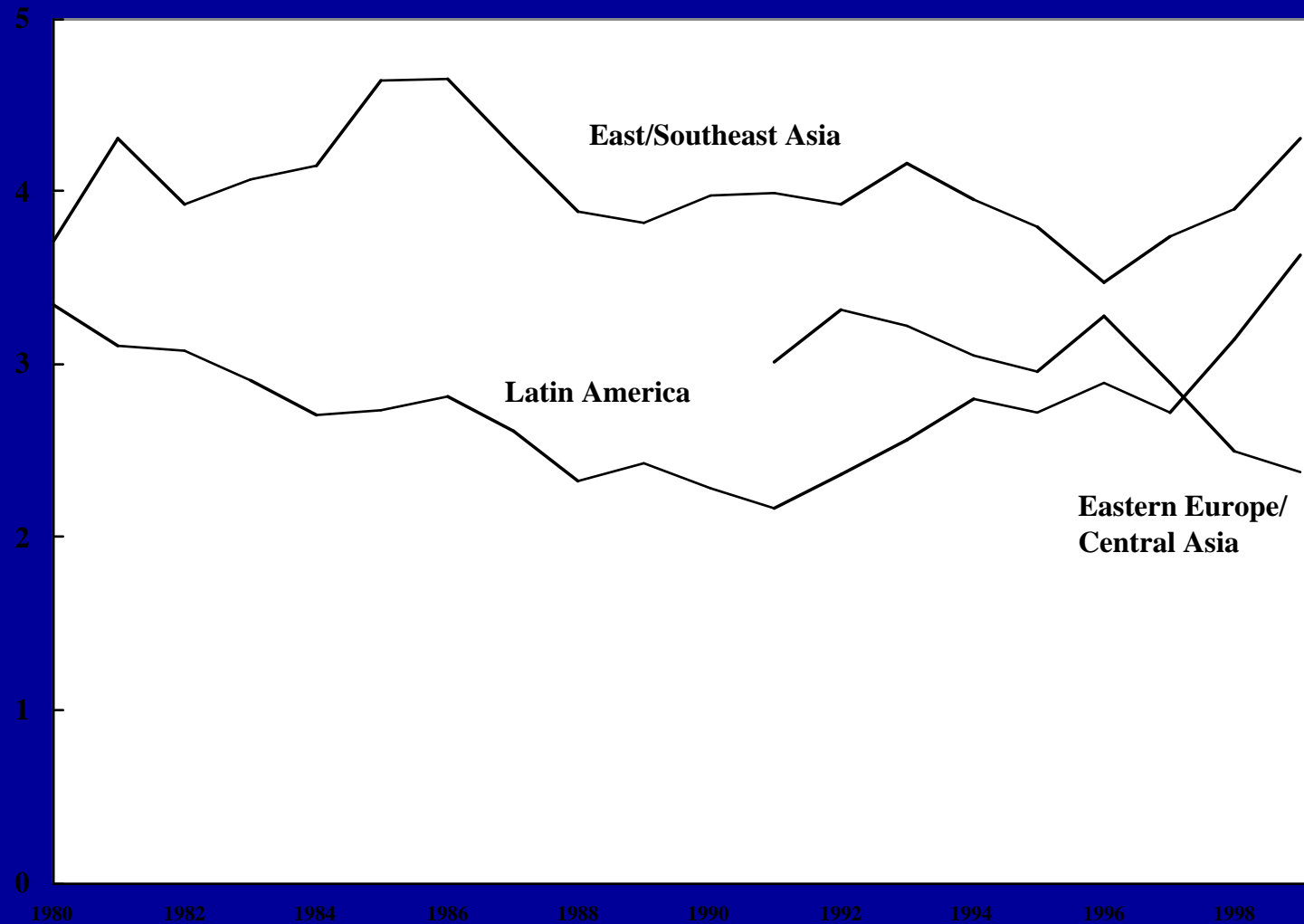
- Motivated by effects of democracy and democratization on social policy and the “third wave” of democratization in 1970s-1990s
- Two mechanisms
 - Electoral incentives to compete using redistribution (Meltzer and Richards)
 - Freedom for previously excluded groups to organize
- Design: comparative statics (authoritarian vs. democratic regimes) and difference-in-difference (transitions to democratic rule)

Social Security Spending in Latin America, East Asia, Eastern Europe and the Former Soviet Union, 1980-2000

(percent of GDP)



**Education Spending in Latin America, East Asia, Eastern Europe and the
Former Soviet Union, 1980-2000**
(percent of GDP)



Theoretical Orientation

- Two conclusions
- Effects democratization conditioned by long-term historical factors and past policies (Paul Pierson)
- Quite obvious variation in what authoritarian regimes had done: regime type as a blunt instrument

Development, Democracy and Welfare States

- Introduction: Towards a Political Economy of Social Policy
- *Part I. The Historical Origins of Welfare Systems, 1945-1980*
- Ch. 1. Social Policy in Latin America, East Asia and Eastern Europe, 1945-1980: An Overview.
- Ch. 2. The Expansion of Welfare Commitments in Latin America, 1945-1980
- Ch. 3. The Expansion of Welfare Commitments in East Asia, 1945-1980
- Chapter 4. Building the Socialist Welfare State: the Expansion of Welfare Commitments in Eastern Europe, 1945-1990

Recrafting Social Contracts

- *Part II: Democratization, Economic Crisis, and Welfare Reform, 1980-2005*
- **Chapter Five. The Political Economy of Welfare Reform**
- Chapter Six. Democracy, Growth and the Expansion of Social Contracts in East Asia, 1980-2005
- Chapter Seven. Democracy, Economic Crisis and Social Policy in Latin America, 1980-2005
- Chapter Eight. The Transformation of the Socialist Welfare State, 1990-2005
- Conclusion.

Countries in Study

- **Latin America**: Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru, Uruguay, Venezuela
- **East Asia**: Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand
- **Eastern Europe**: Bulgaria, Czech, Hungary, Poland, Slovakia, Romania

Part One: Critical Realignments and Development Models

- From power resource theories: whether critical realignments that affected labor and peasantry might have mattered (even in authoritarian settings)
 - This pushed in particular toward international context, particularly in East Asia and Eastern Europe
- From varieties of capitalism literature: whether development strategies might influence policy choices
 - Why? Because authoritarian regimes were clearly doing different things
 - Import-substitution (Latin America), export-oriented strategies (East Asian cases, at different points), and state socialism (Eastern Europe) had implications for welfare politics

Latin America: Transitions from Oligarchic Rule (1910s-1950s)

- Reform coalitions based on (partial) incorporation of labor unions (1915-1945; Collier and Collier), leading to:
 - Highly skewed welfare systems aimed at middle-class and segments of urban working class
 - Relative neglect of country-side
 - Note: these effects operated across regimes of different types
- Re-enforced by ISI strategy
 - Protection allows firms to pass higher wage costs--including from social insurance--onto consumers...
 - ...even at well-known cost of dualism in labor markets
- Relative neglect of education
- Intra-regional variations related to regime type (including duration): Costa Rica, Chile, Uruguay

Central Europe

- Critical realignments in the transition to Communist rule (1945-48), repression of competing parties and control of labor
 - Would an “uninterrupted” path looked more like Latin America?
- The crucial role of the state socialist economic system
 - Central planning generates employment guarantees and social entitlements through socialization of all service and insurance provision
 - Collectivization extends system into the countryside (in contrast to Latin America).
- Intra-regional variation limited: strong convergence

East Asia

- Critical realignments in independence and extension of Cold War to Asia (1945-1960)
- Anti-Communist regimes control or repress labor and the left
 - Minimalist social insurance systems (pensions and health) for formal sector workers...
 - Basic public health and education extended to rural sector
- Export-led growth strategy re-enforces these choices
 - Emphasis on education spurred initially by early democratic constitutions...
 - But later (under authoritarian regimes), export-led strategies generate strong political as well as economic returns to education.
- Some intra-regional variation related to regime type (including duration): “frontline” states vs. Malaysia and the Philippines

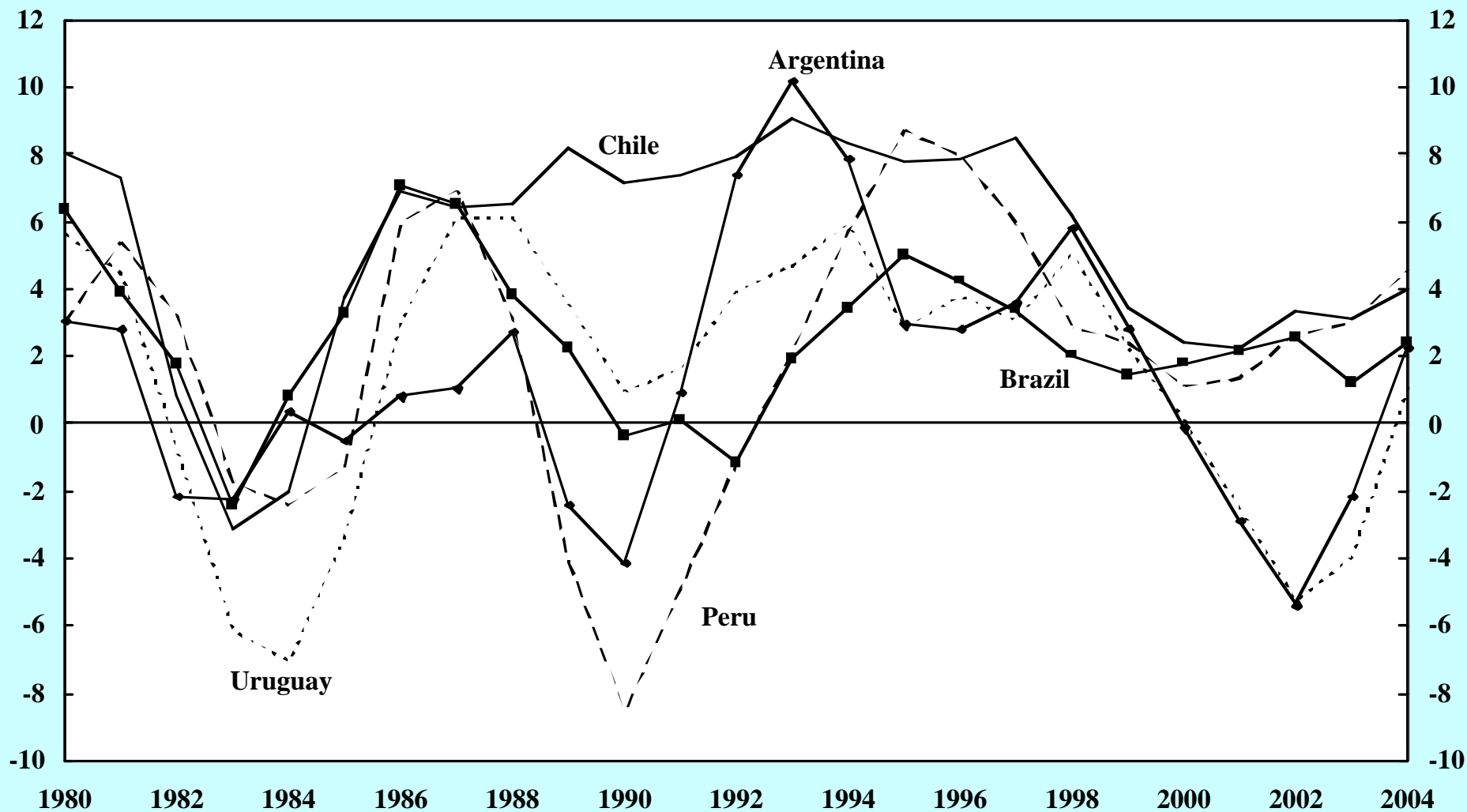
Part Two: The Shocks of the 1980s and 1990s

- Democratization: electoral pressures to maintain and expand social commitments in all three regions.
- BUT new democracies also face cross-cutting pressures to reform welfare commitments and move toward a liberal model
- The globalization debate
 - Does greater openness support or undermine social commitments?
 - But also powerful economic shocks and ideological shifts

The Economic Shocks

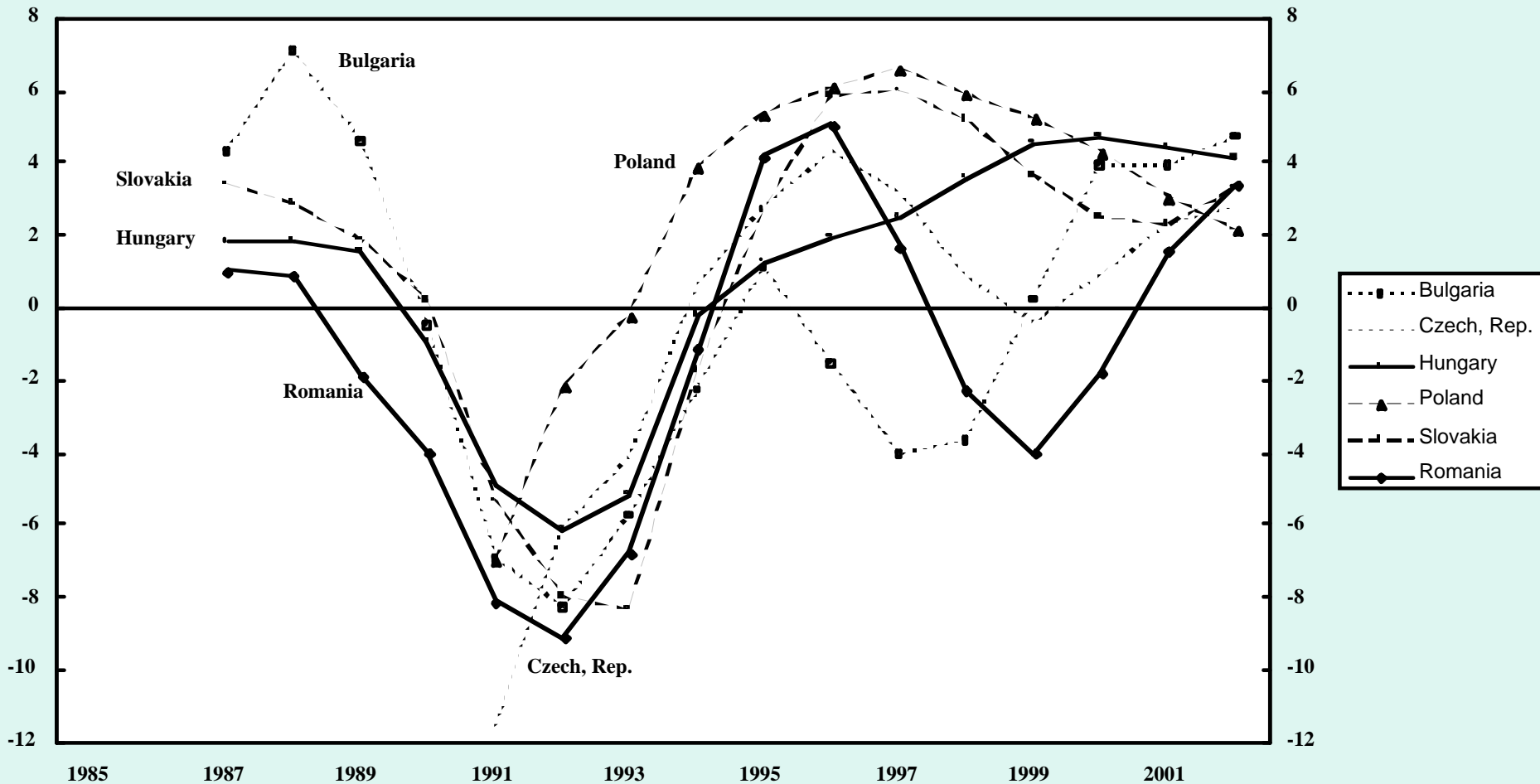
- Growth collapses in Latin America and East Europe
- Direct economic consequences: fiscal constraints on government and the pro-cyclical nature of spending and social spending (Wibbels; pooled time-series models)
- Political consequences of economic constraints
 - Shift in political power toward IFIs and technocratic reformers
 - Weakening of left, labor and spending ministries

Figure 7.4: GDP Growth in Argentina, Brazil, Chile, Peru, and Uruguay
Three-Year Moving Average: 1980-2004



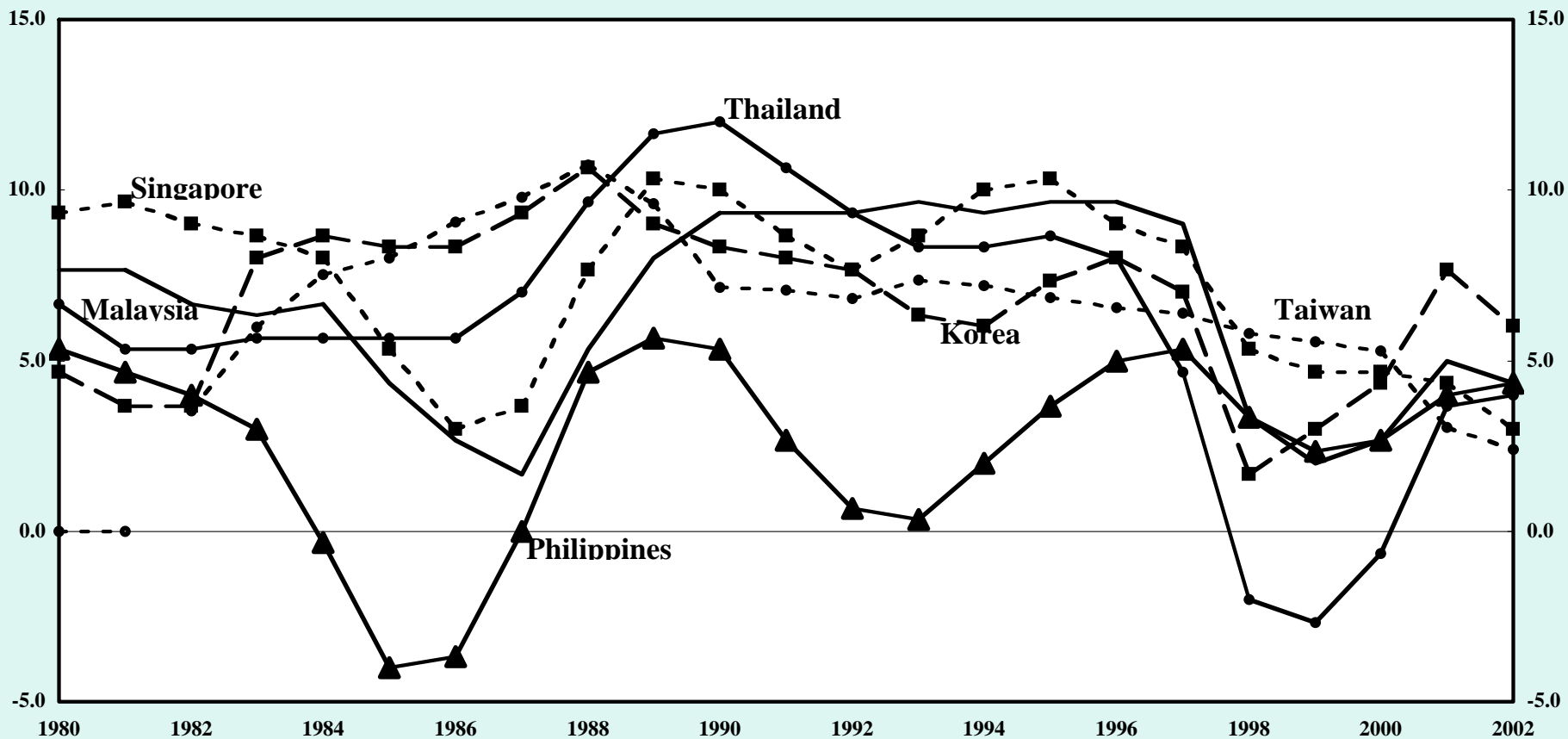
Source: World Bank World Development Indicators

**Figure 8.2: GDP Growth (Three Year Moving Average) for Eastern and Central Europe:
1985-2005**



Source: World Bank. 2004. World Development Indicators. Washington DC: The World Bank

Figure 6.2
GDP Growth in East Asia, 1982-2002
(Three-year moving average)



The Liberal Welfare Agenda

- Origins in neoliberalism generally and in critique of welfare state in particular
- Components (Hacker)
 - Shift toward private provision of insurance and services (ie., households manage risk)
 - Foster competition within public sector (eg. decentralization, performance-based budgeting)
 - Tighten links between contributions and benefits
 - Reallocation of social spending, but with emphasis on targeted approaches

Welfare Legacies

- Coverage of public entitlements: the influence of beneficiaries
 - Broad coverage increases electoral support for the welfare status quo
 - Narrow coverage provides opportunity to win new constituencies through expansion of social programs, but also limits ability of stakeholders to defend entitlements in the face of shocks.
- Broad coverage also increases leverage of bureaucratic interest groups

Core Comparisons

- Crisis vs. non-crisis settings
 - Ceteris paribus, easier to expand when economic and ultimately fiscal constraints are less
 - Asia vs. Latin America and Eastern Europe
- Electoral and interest group implications of welfare legacies, particularly the breadth of coverage (Pierson)
 - Broad coverage increases electoral support for the welfare status quo (Eastern Europe), ceteris paribus
 - Narrow coverage provides opportunity to win new constituencies through expansion of social programs (Asia and Latin America)...
 - ...but also limits ability of stakeholders to defend entitlements in the face of shocks (Latin America).

Evidence

- Each section framed by cross-national quantitative exercises
 - In Part 1, simply cross-section correlations: plausibility of some hypotheses and of cross-regional differences
 - In Part 2, error correction model of spending (a la Iverson and Soskice)
- Descriptive statistics
- Case studies with a focus on mechanisms, but typically framed comparatively (a la Mill)

The Asian Cases

- East Asia: high growth, limited coverage, should generate substantial expansion of public commitments in new democracies
- Comparative strategy
 - High growth vs. low growth democracies: Korea, Taiwan and Thailand vs. the Philippines
 - The democracies vs. Singapore and Malaysia (more limited change)

Latin America

- Latin America: severe crisis and fiscal constraints in context of highly unequal coverage
- Comparative strategy
 - Authoritarian cases: Mexico and Peru go farther in neoliberal direction, for example Mexico on pensions
 - Contrast cases with more substantial crises (Brazil and Argentina) against those with less binding economic constraints (Uruguay, Costa Rica, Colombia, Chile)
- Comparative strategy II
 - Also set up a comparison with Eastern Europe on safety nets
 - In Latin America, greater emphasis on targeted anti-poverty programs
 - Progressive spending and significant income supplements to poor families but (until boom) limited share of fiscal resources and coverage

Eastern Europe

- Eastern Europe: severe crises and fiscal constraints, but in context of broad coverage
 - Encourages de facto maintenance of wide coverage for basic entitlements, including pensions and health
 - Safety nets tend to be universal: expansion of unemployment insurance, pensions, and disability
- Some controversies: intra-regional variation?
 - Regionalists: a major focus
 - For us, more convergence, although interesting anomalies such as Slovakia (and Baltics out of sample)

Table 5.11: Public and Private Health Spending, 1996 and 2005

	1996	2005	1996	2005	1996	2005	1996	2005
	Public/ Total Health ^a	Public/ Total Health ^a	Private/ Total Health ^b	Private/ Total Health ^b	Out of Pocket/ Private ^c	Out of Pocket/ Private ^c	Ins/ Private ^d	Ins/ Private ^d
Arg	57.6	44.2	42.7	55.8	70.4	48.8	26.0	45.7
Braz	40.4	53.7	59.6	46.3	68.6	64.4	31.4	35.6
Chile	47.4	47.1	52.6	52.9	51.5	46.1	48.4	53.8
Col	64.8	85.8	35.2	14.2	85.4	44.6	14.6	55.4
CR	76.2	77.1	23.8	22.9	87.5	88.7	2.7	2.1
Mexico	41.4	47.1	58.6	52.9	96.6	94.4	3.4	5.6
Peru	51.6	47.3	48.4	52.7	88.2	79.4	9.1	17.3
<i>Urug</i>								
Venz	50.8	42.9	49.2	57.1	89.1	88.2	4.6	3.8
LA AV	53.8	55.6	46.3	44.4	79.7	69.3	17.5	27.6
Bulgaria	69.1	57.5	30.9	42.5	100	98	0	0.3
Czech	90.7	89.1	9.3	10.9	100	95.4	0	2.1
Hung	80.8	72.6	19.2	22.4	95.1	93.0	n/a	3.4
Poland	73.5	69.8	26.6	30.2	100	97.9	0	2.1
Romania	66.5	66.0	35.5	34.0	100	93.4	0	0.1
Slovakia	88.7	72.4	11.3	27.6	73.2	73.4	0	0
EE AV	78.2	71.4	22.1	28.8	94.7	9.2	0	1.3
Korea	38.1	50.9	61.9	49.1	85.0	76.0	3.9	8.0
Malaysia	48.0	54.4	52.0	45.6	79.9	74.2	9.0	13.2
Phil	41.0	38.3	59.0	51.7	81.8	77.3	6.6	12.8
Thai	47.2	63.9	52.8	36.1	80.4	76.6	9.5	15.6
Taiwan								
Singap	40.8	34.7	59.2	65.3	95.7	96.9	n/a	n/a
EA AV	43.0	48.4	57.0	51.6	84.5	80.2	7.3	12.4
LA-EE p-value)	0.00	0.05	0.00	0.04	0.05	0.02	0.02	0.01
LA-EA p-value	0.05	0.38	0.05	0.50	0.43	0.23	0.12	0.11
EE-EA p-value	0.00	0.01	0.00	0.01	0.09	0.07	0.01	0.00

a. general government spending as a percent of total health spending

b. Private health spending as a percent of total health spending

c. Private households out-of-pocket payments as a percent of private health expenditure

d. Private insurance and risk pooling as a percent of private health expenditure

Source: WHO National Health Accounts. <http://www.who.int/countries/>

Conclusions I:

Democracy and Politics

- Effects of democracy, and institutions more generally, are conditional on the distribution of interests and their organization
 - Part I: the role of critical realignments and development strategies
 - Part II: the significance of welfare legacies
- A digression on the left
 - In middle-income cases, role less clear
 - Evidence that left parties press for more generous entitlements...
 - ...but tensions in our cases between progressive goals and defense of stakeholder interests

Conclusions II:

The Economic Dimension

- “Globalization,” (trade and capital openness) has limited direct impact
 - Regional patterns raise questions: expansion in the high-growth and highly open Asian democracies
 - Econometric tests: fairly limited effects of both trade and financial openness
- Need for analysis of broader set of economic variables
 - Macroeconomic performance, and its fiscal implications
 - Long run fiscal capacity of the state

The Current Crisis

- Who has been most seriously affected?
 - Eastern Europe: a battle over entitlements?
 - Latin America:
 - Boom permitted both left and expansion
 - Financial (reserves) and fiscal cushions enough?
 - East Asia: the most substantial financial cushions and most rapid return to growth (the China factor)

Some Fundamental Tradeoffs?

- Skepticism about welfare-growth tradeoff, at least over the long-run
 - The European counterexample
 - The differences are in “varieties of capitalism” not growth itself
- Universalism vs. targeted approaches
 - Universalism can face constraints in absence of adequate revenue base (the EE cases)
 - But targeting and partial approaches subject to segmentation, fiscal reversals and clientelism too

THE END

Latin America PCSE Difference Models

	Expend.	Educ.	Health	Soc. Sec.
DV Change	0.017	-0.149	-0.018	0.175
	(0.22)	(1.19)	(0.19)	(1.81)*
Lag DV Level	-0.32	-0.153	-0.122	-0.173
	(4.67)***	(2.70)***	(3.09)***	(3.49)***
Lag Polity	0.494	0.094	0.018	0.033
	(1.27)	(0.94)	(0.29)	(0.25)
Polity Ch.	0.386	0.03	-0.103	-0.018
	(0.56)	(0.21)	(1.11)	(0.07)
Revenue	0.359	0.031	0.019	0.069
	(4.30)***	(1.82)*	(3.05)***	(3.07)***
Rev Change	0.359	0.054	0.039	0.074
	(3.54)***	(2.16)**	(3.14)***	(2.33)**
Trade Level	-0.022	0.001	0.002	-0.012
	(1.49)	(0.39)	(0.86)	(1.99)**
Trade Ch.	-0.021	-0.011	-0.003	-0.031
	(0.83)	(1.62)	(0.72)	(3.10)***
Constant	-2.412	-1.764	1.712	0.139
	(0.29)	(1.14)	(1.2)	(0.04)
Obs.	238	131	174	170
R-Squared	0.24	0.19	0.16	0.23

Further research

- More attention to the determinants of fiscal bargains
 - What drives the long-run fiscal capacity of the state, for example in Latin America and the Philippines)
- Reform-mongering
 - Are coalitions a given or are they built, and if so how? How do politicians work around interest group constraints?

East Asia PCSE Difference Models

	Expend.	Educ.	Health	Soc. Sec.
Lag DV	0.204	-0.103	-0.013	-0.193
	(2.41)**	(0.82)	(0.09)	(1.07)
DV Level	-0.455	-0.453	-0.131	-0.768
	(6.13)***	(4.83)***	(1.35)	(3.92)***
Lag Polity	0.893	0.431	0.014	0.224
	(2.41)**	(3.28)***	(0.19)	(1.65)*
Ch Polity	-0.135	0.456	0.078	-0.001
	(0.18)	(3.14)***	(1.08)	(0.01)
Revenue	0.516	-0.049	-0.013	0.077
	(4.98)***	(2.09)**	(1.37)	(3.75)***
Rev Change	0.653	0.004	0.013	0.051
	(5.05)***	(0.16)	(1.17)	(2.37)**
Trade Level	-0.007	0.008	0.002	0.002
	(0.78)	(1.77)*	(1.53)	(1.05)
Ch Trade	-0.027	0.001	-0.001	-0.004
	(1.34)	(0.29)	(0.54)	(1.49)
Constant	-5.876	11.584	0.934	-11.394
	(0.42)	(2.51)**	(0.51)	(4.44)***
Obs.	88	51	60	46
R-Squared	0.53	0.65	0.35	0.57

Eastern Europe PCSE Difference Models

	Expend.	Educ.	Health	Soc. Sec.
DV Change	-0.141	0.096	-0.076	0.184
	(1.52)	(0.63)	(0.69)	(1.17)
Lag DV Level	-0.528	-0.584	-0.241	-0.239
	(4.61)***	(5.09)***	(3.06)***	(2.82)***
Lag Polity	0.984	-0.277	0.427	0.663
	(1.61)	(1.17)	(2.22)**	(1.47)
Ch Polity	-0.214	0.925	0.233	-0.182
	(0.22)	(1.84)*	(0.69)	(0.23)
Revenue Level	0.588	-0.016	0.005	0.06
	(5.54)***	(0.48)	(0.17)	(0.83)
Rev Change	0.957	-0.008	0.086	-0.009
	(6.99)***	(0.2)	(2.29)**	(0.09)
Trade Level	-0.048	-0.011	0	-0.014
	(3.45)***	(1.62)	(0.04)	(1.11)
Ch. Trade	-0.004	0	-0.002	-0.03
	(0.16)	(0.07)	(0.44)	(2.40)**
Constant	27.083	9.023	19.757	3.624
	(2.07)**	(1.53)	(2.21)**	(0.32)
Obs.	95	50	50	50
R-Squared	0.6	0.64	0.48	0.36

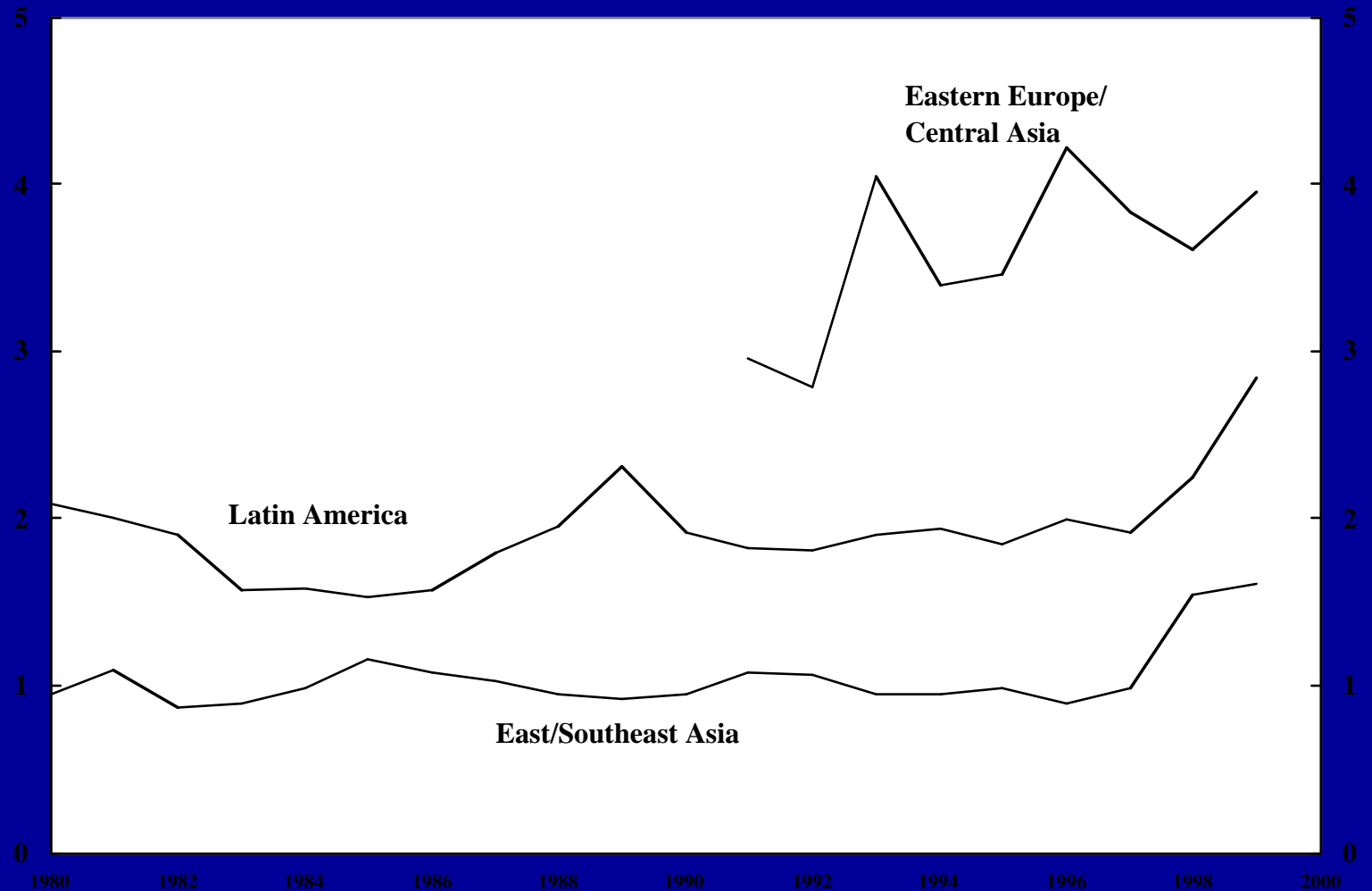
Table 1. Social Spending in East Asia & Latin America 1976-1980

Country	Per Capita GDP 1976-1980	Social Security Spending/GDP	Education Spending/GDP	Health Spending/GDP	Total Social Spending/GDP	Total Government Expenditure/GDP
Latin America						
Argentina	5954.6	6.11	..	..	..	19.46
Brazil	3151.4	6.43	0.80	0.80	8.03	20.08
Chile	3579	8.57	4.30	2.08	14.95	30.13
Colombia	2405.2	..	..	..	..	11.86
Costa Rica	3189.4	3.15	5.95	4.19	13.29	22.49
Mexico	4587.2	3.41	3.01	0.61	7.03	15.78
Peru	2962	..	3.18	1.07	..	18.82
Uruguay	4136	10.30	2.19	1.00	13.49	22.50
Venezuela	7455.2	1.61	4.05	2.07	7.73	24.45
Regional average	4157.8	5.65	3.35	1.69	10.75	20.6
Asia						
Korea	2057	0.86	2.66	0.22	3.74	16.28
Malaysia	2514.6	0.82	5.47	1.62	7.91	25.98
Philippines	1527.6	0.24	1.70	0.64	3.40	17.42
Singapore	4549	0.27	2.97	1.45	4.68	19.18
Taiwan	2795.4	..	3.58	..	..	22.64
Thailand	1593.6	0.57	3.66	0.77	5.00	17.48
Regional average	2506.2	0.55	3.34	0.81	4.26	19.83

NOTE. Philippine data is for 1979 ~1980. Social security spending includes social security and "labor welfare." Education spending includes education and manpower. Total social security spending also includes land distribution, housing, community development and other social services. For Taiwan, education spending includes science and culture.

Source: World Development Indicators 2002; Taiwan Statistical Data Book 1990, p.171,173 and p.23, published by Council for Economic Planning & Republic of China; 1991 Philippine Statistical Yearbook, Chapter 3, table 3.7 and Chapter 15, table 15.3, published by Republic of Philippines, National Coordination Board

**Health Spending in Latin America, East Asia, Eastern Europe and the
Former Soviet Union, 1980-2000**
(percent of GDP)



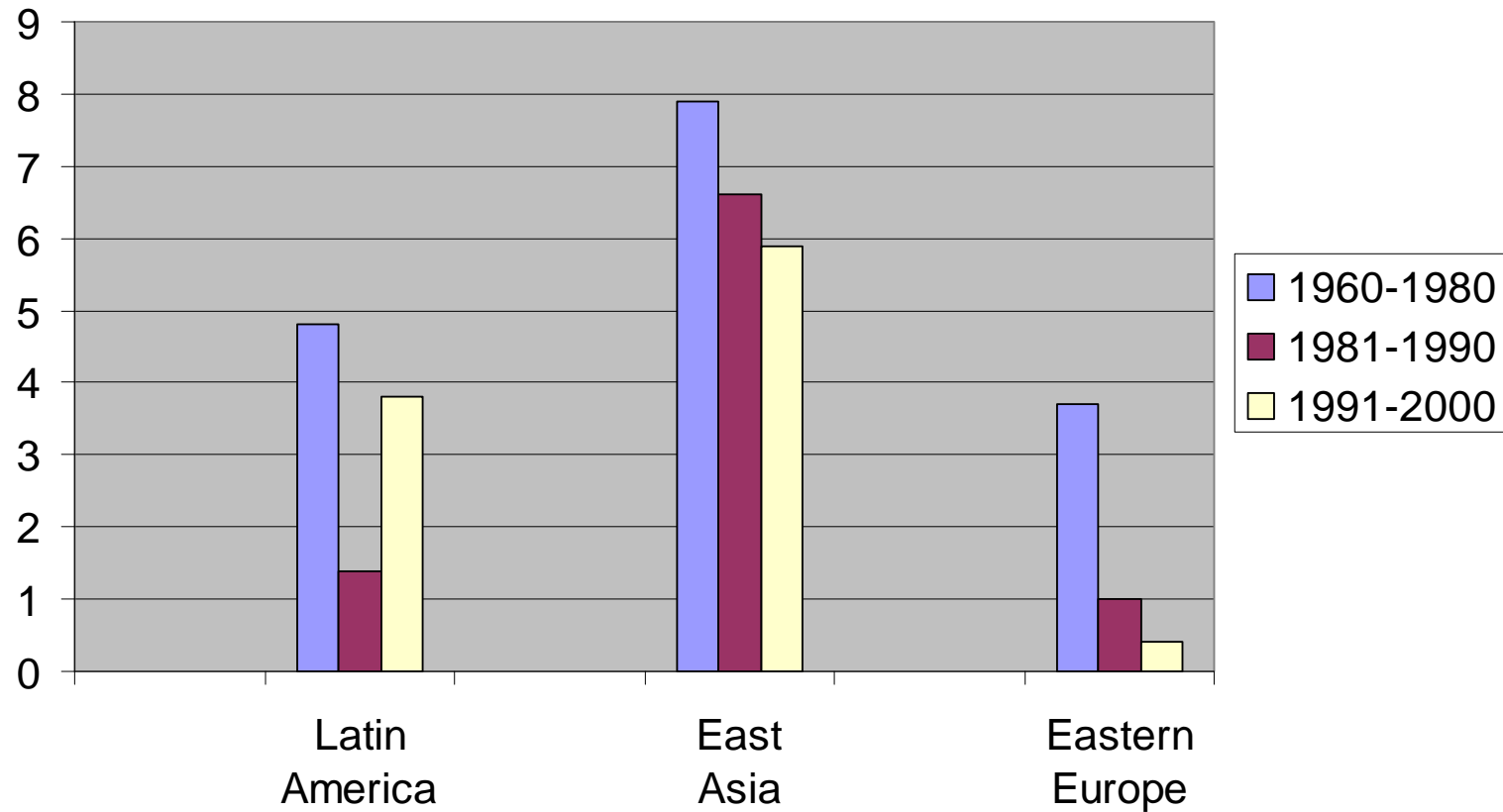
Methodological Issues

- Framed by quantitative analysis of spending data and some outcome measures in both parts
 - Cross-section analysis circa 1976-80
 - Pooled time series for 1980-2004
- Core is comparative historical analysis in a “medium-n” design
 - 21 middle-income countries, with focus on (postulated) inter-regional variation
 - But also exploiting both intra-regional and within country variance
 - Focus on four policy areas: pensions; health; education (Part One); safety nets and anti-poverty programs (Part Two), but as components of “welfare complexes”

Safety Nets

- Broad social insurance approaches
 - passive and active labor market policies
 - disability
 - family and maternity benefits
- Targeted anti-poverty programs
 - public works
 - in-kind and cash transfers to poor families
 - social funds
 - conditional assistance or targeted human development programs (Progresa, Bolsa Familia).

Average Growth in Latin America, East Asia, and Eastern Europe



East Asia

- The logic of the East Asia comparisons
- High growth democracies (Korea, Taiwan and Thailand)
 - Establishment of core social insurance programs following transitions, including pension and health insurance
 - Expansion of unemployment and (in poorer countries) anti-poverty programs following crisis
- Vs. authoritarian systems (Singapore and Malaysia) and the fiscally-constrained Philippines
 - Much more limited expansion and greater propensity to opt for liberal reforms, particularly in authoritarian cases

