Social Policy in Developing Countries

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Abstract

Drawing on recent work and data on social protection in the developing world, this essay evaluates the current state of the art and suggests several important new lines of research. We first examine the historical origin and evolution of social protection systems in developing countries, arguing that insufficient attention has been paid to the authoritarian roots of developing nations' social policy. As a preliminary effort to remedy this shortcoming in the literature, we offer a political logic for the observed variation in the character of institutions of social policy established by nondemocratic regimes. Next, we explore recent research examining linkages between models of economic development and welfare regimes in developing countries. Finally, we turn to the study of the political determinants of the social policy reforms that occurred in the final decades of the twentieth century, arguing that variation in reform across policy areas has been more complex than is generally appreciated in the literature. To explain this variation, we develop a theory that identifies the political coalitions supporting different policy outcomes.

INTRODUCTION

Our understanding of the development of policies of social protection is uneven across the regions of the world. We know a great deal about the causes and distributional implications of social policies in developed countries (Esping-Andersen 1990, Huber & Stephens 2001). By contrast, our grasp of the variation in the design and economic consequences of social policies in developing economies is sketchy and preliminary. Although the study of social policies in countries outside the OECD is a rapidly growing area of research (Wong 2003; Weyland 2005, 2007; Segura-Ubiergo 2007; Brooks 2008; Haggard & Kaufman 2008), political science as a field is far from understanding the variation in the character of social protection and the political factors that have caused these outcomes.

A first striking indicator of the incompleteness of our knowledge is the absence of basic descriptive information regarding the cross-national and temporal variation in the level of social protection. In many developing countries, the introduction of social policy legislation occurred in the early or middle twentieth century, yet we still lack reliable data on the implementation of these policies, the scope of coverage, or the levels of benefits. In some cases, social policy legislation provided genuine protection to many citizens for various employment-related risks. In other cases, however, such measures were no more than promises that were not fulfilled or that were implemented in a highly discretionary fashion. For example, according to data on "official" levels of social protection recorded by the Social Security Administration of the United States, 40 sub-Saharan countries had policies of old-age and disability insurance in place, with "promised" levels of social protection roughly comparable to that found in economies with much higher levels of economic development (Social Security Administration 1999). Yet this information on social policy commitments is clearly contradicted by case studies of the implementation of these policies. Similarly, in Latin American countries, governments have reneged on multiple occasions on many of the social policy promises enshrined in their legislation. In both regions, highly uneven social protection resulted because governments either lacked the administrative capacity to enforce contributions to social insurance or deliberately chose to manipulate social insurance to benefit particular sectors.

A second shortcoming of the existing research is the absence of systematic cross-national and temporal data on the implementation and design of social policies. This has hindered our understanding of the distributional impact of social policies and their effects on economic and labor market outcomes, such as the level of employment, overall labor force participation rates, and economic growth (Mares 2007a). Consider for example the relationship between the level of social protection and the size of the informal economy. Since the influential paper of Harris & Tadaro (1970), social security contributions and other labor market regulations have been argued to be the main cause of labor market "dualism" in many developing countries, segmenting employment between secure, higher-paid jobs in the formal sector and precarious, lower-paid informal jobs. High social security contributions and above-market-clearing wages were theorized to force workers to queue for jobs in the formal sector and subsequently shunt many workers into the informal economy. However, a growing amount of empirical evidence raises significant doubts about the explanatory power of this received wisdom. For example, over the past two decades, lack of enforcement of minimum-wage legislation in many Latin American countries has resulted in a tremendous downward flexibility of wages in the formal sector. At the same time, many social insurance programs have been dismantled or have experienced severe cutbacks. Yet despite these changes, we see no decline in the size of the informal economy across the region. By 2005, the best estimates show that 50% of all salaried workers in Latin America continued to work informally (Galiani

& Weinschelbaum 2006). These results call into question the expected positive relationship between social insurance expansion and informality, leaving us with no convincing alternative theory of the factors that cause variation in the size of the informal sector.

Third, many developing countries have experienced tremendous social policy change in recent decades. Countries as diverse as Thailand and Bolivia have enacted a wide range of social policy reforms—modifying the level of insurance coverage, the eligibility conditions, and the mix between private and publicly provided benefits received by their citizens. However, the direction of these changes is still insufficiently understood (Mares 2007b). Have welfare states around the world been driven by the competitive concerns of globalization to adopt "residualistic" models, characterized by narrow social insurance coverage and a strong reliance on private-type institutions of social protection? Do we find significant differences across policy areas in the direction and magnitude of policy change? Have some particular subsystems of the welfare state been more vulnerable to retrenchment than others? Although the study of the recent politics of welfare state adjustment in developing countries has been a rapidly growing area of research in recent years, many puzzles remain. We have an insufficient understanding of the variation in the distributional implications of policy changes enacted in recent years. Existing studies do not adequately explain the strong divergence across policy areas (often within the same country); we need an explanation that is grounded in a coherent micro-logic and can account not only for the preferences of political and bureaucratic elites but also for the preferences of organized groups and mass publics.

Fourth, the empirical bias that has characterized the existing literature on comparative systems of social protection has limited the efforts of scholars to test competing explanations against each other. Most of the explanations that seek to account for cross-national differences in the level of social protection have only been tested in a narrow subsample of countries that covers 14–18 OECD economies. In this limited universe of cases, the theoretical variables that are considered important determinants of the trajectory of social policy development—such as the strength of left-wing partisanship, the organizational density of business and labor, and the type of electoral system—are highly correlated with each other. As a result, many quantitative studies of the determinants of social protection in advanced industrialized countries leave out important explanatory variables and are unable to test all relevant competing theories against each other. Broadening our sample size by including developing countries allows us to overcome problems of multi-collinearity and to include a larger number of potential explanatory variables in our estimations. A study of policies of social protection with a broader empirical scope can have important theoretical externalities.

Drawing on recent work and data on social protection in the developing world, this article evaluates the current state of the art and suggests several important new lines of research. We first examine the historical origin and evolution of social protection systems in developing countries, arguing that insufficient attention has been paid to the authoritarian roots of developing nations' social policy. As a preliminary effort to remedy this shortcoming in the literature, we offer a political logic for the observed variation in the character of institutions of social policy established by non-democratic regimes. Next, we explore recent research examining linkages between strategies of economic development and welfare regimes in developing countries. This represents a novel agenda of research, paralleling the latest research on social policy in advanced industrialized societies. However, it requires better specification of its micro-foundational logic. Finally, we turn to the study of the political determinants of the social policy reforms that occurred in the final decades of the twentieth century, arguing that variation in reform across policy areas has been more complex than is generally appreciated in the literature. To explain this variation, we develop a theory that identifies the political coalitions supporting different policy outcomes.

THE HISTORICAL ORIGIN OF SOCIAL POLICIES IN DEVELOPING COUNTRIES: THE UNEXPLORED POLITICAL LOGIC OF AUTHORITARIAN GOVERNMENTS

The first generation of research examining the variation in social policy has explored the impact of underlying structural variables—such as the level of economic development or the level and speed of industrialization—on the level of social spending. For economists, the mechanism linking higher economic development and higher levels of social spending goes back to Wagner's observation that spending on social transfers rises as incomes rise. This positive income elasticity of government transfers is expected to account both for the steady growth of social spending and for the observed cross-national variation. Political scientists, by contrast, emphasize the new needs and vulnerabilities in the economy created by the process of industrialization. Early empirical work on OECD countries found a positive correlation between the level of industrialization or economic development and aggregate social spending (Wilensky 1975). However, the relationship between economic development and the size of the government or the level of government revenues does not prove to be robust in a broader sample that includes developing countries (Adsera & Boix 2002, Mares 2005a). Economic development does not seem to explain much of the variation in spending among developing countries. The shortcomings of these variables point to the need to consider political determinants of social policy.

Among the latter, perhaps the most studied question in the literature has been the relationship between regime type and the size of the government. Typically, this work has argued that democracies, owing to their need to cater to a broad electoral base, will have more extensive social policy commitments. The logic is that competition among political candidates will lead to social policy expansion to reach new groups of voters. Likewise, democratic freedom permits interest group organization and pressure for the increase of social spending (Haggard & Kaufman 2008). Although some disagreement exists (Mulligan et al. 2003), the quantitative literature seems to support this contention that democracies spend more than nondemocracies on particular social programs (Przeworski et al. 2000, Lake & Baum 2001, Avelino et al. 2005).

Within democracies, we now know a great deal about patterns of social spending and policy, especially in developed economies. For example, left-wing, labor-associated governments are more likely to undertake greater social spending (Esping-Andersen 1990, Huber & Stephens 2001); yet, these effects are more pronounced in the formative years of labor-associated parties than in the later, reform period—in which these parties have often protected their core constituencies of "insiders" at the cost of the broader working class (Rueda 2005). On the other side of the political spectrum, employers and associated parties on the right are not univocally opposed to social policy expansion. Under certain conditions—such as increased economic competition or the presence of industrial risks in the production process—firms may support government-administered social protection schemes and thus enter into cross-class alliances with workers (Mares 2003, 2005a; Swenson 2002).

However, one significant weakness of this literature is its binary distinction between democracy and nondemocracy. This blunt dichotomy misses the important variation in social spending and social policy design *within* regime types. More fundamentally, even when variation in regime types appears to account for differences in the growth of social policy expenditures, it cannot explain the political origin of social insurance programs. As Esping-Andersen (1990, p. 15) pointedly remarks, "the thesis that democracy leads to larger welfare states confronts the historical oddity that the

Table 1 Regime type at time of first adoption of social insurance policies, by region*

Region	Regime type	Old age	Disability	Sickness	Unemployment
Latin America	authoritarian	12	16	13	0
	democratic	2	3	1	3
Advanced industrialized nations	authoritarian	7	8	7	2
	democratic	15	14	13	19
Eastern Europe	authoritarian	9	7	8	2
	democratic	0	2	1	2
Africa	authoritarian	3	4	3	1
	democratic	0	0	0	0
Middle East	authoritarian	5	8	3	–
	democratic	1	0	0	–
Asia	authoritarian	4	9	2	–
	democratic	2	2	3	–
TOTAL	**authoritarian**	**40**	**52**	**36**	**5**
	democratic	**20**	**21**	**18**	**24**

*Sources: Flora & Heidenheimer 1981; Mares 2005a; U.S. Social Security Administration, *Social Security Programs Throughout the World*, various years.

first major welfare state initiatives occurred prior to democracy and were powerfully motivated to arrest its realization." In the European context, nondemocratic regimes—such as those of Bismarck in Germany and von Taaffe in Austria—pioneered social insurance legislation, and the expansion of social programs often occurred under conditions of limited suffrage. One quantitative analysis of the evolution of social spending in Europe during the last decades of the nineteenth century and the first two decades of the twentieth century suggests that variables capturing differences in the type of democracy can account for only very small differences in social spending (Lindert 1994).

In the case of developing countries, regime type even more strikingly fails to account for differences in the origin of social programs. Here, the overwhelming number of social insurance programs were initially adopted by nondemocratic governments. **Table 1** presents data on regime type at the time of the adoption of different social policies. Several regional patterns stand out. In Europe and North America, the majority of policies were adopted by democracies. Only one third of the earliest measures (disability, old age, and sickness) were instituted under autocracies. We find the opposite pattern when we move to different regions of the world. Disability insurance, to cover workplace injuries that could leave workers incapacitated, was often the first policy adopted and is the most prevalent policy cross-nationally. However, of the 73 countries included in this sample, >70% were autocracies at the time of adoption. And when the advanced industrialized nations are removed from the total, fully 88% of developing nations adopted disability insurance under authoritarian rule. Both old-age insurance and sickness insurance show similar patterns, with twice as many autocratic nations instituting these programs as democracies. The only departure from the pattern of authoritarian first-adoption has been unemployment insurance. Far more limited cross-nationally, unemployment insurance is largely restricted to the advanced industrialized nations, and thus was adopted primarily under democracies.

Nondemocratic regimes have adopted social insurance programs that vary dramatically in the scope of insurance coverage, the aggregate level of benefits, and the composition of those benefits. In some cases, authoritarian governments have designed policies to serve extremely narrow political clienteles and have been able to maintain this narrowness of coverage despite rapid economic change and growing affluence. For example, prior to democratization in Taiwan, the major old-age insurance program—the Labor Insurance Act—provided employment-related benefits to <10% of the labor force. In contrast, other authoritarian regimes have chosen to enact universalistic health care and education systems. For example, in Brazil in 1971, the military government of Emilio Medici presided over a dramatic expansion of social insurance in the countryside (Malloy 1979).

Theories linking regime type and social policy thus need to be grounded in an explanation of the internal political dynamics of these regimes. Unfortunately, prevailing theories of autocracies offer very limited guidance in this effort. Much of the theoretical work on autocracies tends to be taxonomical; it has generated a long list of possible nondemocratic regime types (O'Donnell 1979, Linz 2000). These include "neo-sultanistic, neo-patrimonial, personal, bureaucratic authoritarian, military, inclusive military, exclusive military, single party, dominant (or hegemonic) party, semiauthoritarian, autocratic, and totalitarian—to name some of the most commonly used categories of authoritarian government" (Haber 2007, p. 694). This attention to the diverse institutional shapes of autocracies has proven helpful in understanding the specifics of particular cases, but it provides less traction in cross-national comparisons and cannot account for the variation in policy output of nondemocratic regimes. To illustrate this point, consider the broad variation in the social policy legislation adopted by military regimes. Some of these regimes have adopted policies that favor urban labor, whereas others have taken a harsh and repressive stance against industrial workers. Still other military regimes have introduced universalistic social insurance. In short, "military regimes"—one critical category of prevailing taxonomies of autocratic regimes—is not particularly helpful in explaining variation in social policy outcomes.

Turning our attention to the relationship between autocratic regimes and their populations has significant predictive power regarding the design of, and spending on, social welfare policies. In doing so, we build on recent work that has sought to better specify the political economy of autocracy, noting the dilemma authoritarian rulers face in remaining in power over a population whose support can never be completely trusted (Wintrobe 1998). In particular, the group that maintains the autocrat in power, which can also credibly mount a challenge to her rule, has become central to "selectorate" theories of political survival (Bueno de Mesquita 2003). Organizations strong enough to put an autocrat in power must also possess the resources to end her rule. Three distinct political equilibria exist as solutions to the "autocrat's dilemma," the challenge of preserving her rule in the face of her launching organization (Haber 2007).

In a first scenario, the leader attempts to eradicate the power of the launching organization through a strategy premised on terror, torture, and purges. If the dictator succeeds, the outcome is one of unconstrained power and discretion. Under these conditions, however, the dictator will be unable to commit herself not to expropriate predatorily all returns from economic activity. The consequence is a lack of investment in these regimes, which will depress economic activities and tax revenues. The implications for social policy are relatively straightforward: One should see little or no social policy legislation enacted by these regimes. Much like the classic "stationary bandit" with a short time horizon, they extract rents to the maximum extent possible and target spending on their repressive apparatus (Olson 1993).

The second potential strategy pursued by authoritarian leaders in their conflict with competing organizations is one of collusion. In this equilibrium, the dictator seeks to prevent coups by providing leaders of the launching organization with a stream of rents in selected economic sectors, and by simultaneously restricting the level of economic competition in the nation. Measures such as barriers to entry, the selective allocation of import permits, and the requirement of licenses or concessions to enter particular economic activities confer an ongoing privileged status on members of the launching organization (Haber 2007). To be effective, the dictator must also bind her own hands and those of her rivals and private economic agents, limiting them to a pattern of distribution of rents that increases the costs of their defection from this arrangement. In other words, the dictator sets up institutions that alleviate rivals' fear of arbitrary expropriation and also guarantee them a steady stream of rents (Haber et al. 2003).

The strategy of collusion has distinct implications for the design of social policies. Consistent with a set of economic policies premised on the creation of monopolies, we expect to see the establishment of "restrictive" social policies, characterized by narrow coverage and generous benefits. Thus, the beneficiaries of social policy largesse will be workers in the state-owned or private-sector industries on which the regime is also conferring trade protection and other privileges. High levels of benefits ensure the loyalty of these workers to their leaders and their employers, reducing strikes and other labor activism and encouraging wage moderation. Financing for these generous programs is made possible by the monopoly rents these industries enjoy.

An example of this sort of collusive social policy occurred under the "immigrant regime" of the Nationalist government in Taiwan. Politically, this regime relied on the support of "mainland Chinese" who had immigrated with Chiang Kai-shek to Taiwan during the civil war. The institutions and policies put in place by Chiang Kai-shek contained strong favoritism toward this group and an implicit bias against native Taiwanese, denying them participation in the national power structure (Tsai & Chang 1985), through a strategy often referred to as "internal colonization" (Hechter 1975, Grabowski 1988). Thus, even though the mainland Chinese constituted a minority in number, they enjoyed disproportionate power and were able to set up the political and economic institutions to benefit their friends and buy off their potential adversaries.

The Nationalists' social policy legislation was introduced by presidential decree—rather than an act of the legislature—on March 1, 1950, the day of Chiang Kai-shek's political inauguration. The centerpiece of the legislation was the Labor Insurance Act. Coverage was limited to employees of central and local government-owned enterprises and blue-collar workers in private enterprises with more than ten employees. In the same year, the government introduced soldiers' insurance. In short, the government instituted a system that benefited its most likely challengers—fellow Nationalists (the launching organization), workers with the potential to organize (and the holders of private capital for whom they worked), and the military.

A third distinct political equilibrium found in authoritarian governments is characterized by organizational proliferation. In this case, the dictator encourages the creation of competing organizations in order to raise the costs of collective action by the launching organization. We see this logic at work in a variety of cases that have been categorized as distinct regime types by previous studies: military governments that encourage the creation of political parties or one-party Communist regimes that foster political competition among rival organizations, such as the secret police and the military. Haber invokes Mexico under the PRI as the paradigmatic case of this political strategy. As Haber (2007, p. 703) argues, "the key to the PRI's success was that it sat at the center of a network of organizations which were designed to align the incentives of a wide variety of organized corporate groups, making it extremely difficult for any of them to mount a credible challenge to the party's monopoly on power."

In sharp contrast to the collusive autocracies or to dictatorships that pursue strategies of political terror, regimes premised on this logic of organizational multiplication confer economic rights to broader segments of the population. Although their resulting property rights system is more extensive, it is also more uneven, as groups that have been granted some private property rights can easily usurp the rights of unprotected individuals. These regimes often produce a chaotic mix of economic policies granting selective benefits to a variety of groups. In the past century, authoritarian governments that employed organizational proliferation frequently pursued economic strategies involving import substitution, targeting tariff policies and government spending to benefit key groups of local producers and workers, and thus buying their political support and diffusing potential tensions.

This characterization of the logic of organizational proliferation pursued by the PRI in Mexico resonates with the characteristic policies pursued by "state corporatist" regimes (Schmitter 1979). In this strategy, the state organizes society into constituent units that are "limited in number" by government restriction, "singular" because competitors have been eradicated, "compulsory" through legal or other institutional constraints, "noncompetitive" owing to state intervention, "hierarchically ordered" under state management, "functionally differentiated" through organizations such as industrial unions, recognized by the state, with a "representational monopoly" on members of their group, and with state "controls on leadership selection and interest articulation" (Schmitter 1979, pp. 20–21). The organizational proliferation model seeks to coopt existing competitors by incorporating them into the system of benefits as under collusive authoritarianism, but it also seeks to cultivate new organizations. These new organizations dilute the power of elites from the launching organization, and they create overlapping responsibilities and restraints on defection. Indeed, the total pool of beneficiaries grows substantially such that even if benefits are uneven, mounting a credible threat against the government may be difficult. Rents in various forms reach more members of the population.

The social policy profile of autocracies pursuing a political strategy premised on organizational proliferation will differ dramatically from the social policy profile of other autocracies. One expects these autocracies to enact social policies with two (seemingly contradictory) policy characteristics. On the one hand, the social policies will be characterized by high levels of institutional fragmentation. This is associated with pronounced inequities in the level of social policies. They will, most likely, resemble the "conservative welfare regimes" of advanced industrialized democracies, where we find policy privileges granted to civil servants and a large number of occupational groups (Esping-Andersen 1990). On the other hand, the level of social policy coverage found in these regimes will be much broader than the coverage under collusive autocracies.

The political development of social protection in many Latin American countries provides ample examples of this logic. Under the military junta that came to power in 1943 in Argentina, efforts were made to develop new ties to labor through a number of state-administered social policy measures, including pensions, public health and social assistance, housing finance, and unemployment insurance (Godio 2000). Yet the mix of benefits varied greatly. Wages were significantly lower for government workers and health and education workers, but these sectors were compensated through even stronger job protections (Carnes 2008). Equally importantly, the 1945 Law of Professional Associations assured labor union bargaining rights and recognized monopoly unions in each industrial sector; however, this measure also limited the independence of labor and restricted its right to strike (Collier & Collier 2002). In Brazil, too, the harder-line military regime that emerged in 1964 first sought the most radical kind of organizational proliferation—establishing an "official" opposition party—the Democratic Movement of Brazil (MDB). When this proved impossible to manage, the government sought to fragment it into smaller parties. On the social policy front, it extended social security entitlements to rural workers in 1971, and in 1974 gave pensions to older urban workers who had not made full payments into the social security system. Both were clear efforts to win the allegiance of alternative political bases. However, the benefits to these rural and informal workers lagged far behind those enjoyed by industrial and civil service workers (Haggard & Kaufman 2008). Our third example of organizational proliferation comes from Mexico (Haber 2007). Seeking to consolidate control over a nation wracked by the regional and economic rivalries of the 1910–1920 Mexican Revolution, Plutarco Elías Calles and his successors designed their new party to gather the disparate strands of the population—with sections for the military, peasants, industrial workers, and "popular" middle classes (Skidmore & Smith 2005). Although the Instituto Mexicano de Seguro Social (IMSS) was not created until the 1940s and was restricted to a small number of beneficiaries, it would be gradually expanded to larger segments of the urban working class. Benefits were not even, though, as state workers received the far more generous assistance of their own social security agency (ISSSTE).

The conditions under which authoritarian governments choose a strategy based on organizational co-optation versus proliferation remain uncertain. It would seem that the number of critical supporters that make up the launching organization—roughly analogous to the "selectorate" in the terminology of Bueno de Mesquita et al.—is central to the choice of strategy. Where membership in the launching organization is more restricted, and where other potential challengers are limited in number, it is easier to set up institutions to favor the focal elites. Conversely, when the autocrat is brought to power by a broad coalition of interests, or in a civil conflict with many disparate parties and interests, then organizational proliferation will be preferred. This allows the autocrat to cultivate ties to each of the potential challengers, fragmenting them and frustrating their efforts to collectively bring down the regime. Finally, the initial political ties and the ideological goals of the launching organization constrain the policy choices of the dictator, leading to policies with distinct distributional biases.

Given the large number of cases in which social policy adoption occurred under autocracy, and the scant attention it has received in the existing literature, we contend that future studies must deepen our theoretical understanding of the political (especially authoritarian) dynamics driving social policy development. We have offered a preliminary outline of such an approach, but in-depth case studies are needed to test its logic.

VARIETIES OF DEVELOPMENTAL CAPITALISM AND VARIETIES OF WELFARE REGIMES

The explanation outlined above attributes divergence in social policy outcomes to different levels of political competition within autocratic regimes. However, a number of scholars argue either that regime type is epiphenomenal or that its causal effect is strongly mediated by other variables (Haggard & Kaufman 2008). In this related line of research, a number of studies are seeking to relate cross-national differences in social insurance programs to differences in the economic strategies pursued by various countries (Wibbels & Ahlquist 2007, Haggard & Kaufman 2008). This promising line of research is characterized by an intense search for the "first-order" causal variables that explain the initial adoption of a developmental model of capitalism.

The theoretical antecedent of these studies is the scholarship stressing the causal linkages between "production regimes" and "welfare regimes" in advanced industrialized economies (Kitschelt et al. 1999, Hall & Soskice 2001, Ebbinghaus & Manow 2001). These studies have identified systematic cross-national divergence in the organization of financial and industrial relations systems among advanced industrialized countries, distinguishing between coordinated and liberal market economies. In coordinated market economies, a dense network of business organizations as well as the provision of patient capital by firms facilitates high levels of investment in firm- or industry-specific skills. The presence of these institutions of nonmarket coordination affects the social policy preferences of employers and workers in these economies and the formation of cross-class alliances in support of social policies that protect investment in skills (Estevez Abe et al. 2001; Mares 2001, 2003). These include insurance policies with earnings-related benefits that raise the reservation wage of high-skilled workers and lower their willingness to take up jobs that do not correspond to their qualifications. By contrast, in liberal market economies, firms' incentives to undertake long-term investments in the skills of their workers are lower because of weak employers' associations and fluid capital markets. In this context, cross-class alliances among employers and employees are less likely to form, and business is more likely to press for the deregulation of labor markets and for reductions in social policy benefits (Wood 2001).

More recently, attention has turned to the ways that nations use social policies to shape or create a labor force adequate to their "particular development projects" (Wibbels & Ahlquist 2007). According to this logic, the choice of social policies is not driven by partisan politics or by the level of democracy or even by regime type, but by four structural conditions: domestic market size, relative abundance or scarcity of labor, asset inequality, and the openness of the international economy. The resulting policies tend to cluster on three main "regimes" that emphasize redistributive social security insurance, human capital development, or a mix of the two.

In countries marked by large domestic markets, scarce labor, and high inequality, inward-oriented "import-substitution industrialization" (ISI) development strategies predominated as a response to the Great Depression. Capitalists sought to create a labor force capable of domestic industrial production, as well as a consumer base capable of absorbing their output. To do so, they needed to invest in skill development among workers, and they looked to social policy as a way to retain workers by insuring them against the risks of injury or sickness. Urban industrial workers came to possess a high level of bargaining power in these labor-scarce economies and were able to effectively organize to lobby for "insurance-based social regimes" (Wibbels & Ahlquist 2007). Capitalists were supportive of this redistribution through social security programs because it ensured continued demand for their domestically produced goods.

In contrast, in large, labor-abundant, and low-inequality economies, ISI policies were staved off through the efforts of relatively stronger rural sectors who would not tolerate the urban bias of ISI. In these cases, "export-led industrialization" (ELI) was chosen. Capitalists required two features in the labor market—a skilled workforce and low labor costs—in order to remain internationally competitive. They favored a "human capital" social policy regime emphasizing education and health care and with little or no redistributive social policy (Wibbels & Ahlquist 2007). In these cases, workers have not felt the need to call for more redistribution, and collective action has been complicated by the relatively large and homogenous labor force.

Finally, a "mixed" social spending regime combines "modest levels of insurance and human capital spending" (Wibbels & Ahlquist 2007). These regimes have occurred in countries with large domestic markets and abundant labor, but in which ISI developed owing to high levels of inequality. Nevertheless, the abundance of labor made it impossible for workers to collectively demand high insurance spending, leading to only moderate redistribution and the adoption of some human capital spending. Similar mixed outcomes may also occur in smaller countries with mineral wealth.

This elegant and parsimonious theory presents a novel explanation of the determinants of social spending in developing countries. Several aspects of this theory, however, require further analysis. A critical assumption is that all leaders facing similar structural conditions will happen upon similar development strategies with similar implications for social policy spending. However, we have suggested above that authoritarian regimes may have political motives, unrelated to structural economic conditions, that determine their patterns of social spending. A political answer based on the electoral needs of the government in power underwriting the ISI policies with subsidies and trade protections needs to be developed.

In addition, the causal connection between some of the underlying structural variables and a developmental regime is often unclear in this theory. On the one hand, many of the structural factors that are taken as given and exogenous might be in fact endogenous to the political process and social policy regime adopted. In particular, levels of inequality and labor market stratification would seem to be both causes and consequences of the educational system and of social policy more generally. In addition, many countries show significant variation over time in their levels of labor scarcity. Finally, several countries experienced significant changes in their developmental model. Korea shifted from an ISI model to ELI in the mid-1950s (Chibber 2003). Many Latin American countries pursued the ISI strategies for only brief periods of time. Models relying on time-invariant structural variables cannot account for this contingency in the choice of developmental models.

The preferences and incentives of political actors over different policy choices also are inadequately specified. Consider the choice whether or not to invest in educational policies. It is unclear why both workers and employers under ISI do not prefer spending on education, recognizing the advantages of such a choice in the long term. Why do workers not call for more broad-based educational efforts? Why would employers prefer to bear the cost of educating workers in basic skills when they could outsource education to the government? Further, recognizing the gains that could be made if efficiency were achieved and markets opened, why would capitalists "vote" against universalistic education that would make workers interchangeable and lower the wage rate? A political answer, based on the concentration of rents for industrial workers and the electoral needs of the government in power underwriting the ISI policies with subsidies and trade protections, needs to be developed.

A final difficulty with this approach is that it emphasizes policy continuity and tends to downplay the variation in social spending that occurred over time, especially in the most recent decades. The examples of South Korea, Tunisia, and Mexico, which are cited as presenting *stable* social security spending, actually show increases of 100% or more (and decreases of 50% or more) in particular policy areas in the period of 1970–1982. Thus, although describing spending regimes is helpful, this analysis may miss some of the most important and politically contentious modifications that have happened over time.

An alternative structural approach emphasizes the importance of "critical alignments" that occurred in the mid-twentieth century in different regions of the world, and contends that distinct logics are needed to explain the different processes of social policy adoption and reform in developing countries (Haggard & Kaufman 2008).

Analyzing spending levels in each of the three principal social policy areas—pensions, health, and education—the critical-alignments approach proposes three regional social welfare types for Latin America, Asia, and Eastern Europe (Haggard & Kaufman 2008). Comparing social programs in 1980, Haggard & Kaufman describe how "social security spending in Latin America dwarfs that of East Asia's minimalist welfare states," whereas Eastern European nations consistently outspend (often by a factor of two) the Latin American states. In health care, Latin America tends to emphasize curative health care while Asia spends proportionally more on basic health care. In education, although spending levels are not radically different between the two regions, Latin America devoted more spending to secondary education, and Asia showed superior performance in student retention through fifth grade.

Critical realignments are argued to have provided the genesis of the distinct social welfare policy regimes in the mid-twentieth century in each region, through which the changing composition of the ruling elite led to new "incentives to co-opt, control or repress urban labor unions and political movements representing the working class and the peasantry"

(Haggard & Kaufman 2008, p. 20). At this time, the Cold War produced very different results in Eastern Europe, where Communist dictatorships took control and made workers central to their political strategy, and Asia, where virulently anti-Communist leaders severely limited the emergence of left parties and weakened labor. In Latin America, reformist leaders came from the military and middle classes and sought to win electoral support from the urban working class by extending employment-related social insurance. Each of these ruling coalitions played a crucial role in setting up each nation's development strategy—whether ISI or export-led growth—which reinforced and supported the coalitions. Where large urban labor forces were co-opted or integrated into the state in Latin America and Eastern Europe, ISI policies were chosen, further cementing the industrial workforce's privileged place in the economy. In Asia, as many of the nations emerged from colonial rule in the postwar period, Cold War concerns and U.S. support encouraged export-led development strategies.

A separate logic is proposed to explain the reform process of social welfare policy in the three regions during the post-1980 "third wave" of democracy. Here the causal importance of two main independent variables is stressed. First, economic conditions in the 1980s set up a path of either expansion or contraction. Where economic growth and structural conditions were positive (East Asia), social policy programs tended to expand in size and coverage. Where these conditions were negative (Latin America and Eastern Europe), the return to democracy was marked by a contraction of social policy commitments. Second, the reforms of the 1980s and 1990s are argued to build on the earlier political legacy that social policy had created in each region. Thus, in East Asia, where social policy had been limited, the expansion of coverage was politically popular, drawing in new supporters to democratic governments increasingly interested in cultivating an electoral base. Conversely, in Eastern Europe, where social policy commitments were broad, efforts at reduction met widespread opposition. Similarly, in Latin America, unions that had been privileged under earlier policies opposed both expansion of coverage (which would dilute their benefits) and retrenchment in the programs that targeted them.

Although this complex structural analysis is a significant advance over much of the existing literature, the causal explanation it ultimately presents is nearly as complex as the reality it describes. The line between theory and history is blurred to the point where it is unclear which variables are more important than others.

Further, the emphasis on regional clusters may obscure more than it reveals. On the one hand, the "cross-regional" differences are not as stark as they are portrayed. Consider the differences in the relative emphasis on educational spending, which, according to this explanation, differs dramatically between East Asia and Latin America. There is no difference in the average spending on education as a percentage of GDP between Latin America and East Asia—both are 3.2%—and the difference in average education spending as a percentage of total government spending is only 2.3% (17.5% of total spending in Asia versus 15.2% in Latin America). Neither difference is statistically significant (p-values of 0.6 and 0.55, respectively). Indeed, very few of the regional differences in welfare state spending are statistically significant. Morever, the "regional dummies" invoked by this analysis conceal too much within-region variation. This within-region difference is perhaps starker in East Asia than in Latin America (Ramesh 2005). Explanations for cross-national variation within regional clusters at these critical moments invoke a long list of potential explanatory variables, which includes regime type, strength of the labor movement, economic structure, strength of populist parties, and so on. The analysis does not specify their relative importance nor the levels and critical values at which changes in these variables account for cross-national variation within a regional cluster.

A final shortcoming of the structural "production regime" approach, shared with their theoretical counterpart in the literature focusing on advanced industrialized societies, is their assumption of strong policy coherence within countries. In the following section, we show that evolution of social policies in recent decades is characterized by tremendous variation across policy areas even within the same country.

THE POLITICS OF SOCIAL POLICY REFORMS

During recent decades, social policies throughout the world have undergone significant modification. Change and transformation are common to both developed and developing countries. However, the magnitude of change experienced by advanced industrialized economies is dwarfed by the thorough-going policy changes that occurred in Latin America, Asia, and Eastern Europe in the 1990s.

Two kinds of policy changes have received significant attention. The first is the wave of pension privatization that has swept the world. By 2005, 24 countries had adopted a private pillar. The speed of privatization and the magnitude of policy change have varied dramatically across countries. Some countries, such as Chile and Mexico, have entirely abolished the preexisting public pillar. Others, such as Uruguay, have adopted a mixed system, where workers' pensions are financed by a combination of the public and private systems. Still other countries have enacted a parallel privatization, giving their citizens a choice between the public and the private pillar. In explaining the adoption of these policies, some studies have emphasized the impact of the competitive and fiscal pressures of globalization—most notably that of capital market liberalization (Madrid 2003, Brooks 2008). Other studies have focused on policy diffusion through the imitation of foreign models, noting how cognitive biases and heuristic shortcuts lead policy makers to follow the example set by their neighbors' reform (Weyland 2005, 2007).

The second set of changes that has received attention in the literature is the expansion of social protection in East Asian economies. The most dramatic examples are the introduction of universalistic health insurance by Taiwan and Korea in 1994 and 1997, respectively (Wong 2003). Explanations of these changes focus on two consequences of democratization. First, the incentives of politicians changed following transitions to democracy (Wong 2004). In the new context of heightened electoral competition, these studies argue, politicians have appealed to voters by offering social policy promises, but they failed to internalize the long-term fiscal implications of programmatic expansion. Because politicians from all political parties have found this strategy attractive, partisan differences carry little explanatory weight in accounting for variation in outcomes. Another consequence of democratization was the mobilization of new social groups, such as nongovernmental organizations (NGOs), which heightened political awareness of the strong inequities in policy coverage and swayed political opinion in favor of the introduction of universalistic programs (H.J. Kwon 2002, S. Kwon 2002).

Current research investigating these changes—the privatization of pensions and the introduction of universalistic social policies—has generated insights that complement or challenge the findings regarding the politics of social policy reforms in advanced industrialized economies. One important set of theoretical implications concerns the role of partisanship in affecting the direction of social policy reforms. The introduction of universalistic social policies in Korea and Taiwan challenges the proposition advanced by power-resource scholars that strong and encompassing trade unions and social democratic parties are a necessary institutional precondition of universalism (Esping-Andersen & Korpi 1984). Studies of pension privatization in Latin America also reveal that left-wing parties are not less likely than right-wing parties to adopt pension privatization, although some studies find a small partisan effect on the magnitude of the reforms (Brooks 2008). Reformulating the "Nixon goes to China hypothesis," other scholars have suggested that left-wing parties are more likely to adopt radical reforms, owing to their superior ability to communicate to their constituents the advantages of these reforms and the absence of alternatives (Cukierman & Tommasi 1998, Tommasi 2002). Nevertheless, the importance of partisanship as an explanatory variable continues to remain contested. In recent research, Huber and others argue that—conditional on the age of democracies—the political strength of left-wing parties contributes to differences in patterns of spending across Latin America, leading to lower levels of inequality (Huber et al. 2006).

Recent social policy reforms in developing countries also present challenges to explanations that have stressed the constraining effects of previous policies and institutions (Pierson 1994, 2001). Scholars of policy reforms in advanced industrialized societies have emphasized that existing policies "exhibit increasing returns and self-reinforcement: each step along a path produces consequences which make that path more attractive in the next round and raises the cost of shifting to an alternative path" (Myles & Pierson 2001, p. 312). An important implication of this argument is that the "stickiness" of existing policies is higher for larger programs and for programs with a longer political history. As Pierson argues, a policy of long duration and large scope will have a large political constituency supporting it, which will constrain efforts of politicians to change the status quo. The wave of pension privatization that has swept the world casts some doubt on the explanatory power of this theory. The prediction that larger programs are stickier is not borne out by the data: Pension programs, the largest social policy program in most developing countries, have been the most vulnerable to retrenchment. These developments point to the need to identify the conditions under which dramatic, "path-departing" policy change is possible even in the presence of programs with large political constituencies (Ebbinghaus 2005, Brooks 2008).

The emphasis on these two broad changes—the privatization of pensions and the introduction of universalistic health insurance—has obscured other important transformations in social policies that have taken place in many developing countries. **Figure 1** maps examples of policy changes in developing countries in a two-dimensional policy space. The horizontal axis captures variation in the "socialization of risks" across different social policies. Policies taking low values along this axis are characterized by low levels of risk pooling. These are private-type policies where the level of benefits is linked either to the actuarial risk facing the individual or to the returns made by investments in personal, private accounts. The common feature of both policies is the individualization of risk, or in Baldwin's definition, the "fact that individuals face risk alone and not as part of a broader community of risks" (Baldwin 1990, p. 3). Policies taking high values on this axis are characterized by a high diffusion of risks across covered occupational groups. The vertical axis measures the redistribution undertaken by the particular social policy, in other words, the "propoor bias" of the particular policy. Policies taking high values along this axis involve higher redistribution from high-income to low-income groups. By contrast, in policies taking low values along this axis, little or no redistribution from the rich to the poor is attempted.

Existing research has predominantly focused on two cells of the policy space. Private old-age insurance policies occupy the lower left-hand corner of the policy space. Although these policies shift a significant part of the risk to individuals, the benefit structure also favors higher-income earners. The other policies that

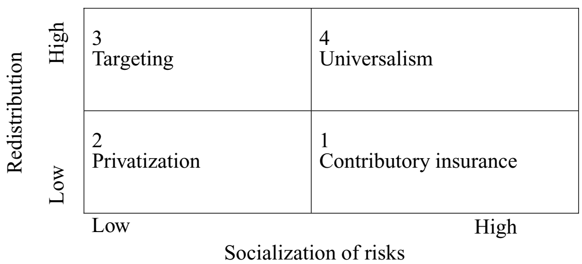

Figure 1

Socialization of risks.

have been studied are situated in the upper right-hand corner of the policy space. Universalistic social policies in Asia are characterized not only by high levels of coverage but also by high levels of redistribution across income groups. According to estimates of the Korean Health Ministry, the ratio between health benefits and contributions for individuals in the lower 10% of the income distribution was 6.45. By contrast, it was 0.27 for the highest 10% of the population (Chun 2006). Studies of the distributional implications of the Taiwanese health care sector reveal a similar pattern (Cheng 2004, 2005).

But, as **Figure 1** illustrates, the other two cells of this policy space are not empty in the way that the literature might suggest. The vast majority of health care reforms introduced by Latin American countries occupy the upper left-hand corner of this policy space. Many of these countries have introduced reforms that attempt to increase the access of low-income groups to health services (Mesa-Lago 2007). Although means-testing limits the scope of beneficiaries of these policies (resulting in low values on the coverage dimension), these policies take high values on the redistributive dimension of the social policy space. Consider the following examples. Beginning in the mid-1990s, the Brazilian health ministry introduced policies that guarantee basic services for lower-income groups (Weyland 2005, p. 231). In 1993, El Salvador introduced similar policies subsidizing health benefits for the poor. Peru introduced the Programa de Salud Basica para Todos in 1994, which increased basic health care in rural areas. A related policy, the Programa de Fortalecimiento de Servicios de Salud provided subsidies for the poor. In Colombia, the introduction of health insurance subsidies for poorer sectors led to an increase in the access to health benefits of the poor from 4% in 1993 to 40% in 1997 (Weyland 2005). In Mexico, President Zedillo introduced Progresa, a program providing health subsidies to low-income groups, in 1995 (Gertler 2007).

Contributory social insurance policies, located in the lower right-hand quadrant of the social policy space in **Figure 1**, are also distinct from the other social policy alternatives discussed above. In these policies, insurance contributions are not tied to the incidence of risk faced by the individual. As a result, risk is socialized, and the redistribution of risks is higher than in private social policies. The structure of benefits is regressive, preserving (and sometimes amplifying) market-based inequalities of income. Korean pension reforms are an example of a policy situated in this quadrant of the policy space (Moon 2001).

The literature's exclusive exploration of quadrants 2 and 4 of the policy space has had important consequences. Significant variation in the design and distributive implications of social policies has not been adequately explored. While many countries in Latin America have privatized their old-age insurance policies, they have also introduced health care policies that explicitly provide benefits to the poor. Studies of social policy reform in Asia also fail to account for variation across policy areas. We see the introduction of universalistic policies in one subsystem of the welfare state, health care, whereas the development of old-age insurance policies has followed a dramatically different trajectory. While Korea has introduced Bismarckian policies, Taiwan has recently privatized its pension system. Existing explanations focusing on regional dummies or even country-specific attributes cannot adequately account for this variation.

Mares (2007b) proposes a political explanation of these policy outcomes that explores the sources of variation in individual preferences over these policy alternatives and the strategic alliances formed in support of, or opposition to, various programs. In this model, wage earners in the formal sector are the pivotal political group. These employees can either choose to form a political coalition with lower-income groups (and thus support policies with a propoor bias) or they can ally with higher-income groups (supporting programs with no effort to redistribute income). The model also seeks to account for conditions under which these coalitions support policies that take different values along the dimension measuring the socialization of risks and favor either "private-type" social policies that involve no redistribution of risks across occupations or policies characterized by broad coverage and a high interoccupational redistribution of risks.

The preferences for social policies of the pivotal group are affected by several underlying economic characteristics. These include the relative level of income and the relative risk profile with respect to the risk insured by the program (old age, sickness, disability, or unemployment). The relative salience of risk versus income depends on the overall level of inequality and the distribution of risks in the economy. All things equal, if the level of inequality is high, the benefits from risk redistribution for high-risk groups might be outweighed by their disutility in terms of lower income. By contrast, if the level of inequality is low, one expects the distribution of risks to be a stronger predictor of the distributional conflicts over a new policy. This analysis thus reconciles two competing theoretical claims regarding the politics of redistribution, which have emphasized either income-based (Melzer-Richard) or risk-based conflict, showing that the relative importance of each (income and risk) depends on the underlying distribution of these variables in the economy.

In addition to these variables, an important individual-level determinant of social policy preferences is the economic security of the pivotal group—in other words, its expectation of steady, uninterrupted employment. This assumption is the basis of the complex redistributional mechanisms worked out in contributory insurance policies. An increase in the economic insecurity of the pivotal group—due to exogenous changes such as tertiarization, an increase in labor market flexibility, or informalization—has important implications for its social policy preferences. On the one hand, the expected utility derived from all forms of contributory insurance declines. On the other hand, their willingness to support policies with a higher propoor bias increases because they expect to rely on residual policies more frequently. In other words, an increase in the economic insecurity of wage earners in the formal sector contributes to the formation of coalitions between this group and the poor in many developing countries.

Differences in the extractive capacity of the state explain variation in the location of the preferences of pivotal voters along the horizontal axis of the social policy space and the choice between private-type social policies and policies involving greater redistribution of risks. In this model, workers in the pivotal sector choose among different policies by comparing the costs of these programs (their post-tax wages) against the expected future stream of benefits. In the case of a private program, those benefits are the result of returns from private funds. By contrast, in the case of a policy administered by the state, future streams of benefits are a function of the capacity of the state to enforce social insurance legislation. If workers in the formal sector assess that the ability of the state to enforce existing social insurance legislation is low, they will support private-type social policies. Weaknesses in state capacity erode the potential gains these workers can reap from a broad redistribution of risks. The importance of this variable differs across policy areas: Its impact is larger for policies with a longer lag time between the payment of the contributions and the receipt of social insurance benefits (such as pensions) and smaller in policies where this lag is shorter. The implication of this argument is that the fiscal capacity of the state affects the size of the political coalitions favoring different levels of redistribution.

Finally, rules pertaining to the design of different programs also affect the strategies pursued by the pivotal sector and, hence, the composition of the political coalitions supporting different policies. Consider the consequences of the "policy externalities" of different programs (Roemer 2006). (Policies such as immunization programs have large externalities—they affect the health status of all citizens.) An increase in the magnitude of positive policy externalities is likely to affect the probability of a coalition between middle classes and the poor. A second relevant feature of policy design is the lag time between the payment of contributions and the receipt of social policy benefits. We expect pivotal groups to discount more strongly the promised social policy benefits in policies with a high lag time and favor more limited socialization of risks and income redistribution.

To summarize the above discussion, the four outcomes identified in the policy space in **Figure 1** are distinct political equilibria supported by different political coalitions. **Figure 2** presents these coalitions, showing how their interaction with the level of state capacity produces each of the distinct outcomes. They are "self-sustaining" in the sense that actors supporting them have no incentives to defect. Contributory insurance policies (quadrant 1) are supported by a coalition of middle and upper classes in conditions of high state extractive capacity. These Bismarckian policies—once the modal social policy adopted by developed and developing countries alike—are rare in recent decades. Changes in economic conditions, such as the decline in the importance of full-time employment, make these policies less attractive to urban workers than alternatives where access to benefits is not contingent on an uninterrupted stream of contributions. In contrast to contributory insurance programs, universalistic policies (quadrant 4) rely on a coalition of the middle classes and the poor in economies with high extractive capacity. In these environments, middle-class workers are likely to accept a policy outcome that redistributes to the poor if their economic prospects are secure and if the poor have a better risk profile, which thus creates gains from redistribution of risks (Mares 2003). In countries with weak extractive capacity, we find either coalitions between the middle class and the poor in support of means-tested programs (quadrant 3) or coalitions between the middle class and the rich in favor of private social policies (quadrant 2). The difference between these two outcomes can be attributed to differences in either (*a*) the risk profile or economic insecurity of the pivotal group or (*b*) policy feedbacks, such as lag times or policy externalities, between programs.

By modeling individual preferences for different policies and the conditions leading to the formation of different political coalitions, the theory sketched here provides more explicit micro-foundations for macro-level outcomes. As such, it complements earlier studies examining social policy reforms in developing countries, which have focused primarily on the political incentives or ideational beliefs of elites. It also highlights the effect of seemingly small differences in institutional design on the political incentives of actors. The observation that "policy feedbacks" have different consequences for policy outcomes was initially developed by historical institutionalist scholars (Skocpol 1992, Pierson 1994). This research shows that policy feedbacks have lasting political consequences. On the one hand, they create incentives for pivotal groups to defect from the policy status quo. On the other hand, they generate self-enforcing political equilibria around new policies and contribute to the formation of different political alliances. This suggests that the study of the recent dynamics of social policy reform in developing countries is an area of research where insights of historical and rational choice institutionalism can be fruitfully integrated.

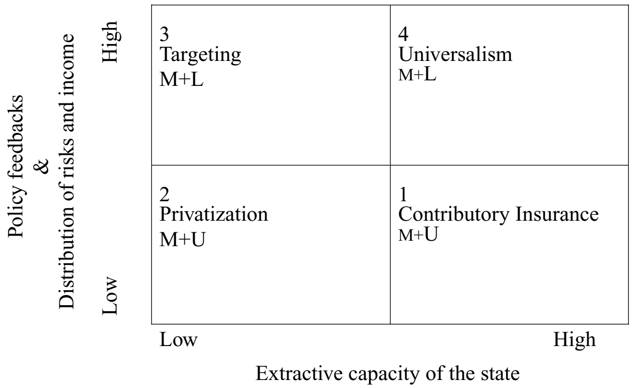

Figure 2

Extractive capacity of the state.

CONCLUSION

We have written elsewhere of the need for "research on social policy to become more unequivocally comparative in its orientation" (Carnes & Mares 2007, p. 882), and here we have pointed out some of the insights gained from studying the social insurance programs of developing countries. This has allowed us to observe greater variation in social policy outcomes—both across countries and regions, and across policy areas within individual country cases—as well as a wider range of values on the independent variables that are most studied in the literature.

In this article, we have explored three ongoing areas of research on the social policies of developing countries. The first concerns the political origin of social programs. In many developing countries, social policies have originated under authoritarian regimes. The large variation in the scope of these programs and the level of benefits is, so far, unaccounted for by existing studies. We have proposed a political explanation for these policies that is based on the strategies pursued by authoritarian leaders in their struggle with the political organizations that brought them to power. A second exciting area of research explores the linkages between developmental strategies pursued by various countries and their social policy regimes. In examining this recent literature, we have argued that a better specification of the social policy preferences of relevant political actors is needed to provide a stronger micro-foundation for the observed macro-level regularities. A third direction is the study of recent developments in social policies. We have demonstrated the existence of significant variation across policy areas in the trajectories and distributional implications of social policies in many developing countries, and we have proposed an explanation for these outcomes that identifies the different political coalitions supporting these policies. Their size and their political composition are, in turn, affected by broader institutional factors and by the underlying distribution of income and risk.

The study of social policy in developing countries presents one of the most exciting research agendas in comparative political economy. Better data and more sophisticated research methods now allow us to untangle aspects of policy design and distributional consequences that could not have been detected earlier. Yet many very basic questions are still in need of systematic analysis and explanation. This growing line of study promises not only to give insights regarding a new class of cases—developing countries—but also to enrich our understanding of important aspects of social policy around the world. In the current world context, the ability to adapt economically is crucial. Policies of risk reduction and alleviation have never been more central to political life.

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