Conclusion:

Latin America, East Asia, Eastern Europe and the Theory of the Welfare State

Over the last two decades, welfare reforms in the new democracies of Latin America, East Asia, and Eastern Europe have moved along very different tracks. Some countries have expanded social insurance and services, others have attempted to liberalize existing commitments or even retrench them outright. We have argued that these current processes of reform are but the most recent phase in much longer social policy histories. Far from being newcomers to the dilemmas of the welfare state, countries in all three regions developed quite distinctive welfare models over the postwar period.

These prior models exercised a strong influence over the course of social policy reform in more recent decades. In the literature on the advanced welfare state, the concept of path dependence is invoked in such settings to explain why the status quo persists or changes only within narrow bounds. This book raises broadly similar questions about the contemporary politics of welfare reform in middle-income countries. How have the interests and institutions created by past policy choices affected current policy debates? To what extent do changes in social policy reflect not only contemporaneous variables, but the historical path through which the current state was reached?

Such questions pushed us to investigate the origins of these social policy systems; how they developed in the first place. In our discussion of origins, we focused on fundamental political realignments: periods characterized by the rise to power of new political elites and a fundamental change in the political status of workers, peasants and the organizations and political parties that represented them. We show that these realignments had a lasting influence on the subsequent course of policy. Where political elites sought to co-opt these groups, they gained not only
political representation but social policy concessions as well. In Latin America, this process of accommodation resulted in the extension of social insurance coverage to some portion of the organized urban working class, programs that became the template for further expansion of entitlements. However, critical realignments in Latin America were not associated with new political opportunities for the rural poor, and social policy in the region reflected their political exclusion.

Where lower class organizations were controlled or repressed, social policy reflected the objectives—the projects—of ruling political elites. In the conservative, anti-Communist regimes of East Asia, governments sought to eliminate labor and the left as contenders for power. Coming to power in the wake of political independence, these political elites extended certain core social services widely, most notably basic education. However governments did not accommodate the social policy interests of the organized urban working class as occurred in Western Europe and Latin America.

In Eastern Europe, repression of independent labor and peasant organizations was a necessary condition for a much broader socialist project that included the nationalization of the “commanding heights” of industry and finance and the collectivization of agriculture. The East European countries had broad social entitlements, but these exhibited a number of features that differentiated them sharply from the advanced welfare states, including direct state control over the allocation of labor, complete absence of private financing and provision, and authoritarian control over the educational system.

Over time, these early patterns were re-enforced by economic policy choices. Development strategies did not “require” particular social policies. But major economic policy choices structured the preferences and expectations of government, business and labor over a
wide array of other policies, including those involving social protections and services. In this sense, development strategies and social policy were complementary.

In Latin America, ISI accommodated the privileges extended to portions of the working class through protection, state-ownership of certain industries, and subsidies and other industrial policies. East Asia also had an experience with import-substitution, albeit in a very different political context than in Latin America. But export-oriented strategies pushed governments and business to greater sensitivity about both the quality and cost of labor. In the Eastern European cases, the planning process and the monopoly on most economic activity by the state dictated both government and firm-level responsibilities with respect to social insurance and services.

The dramatic political and economic changes of the 1980s and 1990s—widespread democratization and economic crises—arguably marked a new critical juncture for all three regions. Democratization placed new demands on the state, but the capacity to respond was bounded by economic circumstance. Those countries hit with severe economic shocks faced concomitant pressures to rethink prior welfare commitments, readjust the scope of the state’s role and limit future social policy commitments.

However, prior welfare commitments also influenced social policy reforms. Welfare legacies created beneficiaries and organized stakeholders. Where coverage was initially narrow, but growth was robust, the political logic of expanding social entitlements proved compelling; these were the circumstances in the East Asian cases. Where coverage was wide, and economic circumstances adverse—as in Eastern Europe—electoral and interest group forces combined to limit the scope of liberalizing reform or retrenchment. The unequal coverage and adverse economic circumstances in Latin America produced a more complex political economy of reform. Governments faced competing political pressures for both the expansion and reform of
welfare systems, but in the context of strong stakeholders with an interest in preserving the status quo. These factors combined to generate more extensive reform than occurred in Eastern Europe, but with continuing inequalities in the distribution of insurance and services and a more residualist approach to welfare policy.

In this conclusion, we situate these arguments in the context of several ongoing debates about the future of the welfare state. We begin with the international constraints on social policy and the debate over globalization. Is there something about the current international political as well as economic context that might lead countries towards greater convergence in the current period? We then revisit the economic issues in more detail, considering the political economy of growth and the longer-run fiscal position of the state. We close with the role of democracy in determining the nature of the social contract between governments and citizens.

The International Influences I: The Geostrategic Setting

No less than the objects of its study, comparative political economy has been transformed by globalization. The days when we could consider countries as isolated units are over; as in the fields of sociology and macroeconomics, comparative political economy is now open-economy in form (Bates 1998). Yet the precise way of modeling these external relationships is by no means straightforward; there is a plethora of ways that “the international” operates on states: war and security calculations; cleavages over economic openness; bargaining with external actors; the influence of international institutions; and the diffusion of policy ideas.

In considering the origins of different welfare systems, we argued that great powers had an important influence on critical realignments. In all three regions of interest to us, the capabilities of domestic political elites were intimately bound up with their alignments with external actors. These transnational alliances were most evident in East Asia and Eastern Europe,
where conservative and communist elites respectively gained or maintained power through international connections and support, if not outright diktat.

In more subtle ways, international political factors were germane in the Latin American cases as well. United States influence in the region was powerful and direct in Central America and the Caribbean, where it consistently supported staunchly anti-labor military and oligarchic governments. Had we included these cases in our analysis, we would have expected them to be consequential for social policy. But from the onset of World War I through the late 1940s, US influence over the larger countries of the region was circumscribed. The critical political junctures we have identified took place prior to the onset of the Cold War, at moments when Washington’s attention was distracted by two world wars and the great depression. United States intervention intensified with the onset of the Cold War in the late 1940s, and particularly after the Cuban revolution in 1959. But unlike the countries of Asia and Eastern Europe, Latin America was not a “front line” region of great power rivalry. Consequently the US investment of military and economic resources was, comparatively speaking, more limited.

Should we be looking more closely at the current era through such a geostrategic lens? Are international political realignments once again affecting the domestic political economy of social policy?

Several influential accounts have suggested the outlines of such an approach (Deacon 1997). The collapse of the Soviet Union—and the Soviet model—left the United States as a hegemonic political actor almost by default. The US could not simply impose an Anglo-Saxon policy order, but it could change incentives in subtle and not-so-subtle ways. Channels for such influence included the international financial institutions, the WTO’s trade policy agenda (for example, the ongoing efforts to liberalize the service sector or to protect property rights in
pharmaceuticals), and the ability to push similar issues through regional and bilateral trade arrangements.

We are skeptical of these arguments. As our discussion of cross-regional differences indicates, we are dubious about the starting premise that social policy is converging in a neoliberal direction. But the presumption of America’s hegemonic influence is also highly problematic. How swiftly the political landscape can change! Far from exercising an overweening influence, the United States has become entangled in a number of debilitating political challenges: conflicts across the Islamic world; a virtual collapse of support among the publics of most other developing countries; a rising, more assertive, and decidedly unliberal China; and a divided but nonetheless weighty agglomeration of economic and ideological influence emanating from the new Europe. Despite the talk of a unipolar international order, the ability of the United States to manipulate domestic politics abroad is in fact much more limited than it was at the height of the Cold War. Moreover, the triumphalist moment of post-Cold War American ideological influence has clearly waned; if anything, backlash against “neoliberalism” has set in.

If there are international political factors that are relevant to our story, they probably lie at the regional level: in regional organization, diffusion and emulation. A handful of interesting new studies are pursuing this line of thinking (Gleditsch 2002), although only some have extended them to a consideration of social policy (Jacoby 2004; Weyland 2004; Brooks 2005; Orenstein 2006). The most obvious example is the pull of Western Europe on the former socialist countries. We argued in Chapter Eight that the continuity in social protection in Eastern Europe could be explained largely by domestic political factors associated with the socialist welfare legacy rather than external influence or even emulation. Nonetheless, membership in the
European Community, European aid and technology transfer, and intellectual influences have all operated in Eastern Europe and are likely to play an ongoing role in the future. These regional patterns do not operate in the same way in Latin America or East Asia, but both formal institutions, such as the regional development banks, and informal policy networks and emulation are undoubtedly at work there as well. Overall, however, we see very little evidence that international political forces, and particularly American influence, are leading to a homogenization of social policy.

**International Influences II: The Globalization Debate**

A broader debate in the literature on social policy concerns international economic, rather than political, influences. Among the landmarks of this literature are Cameron's (1978) demonstration of the correlation between economic openness and the size of the state and Katzenstein’s (1985) work on the historical origins of European corporatism in the economic crises of the 1930s. According to this line of thinking, democratic governments had incentives to offset the increased vulnerability and insecurity associated with economic openness either through countercyclical Keynesian policies or by expanding the scope and depth of social insurance. In John Ruggie’s (1992) felicitous phrase, the Bretton Woods era from the late 1940s to the early 1970s was grounded on a particular international and domestic social compact he called “embedded liberalism.” Leading governments, assisted by international institutions, sought to reconstruct the liberal international economic order that had collapsed in the interwar period. But the rules of the international economy allowed broadly liberal principles to be “embedded” within domestic social contracts that set limits on the scope of the market.

Research by Geoffrey Garrett, Dani Rodrik and others found at least some empirical evidence for the embedded liberalism hypothesis. Garrett (1998) argued—somewhat modestly—
that globalization did not negate the effect of partisanship on government spending in the OECD. He concluded that globalization therefore did not have uniform or consistent effects; countries diverged with respect to the overall size of the state and the nature of their welfare commitments. Rodrik (1998) found trade openness to be a significant determinant of both government consumption and spending, even when controlling for a variety of other possible economic determinants.

Beginning in the 1980s, however, a more skeptical view of globalization began to gain both popular and scholarly attention. This literature argued that increasing trade and investment constrained government spending in the advanced industrial states, including on welfare. Capital mobility placed pressure on the capacity of individual jurisdictions to tax mobile assets. Greater reliance on exports and greater exposure to foreign competition in the domestic market had similar effects, as firms in the traded-goods sector saw taxes and other labor market rigidities as constraints on the ability to compete.

What does our work show about this important debate? Do we see any parallel between the compromise of embedded liberalism in the advanced industrial states and the social policies of Latin America, East Asia and Eastern Europe during the period covered in Part One of the book, when a more selective approach to international economic integration prevailed? Did greater caution about openness permit a more expansive approach to social policy? Conversely, has the more recent period of liberalization of trade and capital flows lead to a rollback of previous entitlements?

We argued in Part One that the import-substituting model did provide the space for both a particular welfare approach in Latin America and of course, the socialist model would have been impossible in an open-economy context. Even in the more outward-oriented East Asian cases,
governments coupled export-oriented growth strategies with ongoing limits on the extent to which the domestic economy would be liberalized.

Although this period might have been one of high growth, it was by no means characterized by a liberal social compromise in the sense that Ruggie used the term. In Eastern Europe, entitlements were broad, but these were not the result of a democratic social contract but rather of a central planning process. In Latin America, some portions of the working class arguably gained from the closed economy, but the pattern of growth was associated with the continuation and even deepening of long-standing inequalities.

A consistent theme of the literature on the export-oriented East Asian newly industrializing countries is the limited attention these countries paid to the provision of social insurance. However, as we argued in Chapter Three, these governments restricted social insurance prior to their turn toward an export-oriented approach to growth. Although we believe that an export-oriented strategy influenced social policy in the East Asian cases, the ultimate origin of these welfare choices must be traced back to critical political realignments that weakened labor and the left.

If the period covered in Part One of the book was not a golden age of embedded liberalism it could nonetheless be the case that the entitlements developed during that period were vulnerable to the process of economic opening that subsequently followed. Some studies provide qualified support for the claim that economic openness has adverse consequences on social spending (Rudra 2002; Kaufman and Segura-Ubiergo 2001; Segura-Ubiergo, 2007). Yet our analysis finds only mixed support for the skeptical view. In the models we report in Chapter Six the effects of openness on social spending are modest, particularly when controlling for underlying fiscal circumstance and vary across regions. In the regional case studies, we
attempted to show that the effects of economic openness almost certainly paled by comparison to the broader economic circumstances in which new democracies found themselves.

These new economic circumstances were not limited to an increase in economic openness per se, but included a number of economic shocks such as volatility in international capital flows. We have argued, however, that in both Latin America and Eastern Europe, these external shocks were but one component of wider crises of prior development models. Similar arguments can be made about the Asian financial crisis, which exposed not only the resilience of the East Asian model but also the weakness of corporate governance and the regulation of the financial sector.

Moreover, both economic circumstances and the extent of openness were mediated by domestic political factors including democratization (Rudra and Haggard 2006) and prior welfare legacies. In East Asia, new democracies dramatically expanded welfare entitlements while also increasing international economic integration. In Eastern Europe, which probably experienced the most radical process of economic opening, governments managed to retain and even increase the scope of entitlements. Latin America is the region in which there has been somewhat more quantitative research suggesting that globalization has adverse consequences for social spending (for example, Kaufman and Segura-Ubiergo 2001; Wibbels 2006). But even there, the effects have been felt mainly in the area of social security rather than health and education. Given that social insurance systems were regressive to begin with, the distributional consequences of economic opening are far from clear (Nelson 1992).

We conclude as we did with the effects of international political alignments: that the effects of globalization are neither uniform nor are they likely on their face to be substantial when compared to the effects of crises and fiscal constraints. Those arguing that globalization
puts a squeeze on social policy argue implicitly that political factors have little or no mediating
effect on the relationship between globalization and social policy; governments facing very
different types of political challenges are presumed to respond similarly to external constraints.
Yet this assumption does not appear to hold; variety prevails. To understand why, we revisit our
economic arguments about the effects of economic growth and the fiscal capacity of the state.

**Economic Growth, Welfare and Social Policy**

A range of government policies influences the welfare of citizens. Arguably the most
important is the bundle of policies that contribute to economic growth itself. What these policies
are remains somewhat unclear, as suggested by the title of Elihanan Helpman’s (2004) useful
overview *The Mystery of Economic Growth*. Although there is consensus around a handful of
fundamentals—protection for property rights, the maintenance of macroeconomic stability, at
least a modicum of economic openness and trade, provision of an adequate array of public
goods, such as infrastructure and education—the scope within which these fundamentals operate
is fairly broad. There appear to be a variety of policy packages that are capable of delivering
robust economic performance.

Nonetheless, the differences across countries in this regard cannot be denied, nor the
importance of apparently small differences in growth for variations in welfare over time.
Consider the fate of a country beginning the postwar era in 1945 with a per capita GDP of
$1000, roughly equal to Malaysia’s at that time. Growing at 1 percent a year in real terms
through 2005 would yield per capita income of $1816. The same country growing at 4 percent a
year over that period would have a per capita income of 10,520; a five percent growth rate—
admittedly an unusual feat over such an extended period—would yield an average income of
$18,680.
Sadly, these differences are not merely hypothetical. Despite the crises we detailed in the second half of the book, all of the middle-income countries we considered managed to achieve substantial growth over the postwar period. In all of the countries we consider with the exception of Peru and Venezuela, per capita incomes at least doubled and no case did per capita income actually fall, as it did in a number of African countries. Yet the differences across countries are stark. Peru began the postwar period with a per capita income of just over \$2000 (in 1990 dollars); in 2000 this had risen to about \$3700. South Korea, by contrast, began the postwar period with a per capita income of under \$700; by 2000, it had reached over \$14,000.

For our purposes, however, the important point to explore is the influences of these differences on the nature of the social contract. East Asia’s rapid and sustained growth was accompanied by a rapid rise in incomes across a large share of the population and a dramatic fall in poverty. In Eastern Europe, we saw how economic growth was high for most of the postwar period but was not sustained. Growth slowed dramatically in the late socialist period, a prelude to the collapse of output during the transitional recessions of the early 1990s. Even prior to 1980, economic growth in Latin America was relatively volatile, and in contrast to the relatively egalitarian distribution of income in East Asia and Eastern Europe, expansion took place in the context of very skewed distributions of both income and assets. Latin American growth certainly had some effect on poverty, but these effects were dampened by continuing and in some cases increasing inequality.

How do these differences in the level of economic growth, its volatility and the distribution of income across income classes affect the social policies of interest to us? Strong economic performance was at least a permissive condition for the expansion of social entitlements we described in Part One. In Latin America, the relative success of ISI policies prior
to the financial collapse of the 1980s provided the basis for a gradual expansion of social
entitlements, what Mesa-Lago (1978) has called the “massification of privilege.” This process
was even more visible in Eastern Europe, where the high growth of the early Stalinist period
produced profound changes in social structure through rapid industrialization, urbanization and
the extension of new social benefits to the growing urban working class. After the high Stalinist
period, Communist parties across the region turned to a legitimating formula that put much more
emphasis on consumption and social entitlements. When growth in Eastern Europe slowed in the
1980s, consumption and other benefits such as the funding of health care and pensions showed
the strain and in Poland were an important source of political conflict.

Yet as the East Asian cases showed, high growth was only a permissive condition for an
expansion of social entitlements in authoritarian settings. In these cases, rising incomes did not
provide the foundation for an expansion of social insurance and redistributive transfers, but quite
the opposite; high growth was a substitute for them. In an authoritarian context, the benefits of
growth could be widely distributed or “shared,” as Campos and Root (1996, 44-49) put it,
without a more expansive social contract in the sense we have used the term here.

If the relationship between growth and the expansion of social insurance and services is
unclear under authoritarian rule, we might expect a somewhat closer connection in new
democracies. In outlining this relationship, we focused largely on the fiscal connection. We
argued that conditions of high growth not only weakened fiscal constraints on spending directly,
but also had political consequences; high growth and strong public finances provided incentives
for politicians to expand entitlements. Periods of low growth and crises not only placed direct
constraints on spending but also had political effects, weakening those political forces arguing
for expansion and strengthening arguments for restraint and even retrenchment.
In his book on *The Moral Consequences of Economic Growth*, Benjamin Friedman (2005) suggests a wider array of reasons why growth will influence the nature of the social contract. Drawing on social psychological and behavioral approaches to economics, Friedman notes that “stagnant economies…do not breed support for economic mobility, or for openness of opportunity more generally” (86). In rapidly growing economies, people are more likely to benchmark their own well-being against the past, with a resulting sense of satisfaction. In slow growing economies, by contrast people are more likely to benchmark themselves against others and to see social spending—and even economic activity more generally—in zero-sum terms. Someone else’s gain breeds resentment and a sense of unfairness and deprivation. As Friedman notes, “the resulting frustration generates intolerance, ungenerosity, and resistance to greater openness to individual opportunity. Slow growth also erodes people’s willingness to trust one another, which in turn is a key prerequisite for a successful democracy” (92). Friedman shows that periods of high growth in the United States, France, Britain and Germany are also periods of greater generosity in social policy. Periods of slowed growth are accompanied by a retreat from such generosity and the rise of social movements opposed to social fairness, including racist and nativist ones.

In sum, economic growth not only has direct effects on welfare but structures the politics of welfare in democratic societies as well. Robust growth directly reduces poverty but also influences how the disadvantaged are viewed and how societies respond to their plight. Where growth is robust, the social contract is likely to be more expansive as well.

**The Fiscal Foundations of the Welfare State**

In Part Two, we argued that the capacity for new democracies to maintain existing social commitments and expand social insurance and services was contingent not only growth but on
fiscal constraints. An expansion of revenue provided the basis for an expansion of social commitments; short-run fiscal shocks generate pressures for restraint. However, the point is not just germane in the short-run. Much of the literature on the welfare state has focused on the spending side of the equation but a handful of studies have started to investigate the fiscal foundations of the welfare state (for example, Steinmo 1993; Kato 2003). These studies underline that social policy initiatives depend ultimately on the ability to raise the taxes necessary to sustain such initiatives over time.

Put differently, a complete political economy of the welfare state should consider the joint determination of taxes and spending. This observation is congruent with an alternative theory of government accountability that looks not to the nature of political institutions but to the fiscal foundations of the state (Bates and Lien 1985; Levi 1988; Lake and Baum 2001). States can use coercion to raise revenue, but they are constrained in their ability to do so by the costs of extraction and monitoring and the ability of residents to resist, evade taxes, or migrate elsewhere. Governments not dependent on taxes—either because of income from natural resources, state-owned enterprises, or aid—will be less responsive to their citizenry and more corrupt than those that rely on taxation (Chaudhry 1997; Karl 1997; Ross 1999; Hoffman 2006; Smith 2007). Conversely, states that do rely on taxes are constrained to provide public goods to their constituents, including the basic social insurance and services that have been the subject of this book.

Holmes and Sunstein (1999) have developed this core insight into a broader normative theory of rights that is applicable to an understanding of the welfare state as well. In contrast to the distinction between negative and positive liberties, they argue that even negative liberties—most notably the protection of private property—hinge on the capacity of the state to enforce
them. States provide such protection in return for taxes from the propertied classes. They continue:

The delivery of welfare rights…is part of an ancillary exchange by which the government and the taxpaying citizens recompense the poor, or at least give them symbolic recognition, for their cooperative behavior in both war and peace. Most importantly, welfare rights compensate the indigent for receiving less value than the rich from the rights ostensibly guaranteed equally to all…(208)

How are such bargains forged? A dominant model of this process is majoritarian and focuses on redistribution: the poor, or alliances of the poor and the middle classes, use majority rule to impose redistribution on the wealthy or blackmail them with the threat of social disorder or even revolution. However, it may well be that social policy is less redistributive than it appears, and that stable welfare bargains work precisely when the incidence of benefits aligns most closely with the incidence of taxes, or put most simply, when people get what they are paying for. For the poor to be represented in the social policy system, they also must be brought into the fiscal system so that politicians will be made accountable to their interests.

Yet as Holmes and Sunstein suggest, we can imagine alternative routes to the fiscal bargain required to sustain the welfare state. Such bargains may be more likely when social insurance and services are understood not simply as mechanisms of redistribution, but also as public goods or solutions to genuine market failures (Barr 2001). For example, public health and education clearly have positive externalities for society as a whole, and a number of forms of social insurance address problems, such as unemployment, retirement savings and health insurance, that private markets and individual decision-making solve only imperfectly as well.

The Effects of Regime Type
Does democracy lead to more inclusive and equitable social contracts? In summarizing our findings on this question, it is first important to take into account the wide political and institutional diversity we encountered among both authoritarian and democratic regimes.

The social policies pursued in non-democratic regimes were by no means uniform; they varied profoundly depending on the extent to which they permitted semi-competitive elections, the types of social challenges they faced from below, and the development strategies pursued by ruling elites. In Latin America, even authoritarian reformers compromised with the urban working class to achieve their broader, anti-oligarchic objectives. In East Asia, authoritarian regimes in a number of countries—including most notably Korea and Taiwan—reached out to the rural sector through land reform and an expansion of basic social services in order to deter rural unrest and as a counterweight to urban oppositions. Communist regimes radically redistributed resources not because of their responsiveness to underlying social pressures but because of political and ideological commitments to a socialist transformation. All of these cases provide an important reminder of the limits of purely institutionalist expectations.

Democratic regimes varied widely as well and differences in electoral institutions and constitutional structure might have well been consequential. A full test of these ideas clearly goes far beyond the scope of this study, but it is useful to voice some words of caution about these approaches based on the more historical, economic and interest-based approach we have pursued here.

One influential approach to come out of economics, developed by Persson and Tabbelini (1999; 2000; 2003), looks at differences in constitutional arrangements as a source of variation in the extent of redistribution. They argue that a separation of powers enables the voters to discipline politicians to limit waste and moderate the tax burden, but that the conflict of interests
between branches of government prevents politicians from providing an adequate level of public goods. By contrast, the legislative cohesion of a parliamentary system is associated with more taxation and more waste, but also greater spending on public goods and redistribution. A cursory consideration might suggest that such an institutional argument finds some support among our cases; the parliamentary systems of Eastern Europe appear to have maintained a much more robust set of social protections than the presidential systems in Latin America. Yet such a conclusion would be a highly misleading one. The retention of social commitments from the socialist era may well have been affected by the PR nature of these systems and the coalition governments that typically ensued. But such electoral incentives would have operated even under very different institutional arrangements as a result of the social policy inheritance. It is doubtful that formal institutions were principal causal factors.

A similar set of reservations can be raised about a strand of literature to which we ourselves have contributed: the argument that multiple veto points, such as those that result from fragmented party systems or the existence of multiple institutional checks on decision-making, are likely to stymie reform (Haggard and Kaufman 1995, 151-182). These arguments rest on the assumption that reforms are costly in the short-run or for some groups and that securing support for them is therefore difficult. In the absence of robust legislative coalitions or cohesive, even insulated, decision-making institutions (Haggard and Kaufman 1992), initiatives won’t pass or are vulnerable to subsequent revision. Such arguments have recently been extended to the analysis of pension reform by Madrid (2003) and Brooks (2003).

Veto point arguments are germane for understanding the political difficulties of liberalizing welfare entitlements, and a number of cases appear to vindicate them; we saw evidence of this in a number of the Eastern European cases and in Brazil with respect to
pensions. But such arguments hinge quite fundamentally on the underlying preferences of the relevant nodes in the system. “Stickiness” depends on the presumption—often warranted—of differences in interests across veto points. Yet in many democratic settings, as we have shown, interests are structured by economic circumstances or welfare legacies that can force coherent action even on fractious legislatures.

In a similar vein, it is readily apparent that while a larger number of veto points may influence the ability of governments to pass and sustain liberalizing reforms or retrenchment, it is less likely to be a stumbling block to expanding social commitments. In these cases, the problems political leaders face are not in securing support and controlling potential veto players but in constraining bidding wars or choices that impose costs on future (unrepresented) generations.

Similar sets of reservations might be entered with respect to institutionalist work that focuses on incentives for particularism (Shugart 1992; Cox and McCubbins 2001). Party-centered electoral formulae, such as closed-list PR systems, encourage—or force—voters to emphasize their party preferences over their preferences for a particular candidate. Other types of systems, such as open list systems or single non-transferable votes (SNTV), offer greater incentives for individual candidates to steer particularistic and easily identifiable benefits (e.g., pork and patronage) towards electorally-relevant constituencies.

In a number of Latin American and Asian countries, it is possible to point to policies that reflected such incentives: for example, in well-known pork-barrel practices in the Philippines, Thailand, Brazil, and Colombia. As we have seen, however, several of these countries undertook quite ambitious and comprehensive social policy initiatives. Taiwan’s SNTV system, for example, generated a national health system as one of its first and most enduring social policy
reforms; it is hard to imagine a broader policy than that.

The institutionalist research program is an important one and has made important contributions to our understanding of the political economy of policymaking and reform; it will no doubt continue to make contributions to our understanding of social policymaking as well. However, we are concerned that these approaches risk neglecting some of the most central presuppositions of contemporary political economy, namely, the importance of beginning with a clear map of the heterogeneity of preferences and their political organization.

Research that emphasizes differences in partisanship and the power of the left is much closer to the emphasis we have placed in this book on distributive interests and preferences (see, for example, Huber et. al. 2004). Partisanship has been central to the literature on the advanced industrial states, where the strength of social democratic parties has influenced not only the level of spending but the nature of social policy commitments. Drawing on this literature, we argued in Part One that the incorporation or exclusion of labor also shaped social policies in middle-income countries. Moreover, the presence or absence of left parties continued to make a difference within the Latin American and Asian democratic regimes examined during this early period.

In recent decades, however, fiscal constraint and the legacy of earlier welfare systems has made the role of strong left parties more ambiguous and varied. In Eastern Europe, ex-communist and/or social democratic parties were inclined to move more slowly both with respect to the overall reform effort and the reform of social policy. However, the significance of these differences—which appeared highly consequential at the time—appeared to fade over time. Slow reformers ended up experiencing “second round” crises that were typically accompanied by a new round of economic and social policy reforms that converged with the early reformers.
Moreover, we argued that partisan differences with respect to social policy were likely to be muted in a setting characterized by wide entitlements and strong public expectations; rather than strong partisan differences on social policy issues, we see a surprising degree of convergence across the political spectrum. Even where parties attempted to stake out neoliberal positions with respect to social policy, as in the Czech Republic under Klaus, they were pulled back to the center by powerful electoral and interest group pressures.

Asia has been invoked as vindicating the partisan approach in a completely different way. The conservative critical realignments we have identified resulted in weak left parties and weak or controlled organization of labor and the peasantry. In Part One, we argued that this political configuration contributed strongly to a particular approach to social policy, albeit in a decidedly authoritarian context: strong emphasis on basic social services, and particularly education, but only a weak commitment to the provision of social insurance designed to protect workers from the vicissitudes of the market.

However, one of the more striking findings with respect to the high-growth East Asian democracies was the extent to which they expanded a wide array of social entitlements. This result did not occur as a result of the sudden appearance of strong left parties in the wake of regime change; to the contrary, the historical legacy of earlier conservative critical junctures continued to operate in the region and the party systems in the region remain surprisingly non-ideological to this day. Rather, the expansion of entitlements was a result of the fact that both centrist and even conservative parties also used social policy for political ends; this pattern was visible in Korea, Taiwan and Thailand. As Herbert Kitschelt (2000) has argued, these apparently anomalous results can arise when conservative parties seek to neutralize challenges on some other, more salient issue, for example, along a democratic-authoritarian dimension.
Partisan cleavages varied more widely in Latin America, both across countries and over time. Left-of-center and labor-based parties that had their roots in the critical realignments of mid-century or during the heyday of ISI did generally press for an expansion of the social security system. Statistical work by Huber et. al. (2004) shows that left parties that occupy office over the long-term can have a positive social welfare impact. As we have seen, however, these parties faced deep dilemmas about how to respond to the challenges of economic reform, fiscal constraint, and the claims of slowing growth and economic reform. Consequently, it is hard to detect clear patterns across the region based on partisanship alone. Possibly the strongest vindication of a power resource model is Chile, which had a strong tradition both before and after Pinochet of center-left coalitions acting to strengthen the public sector role in the provision of protection and services. Yet the left in Chile faced strong impediments in transforming the conservative legacy of the Pinochet era.

Elsewhere in the region, the behavior of political parties seemed to hinge as much on fiscal circumstances and legacies as on partisan identity. In Argentina, the Perónists reluctantly accepted both market reforms and liberal approaches to social policy reform. Although they made significant side-payments to their old union base, they moved steadily toward an emphasis on clientelist links to low-income groups. During its time in opposition, the Brazilian left – led by Lula’s PT – tended to defend the rights of public-sector workers and other interests linked to the old welfare system; in power, it pursued market-oriented economic policies and built incrementally on anti-poverty programs initiated under Cardoso. In Mexico, there was considerable continuity between programs initiated under the old PRI governments and those pursued subsequently by the more conservative PAN party. Where fiscal constraints were loosened and coverage was narrow, both conservatives like Fujimori and radicals like Hugo
Chavez responded to opportunities to extend welfare programs to low-income groups. In Costa Rica and Uruguay, broadly-based welfare systems found defenders across the political spectrum.

In sum, the record with respect to partisanship seems far from clear to us. Looking across the regions, it seems clear that left and labor parties have very different interests, dictated as much by historical legacies and economic circumstances as by enduring social cleavages and ideologies. Equally important, we find opportunistic behavior among conservative parties as well; rather than a clear left-right split on social policy, we find strong evidence of parties across the political spectrum respond in relatively narrow ways to common economic circumstances and policy legacies.

Given these various qualifications, what conclusions can we in fact draw about the effects of democracy on the social contract? It is important to restate our priors. If we could conduct the necessary natural experiment—namely, to compare the social contract in a given country under authoritarian rule with the social contract in the very same country under democratic rule, all else held constant—we do expect that the democratic regime would be more responsive to the interests of the poor and those most exposed to risk. However, the central point of this book is not simply that such natural experiments are difficult, but that the ceteris paribus conditions are crucially important for understanding the effects of regime type. The effects of democracy are conditional on economic and fiscal circumstances and the organization of social interests.

The fiscal foundation of social entitlements cannot be overemphasized. The promise of democracy is an empty one in the absence of the ability of the state to extract adequate resources to offset the risks of the market. Indeed, we have suggested that the tax bargain is critical to
holding governments accountable to their citizenry, including with respect to policies that augment human capital and mitigate risk.

In closing, however, it is important to return to the significance of social and political organization. Almost by definition the poor and vulnerable are not only deprived of assets and income but are deprived of social and political connections and influence as well. Democratic rule provides incentives for politicians to reach such groups and opportunities for them to organize, but by no means guarantees that these crucial steps in the political process will in fact occur. The fate of the poor and vulnerable is therefore never in their hands alone, but will depend on the self-interest of other social groups and the formation of cross-class coalitions with an interest in equity and social justice.

Such cross-class coalitions have been a theme in the development of the welfare state for some time. Social democratic parties rested historically on coalitions that linked blue-collar workers to small farmers and later to white-collar groups. But these are not the only types of alliances that might conceivably incorporate the interests of the poor. John Ruggie’s (1982) idea of “embedded liberalism”—a variant of Keynesianism—rests on the insight that support for economic openness is best sustained by complementary policies that mitigate risk. A central theme in a number of important works in the social policy literature is that support for the poor is most likely to occur in the context of coalitions that include the middle-classes—including particularly through universalist approaches—even if this involves some “leakage” to the less deserving.

The ability to forge such coalitions is not guaranteed by democracy, but they are more likely under democratic than authoritarian rule. Authoritarian rule may achieve a redistribution of income and assets more radical than anything achievable under democracy. But authoritarian
rule deprives both rich and poor of liberties and freedoms that are necessary to hold governments accountable and are crucial to human dignity itself. In the absence of competitive checks, authoritarian rulers have few incentives to sustain egalitarian social contracts and ample incentives and opportunities to divert resources to themselves. The gradual decay and corruption of the socialist social contract in Eastern Europe provides the clearest example.

Simply listing the coalitional possibilities that democracies offer is not to conjure them; there are no blank slates in the social world. The social compromises that we have noted each came out of very distinctive historical circumstances. No single prescription—with respect to parties, interest groups or even social policies themselves—will provide a template for addressing the problems of injustice, inequality and poverty that plague us. The opportunities to rectify past injustices are inevitably constrained by history. It is that history we have sought to tell, hopefully as a guide to future possibilities.

---Conclusion notes---

i For a review, see Huber and Stephens (2001).

ii In-depth discussion may be found in Nelson (1992) and Skocpol (2001)