



Democracies, Economies and Social Protection

Understanding welfare state development
in Asia and Europe

Traute Meyer

Democracies, Economies and Social Protection

Understanding Welfare State Development in Asia and Europe

Policy paper
by
Traute Meyer

- Welfare state spending correlates positively with economic wealth and democratisation. The richest and most democratic countries spend most on the welfare state.
- Democratisation and economic wealth correlate positively. Of the 41 countries included here the ten richest have been democracies for decades while the ten poorest have only enjoyed a shorter period of democratisation.
- Rich countries are older than poor ones, this is one reason why they spend a larger proportion of their social budget on pensions.
- To build the welfare state developing countries should grow the economy and introduce full civil and political freedom.
- To make democratic welfare states fair and responsive to the needs of many, representatives from a broad social spectrum should be included in decisions about social policies.
- It takes many decades to build mature welfare states, even in democracies with growing economies. Eastern Europe has been democratic for more than two decades, but it is still poorer than the west of the EU and spending on social security is lower.

Understanding Welfare State Development in Asia and Europe

Introduction

Scholars of the welfare state have long focused on a relatively small number of mature post-industrial political economies, above all the member states of the European Union, the United States, Canada, New Zealand, Australia and Japan. As a consequence, our knowledge of why welfare states developed and how they change over the long term is based on these countries (Haggard and Kaufman 2008: 1-24; Schmitt, Lierse et al. 2015). On the one hand such a focus makes a lot of sense: only these rich nations spend significant amounts of national wealth on pensions, health and education, which are the key social policy areas. Understanding the reason for their growth, but also for the differences between them is important. The pragmatist can learn from similar countries for policy-making: how do they approach ageing societies, unemployment, increased demand for educated workforces? What works well, what does not? The theorist will understand better factors responsible for national differences by asking why countries of similar wealth and social spending adopted different social protection systems. Why is access to the health service based on citizenship in the UK but on employment in Germany, for example? Through such comparisons scholars have gained important insights into the significance for welfare state development of national political movements, institutional structures, religious and cultural traditions.

On the other hand, the focus on rich nations' welfare states has weaknesses, too. Theories run the risk of becoming insular, of losing the big picture. For example, do we really need an "industry" of welfare state model-making, as developed in the wake of the publication of the now classic book "The three worlds of welfare capitalism" (Esping-Andersen 1990)? It discusses for example whether country X should be labelled as "social democratic" or "conservative", considering the specific features of X's unemployment programmes. Arguably there are more significant welfare issues in the world.

One of them is the growth of Brazil, Russia, India, China and South Africa whose economies are big enough to overtake many EU countries soon. In addition, other Asian nations are also developing fast. From a global standpoint Asia is more dynamic than Europe and its populations' needs for pensions, health and education are less satisfied.

The following analysis uses the western lens to look further afield. The aim is to explore what we can expect for welfare states in the developing Asian countries when we apply our knowledge of why, when and how Western welfare states expanded to their current size. After an overview of welfare spending in Asia and the EU today this paper will present two theories of comparative social policy analysis which argued that the shape of today's western welfare states can be explained by economic development and political conflict. Assuming their rationale, it will then compare economic, demographic and democratic trends in the EU and Asia and ask what can be expected for further welfare state growth in the developing Asian nations. The paper will conclude with some considerations for policy-making.

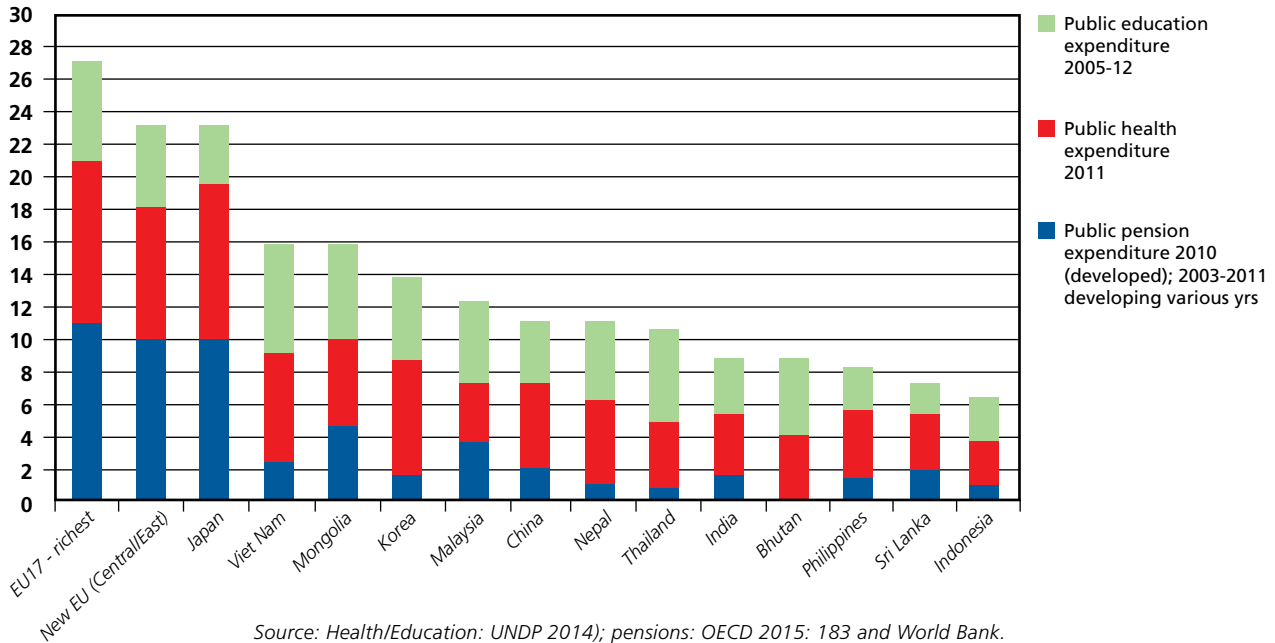
The size of the welfare state in the EU and Asia

Welfare states protect citizens against the central risks of (post-)industrial societies and prepare them for active adult lives; this is why we find that in many countries the aims of the most significant programmes are the same: to educate, to protect against illness, unemployment and other reasons for income loss and to prevent poverty in old age. These are expensive ambitions. Graph 1 gives an overview of how much of their overall economic wealth European and Asian countries spent on the most central three of these areas in the 2000s: public health, education and pensions.¹ These figures only show their significance in relation to overall national wealth. Wealth levels themselves differ much, too, as we will see below.

* The author wishes to thank Julia Müller & Giang Pham of the FES as well as my colleagues Zhao Quing, Dr Tobias Wiss and Dr Chung-Yang Yeh for making time to read a draft of this paper and for their excellent comments.

Graph 1

Health, Education & Pensions spending of GDP (%)



Source: Health/Education: UNDP 2014); pensions: OECD 2015: 183 and World Bank.

The EU countries and Japan spend by far the most, around a quarter of GDP, within the remaining Asian countries the highest relative spenders are Vietnam, Mongolia and South Korea (ca. 15% GDP), the lowest are Sri Lanka and Indonesia with around six per cent. Spending priorities also differ. In Europe and Japan pensions are the largest item, while the other Asian countries spend money on health and education but little on pensions. The next sections will explore reasons for these differences.

Explaining welfare state growth in the West – two classics

Economic Growth – the Logic of Industrialism

Harold Wilensky (1975) conducted one of the most influential comparative welfare state studies of the 1970s and 1980s. It is among the few classics that took

a global perspective, including 64 rich and poor nations. Therefore, it is particularly interesting in this context. Wilensky was struck by the fact that all developed industrial countries had health and welfare programmes while poor countries did not. This did not mean the rich were alike, on the contrary the organizational style of their welfare programmes varied widely, among them were democracies and authoritarian regimes and those in power gave different reasons for initiating and maintaining them. Wilensky's point was that this notwithstanding, large social programmes had emerged as "structural uniformities of modern societies" (p. 1). On this basis the conclusion was inescapable that without economic growth there would be no welfare state development. Industrialisation leads to a fundamental change of social relationships. As it unfolds people move from non-monetised agrarian social networks to cities, where they become dependent on labour contracts and regular incomes for survival. Within this new mode, children appear as less reliable insurance for old age than

¹ The figures do not show who is entitled to benefits, and how generous the systems are; they do not distinguish between public and non-state provision and they ignore informal welfare. In the absence of detailed data they do indicate the extent of public involvement in the biggest area of social provision.

savings. Thus, market dependent individuals have fewer children, are more reliant on labour contracts for survival and need more money from social insurance. The study has had many critics, which pointed in particular to the differences between the more developed welfare states that cannot be explained by economic growth. However, the economy as key driver of the welfare state has never been dismissed by academics (e.g. Schmitt, Lierse et al. 2015). The assumption that economic change affects the balance of power within society and therefore the scope for social policies is still relevant.

Political Power

Adopting a geographical scope smaller than Wilensky, focusing on Europe and OECD countries, Walter Korpi's power based theory of welfare state growth is interested in which groups in a society have the ability to enforce their view on other societal groups (Korpi 2006). The more potential a group has to actually exert power, the more society will be shaped according to its preferences. In his research Korpi examined the organisations that control national economies, based on the assumption that the economy is the source of greatest societal wealth. The central empirical insight was that the quality and scope of a welfare state depends on the outcome of the struggle between employers and conservative political forces on the one and trade unions and left wing power on the other hand. In countries where organised labour has been persistently strong the welfare state will be more generous than in countries where organised capital is strong and well-embedded. Of course the power resource model was a child of its time – developed in the early 1970s it focused on the traditional political conflicts of industrial society and did not consider alternative social movements or interests not defined by the conflict between workers and employers. The approach has been criticised for this narrow frame, but the argument is generally accepted that the welfare state in a democratic society is the result of political struggles for the distribution of the resources created there, and that control of the economy is therefore a key issue (Baldwin 1990; Brady and Lee 2014). Perhaps a bigger problem is that the literature has been primarily concerned with democracies and therefore the implications of this insight for countries with strong authoritarian legacies are less clear. There are good reasons to expect that welfare states develop less well in authoritarian systems: those in power here will

be under pressure from the elites to rule in their favour. In contrast, where political decisions can be challenged through electoral competition such favouritism is likely to be penalised and there is a much better chance that social policies are designed with broad constituencies in mind (e.g. Ha 2012: 544). Despite the plausibility of the argument, empirical research in this area has not been as broad and therefore the evidence less substantial (Yi and Woo 2015).

With the exception of Japan the Asian countries spend less of their national wealth on the welfare state than all EU member states. Western theories would suggest that economic strength and the distribution of political power are the reason for such differences. The next sections will compare countries' economic, demographic and political conditions.

Economic strength and demographic change: EU and Asia

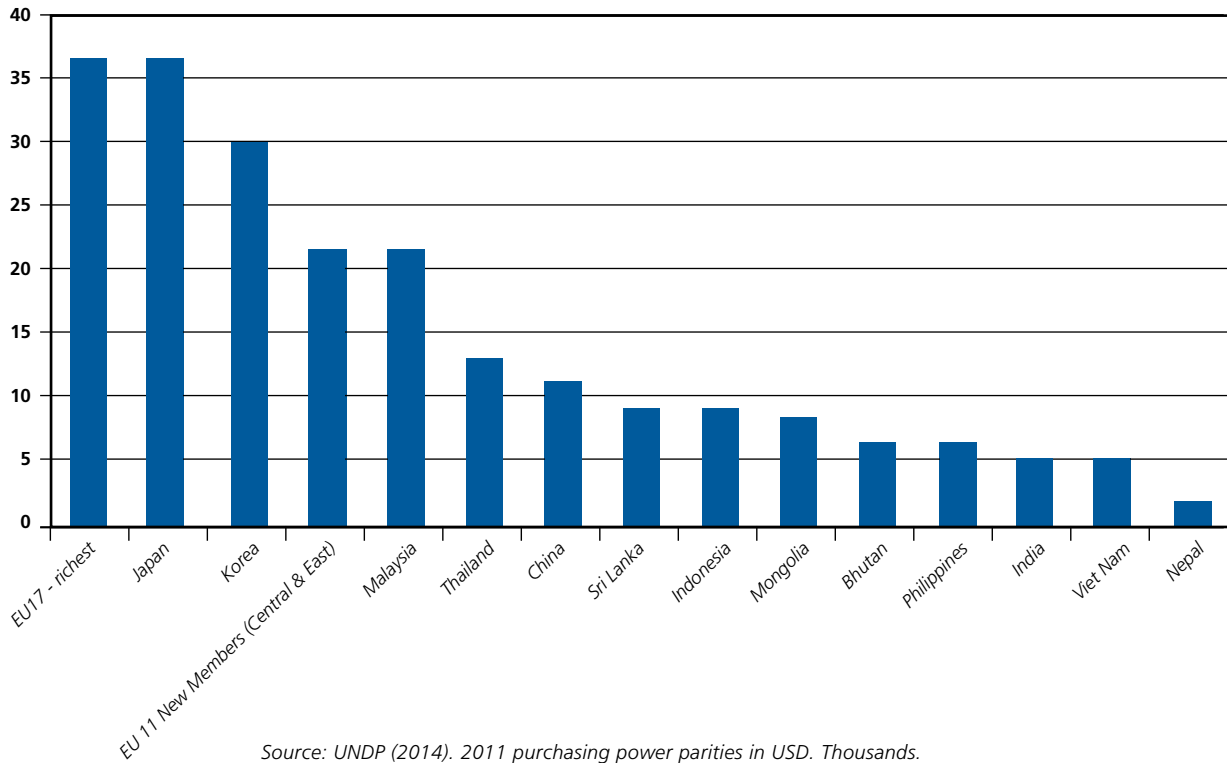
Asian developing countries have certainly grown fast since 1990 and much more than EU member states or the established Asian economies. At the top China's economy grew more than sevenfold between 1990 and 2011, followed by Eastern Europe and the developing Asian countries which at least doubled the size of their economies, some tripled it. In stark contrast, the richest countries expanded little, the 17 richest EU countries grew by 29 per cent, Japan by 24 per cent (UNDP 2014).

However, growth and wealth are not the same. Despite rapid growth only Korea is near the richest EU countries and Japan; and Malaysia's wealth is comparable with the Eastern European member states. All other Asian countries are much poorer. Even China's huge growth over the last decade puts it third place only among the developing Asian nations, after Thailand and Malaysia, and the size of the Chinese economy is still only a third that of Europe's (Graph 2).

The argument that industrialisation and demographic change are connected suggests that the richer societies should be older. This is true, Japan and the EU have the highest dependency rates by a margin while Mongolia, the Philippines, Bhutan, Indonesia, Malaysia, Nepal and Vietnam have very low rates (Graph 3). This notwithstanding, there are big differences within the older group: Japan is not much richer but a lot older

Graph 2

Gross national income per capita 2013



than Korea. Within Europe the Latin rim countries are the oldest, even though they are the poorer part of the rich group. Against this background the low pension spending of the poorer countries is easier to understand.

Bringing together welfare spending, economic growth and ageing trends we find substantial evidence for the industrialism thesis: rich countries are older than poor ones, they spend more on welfare, relatively, as a share of GDP and absolutely, because their GDP is much higher. Moreover, pensions are their largest programmes. This would suggest that in order to grow the welfare state developing countries must grow the economy. However, the experience of the richer nations also suggests that larger economies lead to increased dependency rates through ageing. Part of the greater spending is therefore explained by more claimants, not by more generous benefits.

We should also note that the figures do not completely align with the theories. In particular, the wealth of Korea and Malaysia is similar to the Eastern European member

states but the former's social spending is much lower. In a similar vein, Mongolia and Vietnam spend more than all other developing countries. The section below discusses possible explanations for such inconsistencies.

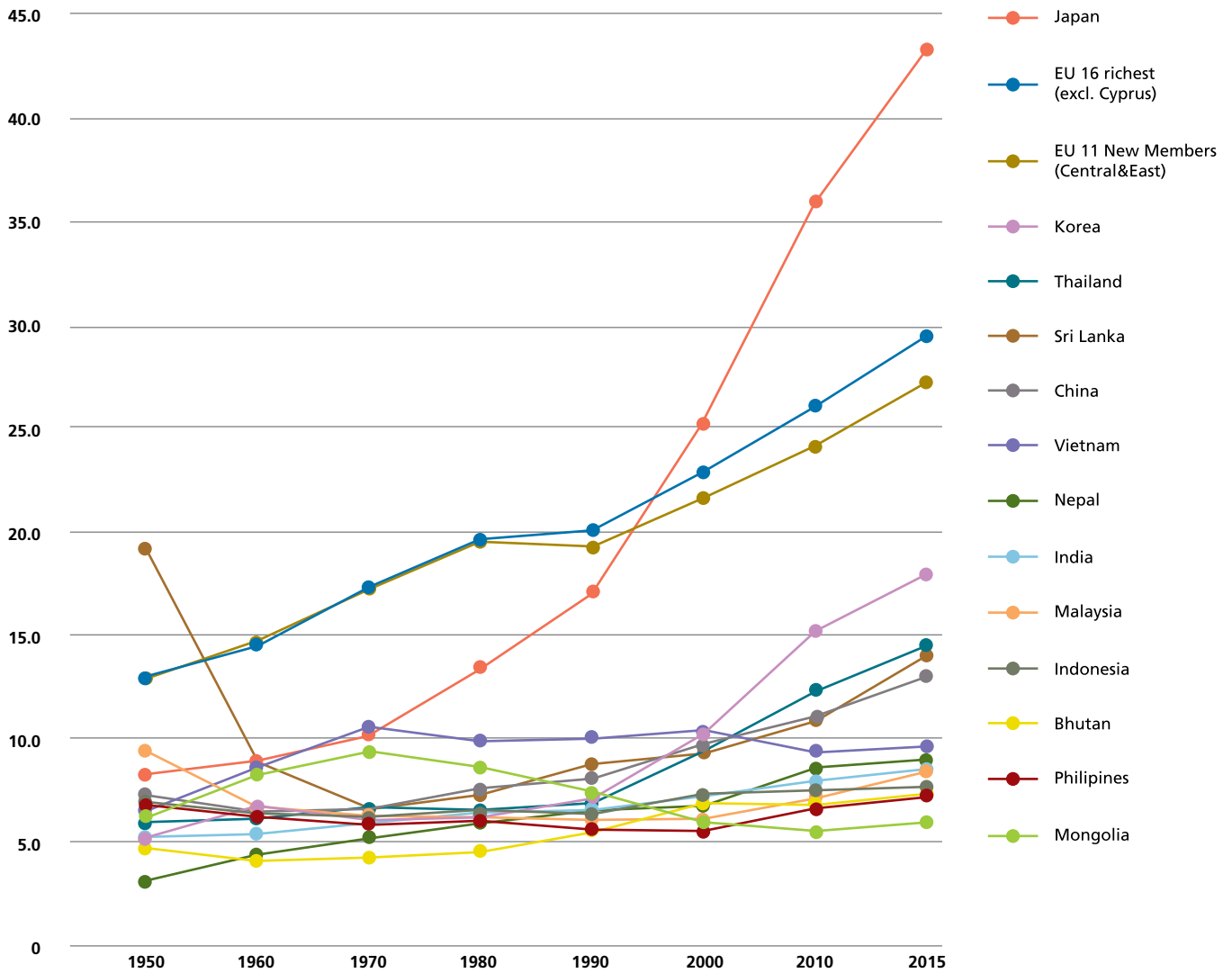
Democracy and political power – Europe and Asia

Political power and types of European welfare

During the 1960s and early 1970s welfare states in the European Union expanded: spending grew, programmes became more inclusive, benefits and services more generous. However, entitlements were also quite different. The Nordic welfare states granted benefits and services based on citizenship and outcomes were the most egalitarian. In the continental welfare states benefit levels mirrored employment status and confirmed traditional gender divisions, services were underdeveloped. Here poverty was avoidable for people living in traditional breadwinner households, but

Graph 3

Old-age dependency ratio (ratio of population aged 65+ per 100 population 15-64) Asia and EU



Source: United Nations (2015)

inequalities were greater than in the Nordic countries. Social policy in the UK and Ireland focused on means-tested benefits, supplemented by non-state welfare, leading to greater inequalities than in the two groups above and putting at risk of poverty low earners and single parents in particular (Esping-Andersen 1990). Finally, Southern European welfare states mainly catered for labour market insiders, particularly through generous pensions, women, the young and the low qualified were particularly disadvantaged (Ferrera 2000). Scholars argued that political power explained these differences. In the Nordic countries trade unions and social democratic parties were strong and had long parliamentary legacies, thus achieving more socially just outcomes

for citizens. In continental countries such as Germany and Austria business was better organised than labour and the churches had some clout in parliaments. As a consequence, the welfare state pursued conservative gender policies and accepted occupational inequality (Kersbergen 1995). In the UK, too, the power of the labour movement had been curbed since 1980 and the long incumbency of Conservative governments strengthened the liberal welfare state.

The European experience shows that political conflicts matter for the quality of welfare states. A substantial budget is needed to finance pensions, health, and education. These key programmes are therefore

forever embattled by interest groups; the traditional representatives of labour and capital have been important, but they are not the only combatants. In the 1970s when the power resource model was created industrial working classes were much larger than today, making the focus on the conflict between labour and capital more obvious. However, even then farmers, the middle classes and other social movements had political influence (Baldwin 1990). Today, the field for the politics of welfare and social policy-making is far more diverse and contemporary studies reflect this (e.g. Häusermann 2010). Thus when assessing the scope for future social policy expansion in Asian developing countries the research above teaches us that the institutionalised strength of labour and capital matter, but we must also pay attention to the women's movements, to environmental campaigners, to health and pensioner groups. However, what happens when interest groups are prevented from expressing themselves in the first place? If political conflict and competition is important for the welfare state, will it grow in countries where civil and political liberties have been heavily circumscribed (Haggard and Kaufman 2008: 13-7)?

Democracies, economies and welfare states

Recent comparative studies have concluded that rising income levels increase the probability of democratization and that government's spending in democracies is higher than in non-democracies (Boix 2011; Brooks 2015: 561-2; Yi and Woo 2015). Against this background, I will compare the democratic legacies of the 13 Asian and 27 EU countries included here, relating the results to economic strength and welfare spending.

Graph 4 contrasts democratic legacies and economic wealth. It shows for how long citizens have been able to express themselves democratically since 1972 and plots this against their current national wealth.² Political liberty has existed the longest in Japan and in the eighteen long-term EU members, for many the period has been

much longer than measured here. In these eighteen countries, welfare programmes and institutions evolved under conditions of electoral competition. Fourteen countries have experienced a shorter, but still considerable democratic period (15-34 years): Continental and Eastern European EU members, Korea, Mongolia and India. Nine countries are rated as 'not free'. In these Asian countries existing welfare programmes have been strongly influenced by the position of autocratic rulers.

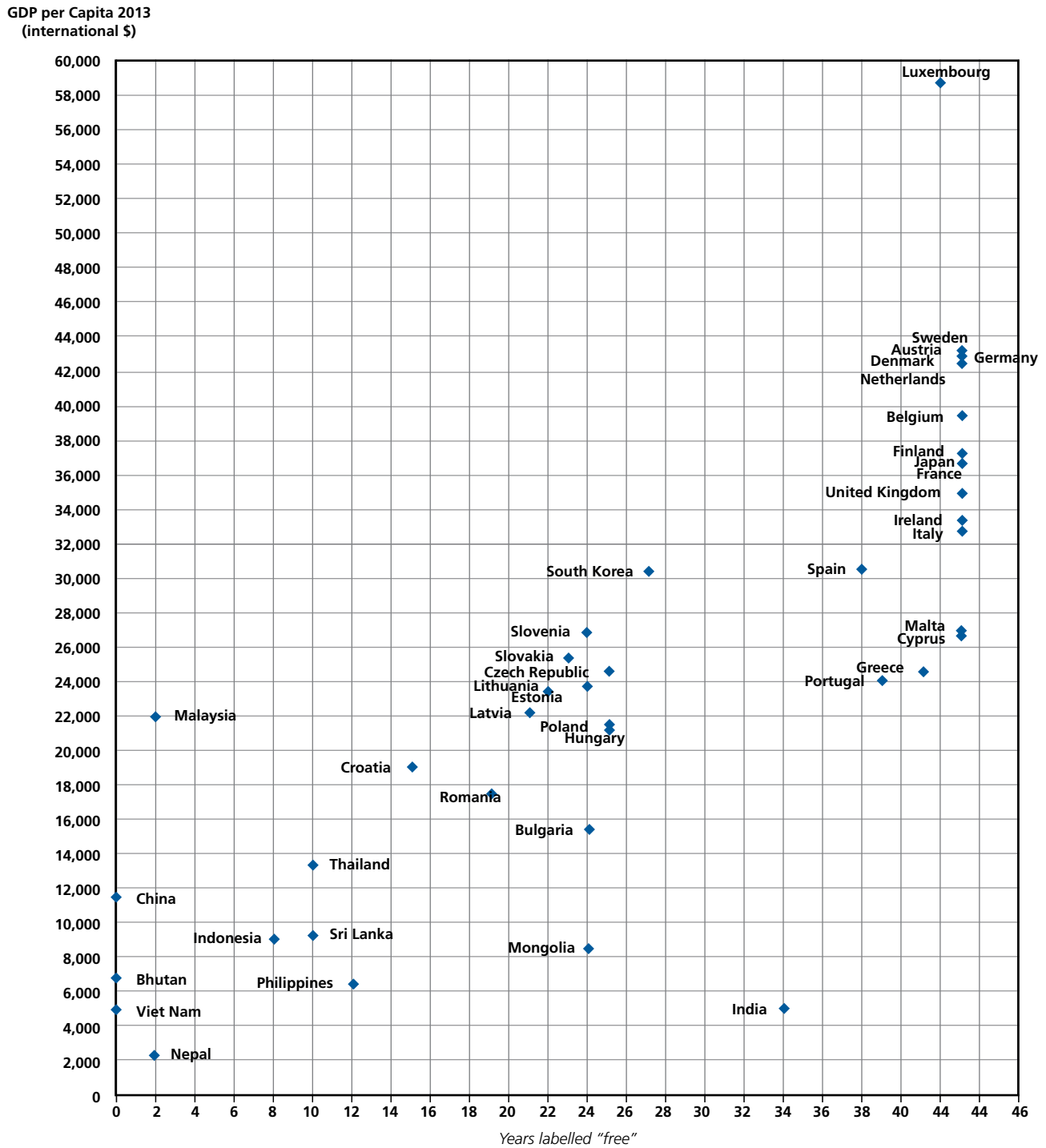
Democratisation and economic wealth correlate positively. Outliers are Malaysia because it is richer than its democratic record would lead us to expect and India which is among the poorest, despite its long history of civil and political liberty.

Nevertheless, political liberalisation does not appear to be a quick road to riches. The Eastern and Central European countries have been free for more than twenty years without being able to reach the wealth levels of the top group and in the EU the poorest countries have the most recent authoritarian legacies. Moreover, Mongolia and India show that sustained freedom is not a sufficient condition for accumulating economic wealth. This notwithstanding, no country in the sample has restricted liberty and at the same time developed great wealth. Our evidence is not strong enough to conclude that democracy causes economic growth but it certainly shows that adopting civil and political rights has not harmed economies.

Public social spending also correlates positively with wealth and freedom (Graph 5). The 7 longest EU members and Japan have enjoyed the greatest civil and political liberties, they are the richest and they also spend most on the welfare state, in real and relative terms. There is some variation between them, Japan spends less on welfare than many of the EU17, but the UK and Ireland are similar. Spain, Greece and Portugal are the lowest welfare spenders in this group, they are also the poorest here and gained their full freedom only before joining the EU in the 1970s. The Central and Eastern European member states are in the middle in terms of wealth, spending and freedom. Regarding wealth and

² The analysis is based on the research of „Freedom House“, an independent think tank which documents the development of democracy, rule of law, social and economic freedoms in countries around the world. <https://freedomhouse.org/report-types/freedom-world>

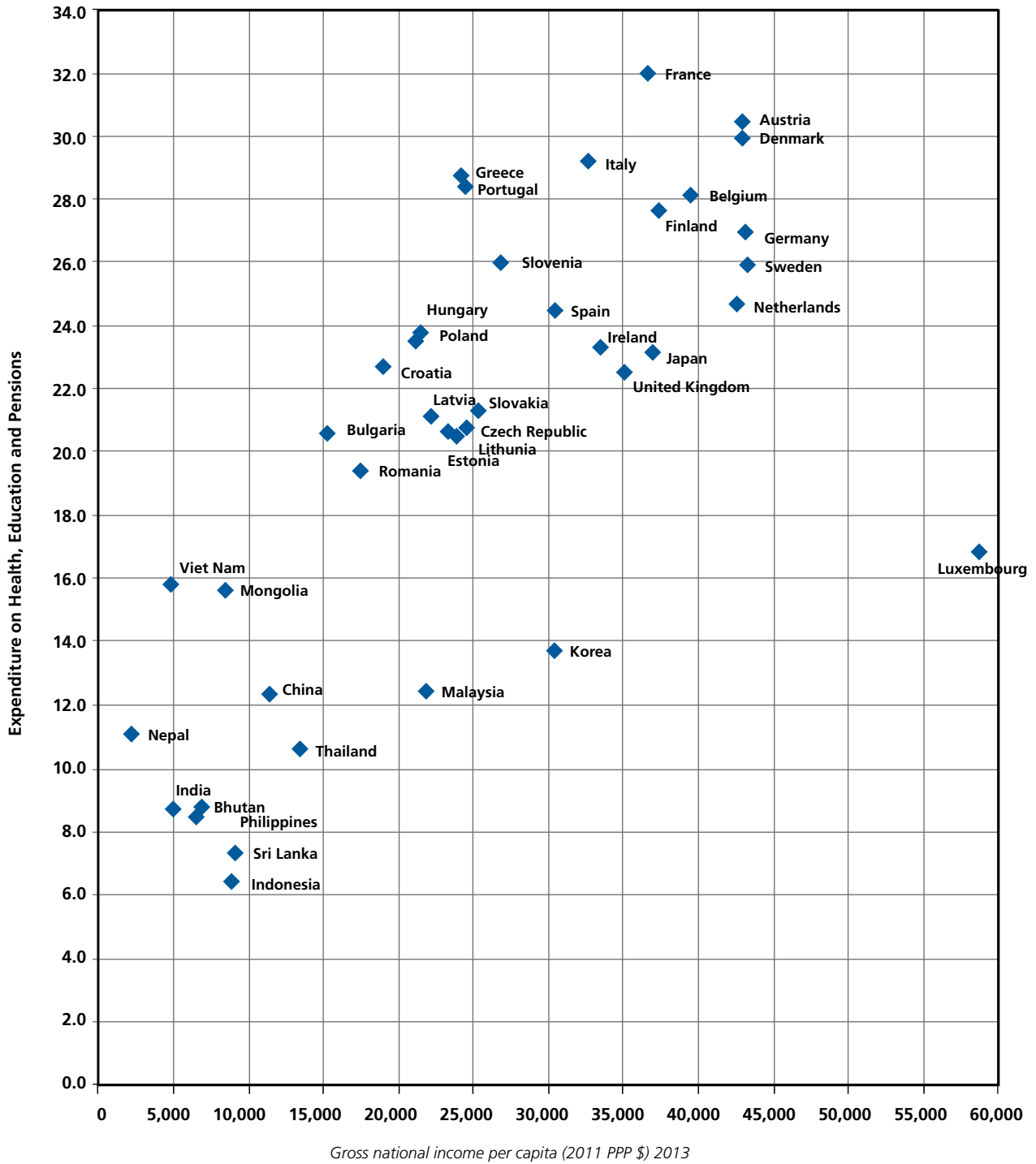
Graph 4
Economic wealth (2013) & democracy (1972-2014)



Source: democracy: www.freedomhouse.org; Wealth: UNDP (2014).

Graph 5

Gross national income per capita (2013) & health/education/pension expenditure % of GDP (various years 2005-11)



Source: Health/Education: UNDP (2014); pensions: OECD 2015: 183 and World Bank. Cyprus & Malta excluded, no pension figures.

democracy Korea is also part of this middle group, however, its welfare spending is a lot lower.

The least free countries are the poorest and spend the least on welfare. Within this group the most notable outliers are Vietnam and Mongolia which dedicate a high share of their wealth to health, education and pensions, India which is poor with a weak welfare state but a strong democracy and Malaysia, where despite relative wealth democracy has not developed.

Our evidence shows that strong welfare states have developed under conditions of economic wealth, civil and political liberties. However, the cases that do not quite fit this pattern – India, Malaysia, Mongolia, Korea, Vietnam, for example – suggest that additional factors are at work (Yi and Woo 2015). Research is patchy, but according to recent studies international institutions like the ILO have encouraged the adoption of social programmes, independent of economic development (Schmitt, Lierse et al. 2015). Moreover, the legacy of state socialism has made a difference. In Vietnam, Mongolia and China former Communist parties continued to govern during the difficult transitions of the state owned economies; thus universalism remained a part of political culture and of state bureaucracies (Fritz 2008; London 2014: 103). In contrast, part of the political ideology of governments in Korea and Malaysia was a “developmental” approach to welfare, leading to relatively low social spending: in the 1990s governments used social policy to industrialise and develop the economies. Intervention benefited workers in large companies and the public sector, the poor received nothing and large social inequalities remained (Holliday 2000; Kwon 2009: 12).

How to strengthen the welfare state in Asian developing countries

Based on Western modernisation theories this paper has explored the prospect for the expansion of the welfare state in Asian developing countries. It has shown a correlation of economic development, democracy and social spending. The richest countries have the most developed welfare states and long legacies of civil and political liberties, for the poorest countries the opposite is true. There is India’s combination of poverty and

democracy but no country is rich and authoritarian. From this follows that to build welfare states countries should grow their economy and introduce full civil and political liberties. More investment in education, in unemployment benefits and health services is likely to be a consequence, because in democratic societies interest groups will request such intervention and policy makers know that education and health increase productivity which again boosts economic growth. Pension insurance and health care will also be on the agenda because ageing populations need more of both (also ADB 2011). However, because the developing Asian nations are still relatively young, demands comparable to the West or Japan are not to be expected in the near future.

To be sure facilitating economic growth and political liberalisation is not straightforward. For a start, authoritarian governments such as China, Vietnam or Bhutan are unlikely to embrace democratic reform for economic gain. However, to develop the economy is priority for them as much as for any government and if successful, democratic transition will be more likely. In addition, while, economic development and political liberalisation might well pave the way for more equal societies, this is will not happen fast. We have seen that Eastern Europe is still lagging behind the West more than two decades after the collapse of state-socialism. Finally, economic wealth and democratic rights do not automatically lead to societal fairness. The inclusiveness of European welfare states differs due to the strength of trade unions, employers and other organised interests. Democracy creates a favourable context for higher welfare spending and it opens opportunities for many to participate in conflicts about social policies, but whether greater equality follows depends on who enters the struggle and who wins. Thus, “...a broad policy and higher level of government spending are probably a necessary, but definitely not a sufficient condition for an equal society” (Yi and Woo 2015: 488). In order for welfare states to be socially inclusive we need democracies which are open to representatives from a wide social spectrum. To hear those who do not have loud voices is particularly pertinent for Asian developing countries where the poor make up a large part of the population but are only weakly organised politically (Brooks 2015: 552). This notwithstanding, after a turbulent decade EU countries would do well to consider, too, whose interests are served or side-lined in their more generous welfare states.

References

- ADB (2011): Asian Development Outlook 2011. Update. Preparing for Demographic Transition. Metro Manila, Asian Development Bank, www.adb.org/sites/default/files/publication/29086/adu2011.pdf
- Baldwin, P. (1990). *The Politics of Social Solidarity. Class Bases of the European Welfare State 1875-1975*. Cambridge, Cambridge University Press.
- Boix, C. (2011). "Democracy, Development, and the International System." *American Political Science Review* 105(4): 809-828.
- Brady, D. and H. Y. Lee (2014). "The rise and fall of government spending in affluent democracies, 1971-2008." *Journal of European Social Policy* 24(1): 56-79.
- Brooks, S. M. (2015). "Social Protection for the Poorest: The Adoption of Antipoverty Cash Transfer Programs in the Global South." *Politics & Society* 43(4): 551-582.
- Esping-Andersen, G. (1990). *The Three Worlds of Welfare Capitalism*. Cambridge, Polity Press.
- Ferrera, M. (2000). *Reconstructing the welfare state in Southern Europe. Survival of the European Welfare State*. M. Ferrera and S. Kuhnle. London, Routledge: 166-182.
- Fritz, V. (2008). "Mongolia: The Rise and Travails of a Deviant Democracy." *Democratization* 15 (4): 766-788.
- Ha, E. (2012). "Globalization, Government Ideology, and Income Inequality in Developing Countries." *Journal of Politics* 74(2): 541-557.
- Haggard, S. and R. Kaufman (2008). *Development, democracy and welfare states. Latin America, East Asia and Eastern Europe*. Princeton, Princeton University Press.
- Häusermann, S. (2010). *The politics of welfare state reform in continental Europe. Modernization in hard times*. Cambridge, Cambridge University Press.
- Holliday, I. (2000). "Productivist welfare capitalism: Social policy in East Asia." *Political Studies* 48(4): 706-723.
- Kersbergen, K. v. (1995). *Social Capitalism. A Study of Christian Democracy and the Welfare State*. London, Routledge.
- Korpi, W. (2006). *Power resources and employer-centered approaches in explanations of welfare states and varieties of capitalism - Protagonists, consenters, and antagonists*. 19th Meeting of the ISA-Research-Committee, Chicago, IL, Johns Hopkins Univ Press.
- Kwon, H. J. (2009). "The reform of the developmental welfare state in East Asia." *International Journal of Social Welfare* 18: S12-S21.
- London, J. D. (2014). "Welfare Regimes in China and Vietnam." *Journal of Contemporary Asia* 44(1): 84-107.
- OECD (2015). *Pensions at a glance*. Paris.
- Schmitt, C., H. Lierse, et al. (2015). "The Global Emergence of Social Protection: Explaining Social Security Legislation 1820-2013." *Politics & Society* 43(4): 503-524.
- UNDP (2014): *United Nations Human Development Index 1980-2013*. <http://hdr.undp.org/en/data>
- United Nations. (2015). *World Population Prospects: The 2015 Revision*. <http://esa.un.org/unpd/wpp/>.
- World Bank. *Pensions: Data. Pensions Spending 4Q2013*. <http://webworldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALPROTECTION/EXTPENSIONS/0,,contentMDK:23231994~pagePK:148956~piPK:216618~theSitePK:396253,00.html>
- Yi, D. J. and J. H. Woo (2015). "Democracy, policy, and inequality: Efforts and consequences in the developing world." *International Political Science Review* 36(5): 475-492.

About the author

Traute Meyer is Professor of Social Policy at the University of Southampton. Her research has focused on change in European welfare systems and its impact on citizens, particularly in the area of pensions. Since 2007 she has been the editor for the Journal of European Social Policy. In recent years she has visited China and is interested in comparing European and Asian social policies.

Imprint

© 2017 Friedrich-Ebert-Stiftung, 2nd Edition
Office for Regional Cooperation in Asia
7500A Beach Road
#12-320/321/322
The Plaza, Singapore 199591

Responsible:

Adrienne Woltersdorf | Resident Director
Natalia Figge | Programme Manager

Phone: +65 6297 6760 | Fax: +65 6297 6762

Website: www.fes-asia.org

Facebook: Friedrich-Ebert-Stiftung Singapore

To order publication:

info@fes.asia

Commercial use of all media published by the Friedrich-Ebert-Stiftung (FES) is not permitted without the written consent of the FES.

The views expressed in this publication are not necessarily those of the Friedrich-Ebert-Stiftung.

Friedrich-Ebert-Stiftung (FES) is the oldest political foundation in Germany.

The foundation is named after Friedrich Ebert, the first democratically elected president of Germany.

The **Regional Programme in Asia** complements FES programmes and projects on the global and national level. Its approach and focus is going beyond the national level by responding to the trends of globalisation, labour mobility, regional integration and connectivity in all areas of life. The projects conducted under its framework target to build transnational networks and coalitions between individuals and organisations and promote change for more social justice, sustainable peace, economic development in the region.