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1

Democracy and Social Policy Development: Introduction and Overview¹

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Introduction

Since the 1980s, there has been a dramatic increase in the number of countries classified as democracies. The need to build democratic institutions and values as organizing principles of government underpins current development initiatives such as the anti-poverty agenda and the Millennium Development Goals (MDGs). Democracy is seen as a good instrument of accountability and for improving public policy outcomes. But globalization, market-driven policy prescriptions and the fragmentation of labour markets and collective bargaining raise questions about whether new democracies can pursue social policies that improve the welfare of the majority of their citizens.

Evidence suggests that the performance of many countries in promoting basic rights, public services and welfare development is inadequate. Many new democracies retain elements of authoritarian practices and seem unresponsive to voters' interests. Increasingly, researchers and development practitioners are adopting the view that it is not enough for countries to be democratic; the substance or quality of their democracies matters a great deal (O'Donnell 2001; Whitehead 2002; UNDP 2002; O'Donnell *et al.* 2004; Mkandawire 2004; Ringen 2005). What has been the record of democracies in social policy development? What are the intrinsic properties of democracy that can facilitate or constrain effective social policies? How do different democracies promote the well-being of citizens? And under what conditions can democratic regimes deliver adequate social protection?

This volume examines the complex relations between democracy and social policy development. It focuses on countries or regions whose democracies have been consolidated or are relatively stable: advanced western industrial societies, Japan, Southern Europe, Central and Eastern Europe, India, Latin America, Jamaica, Mauritius and Botswana. Welfare development is related to economic development. Developing countries with a GDP per capita of less than US\$2,000 (in purchasing power parity terms) have not attained universal levels of education or adequate levels of life expectancy,

let alone the range and coverage of the welfare programmes of high-income countries. However, some countries have been able to obtain fairly high scores in their health and education indexes with low levels of per capita income, while others have failed to convert high levels of income into commensurate levels of human development. This suggests that economic development is a necessary but not a sufficient condition for effective social provision.

The book underscores the importance of interest group (especially union) organization, strategic interactions of interest groups and political parties, and the partisan composition of government in explaining variations in welfare development in democracies. Countries with encompassing unions and left-oriented governments and that score highly on indexes of corporatism produce higher welfare outcomes than other countries. In countries where industrial unions are relatively weak, it is important that the political system is competitive and that pro-welfare parties are in government for long periods of time. In medium- and low-income democracies, where a substantial proportion of the labour force is in agriculture and the informal sector, social policy is still very much focused on providing basic services, such as education, health and water. Despite numerous programmes aimed at helping vulnerable groups, the monetary value of social security provision is still very low in these democracies. Medium-income democracies with relatively higher levels of urbanization, industrial employment, unionization, and competitive party systems, have combined substantial basic service provision with reasonable levels of social security. However, even in these countries, some core welfare policies (such as unemployment benefits) are still non-existent or poorly developed; and segmented industrialization has produced dualist and stratified welfare regimes in which organized groups in the labour market enjoy superior benefits.

The franchise had a relatively strong redistributive element during the early periods of democratization when organized groups used it strategically to influence public policy reforms. The link between the organized working class (and social groups more generally), the franchise and pursuit of substantive welfare policies became much weaker as more agrarian economies became democratic and national economies experienced deregulation. The vote has increasingly come to be seen, especially by rational choice perspectives that focus on the individual voter, as a weak instrument for promoting redistribution or holding governments to account. However, insights from the literature on the political budget cycle suggest that uncertainties associated with competitive elections provide incentives for some kind of governmental responsiveness to voters that have implications for welfare. But the conversion of interests into welfare outcomes often requires additional institutions, such as social pacts and those that improve the knowledge base of voters and the competitiveness of the political system.

The next section of this introduction provides an overview of development, labour markets, social expenditures and welfare in high-, medium- and low-income countries. Then we explore conceptual issues surrounding the potential

and limits of democracy in promoting responsiveness and redistribution in four areas: the redistributive quality of the franchise in historical perspective; the rational voter and problems of accountability; the political budget cycle; and institutions, competitiveness and welfare. This is followed by a discussion of the main insights from the nine studies within a framework that divides countries according to different phases of democratization, and then a discussion of the effects of social policy development on democracy. Finally, the sixth section concludes the introduction.

Development and welfare

Economic development correlates with social development when countries are grouped according to their GDP per capita. Table 1.1 provides data on urbanization, formal labour force, sectoral distribution of employment, and union density for low-, middle- and high-income countries. It shows that high-income countries have the highest levels of urbanization, formal employment and union density, as well as the lowest numbers of people employed in agriculture. Middle-income countries occupy an intermediate position, and low-income countries are at the other end of these indicators.

Table 1.2 shows that levels human development, educational attainment, life expectancy, social security expenditure, income security and poverty correlate with the broad income group categories. Low-income countries have, on average, the lowest indexes on human development, education, life expectancy and income security, spend the least on social security, and have the highest number of people living on less than \$2 a day. The positive correlation between countries' GDP per capita and their HDI scores has long been recognised by scholars in development studies (see, for example, McGillivray 1991). Least developed countries have not attained universal levels of education or adequate

Table 1.1 Labour force characteristics of low-, medium- and high-income countries

<i>Country¹</i>	<i>% of urban formal labour force</i>	<i>% in agriculture²</i>	<i>% in industry</i>	<i>% in services</i>	<i>% urban population (2002)</i>	<i>Union density³</i>
Low income	—	51.85	13.27	31.81	33.36	10.94
Middle income	49.95	19.54	24.96	53.99	59.13	24.37
High income	82.94	4.68	25.96	65.92	76.09	32.72

Sources: World Bank 2004; ILO 2004; ILO 1997.

Notes:

¹ All countries are grouped by income using World Bank classifications: high income (GNI/c of US\$ 9,076 or more in 2002), middle income (US\$736–\$9,075) and low (US\$735 or less).

² Sectoral data for low-income countries are from World Bank 2004.

³ Union membership as a percentage of non-agricultural labour force, 1995.

Table 1.2 Social outcomes in low-, medium- and high-income countries

Country groups	GDP per capita, ppp US\$ ^a , 2002	Human Development Index ^b , 2002	Education index ^b	Life expectancy index ^b	Social security expenditure as % of GDP ^c	ILO's income security index ^d	Population living on less than US\$ 2 per day ^e
Low-income countries	1,330	0.50	0.59	0.47	4.51	0.37	31.78
Middle-income countries	6,075	0.75	0.83	0.73	10.47	0.53	8.28
High income countries	22,906	0.91	0.93	0.87	20.61	0.80	<1

Sources: World Bank 2004; UNDP 2004b; ILO 2000; ILO 2005.

levels of life expectancy, let alone the range and coverage of welfare programmes in high-income countries. The combined average index for life expectancy and education of the top 21 high-income countries with income per capita of more than US\$23,000 is 0.93 (UNDP 2002); that for low-income countries is 0.59; and for the least developed countries is 0.48. The combined index for middle-income countries, at 0.79, compares favourably with that for high-income countries, but the welfare programmes of the former are well below those of high-income countries. These outcomes underscore the importance of economic development in understanding social policy development.

Despite the close links between GDP per capita and social outcomes, there are significant variations in social policy efforts in countries at similar levels of development as the welfare state literature has shown even for high-income countries (Esping-Anderson 1990; Huber and Stephens 2001; Hicks 1999). Hicks (1999) finds that although a threshold level of income per capita (US\$2,000) explains early welfare programme consolidation in Europe, above a certain level income per capita does not explain variations in welfare development. Studies have also shown that countries have been able to obtain fairly high scores in their health and education indexes with low levels of national income, while others have failed to convert high levels of income into commensurate levels of human development (Ghai 2000; Mehrotra and Jolly 2000; Moore *et al.* 1999). For instance, some countries with per capita incomes of less than US\$2,000 have very high scores in their combined indexes for life expectancy and education – Tajikistan (0.84), Vietnam (0.78), Mongolia (0.74), Sao Tome and Principe (0.71) and Solomon Islands (0.70). Indeed, 73 countries would lose points, 87 would gain points, and there would be no change in only eight countries if HDI rank is subtracted from

GDP rank (UNDP 2002). Similarly, although there is a high overall correlation between countries' GDP per capita and their income security index as measured by the ILO (2004), some countries with low or medium incomes have been able to attain fairly high levels of income security, while others have not been able to achieve levels of income security commensurate with their levels of income. These variations suggest that economic development alone is not enough to explain variations in social welfare efforts across countries.

Democracy and redistribution

Social policy development has occurred in both authoritarian and democratic regimes. The experiences of communist and East Asian developmental states suggest that policy makers can respond to the welfare needs of citizens even when civil rights are curtailed, leaders do not have to renew their mandates or gain office through competitive elections, interest groups are denied autonomy, and power is monopolized by a political elite. This book is concerned, however, with the links between democracy and social policy. In examining non-income factors that explain variations in welfare development, we will ignore factors that enable authoritarian regimes to pursue effective social policies and concentrate only on those that are specific to democratic regimes.

Any study on democracy and welfare requires conceptual clarification of the intrinsic properties of democracy that are conducive to social policy development. It also has to define the universe of democratic countries. There is much disagreement about the number of countries that can be classified as democratic, although all datasets point to a sharp increase in the last 25 years. The Polity IV dataset suggests an increase in democratic countries from about 40 in 1980 to more than 80 in 2003, and a corresponding decrease in authoritarian regimes in the same period from more than 80 to about 30. Freedom House reports similar developments and describes liberal and electoral democracies as the dominant regime form in the world today: 62.5 per cent of countries are reported to be democratic at least in the electoral sense by 2000. Yet in both these widely used datasets, there are a large number of countries that are classified as not fully democratic: 'restricted/partial democracies' in Freedom House language, or 'anocracies' according to Polity IV. Different scholars also question the democratic status of some of the countries classified as full democracies in both datasets. With the exception of Botswana, which is classified as a 'bureaucracy' by Przeworski *et al.* (2000) because of its lack of alternation of parties in government, our case studies are generally regarded as democratic in virtually all major academic studies. Apart from Central and Eastern Europe, most have also experienced uninterrupted democratic rule of at least 25 years. This time period is long enough to associate welfare changes to dynamics in the democratic regime.

Two defining features of democracy are the periodic renewal of the mandates of leaders through free, fair and competitive elections; and a set of

basic rights of expression and organization that facilitate the exercise of political choice and for holding leaders to account. In the next four sections we explore in more detail the intrinsic properties of democracy and their potential to deliver or constrain good welfare outcomes.

The franchise and redistribution in historical perspective

Theories on the political economy of public expenditures and the growth of government expect societies where the median voter is poor or at the lower end of the income distribution to have big governments and strong pressures for income redistribution, including extensive social provisioning (Meltzer and Richard 1981). Since the *raison d'être* of political parties is to win or retain office, it is believed policies will gravitate towards the median voter. Although this hypothesis has been challenged by some recent data on OECD democracies, in the nineteenth and early twentieth centuries, democratization, or extension of the franchise to non-propertied classes, was strongly associated with redistribution. Representatives of the landed gentry and rising industrial classes believed extension of the vote to the rising working-class majority would be harmful to private property owners as popularly elected parliaments would greatly increase taxes on the rich. Democracy was perceived as 'a battle, not of parties, but of classes' and 'a struggle between property... and mere numbers'.² Even liberal thinkers, such as John Stuart Mill (1946), worried about the redistributive potential of democracy and advocated plural votes for industrialists, bankers, merchants and professionals (Therborn 1977).

Much of the literature on the early history of democracy highlights a close link between democratization, redistribution and welfare development (Rueschemeyer *et al.* 1992; Huber and Stephens 2001; Hicks 1999; Acemoglu and Robinson 2000; Boix 2003). Rapid industrialization, trade union power and mass politics defined democracy's redistributive quality. Industrialization was associated with the mass production of goods and services, reduction of the contribution of agriculture to the gross domestic product and employment, high levels of population growth and urbanization, and emergence of a new class of producers – workers – whose survival depended on their ability to sell their labour power for wages. These developments introduced new social risks, such as workplace accidents; unemployment; long working hours and child labour; low pay; and old age insecurities. Trade unions – acting either independently or in coalitions with other groups in mass parties – emerged as pressure groups to force employers and the state to act on those risks. Universalization of the franchise was seen as a strategic tool in achieving social objectives. One of the leading Marxists of the time, Frederick Engels (1960), drew positive lessons from the use of the franchise by German workers to press for change, and wrote that if electoral reforms were sustained 'by the end of the century we ... shall grow into the decisive power in the land before which all other powers will bow, whether they like it or not' (Therborn 1977; Hicks 1999). Indeed, historians of the welfare state link its early development

in Germany under Bismarck to strategies aimed at avoiding revolutionary outcomes and reconciling working-class interests to those of the state.

Redistribution implies that achievement of universal suffrage, now mostly taken for granted in new democracies, was staggered rather than a once-and-for-all phenomenon, or something offered without contestation. Lenz and Ladd (2003) identify 26 cases of suffrage reform that increased the size of the electorate between 1807 and 1972 in 13 western democracies. The major reforms occurred between 1897 and 1922 when the franchise was extended to more than 50 per cent of the adult population in most countries. Most of these democracies were still largely male democracies before the First World War. Popular pressures of various forms influenced the politics of franchise extension. Sometimes, reforms were introduced from above to win working-class votes (Collier 1999) or stave off revolts. The revolutionary posture of sections of the working class movement may not have been successful in overturning existing political arrangements, but they surely added to the pressure for change and the need to incorporate the demands of workers in the political economy. Democratization was closely tied to industrialization and various forms of political unrest that have been identified for that period.

As Chapter 2 by John Stephens in this book suggests, democratization and welfare development in advanced industrial societies were driven by inter-related, though distinct, processes in which the working-class movement, acting through trade unions and social democratic and clerical parties, played a substantial role. Hicks (1999) finds that Socialist/labour voting in 1920 correlated highly at 0.606 with 1920 welfare programme consolidation,³ and mobilization, which includes union density and labour voting, correlated 0.764 with programme consolidation. Acemoglu and Robinson contend that 'extending the franchise acted as a commitment to future redistribution and prevented social unrest' (p. 1). They posit that without a commitment to redistribution, democratization, which still allowed the ruling classes to hold on to power, would not have been credible in the eyes of the newly enfranchised and disadvantaged majority. Their study, drawing on data from Lindert (1994), Williamson (1985), Flora (1983), Morrison (2000) and Kraus (1981) shows that social spending, social programmes and taxation in Britain, France, Germany and Sweden increased and Gini coefficients declined after countries embarked on democratization. Their data suggest that the peak of the Kuznets curve, or rising inequality, coincided with democratization, which subsequently led to redistribution or a reduction of inequalities. Boix (2003) also relies on these data to arrive at a similar conclusion about a drop in inequality in the European cases of democratization.

The rational voter and accountability

A striking feature of the current wave of democratization is the seeming erosion of the redistributive quality of the franchise. Universal suffrage is almost taken for granted in new democracies even when the integrity of the vote is

still a contested issue. Many new democracies have been described as 'choiceless democracies', 'disempowered democracies' (Mkandawire 2004), or simply 'electoral democracies', implying a distinct loss of capacity to respond to the needs of the populace. Even though industrialization became a worldwide phenomenon in the twentieth century, not many countries experienced a transformation of their economies and social structures leading to a large and independently organized working class with a capacity to influence decisions at the workplace and in public policy. Even long-established democracies witnessed a flexibilization of their labour markets, fragmentation of the working class movement, and capital mobility. These developments have enhanced the security of property owners and made large-scale redistributions difficult (Boix 2003). In addition, most of the older democracies were relatively homogenous nation-states. The rise of complex cleavages of a non-class nature may have served to weaken collective action in some contexts (Vershney 1999). Indeed, in polarized ethnic settings, voters may support leaders on ethnic grounds rather on the basis of their governmental record or ability to deliver good social or economic policies. It seems, then, that in this new dispensation, citizens, who have become a highly heterogeneous group, do not always vote for redistribution or welfare development; and policy makers and the dominant interests they may represent do not need to be afraid of democratization.

The literature on the rational voter and policy makers' responsiveness questions the redistributive quality of the franchise. One branch of this literature links low voter turnout in, for instance, advanced democracies with the relative insignificance of the marginal voter's choices in electoral outcomes. It is also believed that policy convergence among major political parties makes low voter participation rational. The focus on the individual voter deviates from the view of voting as collective action mediated by organized groups with clear preferences on the economy and on welfare policies and a strategic interest in voting irrespective of perceived outcomes. It challenges the assumed power of organized groups to mobilize their putative constituencies in electoral contests.

Indeed, recent work on accountability from a rational choice perspective views elections as a blunt or insufficient instrument for extracting accountability from leaders or forcing them to maximize citizens' welfare. According to Przeworski, Stokes and Manin (1999), elections are not enforceable contracts. In reviewing the Latin American experience, Stokes (2001) observes that politicians repeatedly violate their mandates on non-market approaches to economic reform when they get elected. It is not surprising that Fearon (1999) sees mandates, at best, as instruments to choose good leaders rather than to sanction or hold office holders accountable. Voters do not have adequate information to make correct judgements on government performance, and may have inconsistent policy preferences in the electoral cycle (preferring a policy at one end of the cycle and rejecting it at the other end).

These constraints suggest that governments may not be responsive to voters' interests, and may pursue policies they believe are best for citizens even if they turn out to be not welfare enhancing. They also leave scope for self-serving policies (and corruption) that bear no relation to the needs of the population or the economic interests of investors. In addition, citizens judge governments on a broad range of issues with only one instrument: the vote. In such situations, they may downgrade the performance of a government on the economy or on welfare development in their scale of preferences in making decisions about how to use their single vote. This body of literature suggests that additional 'accountability agencies' may be needed to get policy makers to be responsive to the needs of the populace.

The political budget cycle

Problems associated with converting voter preferences into welfare outcomes do not mean, however, that politicians are immune to pressures for redistribution. Free and competitive elections always have elements of uncertainty, which may induce responses, however minimal, from incumbents. The literature on political budget cycles highlights fluctuations in governments' public expenditures and tax policies that are linked to electoral cycles. The models on which this literature is based indeed perceive the vote as an instrument for social choice. Early research, pioneered by William Nordhaus (1975), focused on the effects of elections on the macroeconomy. It assumed that incumbents would reflate the economy during election years on the expectation that voters would support incumbents when economic conditions improve and support the opposition when they deteriorate. But the empirical evidence of political business cycles, as observed in OECD democracies, was ambiguous, because of the time it takes for monetary and fiscal policies to impact the real economy, or, as most analysts now believe, the seeming impossibility of leveraging economic policies to deliver results when they are required (Shi and Svensson 2003; Drazen 2000). Attention subsequently shifted away from macroeconomic outcomes to the policy instruments themselves and their budgetary implications. In election years, as Rogoff (1990: 21), who led the new line of research affirmed, 'governments often engage in a consumption binge': they cut taxes and/or increase expenditures and social transfers. Both models assume information asymmetries between voters and incumbent policy makers. In the Rogoff model, incumbents shift public expenditure towards consumption spending to signal competence to voters.⁴

The existence of political budget cycles is supported by numerous empirical studies.⁵ One widely cited study (Alesina *et al.* 1997) on 13 OECD countries found an increase of 0.6 per cent of GDP in the budget deficit between 1961 and 1993 during election years. Schuknecht (1996) reports this same level of deficit for 35 developing countries. Barry Ames's (1987) study on politicians and public policy in Latin America records a 6.3 per cent increase in government expenditure during pre-election years. In the case of Africa, Block

(2002) finds that the fiscal deficits of 44 countries where multi-party competitive elections have been held increased by 1.2 per cent of GDP during election years. Significantly, he finds no cycles in countries with non-competitive elections. Hallerberg and de Souza (2000) also report that the budget balance worsened in 10 Central and East European countries by 1.5 per cent of GDP in elections between 1990 and 1999, and that the type of exchange rate regime determined whether governments used fiscal or monetary policies to manipulate the economy.⁶ Block (2003) also finds, on the basis of data from a sample of 69 countries, that the composition of public expenditure changes during election years in favour of current consumption expenditures and away from public investment. Based on a study of 123 developing and developed countries covering a period of 21 years, Shi and Svensson (2002) report that cycles are caused by both a reduction in taxes and an increase in government expenditure.

One interesting insight in the political budget cycles literature is that cycles are much greater in developing than in developed countries. Shi and Svensson (2003) find that cycles in developing countries double those found in developed countries: the deficit increased by 1.3 per cent of GDP in the average developing country and 0.6 per cent of GDP in the average developed country. And Brenda and Drazen (2004) report that new democracies account for the large cycles found in samples that include both developed and developing countries.

There has been much discussion about the causes of variations in budget cycles. Explanations include issues related to differences in transparency and voter education on the competence of incumbents as more elections are held (Akhmedov *et al.* 2002; Gonzalez 2002 and Shi and Svensson 2003), the extent of rent-seeking opportunities enjoyed by office holders (Shi and Svensson 2002) and the existence of institutional restraints, such as governmental checks and balances and independent central banks (Brenda and Drazen 2004; Akhmedov *et al.* 2002; Hallerberg and de Souza 2000).

Most studies treat political budget cycles as pathological. Voters are assumed to be myopic and incumbents manipulative or opportunistic. Since economists have dominated this field of enquiry, the focus has tended to be on the negative effects of political budget cycles on the fiscal balance rather than on their potential to act as a mechanism for getting governments in competitive environments to respond to the welfare of voters.⁷ The impact of political budget cycles on economic reform programmes has also been a subject of concern by the multilateral financial institutions. Yet, in Nordhaus's initial formulation, political budget cycles, which seem inevitable in competitive environments where social investment is a scarce good, can only be successfully regulated through a 'planning framework' that 'broadens the base of participation in policy-making'. His planning framework echoes corporatist negotiations between 'the government, opposition parties, labour, management and other interest groups' (p. 189). Rogoff (1990), in fact, saw political budget cycles as 'a socially efficient mechanism for diffusing up-to-date information

about the incumbent's administrative competence'; and that 'efforts to curtail the cycle can easily reduce welfare, either by impeding the transmission of information or by inducing politicians to select more socially costly ways of signalling' (p. 22).

The higher incidence of political budget cycles in developing countries may not be fully explained by the myopia of voters, opportunistic behaviour of incumbents and weak regulatory institutions. In situations where the track record or credibility of governments on the provision of public goods is inadequate, voters may very well act rationally by demanding immediate 'returns' or 'payoffs' in election years: 'it's either now or never' in popular parlance. These returns or payoffs may vary from supply of consumer goods and cash transfers (the political bribery literature) to wage increases, public works and provision of clinics, schools and production inputs. And they may be targeted to different voters depending on the calculations of incumbents and pressures by voters. Khemani (2000) finds that spending on public works, such as road construction, is not only higher in Indian state governments in election years, but that the management of these programmes also improves. As he puts it 'it is only in the election year that incentives to woo the majority of voters is the greatest'. This is consistent with Tufte's (1978) argument that political business cycles may be beneficial; and that most major improvements in social benefits in the US occur during presidential or congressional election periods.

Politicians may surely behave in fiscally irresponsible ways, as Maurizio Ferrera argues in Chapter 3 of this volume in the case of Italy where votes were traded with individual welfare before the major reforms in that country's welfare system. It is also the case that politicians in many new democracies may personalize expenditures in election years by bribing voters with money and goods rather than providing common services or social welfare. In the absence of party manifestoes that are credible, individual politicians may have good reason to prefer targeted welfare since that is the only service they can credibly provide, monitor and control. Recent work by Susan Stokes (2005) has raised the issue of *perverse accountability* as a feature of many new democracies – i.e. situations where voters do not hold leaders to account; instead, parties provide targeted welfare and monitor and control the behaviour of voters to ensure that what they provide translates into votes.

It is difficult to measure the proportion of individually targeted and corrupt forms of social expenditures to the overall expenditures in the budget cycle. However, the existence of large political budget cycles in developing countries suggests that democracy does matter to voters and governments: they signal a need for redistribution. Policy makers will have to find effective ways of meeting the needs of the electorate if economies are to be freed from these cycles.

Institutions, competitiveness and welfare

The three perspectives on democracy and redistribution reviewed here often require institutions to convert preferences into welfare. The literature on the

rational voter and accountability highlights two broad types of institutions for improving responsiveness. The first deals with institutions that correct informational asymmetries. As Manin, Przeworski and Stokes (1999: 23) put it, 'the main difficulty both in instructing governments what to do and in judging what they have done is that we, citizens, just do not know enough'. Voters will be unable to act strategically or defend their interests if they lack adequate information about the economy and how decisions are made. This problem is structural and not just a reflection of voter preferences to elect autonomous leaders with superior knowledge. Despite being public agents, rulers enjoy enormous powers, including the power to withhold information from the public. The situation is complicated in poor democracies with low literacy rates. Recommended institutions include independent boards for transparency of campaign financing to ensure that the rich do not enjoy an overwhelming advantage in public policy; independent auditing agencies; independent sources for information on the economy; and participation of opposition parties in the regulation of the public media (p. 50).⁸

The second set of institutions addresses ways of improving the effectiveness of the vote. It is premised on the view that although governments may make thousands of decisions that affect the welfare of individuals, citizens have only one instrument – the vote – to influence those decisions. Manin, Przeworski and Stokes (1999) suggest that some key policies, such as monetary policy, may be separated from other public policies by asking individuals to vote on these policies separately – in effect granting voters multiple instruments to deal with multiple targets or problems that affect individual welfare.⁹ These reforms may need to be complemented by policies that improve the competitiveness of the political system, especially in ethnically polarized societies. Multiple votes and improved voter information may be meaningless if voting simply reflects ethnic affiliations. Where voting is ethnic, some kind of accountability can still be extracted from leaders when voters in the same ethnic group are presented with multiple parties with real choices.¹⁰ Accountability may be severely compromised when only one party controls the votes of a group. Responsiveness is improved in both plural and homogenous societies when there are high probabilities that incumbents would lose elections.

The literature on organized interests and the redistributive quality of democracy, on the other hand, highlights the significance of corporatist institutions or social pacts in improving social welfare efforts. This literature suggests that democracy delivers high welfare outcomes when left parties with strong union links are in government for extended periods, and are backed up by corporatist arrangements in industrial relations and in macroeconomic policy making. Under corporatism, independent, centrally organized unions authoritatively bargain on behalf of members and, together with pro-welfare parties, play central roles in defining the social agenda and resolving the conflicting interests of employers and workers in the macro-economy. In regimes of corporatism, all parties, including governments, are expected to abide by decisions on

wages, employment and social security more generally; and although a central objective of corporatism is to reduce the incidence of industrial unrest, labour retains the strike option to ensure compliance from government and business.¹¹ Empirical studies suggest that although the impact of corporatism on employment, inflation and growth is ambiguous (Vergunst 2004), social democratic regimes, which score highly on indexes of corporatism, have produced higher welfare efforts than other regimes (Hicks 1999; Huber and Stephens 2001; Esping-Andersen 1990).¹²

Phases of democratization and social policy

The countries discussed in the nine chapters of this book fall under three phases of democratization. The first phase deals with the experiences of western industrial societies in the nineteenth and early twentieth centuries. Although 33 countries, including four from Latin America, experienced democratic transitions during this period, they survived in only 11 by the outbreak of the Second World War (Huntington 1991). This period is associated with the early stages of social policy development. A new phase of democratization emerged after the Second World War, and covers the experiences of Japan, Costa Rica, India, Jamaica, Mauritius and Botswana. This phase is associated with high rates of economic growth, promotion of full employment, pursuit of national development strategies, corporatism in industrial relations, and expansion of welfare programmes in advanced industrial democracies. The diffusion of welfare policies to the new developing democracies was limited, although there were differences among countries. The third phase of democratization started in Southern Europe in the mid-1970s and engulfed Latin America, Central and Eastern Europe, Africa and Asia in the 1980s and 1990s. It coincided with the crisis of established welfare states, deregulation of labour markets, long-running economic crises in developing countries, the collapse of communism, and the ascendancy of neoliberal ideas in economic and social policy making.

First phase of democratization: western industrial societies

In Chapter 2, John Stephens provides an overview of the forces that propelled the transitions to democracy and social policy development in western industrial societies between 1870 and 1950. His survey includes nine West European countries, Australia, Canada, New Zealand, and the United States. Drawing on his previous works and those of other scholars, he posits a unified theory that explains the links between democratization and social policy. Central to this linkage is the role of the organized working class. Urbanization, factory production, and new forms of communication and transportation improved the capacity of the working and middle classes for self-organization. He adds that democratic consolidation needed a strong, relatively autonomous state and a well-organized civil society that counter-balanced the power of the state. His explanation also involves understanding changes in international

power relations, which, for the period covered, were the effects of the First World War and British colonial rule.

By 1920, most of the countries under review were full democracies, with Switzerland, France and Norway the first to democratize in the mid-to-late nineteenth century. Switzerland and Norway were smallholding agrarian democracies without powerful land-owning classes. Except in France, where artisanal workers were active, organized labour was not a significant actor in the democratization of these countries. However, by the turn of the century, the working class had become ascendant in much of Europe through the social democratic labour movement. The First World War strengthened the position of labour in the power equation: workers were needed in the production effort and at the war front. The size of organized labour more than doubled from 11 per cent to 27 per cent. However, labour needed allies as it was unable to effect democratic change on its own. Though workers constituted a majority in all countries, working-class parties could not receive electoral majorities even after the universalization of the franchise. Socialist parties' share of the vote averaged 30 per cent. In the Scandinavian countries workers collaborated with small farmers and segments of the middle classes. In the Netherlands and Belgium, unions and working-class organizations worked through clerical parties. In Britain, the reforms were spearheaded by upper-class-led parties, which in part were responses to working-class pressure and competition for working-class votes in the absence of a strong Labour party. Stephens reports that the European labour movement, acting through the Second International, ultimately adopted universal suffrage as a key demand in their programme for social change. He argues that democracy subsequently broke down in Germany and other countries because of their highly concentrated agrarian relations. He suggests that Britain's changing role as a colonial power and in the international system influenced patterns of democratization in the United States, Canada, Australia and New Zealand where high levels of suffrage were achieved before self-government.

Welfare development was shaped by variations in working-class power, as demonstrated by union organization or density as well as the strength of Left parties and participation in government. In some cases working-class demands for welfare reform were articulated through clerical parties – Christian democracy – whose Catholic ideology supported social policies to moderate the negative effects of markets. He argues that social policy development contributed to the consolidation of democracy in the inter-war period and to the 'class compromise' in the post-Second World War period. He highlights Hicks's (1999) three routes to early welfare consolidation to underscore the role of labour in welfare reform: a 'lib-lab' route of labour and liberal party government (Britain, Sweden and Denmark); a labour-Catholic route (Belgium and the Netherlands) and a Bismarckian authoritarian route with subordinated but organized working-class associations (Germany). The data suggest that working-class organization was necessary but not sufficient in bringing

about early welfare programme consolidation. Significantly, the early agrarian democracies or those with no strong labour participation (Switzerland, Norway, France, New Zealand, Canada and north and west of the USA) were laggards in welfare development. The depression in the interwar period slowed down social policy development as countries adopted austerity measures. However, wide-ranging social unrest across countries subsequently produced the building blocks of corporatism, especially in the Scandinavian countries where social democrats were in government for extended periods.

Postwar democratization: Japan, Costa Rica, India, Jamaica, Mauritius and Botswana

Many countries around the world experienced democratization or redemocratization after the Second World War. Huntington (1991) describes this phase, which, in his estimation, spans the period 1943–62, as the second wave of democratization. Przeworski *et al.* (2000) have questioned the notion of a 'democratic wave' for this period since, in their own estimates, the 'reverse wave' was stronger than the democratic wave. Both Huntington and Przeworski *et al.* exclude a large number of countries, especially in Africa, that they incorrectly claimed entered statehood as authoritarian regimes.¹³ The Allied occupation promoted democracy in West Germany, Italy, Austria, Japan and Korea. In Latin America, Uruguay experienced redemocratization; Brazil and Costa Rica established democratic governments; and some forms of democratic rule were briefly experienced in Argentina, Colombia, Peru and Venezuela. Decolonization in Asia, Africa and the Caribbean produced a host of democratic regimes, even though they survived only in the Caribbean and a few countries in Africa and Asia. In our case studies, democratic government was established in India in 1947; in Costa Rica in 1950; in Jamaica in 1962; in Botswana in 1966; and in Mauritius in 1968. Cross-class nationalist movements led by middle classes, who privileged national sovereignty over everything else, were responsible for most of these transitions.¹⁴

This second period of democratization occurred in a context of sustained growth in the world economy between 1950 and 1973. The average annual growth rate for 15 European countries and the United States and Japan was 4.96 per cent, with 'catch-up countries', such as Japan, Germany, Spain, Greece and Portugal recording growth rates of more than 6 per cent. Developing countries also experienced high rates of growth and rising per capita incomes. High growth led to a transformation of European economies as workers left agriculture for industry on a massive scale. Additional features of this period were the expansion of the state's role in the economy, the emergence of Keynesian methods of demand management in stabilizing economies, the consolidation and expansion of corporatist methods of collective bargaining, and innovative and expansive programmes in social policy. The international environment was thus favourable for social policy development in the new postwar democracies. The constraints on, or differences in, welfare effort can

be explained by differences in the structure and development of national economies and labour markets, the formation and organization of salaried classes, the competitive nature of the democratic regime, and the extent to which parties in government were committed to comprehensive welfare policies.

Japan, as Toshimitsu Shinkawa points out in Chapter 3, experienced limited democratization when a two-party system emerged between 1924 and 1932. However, sovereignty still rested with the emperor during this period and the military was not subordinated to civil control. The shift from light to heavy industry increased the number of male workers, who challenged the state's paternalistic style of labour relations that were prevalent when the labour force was largely female, through increased levels of unionization and collective action on wages, working conditions and social insurance. Union militancy encouraged liberal-minded bureaucrats to advocate progressive social legislation. However, the labour movement was suppressed by the military in the 1930s and plant-level industrial patriotic units replaced unions. Social policies during this period took the form of mutual aid schemes; retirement allowances of varying quality; poor relief to foundlings, orphans and the aged; compensation for work injuries; health insurance for manual workers; and a rudimentary pension plan. Employers and conservative elites in the bureaucracy and the party system consistently opposed unemployment insurance. Employers perceived social policy as a gift for workers' loyalties.

The occupying power, the United States, was the main driver for democratization and social policy development after the Second World War. Political and social citizenship rights were protected in the new constitution and a major land reform empowered small holders. Although 70 per cent of farmers did not own the land they tilled at the end of the war, by 1950 more than 60 per cent did. Japan experienced sustained economic growth of more than 8 per cent between 1950 and 1973 and a profound transformation of its economy. The salaried component of its labour force expanded in leaps and bounds. Unionization reached an all-time high of 55 per cent in 1949. The combination of free peasants and expansion of organized labour helped the socialist party to win a plurality of the votes and to form a centre-left coalition government in 1947. However, this government lasted only a year. Divisions within the ruling party, the dominance of anti-capitalist forces in the largest union, hard-hitting policies against radical unionists by the occupying power and employers, and withdrawal of support by farmer groups from the coalition ensured that social policy developed within a framework of occupationally structured and fragmented programmes. The unionization rate declined to about a third in the early 1950s and to less than 20 per cent in recent times. Japan has the lowest ratio of social security expenditures to GDP (14.1 per cent in 1996) in OECD countries.¹⁵ Shinkawa concludes that in the corporate welfare regime that prevailed, the level of social protection for a worker is, in general, a function of company size and length of service.

The economic and labour force characteristics of India, Costa Rica, Mauritius, Jamaica and Botswana were different from Japan's. The former were largely agrarian economies when they attained statehood or established democratic forms of rule. The process of industrialization in these countries was not as profound as in Japan; and high levels of informalization accompanied their urbanization. The proportion of their salaried labour force and levels of unionization were relatively low compared to those of the advanced democracies. Mass parties with strong union links did not develop in these countries to the level experienced in OECD democracies. The contribution of social expenditure as a proportion of GDP was also lower in the developing democracies than in the OECD ones. The emphasis in social policy development in these developing democracies tended to focus on basic social services. However, there are differences among them in terms of their economic and labour force characteristics, political dynamics, and welfare efforts.

According to World Bank classification, Costa Rica, Mauritius and Botswana are upper-middle-income countries; Jamaica is a lower-middle-income country; and India is a low-income country. As Table 1.3 shows, despite strong efforts at industrialization through import-substitution strategies and a more open economy in recent years, more than two-thirds of India's labour force is still in the agricultural sector. Industry accounts for about 13 per cent of its labour force and services 20 per cent. Even though India's economy grew at a rate of more than 5 per cent after market reforms were introduced in the early 1990s, the corresponding growth in formal employment has been disappointing. Indeed, as Neera Chandhoke shows in Chapter 7, growth in employment in the manufacturing sector has remained stagnant; and the bulk of employees in the urban areas are found in the informal sector. Union density

Table 1.3 Labour force characteristics of Costa Rica, Mauritius, Jamaica, India and Botswana (2000 if not otherwise indicated)

Country	% informal labour force	% in agriculture ¹	% in industry	% in service	urban pop % of total	Union density ²
Costa Rica	18.9 ³	20.4	22.3	56.5	59	13.1
Mauritius	38.8 ³	14.5	39.8	45.7	41	25.9
Jamaica	23.5 ³	21.4	18.5	60	56	25
India	55.7 ⁴	66.7	12.9	20.3	28	5.4
Botswana	19.3 ⁴	19.7	20.9	58.1	49	11.5

Sources: ILO 2002; World Bank 2004; ILO 1997; and Cowell and Singh 2001.

Notes:

¹ Sectoral employment observations for India and Mauritius are from 1995, Jamaica from 1998.

Observation for wage and salaried workers in Mauritius is from 1995, Jamaica from 1999.

² Union membership as a percentage of non-agricultural labour force, 1995.

³ Small or micro-enterprises (national definition), Costa Rica 2000, Mauritius 1997, Jamaica 1996.

⁴ National definition, India 2000, Botswana 1996.

is only 5.4. It has been estimated that collective bargaining agreements cover less than 2 per cent of formal and informal sector workers; and that patronage relations have tended to define union–government relations, especially during the long rule of the Congress party (Bhattacharjee 2002).

Botswana, Costa Rica, Mauritius and Jamaica have comparatively less labour in agriculture than India. As Table 1.3 shows, the majority of the labour force of these countries is found in the service sector. However, Mauritius has a very high proportion of its employees (39.8 per cent) in industry, followed by Costa Rica (22.3 per cent), Botswana (20.9 per cent) and Jamaica (18.5 per cent). Both Mauritius and Costa Rica have pursued export-led industrialization strategies; whereas Botswana is a mineral-based economy; and Jamaica derives more than two-thirds of its foreign exchange from bauxite and tourism. Keitsope Nthomang shows in Chapter 8 that although Botswana's diamond industry has provided enormous revenues to the state, its effects on employment have been dismal. The state is still the largest single employer. Employment in the services sectors of Botswana and Jamaica is high, but much of this is informal or small-scale activity, or in the case of Jamaica tourism-related. In Chapter 10, Jennifer Jones highlights the failure of the dominant sectors of the Jamaican economy – bauxite, tourism, large sugar estates, hotels and other services – to absorb the country's unskilled labour. A populist regime in the 1970s that tried to promote redistributive policies faced strong resistance from the international financial institutions and private capital.

The level of union density also varies across the four countries. Union density is higher in Mauritius (25.9 per cent) and Jamaica (25 per cent), followed by Costa Rica (13.1 per cent) and Botswana (11.5 per cent). Jones discusses the strong divisions within Jamaica's trade union movement, with the main labour federations linked to ideologically opposed political parties, as a factor in labour's weak impact on policy making. In Mauritius, however, as Sheila Bunwaree points out in Chapter 9, unions have been influential in industrial relations and public policy. A tripartite system of collective bargaining governs industrial relations; and unions are involved in shaping the agendas of the main parties, which are committed to welfare. However, unions do not enjoy the right to strike. Nthomang reports in Chapter 8 that Botswana's unions are very weak and are not affiliated to any of the political parties. In addition, the government has prevented public sector employees from joining or forming unions. Unions in Costa Rica are also weak, although solidarity associations complement labour participation in industrial relations.¹⁶ The political system has tended to be very competitive in Costa Rica, Mauritius, Jamaica and, recently, in India. It is less competitive in Botswana where only one party has governed since independence. Voter participation rates are highest in Mauritius and Costa Rica, followed by India and Jamaica. They are low in Botswana.¹⁷

These differences may explain variations in social policy development, especially in social security effort. Two of the three upper-middle-income

Table 1.4 Social outcomes in Costa Rica, Mauritius, Jamaica, India and Botswana

Country	GDP per capita, ppp \$, 2002	Human Development Index, 2002	Education index	Life expectancy index	GINI Index	Social security expenditure as % of GDP (1996) ¹	Population living on less than 2 \$/day
Costa Rica	8,840	0.834	0.87	0.88	46.5	13	9.5
Mauritius	10,810	0.785	0.79	0.78	38.7	6	na
Jamaica	3,980	0.764	0.83	0.84	37.9	4.5	13.3
India	2,670	0.595	0.59	0.64	32.5	2.6	79.9
Botswana	8,170	0.589	0.76	0.27	63	2.7	50.1

Source: UNDP 2004b; ILO 2000; ILO 2005 and World Bank 2004.

Notes:

¹ Costa Rica 2000, Jamaica 2000, India 1999–2000, Botswana 1993.

countries, Costa Rica and Mauritius, are the high performers in provision of basic social services. As Table 1.4 shows, Costa Rica's performance in HDI, and education and life expectancy indexes is comparable to those of OECD democracies; and Mauritius is a medium human development country. However, for its level of per capita income, Mauritius should have registered a higher HDI score. Jamaica's scores place it at the medium human development level, at a lower level than Mauritius. India and Botswana are further down in the medium human development level. For its level of per capita income, Botswana's HDI should have been closer to that of Mauritius. Botswana's education index is high, but its life expectancy index has fallen dramatically due to the AIDS crisis. Without the AIDS crisis it might still be registering a higher HDI, as in 1993 when it ranked 71 out of 178 countries. If all countries have done relatively well in basic services, the picture is different in social security. Table 1.4 shows that Costa Rica is the best performer in this area: it spent 13 per cent of its GDP on social security in 1996. This is followed by Mauritius with 6 per cent; and Jamaica 4.5 per cent. Botswana and India are the laggards, spending a mere 2.7 per cent and 2.6 per cent of their GDPs respectively on social security.

Costa Rica's welfare generosity has been linked to the early emergence of a dominant, though non-hegemonic, social democratic party (Mesa-Lago, 2000; Huber, 1996); consensus by the two main parties on social policy; existence of a high proportion of salaried employees (67.5 per cent of the labour force in 1995); and development of a highly competitive party system where the two main parties alternate in government and voter participation has consistently been above 75 per cent between 1970 and 1998. Costa Rica enacted many liberal reforms in the 1940s, including recognition of workers' rights and minimum wages. Following a brief civil war over disputed elections in 1948, a new constitution was adopted that extended the franchise to women and the small black population, and the national army was abolished. The

newly elected government, which was in office for about 10 years, pursued a radical socialist-oriented programme by nationalizing the banks and introducing a social security system. It seems that these issues make up for the relatively weak levels of unionization in explaining the very positive social policy outcomes. Mauritius's welfare development can be explained by factors related to the high proportion of its labour force in manufacturing; its relatively high union density and tripartite bargaining regime; the commitment, as Sheila Bunwaree explains in Chapter 8, of its main parties to some form of social democracy; and the competitive nature of its party system. However, in contrast to Costa Rica, more than 50 per cent of its population is still rural and about 40 per cent of its labour force is in the informal sector. Such differences may explain the relatively less generous outcomes in Mauritius when compared to Costa Rica despite the former's higher per capita income.

India's low performance in social security seems connected to its low-income status, large proportion of its labour force in agriculture and informal sector as well as its low levels of unionization and absence of pro-welfare parties.¹⁸ And Botswana has been less generous in social security because of the structure of its labour market, low levels of unionization and relatively low level of political competition as measured by the lack of alternation in government of the main parties and low voter participation in elections. As Nthomang reports in the case of Botswana, the government feels less pressured by social forces; although opposition parties have increased their share of the popular votes in urban areas, the government continues to enjoy a large majority of seats in parliament thanks to its strong rural support and the first-past-the-post electoral rules; and pursuit of development programmes and governmental relations with social groups has tended to be paternalistic. Botswana's Gini index (63) is also the highest among the five countries.

Despite low social security expenditures as a proportion of GDP in India, Botswana and Jamaica, all five countries have supported a wide range of programmes in social security. The five countries have a pension system, although those of Costa Rica and Mauritius are the most generous. Coverage of the self-employed is voluntary, and Jamaica's excludes casual workers and unpaid family labour. In India, only workers in firms with more than 20 employees are covered. There is almost complete coverage of the population in health care in Costa Rica, Mauritius and Botswana, although the level of provision varies; and in Botswana and Mauritius coverage is supplemented by mutual aid schemes funded by both workers and employees. Varying forms of support for work injury also exist in the five countries, as well as maternity leave and limited family allowances. A major gap in all countries is unemployment insurance. Some countries have severance pay schemes or retirement benefits, and limited income support for a number of work-days per year as in India. Neera Chandhoke reports in Chapter 6 that even though India has been a laggard in welfare development, democracy and a very progressive judiciary have recently empowered a wide range of advocacy groups to compel

governments to firm up the rights on food, employment, health and education embedded in its constitution.¹⁹

The third phase: Southern Europe, Latin America, and Central and Eastern Europe

Scholars generally agree that the third phase of democratization started in Southern Europe when the authoritarian regimes of Spain, Portugal and Greece were dismantled in the mid-1970s. By 2000, most regions of the world had experienced some form of democratization, even if there are questions about the quality and sustainability of some of the democracies. The long period of growth enjoyed by the world economy ended with the first oil crisis of 1974; and economies experienced high levels of fiscal deficits, inflation and unemployment. Calls for welfare state retrenchment as well as residualism and targeting in social provision became prominent; Keynesianism was discredited; and neoliberal ideas that privilege inflation control, liberalization and privatization over full employment and state intervention emerged as a framework for managing economies in both developed and developing countries. The third wave of democratization thus occurred in a global environment that is less favourable to the pursuit of effective social policies. Mkandawire (2004) has observed that the new democracies have been much more orthodox in their macro-economic policies than established or older democracies.

Southern Europe experienced rapid industrial transformation in the period 1950–73 when its average growth rate of 8 per cent surpassed the average of the European OECD countries (4.6 per cent). However, the three Southern European countries' average growth rate of 1.7 per cent²⁰ was much lower than the OECD average of 2.3 per cent between 1973 and 1979 – the period of democratization in the region. These countries also had a significant proportion of their workforce in agriculture at the time of their transitions: 22 per cent in Spain and 35 per cent in Portugal and Greece against an EU average of 10 per cent. As Maurizio Ferrera reports in Chapter 4, these countries had a highly segmented labour market: a core/regular sector with strict rules on employment conditions and job security; a peripheral/irregular sector of small enterprises with flexible rules of employment and job instability; and an underground sector. Female labour force participation was also low in Spain and Greece. Labour market segmentation produced an insider-outsider cleavage in welfare policy development.

Unlike developing country democracies consolidated in the second phase of democratization, Southern Europe had a long history of ideological polarization related to the compressed nature of its transition to capitalism in the late nineteenth and early twentieth centuries. Compressed industrialization exacerbated social conflict, radicalized the working class, and facilitated the growth of communist and fascist movements. Authoritarian rule in the three countries was unable to wipe out the radical, anti-systemic traditions in politics; they survived until much later after democratic rule was established.

The average density of unionization for the three countries (39.4 per cent)²¹ in 1975 compared favourably with the average for the United Kingdom, Belgium, Austria, Ireland, Germany, Switzerland, France, Italy and Netherlands estimated at 43.2 per cent. Only the Nordic group of countries had a much higher average (65.5 per cent) (Ebbinghaus and Visser 1998). Despite the unfavourable global economic environment, Southern European countries were compelled by the polarized nature of their transitions to use social policy as an instrument to consolidate their democratic regimes. European Union cohesion funds helped ease the transition burden.²²

Social security transfers as a percentage of GDP averaged 7.3 per cent in 1974 (compared to an EU average of 13.3 per cent); by 1990 this has jumped to 14 per cent against an EU average of 17 per cent. A pension system with varying degrees of coverage was introduced or expanded in places where it already existed; and a national health service was established in all three countries. Especially in Portugal and Spain, unions participated in the management of welfare programmes through social pacts that helped ease the transition to democracy and European Union membership. However, social protection followed the logic of the segmented labour market; transfers enjoyed a priority over services; and the welfare system in general was fragmented into various schemes linked to occupational status. Ferrera reports that before the market-oriented reforms of the 1990s that rationalized the welfare system, democracy provided a basis for parties and voters to personalize the welfare delivery system and trade welfare with votes when faced with high unemployment. Invalidity pensions and unemployment subsidies, especially in backward sectors and regions, such as agriculture in the impoverished South, were the most affected.

The third wave of democratization reached Latin America in the late 1970s, and by the 1990s most countries in the region were at least formally democratic. A recent study suggests substantial progress in democracy in the region as measured by the electoral democracy index²³ (UNDP 2004a). This rose from 0.28 in 1977 to 0.93 in 2002. A notable feature is the seemingly routine alternation of power among parties, which contrasts sharply with the practice between 1920 and 1980 when some countries experienced periods of democratic rule. In examining the historical links between democracy and social policy, Fernando Filgueira suggests in Chapter 6 that countries that experienced long periods of democratic rule before the current transitions to democracy demonstrate levels of social spending that are higher than should be expected given their GDP; and countries whose histories were largely marked by authoritarian rule, with few or no democratic interludes, demonstrate levels of social expenditure that are lower than should be expected given their levels of GDP.

Filgueira highlights three distinct types of social states in Latin America before the democratic transitions. These are based on the nature of their import substitution industrialization strategies, and the way different social

strata were included or excluded in social programmes. Argentina, Uruguay and Chile²⁴ are categorized as cases of universal or near-universal social states: social security covered most of the economically active population; primary education was universal; and basic health services were available to almost all of the population. However, with the exception of education, their welfare system was highly stratified. Brazil, Mexico and, to some extent, Venezuela, Panama, and Colombia are classified as cases of dualism: a large proportion of the population had access to social services and income maintenance schemes, although in a highly stratified manner; and another very large part of the population did not enjoy social protection. The third type refers to the exclusionary social states of El Salvador, Honduras, Bolivia, Ecuador and Guatemala: only a small privileged elite enjoyed social protection. Filgueira reports that long periods of democracy in Chile, Uruguay and Argentina empowered pro-welfare social forces, such as trade unions, that helped advance the social states. He also suggests that dualism and exclusion were a product of authoritarian rule or lack of electoral competitiveness in those countries: only segments of the population incorporated in the modern sector enjoyed social protection, albeit in a stratified way.

The new wave of democratization coincided with fiscal deficits of about 8 per cent of GDP in the 1980s (some countries, such as Brazil and Mexico had deficits of between 10 per cent and 20 per cent of GDP). Most of these countries had also accumulated large private debts. Stabilization and debt rescheduling brought them under the supervision of the Bretton Woods Institutions. A liberal route to economic and social reform gained dominance, and social spending decreased in the 1980s. However, the deepening of the social crisis and the threat it posed to the new democracies led to an increase in social spending in the 1990s. Filgueira suggests that the liberal reforms on social security partly maintained previous privileges based on the type of social state in existence. However, only Chile among the stratified universal countries opted for a full-blown privatization of social security. Uruguay, Argentina and Costa Rica pursued mild forms of privatization of their social security systems. Among the dualist countries, only Mexico opted for radical private provision. And the exclusionary states, such as Bolivia and El Salvador, experimented with large-scale privatization of social security. He concludes that opportunities for new social policy initiatives have been offered by the recent backlash against neoliberal reforms and the electoral victory of left-leaning parties in many countries in the region.

Democratization reached Central and Eastern Europe towards the end of the 1980s and early 1990s with *perestroika* and *glasnost* and the subsequent collapse of the Soviet Union. This region had a relatively developed industrial economy and an extensive welfare regime during communist rule. However, the transition to a market economy, large-scale privatization, and use of market principles in social policy resulted in the loss of some social rights and a decline in well-being in many countries. Terry Cox reports in

Chapter 5 that the main social policy innovations were the introduction of unemployment benefits, services for job search, poverty relief, and separation of social funds – for pensions and health care, for instance – from the state budget. Tripartite pacts of varying effectiveness, involving employers, employees and government emerged in all countries to mediate the transition to democracy and the market as well as to govern the social funds.

Effects of social policy on democracy

The nine studies in this book suggest that democracy and social policy can be mutually reinforcing. Democracy promotes rights and facilitates participation in the policy process; and governments periodically have to renew their mandates to citizens, who may reward or punish contestants depending on how well they perform on welfare. However, as we have seen, for democracy to deliver effective social protection to citizens, it needs some level of economic development; a competitive political environment; organized movements, especially labour unions, with encompassing interests; pro-welfare political parties; and social pacts.

Social policy can, in turn, affect the development of democracy. It can contribute to its *consolidation* as well as improve its *quality*.²⁵ Consolidation and quality are not the same, although regimes have to be consolidated before their quality can be deepened. A democracy can be consolidated at a very low level of welfare or income security as the example of India and, indeed, the experiences of many new democracies in the third wave suggest. Democratic consolidation involves behavioural and attitudinal changes in which the overwhelming majority of citizens uphold the intrinsic values and procedures of democracy in settling differences. The democratization literature highlights several factors that help consolidation. These include the quality of civil society, degree of consensus among elites on the rules of contestation and alternations of power, and development of an effective bureaucracy and rule of law. It is not always easy to determine when a democracy has been consolidated. Analysts often fall back on the cliché that a democracy is consolidated when ‘it is the only game in town’ (Linz and Stepan 1996) – i.e. when citizens and politicians accept mutually acceptable rules of political competition. The number of free competitive elections held after the founding election often measures this.

What role does social policy play in the consolidation of democracy? It is not easy to separate out the effects of social welfare provision on democratic consolidation from issues such as incomes, employment and economic growth. Some correlation has been established between levels of income and democratic consolidation. The data by Adam Przeworski *et al.* (2000), which covers the period 1950–1990, suggest that although high income is not a strong predictor of democratization, it plays an important role in consolidating democracies. Democratization can occur at any level of income, but it is almost certain to survive only in countries with per capita incomes that

are higher than US\$4,000. The second part of this finding confirms a key prediction of modernization theory formulated in the late 1950s by Lipset (1959). In addition, Boix's study (2003) on democracy and redistribution suggests that high levels of equality and capital mobility are also conducive to democratic survival.

It may be overly ambitious and, perhaps, questionable to attempt to derive political outcomes from precise income measurements. However, it is crucial to understand the sociological and political meaning of the links between high income, redistribution and democratic consolidation. High income produces more enlightened citizens; helps the development of social classes, interest groups and civil society more generally; improves the capacity of citizens to discipline policy makers, politicians and administrators; and supports the development of an effective state. In addition, initial redistributions to incorporate the working-class in the political economy and capital mobility may reduce the tax burden on the rich or the scale of subsequent redistributions (as the tax base expands), and may encourage dominant groups to embrace democracy (Boix 2003).

The problem arises when we narrow the focus of analysis to social policy or welfare provision. It has long been assumed that extensive welfare provision has a positive effect on the consolidation of liberal democracy. This point has been highlighted by the literature on the so-called 'historic class compromise'. As Przeworski (1985) puts it, 'social democrats trade off the abolition of private property in the means of production for cooperation of capitalists in increasing productivity and distributing its gains'. However, empirical studies on these linkages, especially as they relate to non-western democracies, are in short supply. The UNDP's Human Development Report of 2002 has shown that even though all western democracies enjoy high HDIs, there is no automatic link between human development and democracy. There are many fairly stable democracies with medium or low human development indexes. One can hypothesize, however, that a social policy that improves the security of the overwhelming majority of citizens improves social solidarity (a cornerstone of citizenship), locks in disadvantaged groups to the democratic regime by undermining revolutionary or violent alternatives, weakens clientelist social relations, and enhances the capacity of citizens to participate in public life as autonomous actors. In other words, social policy impacts the political system and democracy through social cohesion.

The chapters in this book suggest that social policy has been used to advance the cause of democracy in transitions that are highly polarized, such as in advanced industrial societies at the beginning of the twentieth century, and Southern Europe in the 1970s; in democratizations that coincide with a transition to a market economy with high social costs, as in Central and Eastern Europe; in societies whose initial attempts at democracy were threatened by civil unrest or war as in Costa Rica in the late 1940s; or in multi-ethnic societies with small open economies, as in Mauritius.

Conclusion

In conclusion, we restate the point that economic development is a necessary but not a sufficient condition for social policy development. Differences in the quality of industrialization; structure of labour markets; strength of civil society, especially organized interests, such as labour unions; existence of pro-welfare parties in government; and competitive nature of political systems explain variations in social policy efforts across democracies. The vote had a redistributive quality during early periods of democratization: it was used to stave off expropriations and to incorporate working-class interests in the political economy. The uneven quality of industrialization that underpinned subsequent democratizations, especially in developing countries, served to weaken the link between the franchise and redistribution. Concerns for fiscal prudence, deregulation of labour markets, privatization and globalization of production systems have made it increasingly difficult to link the growing networks of civil society groups to the basic capital-labour cleavage that informed the process of democratization and redistribution in earlier periods. It is not surprising that rational choice perspectives, which focus on the individual voter rather than on organized groups, have come to see the vote as a weak instrument for promoting redistribution or holding governments accountable. However, the existence of large political budget cycles in developing countries suggests that competitive elections do matter to voters and politicians and that there is need for some redistribution if economies are to be freed from such cycles.

Although there is no strong correlation between democracy and social policy development, it is important to note that the 22 countries with the highest human development index are all democracies; and no developing country democracy that was consolidated during the second phase of democratization is in the category of countries classified as low human development. In our case studies, developing countries that have demonstrated superior efforts in welfare development have highly competitive political systems and/or reasonable levels of unionization, pro-welfare political parties that have enjoyed governmental office, and elite consensus (sometimes backed by social pacts) on welfare development. Unfortunately, the current international anti-poverty agenda and strategies for attaining the Millennium Development Goals more generally eschew issues related to political contestation and promote a sanitized version of participation in which actors lack real power to effect change or hold policy makers accountable.²⁶ Economic growth, especially in least developed countries, is certainly a *sine qua non* for meeting these international development targets. However, it has been shown that when growth is combined with redistribution, the chances are much higher for many countries to meet these targets (Cling *et al.* 2005; World Bank 2004). Redistribution, as this book demonstrates, is strongly political.

Notes

1. We would like to thank Lasse Lindström of Stockholm university for comments on this chapter.
2. Views of a leading Conservative MP, Viscount Cranborne. (quote in Acemoglu and Robinson 1999; from Smith 1967).
3. Programme consolidation is defined as when countries have adopted at least three of the four main social insurance programmes: work accident, health, pension and unemployment.
4. The assumption of different types of competent incumbents has been relaxed to include all incumbents in Shi and Svensson (2002), and Persson and Tabellini (2000) without deviating from the core hypothesis that governments will engage in expansionary fiscal policies before elections.
5. For a general review see Svensson and Shi (2003).
6. A fixed exchange rate regime encourages regimes to manipulate the economy through large budget deficits; countries with non-independent central banks and flexible exchange rates adopt looser monetary policies in election years.
7. Block recognizes the accountability value of political budget cycles but seems largely concerned about how to integrate political and economic reforms in developing countries.
8. Keefer and Khemani (2003) highlight the significance of information and credible political competition in explaining the marked differences between Kerala and Uttar Pradesh in the provision of education and health services despite comparable per capita incomes.
9. In the case of monetary policy, they suggest that voting could be at staggered intervals for the directors of central banks, for instance.
10. In ethnically bipolar Belgium, there are no national political parties, but each of the two ethnic groups, the Flemish and the Walloons, have multiple political parties. In such a situation, parties may not take the ethnic vote for granted.
11. The relative autonomy and political rights enjoyed by organized labour distinguishes this type of corporatism from the corporatism that flourished under Fascist, Nazis and authoritarian governments.
12. Noel Vergunst's doctoral dissertation (2004) on consensus democracy, corporatism and socioeconomic policy making in 20 developed democracies found that it is only in social expenditures that corporatism makes a big difference: in other words, countries with corporatist arrangements have larger welfare states.
13. Huntington (1991) includes only Botswana, Nigeria and Ghana in Africa in the list of formal democracies. Przeworski *et al.* (2000) list only Congo, Mauritius, Nigeria, Sierra Leone and Somalia. The fact is most African countries, especially those ruled by Britain, gained independence with multi-party political regimes. In any case, one fails to see why, for instance, Przeworski *et al.* list (on page 42, footnote 24) Botswana, Gambia, Kenya, Uganda, Zambia, Senegal and Lesotho as dictatorships, and Somalia and Congo as democratic during this period.
14. Kwame Nkrumah's (first president of Ghana) most famous statement 'seek ye first the political kingdom and everything else will be added unto it' is instructive in this regard.
15. Excludes the Republic of Korea.
16. These are less antagonistic towards employers.
17. Mauritius: average of 82.37 per cent (for 7 elections between 1976 and 2000); Costa Rica: average of 77.37 per cent (for 8 elections between 1970 and 1999); India: average

of 62.25 per cent (for 9 elections between 1971 and 1999); Jamaica: average of 54.8 per cent (for 6 elections between 1972 and 1997); and Botswana: average of 42.68 per cent (for 7 elections between 1969 and 1999). Source: Institute for Democracy and Electoral Assistance (IDEA), 2005.

18. Contrast with Kerala where communist party rule has produced high social indicators.
19. Having a progressive judiciary and political parties that are not strongly committed to social provision may not yield substantive welfare development.
20. Spain's rate of growth was 1.4 per cent, Greece's was 2.9 per cent and Portugal's was 0.8 per cent.
21. Portugal's union density was 52.4 per cent, Spain's was 30.4 per cent and Greece's was 35.8 per cent.
22. Between 1989 and 1993, these funds contributed 2.6 per cent of GDP in Greece, 3 per cent of GDP in Portugal and 0.7 per cent of GDP in Spain. Between 1994 and 1999, they went up to 3 per cent of GDP in Greece, 1.5 per cent of GDP in Spain and 3.3 per cent of GDP in Portugal (Dunford 2005).
23. The Electoral Democracy Index is based on measures of four factors: the right to vote, fair elections, free elections, and elections as a means of gaining access to public office.
24. And Costa Rica in the 1980s. Otherwise, Costa Rica is treated as a special case that combines democracy with a less stratified universalism.
25. The issues that inform discussion on the quality of democracy are many and there is little consensus on how to measure quality. Some authors focus strictly on political factors, such as electoral equality, effectiveness of citizen control of government, and freedom of political competition; others combine political factors with issues of rights and group equality; and others emphasize welfare protection and poverty reduction. At the same time there are authors who believe that the protection of property rights and economic performance should be at the heart of efforts to evaluate the quality of democracies. It may be more fruitful to study what different democracies deliver by way of welfare and other public goods than trying to rank countries according to some elusive measure of quality. Studies on the political economy of welfare states and on comparative analysis of the performance of Western democracies already do this very well. In high-income countries with high literacy levels and health provision and drastically reduced poverty, ranking democracies on the basis of their 'quality' will be a very subjective exercise. For instance, we may agree that social democracy provides better welfare outcomes, but it is contestable whether its democracy is of a higher quality than, say, that of liberal welfare states (for a discussion on measurement and conceptual problems on quality of democracy see Schmitter 2004; O'Donnell *et al.* 2004; Whitehead 2002; Ringen 2005; Diamond and Morlino 2005; Baker 1999; and Pasquino 2005).
26. The IMF/World Bank-inspired poverty reduction strategies are top-down despite their support for civic participation in defining the programmes. Governments are not bound to accept the demands of civic groups, and the IMF and World Bank are not bound to accept the views of governments or those that arise out of the 'participatory' process.

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