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Democracy, Social Spending and Poverty

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Overview

In this paper I discuss the impact of two recent broad processes that has changed profoundly welfare provision in the developing world in the last three decades, namely, democratization and globalization. I provide a review of the existing literatures on the effects of both democratization and globalization on social spending, poverty levels, and social welfare, more generally. In this review, I evaluate the strengths and weaknesses of current contributions and highlight the similarities and divergences in the findings of this rapidly expanding area of research. Issues relative to data availability and reliability are also briefly reviewed. The focus in this analytical exercise in on the quantitative analysis available in large N studies, which adopt a cross-national perspective. The paper also provides an updated discussion of global trends in democratization, social spending and poverty, by further exploring recently available data.

The various scholarly attempts at exploring this theme have tried to disentangle the effects of democratization and democracy and to isolate the influence of other global trends and factors. Most authors find evidence against the link established in received wisdom for OECD countries that globalization is expected to affect positively social spending. In this group of countries, trade openness has been found to be positively associated with welfare provision because greater exposure to international markets increases vulnerability to economic fluctuations, leading to higher pressures by actors such trade unions and labor-based political parties for compensatory mechanisms. On the contrary, the studies on developing countries show that trade openness is related to a downward trend on social spending due to the: a) effects of competitive pressures on expenditure cuts, fiscal balance and the corresponding "the race to the bottom" among states; and b) of the changes in labour markets (due to a decline in formal employment and in the manufacturing sector) and weakening of institutions associated with labour interests, in particular, trade unions and political parties.

Most studies concur that trade integration has a consistently negative effect on aggregate social spending. In the Latin American case growing levels of trade integration had a substantial negative effect on aggregate social expenditures, with the effect being driven entirely by the social security category. In addition, there is significant evidence that education and health are relatively immune from such pressures and in some regions

expenditures in these areas have expanded. While these effects are found to be global trends, the impact of globalization is not uniform across the developing world. Rather, there is robust evidence that different regions have divergent patterns which result from their distinct institutional legacies from the pre-globalization period (particularly in the social security system), their different fiscal vulnerabilities of countries and their growth rates.

Some recent studies dispute these findings and argue that that trade openness does not constrain government outlays for social programs, and that democracy has a strong positive association with social spending, particularly on items that bolster human capital formation. Nevertheless, the disagreement is rooted in different methodologies for measuring openness, and more significantly, the regional coverage in this specific strand of the literature is limited to Latin America, and cannot be generalized.

The effects of globalization on welfare spending are no less controversial than the effects of democratization on social policies. Political economy models predict that democracies will favour redistribution and social spending because democracy brings more people with below-average incomes to the polls, and they collectively press the government to redistribute income downwards. This literature also predicts that the effects of democracy is not uniform across the social sectors and that programs with large constituencies – in areas such as primary education or primary health care – are expected to expand under democracy because this would bring government's policy closer to the median voter's preference. By contrast, programs which small and concentrated constituencies, such as special pensions, which caters for the interest of groups such as civil servants and formal sector employees, will experience spending cuts.

There is robust econometric evidence from various studies that as countries turn into democracies they will increase their welfare spending. Holding trade openness constant, these studies show that democracy expands social spending in education and health, while keeping social security outlays unaffected or in some cases smaller. Also, repressive authoritarian regimes retrench spending on health and education, but not on social security. Contrary to OECD countries, however, partisanship has no explanatory power in this relationship. There is research support for the effect of regime in specific

regions. In Africa, the need to obtain an electoral majority prompted governments to prioritize primary schools over universities within the education budget. In turn, in East Asia, a country that experiences a permanent move to democratic rule sees its average share of social security spending to GDP increase significantly. In Latin America, the evidence of an influence of regime on spending is less clear cut and the findings on the causality are inconclusive. However, there is also considerable support for a positive relationship.

There is also evidence that not only do democracies spend more in social welfare, they also associated with better welfare outcomes. Democracies are argued to do a better job than non-democracies of improving the welfare of the poor and promoting growth. However, this increased spending may not result in more favorable results for the poor because they may favor disproportionably middle income groups and specific clienteles. This explains research findings that, when flaws resulting from the fact that most cross-national studies omit from their samples nondemocratic states with good social records are corrected, non-democracies outperforms democracies in key social indicators such as mortality rates.

A number of relatively robust conclusions come to the fore in the review. The first is that although democracies spend more than non-democracies, the available econometric evidence suggests that they do not perform better in terms of actual outcomes. Second, when disaggregated, current large N research suggests that democracy is associated with higher spending and better education and health care. The contradictory findings in the literature on Latin America may actually result from issues of disaggregation and methodology. In two econometric tests, I found mixed evidence for the role of democracy on social safety nets and on health and education spending. While the effect of democracy on social safety nets was established, its influence on health and education was not, a result that may have arisen because of missing data for the most recent period. Finally, it is increasingly clear that there is strong interregional variation in terms of the behaviour of the main variables of interest. Therefore, one can hardly speak of one model of welfare state in the developing world.

Introduction

The strong wave of democratization that has swept most regions of the world has attracted a lot of scholarly attention to the evaluation of the causal links between democracy, social spending and poverty. In a similar vein, the process of globalization of trade and financial markets has prompted many studies aimed at investigating the impact, if any, of enhanced capital mobility and increased trade openness on the welfare of the poor and middle sectors in the developing world. While these literatures have accumulated, there is a pressing need to evaluate their findings and assessing the state of the art in this area. This paper is designed as a contribution to help filling this gap. The paper provides a review of the quantitative literature on democracy, social spending and poverty, assessing the contributions made to our knowledge of these relationships. This review evaluates the strengths and weaknesses of current contributions and highlights the similarities and divergences in the findings of this rapidly expanding area of research. Issues relative to data availability and reliability are also briefly reviewed.

The review is focused and circumscribed to the large N studies, which adopt a cross-national perspective. These studies are grouped, for expository purposes, into two large categories: those that focus on the impact of globalization on social spending and those that scrutinize the influence of democratic transitions and consolidation on welfare regimes. In addition to this review, the paper provides an updated discussion of global trends in democratization, social spending and poverty, by examining recently available data. The paper is organized as follows. In the first section, I review a selection of contributions to the quantitative literature on welfare in developing countries. This section is subdivided into two sub sections on globalization and democratization. The third section focuses on issues of data availability and reliability whereas the fourth section discusses some global trends and explores some further issues drawing on the available data. The final section concludes.

Literature review of quantitative analyses on democracy, social spending and poverty

What is the effect of globalization and democratization on social spending and poverty in the developing world? [1]The various scholarly attempts at exploring this theme have tried to disentangle the two factors and to isolate the influence of other global trends and factors, such as the noticeable improvements in social indicators, which reflect exogenous factors unrelated to either of these.[2] Indeed globalization and democratization have gone hand in hand over the last two decades in distinct parts of the globe and they are intertwined. Careful attention has to be paid to hold constant globalization indicators – including trade openness or restrictions on capital accounts – while examining the effects of democracy on the outcomes of interest. Conversely, democracy – measured by whatever indicators that are widely used, from Freedom House to Polity IV scores, among others – have to be isolated from the effects of financial liberalization and importance of trade in GDP. [3]

Globalization and social spending

Globalization is expected to affect positively social spending because trade openness has been found to have played that role in the OECD countries in the formative years of the welfare state. Several contributors have argued that historically the welfare state was primarily a response to the pressures of losers of international-market competition.[4] Greater exposure to international markets is associated to greater

[1] See among others Deacon (2000), Cornia et al (2004), and Kauffman and Haggard (forthcoming).

[2] Irrespective of the effects of globalization and democratization on welfare effort, changes in medical technology have led to improvements in health care indicators. Technological change has also meant cheaper medicines and vaccines. These factors have to be taken into account in evaluations of the welfare effects of trade integration or democracy.

[3] Other research strategies involve controlling for the heterogeneity of countries and for country specific factors.

[4] 30% of the variance in social spending is explained by trade integration in bivariate partial correlation for the period 1973-2003 (Segura-Urbiego 2007, 93).

vulnerability to economic fluctuations, leading to higher pressures by actors such trade unions and labor-based political parties for compensatory mechanisms. Economic insecurity then prompted social actors to engage in social bargaining, which usually were associated to corporatist mechanisms of macro-concertation involving employers' peak associations and labor associations. This was the pattern found in the so called corporatist countries, which were small and more integrated in the world markets. [5]

Recent scholarship has challenged this approach putting forward that the sources of vulnerability are primarily located in national markets and are associated with technological change.[6] Moreover, in OECD countries the association between openness and welfare spending has been reversed in recent years. In fact, since 1997 openness and welfare spending have behaved in opposite directions: when openness increases welfare plummets and vice versa (Segura-Urbiego 2007, 91). Wibbels (2006) provides an argument that domestic and external forces combine: while it is true that tradables, unions, and the like in the developing world have less power or interests divergent to those in the OECD—interests that militate against social spending, developed and developing nations have distinct patterns of integration into global markets. This author argues that while income shocks associated with international markets play an insignificant role in the OECD, they are profound in developing nations. In the developed world, governments can respond to those shocks by borrowing on capital markets and spending counter-cyclically on social programs. No such opportunity exists for most governments in the developing countries, most of which have limited access to capital markets during crisis, bigger incentives to balance budgets, and as a result cut social spending at exactly the times it is most needed. Wibbels (2006) concludes that "while internationally-inspired volatility and income shocks seem not to threaten the underpinnings of the welfare state in rich nations, it undercuts the capacity of governments in the developing world to smooth consumption (and particularly consumption by the poor) across the business cycle".

[5] The relevant contributions to the this large literature is Cameron (1978), Katzenstein (1978) and Garret (2000).

[6] This argument can be found in Iversen and Cusack (2000) and Adserá and Boix (2002).

For our present purposes the issue of analytical interest is the applicability of this argument to developing countries.A number of studies on the Latin America welfare states have argued that trade openness is not related to welfare state expansion. Quite the opposite: welfare state expansion is associated with import-substitution industrialization. Huber has advanced this argument showing how the extension of social security coverage and health care provision was part and parcel of the process of inward-looking developmentalist states. The Latin America hard evidence suggests a sustained inverse correlation between the two over the last decades. While there is little controversy on this issue[7], much of the current debate on the effect of globalization on welfare spending focuses on the effects of competitive pressures on expenditure cuts, fiscal balance and the corresponding "the race to the bottom" among states.

A number of contributions have actually tested the impact of globalization on welfare effort or expenditures in developing countries (Kauffman and Haggard forthcoming; Avelino, Brown and Hunter (2005); Kauffmann and Segura-Ubiergo 2001; Segura Ubiergo 2007; Rudra 2002). Two rival arguments have been tested about its impact on welfare. The first is a variant of the "race to the bottom thesis" and posits that because globalization increases exposure to international competition it will induce governments to roll back social expenditures. This argument is usually couched in terms of the "efficiency gains" produced by globalization. Interests associated with industry and foreign trade pressure governments to reduce budget deficits and this would inevitably, the argument goes, lead to expenditure cuts in social programs..

An extension of this argument is that governments will also be constrained to lower taxation, with a view to enhancing the country's international competitiveness, levels thereby reducing the availability of funds for social spending. This is so because social programs are funded by payroll taxes, income taxes and employers' contributions all of which increases labour costs. The key factors operating here are, firstly, the role of business groups and economic policy-makers in competitiveness-enhancing policies. Secondly, the enhanced capital mobility associated with globalization, which punishes governments that deviate from orthodox monetary and financial policies and provide

[7] See the review and evidence in Segura-Urbiego (2007, 93-95).

incentives for government policy makers to pursue fiscal policies that are consistent with business interests.

The alternative explanation is the view discussed above that globalization produces social dislocations, which lead to compensation initiatives in the form of more social welfare programmes. Kauffman and Segura-Ubierdo (2001 and Segura-Urbiego (2007) find robust support for the first hypothesis, namely that trade affects welfare. They demonstrate that trade integration has a consistently negative effect on aggregate social spending in the Latin American case. Their findings suggest that growing levels of trade integration had a substantial negative effect on aggregate social expenditures, with the effect being driven entirely by the social security category. Moreover, they find that this effect is greater in the group of welfare states than for the group of non-welfare states, which historically had much higher trade openness in the past. Overall integration into global markets affected social spending only to the extent that markets perceived the fiscal deficit to be unsustainable.

Segura-Urbiego (2007) argues that in addition to pressures for rolling back public expenditures, there is another mechanism through which globalization affects welfare provision. Trade liberalization produced the decline of the sectors that expanded during the period of import substitution industrialization, and which were the main constituencies for the creation of social security and other programs. These sectors were concentrated in manufacturing and other sectors targeted at the internal markets which were shielded from competition of international markets. Employment generation shifted from these sectors to service sector and the informal economy,[8] and as a consequence real wages fell. As a result, the link between employment and social security entitlements weakened and trade union's influence on policy-making declined. Segura-Urbiego (2007) did not find any evidence of reduction in educational or health spending but found significant retrenchment in pensions expenditures and social assistance.

Kauffman and Haggard (forthcoming) confirm Kaufman and Segura-Urbiego 2001) argument that trade openness affects social spending. In this study, trade openness

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[8] In Africa, 90% of new employment was in the informal sector during the 1980s and 1990s. In Latin America, the figure was 80%. Cf APSA (2008)

has a negative impact on social security spending in Latin America. Trade openness is associated with a decline in aggregate expenditure and education spending in Eastern Europe but an increase in East Asia. These results suggest strongly that the effects of trade are far from uniform across regions. The model coefficients for revenue change in East Asia show that, as in Latin America, social spending is sensitive to short-term changes in revenue. However, the authors highlight that this positive relationship occurred in the context of strong growth and a steady improvement in economic and fiscal conditions throughout the 1980s and most of the 1990s, unlike the extremely volatile context faced throughout Latin America. It should also be underlined that unlike Latin America, spending on social security, the most important area of welfare expansion in the Asian democracies, was unaffected by changes in revenue.

Rudra and Haggard (2005) found that political regimes are an important intervening variable. Using unbalanced panel data on 57 developing nations, and considering social security and health and education spending, the authors examine whether democratic and authoritarian regimes exhibit similar or different social spending priorities in the context of increasing economic openness. The study shows that social spending in "hard" authoritarian regimes is more sensitive to the pressures of globalization than in democratic or intermediate regimes. Rudra (2002) disputes the applicability of the argument that those strong labor movements, such as those in European social democracies, can discourage governments from reducing welfare spending during globalization. She argues that in the developing world, low-skilled labor is highly abundant, and should be expected to benefit from globalization according to neoclassical economics. Yet persistent collective-action problems accompanying globalization undermine labor's political clout in the developing world. Using a data for a sample of 53 less developed countries for 1972-1995, the author finds that collective-action problems of labor in countries with large pools of low-skilled and surplus workers tend to offset labor's potential political gains from globalization.

Recent work on the topic has however challenged these findings and goes beyond the “efficiency versus compensation” debate. Avelino, Brown and Hunter (2005) provide a much more nuanced picture of the relationship among democratization, spending and globalization. Avelino, Brown and Hunter (2005) use two measures to account for the

effect of globalization. In addition to the traditional indicators of trade openness ((imports + exports/DGP), they include a measure of capital mobility (restrictions on capital account) used in IMF statistics. By disaggregating the analysis and using alternative specifications of trade openness and capital mobility,[9] the authors find that trade openness has a positive association with education and social security expenditures, that financial openness does not constrain government outlays for social programs, and that democracy has a strong positive association with social spending, particularly on items that bolster human capital formation. They argue that trade openness leads to increases in aggregate social spending, a large part of the effect results from spending in education. Rather than being compensatory, spending in education may be a form of improving efficiency by providing the economy with more productive workers. They conclude then that compensation and efficiency are not mutually exclusive.

Democratization, social spending and welfare outcomes

The effects of globalization on welfare spending are no less controversial than the effects of democratization on social policies. Although intuitively appealing, the notion that democracy is intrinsically associated with income redistribution and pro-poor policies is difficult to reconcile with the fact that authoritarian regimes, particularly the so-called socialist regimes, have a much superior capacity to guarantee health care and education. In Latin America, the show case is Cuba, which boasts infant mortality rates lower than the United States. Some authoritarian regimes such as Vargas two terms of office and the military regime (1964-1984) indeed expanded social security coverage and extended social services to the rural poor (Malloy 1979). This historical record in OECD countries is also controversial, as the debate on the emergence of social insurance in Bismarkian Germany suggests.

There is a exciting new generation of quantitative studies of the consequences of democracy that has focused on its impact on social spending and social welfare more

[9] They show that different measures of trade openness produce opposite results. The findings in previous works using exchange rate conversions are reversed if purchasing power parity is used.

generally. Researchers have built new indicators to explore systematically the effects of the various dimensions of democratization. These indicators measure a number of relevant dimensions, including civil liberties, political rights, competition, constraints on the executive, regime types and subtypes, party legitimacy, legislative effectiveness, competition in the nomination process for executive and legislative posts, and freedom of speech. Box 1 provides information on existing indexes. These various dimensions are categorized in terms of Dahls's well known typology of dimensions of democratization: contestability and inclusiveness.[10] Box 2 (located at the end of this section), in turn, provides systematic information on existing scholarly contributions.

BOX 1. Indexes of democracy
Contestability
Freedom House's indice of Civil Liberties
Freedom House's indice of Political Rights
Vanhanen's Index of Competition
Gurr's Executive Constraints
Gurr's Competitiveness of Political Participation
Cheibub and Gandhi's Type of Regime
Polity`s Competitiveness of Executive Recruitment
Banks` Party Legitimacy
Banks` Legislative Effectiveness
CIRI`s Freedom of Assembly and Association
CIRI`s Freedom of Speech
CIRI`s Political Participation
Banks` Competitive Nomination Process
Inclusiveness
Bollen et all`s Adult Suffrage
Banks` Legislative Selection
CIRI`s Women's Political Rights
Banks` Effective Executive Selection
Vanhanen`s Index of Participation
Polity`s Openness of Executive Recruitment

Author's own elaboration

In this new wave of research there is robust evidence that democracies fund public services at a higher level than non-democracies in the developing world (Huber,

[10] For a discussion of these variables and their relation to Dahl's typology see Coppedge, Maldonado and Alvarez (2008)

Mostrilo and Stephens 2008; Kaufman and Haggard, forthcoming;Ross 2004; Avelino, Brown, and Hunter 2005; Brown and Hunter 2004; Kaufman and Segura-Ubiergo 2001; McGuire 2006; Stasavage 2005).[11] Another strand of the literature claim that not only do democracies spend more in social welfare, they also associated with better welfare outcomes. Democracies are argued to do a better job than non-democracies of improving the welfare of the poor and promoting growth (Bueno de Mesquita et al. 2003; Lake and Baum 2001; Baum and Lake 2003; Stasavage 2005). These claims are consistent with political economy models, which suggest that democracies produce more public goods, and more income redistribution, than non-democracies (Keefer et al; Ross 2004; Acemoglu and Robinson 2005; Boix 2003; Bueno de Mesquita et al. 2003).

The microfoundations for the expected association between democracy and redistribution are typically anchored in the median voter theorem. Under universal suffrage, the median voter will earn the median income. However, when income is unequally distributed, the median income is less than the mean income. Redistribution is expected to follow democratization because the mean income in pre-democratization societies is universally higher than the income of the median voter. Since the decisive voter earns a below-average income, he or she favors a higher tax rate and public policies geared towards redistribution. In sum, democracy brings more people with below-average incomes to the polls, and they collectively press the government to redistribute income downwards. Democracy also depends on larger winning coalitions than autocracies and this sets in motion a process whereby public goods tends to be favored to private goods (Bueno de Mesquita et al 2003).

The empirical discussions have focused on two interrelated set of issues. The first is the actual impact of democracy on actual welfare outcomes. In this line, Sen (1999), have showed that famines do not take place in democracies. Others like have looked at

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11 See also Avelino 1997 and Avelino 2000. This view has gained strong empirical support in recent scholarship in virtue of recent advances in the econometric approach in this area of research. Other scholars including Sen (1999) have explored the microfoundations for the link emphasizing that democracy produces better information about the welfare of the poor and this information is used to punish rulers that do not respond to famines or poverty more generally

sectoral outcomes in Health care, infant mortality etc. For example, Lake and Baum (2001) find that a move from complete autocracy to complete democracy should produce a drop in infant mortality of five deaths per thousand. In a follow-up piece Baum and Lake (2003) show that precisely because basic services like education and health lead to accumulation of human capital, democracy has also an important indirect effect on growth.

The second issue that has attracted a lot of scholarly attention is the impact of democracy on social spending (as opposed to welfare outcomes). Avelino, Brown and Hunter (2005) estimate the effect of democracy on social spending in Latin America at 0.5% of GDP. In other words, as countries turn into democracies they will increase their welfare spending by 5%.[12] This literature is more controversial because as many contributors have argued, spending may not be a good proxy of welfare effort, it may reflect clientelistic personnel expenditures or redistribution to middle income groups rather than on the poorer segments of society. The main difficulties in these strand of literatures has also do with issues pertaining to the complex web of causalities involved, in addition to problems of endogeneity and reverse causation. In fact, democracy have indirect ways of affecting welfare outcomes and spending and, more significantly, these outcomes also affect democratization. Expansion of educational services and health care as well as poverty reduction further influences and reinforces democracy. [13]

In developing countries, democratization was expected to affect welfare and poverty reduction not only because of the broader effects of electoral markets but mostly because in these countries the forces pushing for reforms and political liberalization were associated with universalistic policies and anti-poverty programs. Thus from Latin America to Africa, the opposition forces under authoritarianism – from trade unions to NGOs and leftist parties, and from religious institutions to social movements - adopted these banners. By empowering new and old actors that started to mobilize support for

[12] This figure is derived from the fact that the average social spending in Latin America is roughly 10%.

[13] The technical challenge involved in these studies is finding instrumental variables that could be used in two stage least square estimation to control for endogeneity.

their demands in the various decision-making arenas that were reinvigorated, democracy was supposed to generate redistribution. Empowered social actors – subnational political actors, civil society groups and legislators – were to become the vectors of transformation.

Because the constituencies which are associated with social expenditures' clientele vary in terms of size and organizational capabilities, the effects of democracy may not be uniform across the social sectors. Thus programs with large constituencies – in areas such as primary education or primary health care – are expected to expand under democracy because this would bring government's policy closer to the median voter's preference. By contrast, programs which small and concentrated constituencies, such as special pensions, which caters for the interest of civil servants and formal sector employees, will experience spending cuts.

The strongest piece of evidence regarding the effect of democratization on social spending is provided by Avelino, Brown and Hunter (2005). The study fits a panel data model consisting of 19 Latin American countries for the period 1980-1999. The authors find that holding trade openness constant, democracy[14] expands social spending in education and health, while keeping social security outlays unaffected. This is expected according to the authors because popular pressures under democracy lead governments to cater for the interests of the majorities, thereby causing the increase in health and educational expenditures. Social security expenditures did not decline because the power of vested interests remained powerful and managed to block measures to reduce their privileges.

Stasavage (2005) provide compelling evidence for the ways the introduction of democracy has affected government priorities and has shifted existing pro-urban biases in educational provision in Africa. He argues that democratization made governments more responsive to the needs of the rural poor that forms the majority of citizens in almost all

[14] Democracy is measured by a dummy variable equal to 1 if the country is classified as democratic in Alvarez et al (1996)well known study.

African countries.[15] He tests this hypothesis with a panel of 44 countries for the period 1980-96. Using sophisticated techniques for dealing with problems of missing data, he finds that the move to multiparty elections leads, on average, to an increase in overall educational spending of 1.1% of GDP. More importantly, he finds evidence that the need to obtain an electoral majority prompted African governments to prioritize primary schools over universities within the education budget.

Huber, Mostrillo and Stephens (2008) examine the determinants of social expenditure in an unbalanced pooled time-series analysis for 18 Latin American countries for the period 1970 to 2000. They explore the role of a number of variables including regime (democracy versus nondemocracy) partisanship, state structure, economic, and demographic variables. The authors find that democracy matters in the long run both for social security and welfare and for health and education spending, and—in stark contrast to OECD countries—partisanship does not matter. They disaggregate the analysis for type of social expenditures and discover that highly repressive authoritarian regimes retrench spending on health and education, but not on social security.

Kauffman and Haggard (forthcoming) provides the most up todate analysis of the effects of democratization on social spending. The value added of their research is that they disaggregate the results per program and more importantly for region of the world. They argue that democracy has different effects across the three regions in their study East Asia, Eastern Europe and Latin America. In fact, they show that different regions

[15] Against the received wisdom on the limited spread of democracy in Africa, Lindberg (2006) argued that repetitive elections in Africa's third wave of democratization tended to be self-reinforcing leading to successively more democratic elections. The author demonstrate persuasively the role of elections as a causal variable in democratization. This has also had, as he shows, positive impacts on gender representation; on opposition parties' learning and adaptation to electoral politics; as well as enhancing and deepening de facto civil liberties in society. Using several indicators of party system stability, Lindberg classifies Africa's 21 electoral democracies as fluid (eight countries), de-stabilized (two countries), or stable party systems (11 countries), and that eight out of 11 stable systems are one-party dominant. See also Lindberg (2004) and Bratton and Van de Walle (1997).

exhibit contrasting patterns which result from their distinct institutional legacies from the pre-globalization period (particularly in the social security system), their different fiscal vulnerabilities of countries and their economic dynamism. In East Asia, they find that a country that experiences a permanent change to democracy also experiences a permanent change in average social spending. A country that experiences a permanent move to democratic rule, the average share of social security spending to GDP increases by about 23 percent (despite the fact that this share is very small).

Kauffman and Haggard (forthcoming) also claim that democratization has a positive short-term effect on spending in education and health although they return to the trend average. The move to democracy also affected spending in post-socialist countries. Moreover, the results show significant short-term effects of regime change on spending in health and strong and positive effects on long-term average shares of general expenditures and social security, which increase by 13 and 58 percent respectively.

Surprisingly, their analysis conclude that in Latin America, democracy generally has no impact on social spending – a pattern that the authors explain in terms of the political and economic constraints on social policy. The only significant impact found was a long-term negative relation between polity and social security spending. The study also confirmed a pro-cyclical pattern of spending. The strongest effect is on overall expenditures, but they note significant fiscal constraint in health and social security as well.

Although there is large literature on the effects of newly empowered actors under democracy on social-policymaking, the results should be evaluated with caution. This is so because democracy created the possibility that inequalities of wealth and access to political forces could be used to advance the interests of specific clienteles. In Latin America the historical association between democracy and welfare is weak. Although the countries with the greater number of uninterrupted years as democracy are also in the group of best performers in terms of welfare indicators, many authoritarian governments promoted social welfare as part of the strategy to create some level of legitimation. Costa Rica and Uruguay are in the former group, while Brazil and Argentina would clearly be located in the latter group.

In a study of 14 Latin American countries, Kauffman and Segura-Ubiergo (2001) found no evidence of a link between democracy and social welfare effort in the recent decades. They found that neither popularly based governments nor democracies consistently spend more or less than conservative governments or autocratic regimes. But this exercise uses data for the period 1973-1997. [16] The findings by Avelino et al, reviewed above contradict these findings though.

Melo (2008) also found no evidence that the residuals from regressing social spending percapita on GDP percapita are associated with the uninterrupted number of years under democratic rule. This runs counter Figueira's findings in a roughly similar exercise. This author, however, has used a different time span in a bivariate correlation – the uninterrupted number of years under democratic rule between 1950 and 1970. As for GDP and the share of social spending the data refers to a single year, 2000. Much more research is needed to establish causation. Case studies have shown that for a number of countries democracy is indeed the engine of welfare state expansion. Costa Rica is a case in point., as discussed in Segura-Ubiergo (2007) and Figueira (2005).

Several alternative arguments can be made for explaining the lack of association between democracy and social spending. It may be that authoritarianism from 1930s to 1960s – the heyday of developmentalism - is associated with more welfare spending but no so after this period. A more important point in this respect is that to take social spending as a proxy of welfare effort is not without risks. Social expenditures serve different functions purposes across developing countries – in some countries they are pro-market while in others they are compensatory (Rudra 2007). In some countries, expenditures in pensions cater for the demand of special clienteles and therefore they are not associated with democracy – although as the Brazilian case suggests, certain privileged categories have higher mobilization capacity under democratic rule (Melo 2007).

The positive correlation between increased social spending and democracy in recent years as found in many studies (Avelino, Hunter and Brown 2005) does not

[16] See also Avelino (1997) among others on the same topic.

necessarily means that the increased expenditures actually reach the poor. In fact it is not obvious that they produce better social outcomes, such as longer, healthier lives. If democracy produces better outcomes for low-income families, then countries that transit from autocratic to democratic rule should see improvements in their infant and child mortality rates. In fact, the record suggests the opposite. Ross (2004) points out that in all 44 states that made a single, unambiguous transition to democracy between 1970 and 1999, the infant mortality rates collectively fell by 7.4% during the first five years after their transitions, while they fell by 10.7% during the five years before their transitions.[17] In this study uses a dataset of roughly 160 countries, Ross (2004) found no support for the notion that democracy performs better than authoritarian regimes in terms of welfare outcomes. The author has used sophisticated techniques for solving the problem of underrepresentation of high performance authoritarian regimes in the samples used in existing studies, along other technical problems involved measurement and estimation. These reduced samples would not be a problem if the missing states were randomly distributed by regime type, income, and other characteristics, but they are not: undemocratic countries are much more likely to be missing than democratic ones.

What account for the different findings in the literature?. Ross (2004) argues that past studies of democracy and the poor have been flawed by a peculiar form of selection bias: most cross-national studies omit from their samples nondemocratic states with good economic and social records, which creates the false impression that democracies have outperformed nondemocracies. Most also fail to control for country-specific fixed effects and global trends. [18] Once these flaws are corrected, democracy has little or no effect on infant and child mortality.

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[17] Infant mortality is also a sensitive measure of many other conditions including access to clean water and sanitation, indoor air quality, female education and literacy, prenatal and neonatal health services, caloric intake, disease, and of course, income—that are hard to measure among the very poor

[18] Fixed effects models in time series cross sectional data allow researchers to control for country specific factors, which in other estimation techniques can lead to serious “problems of omitted variables”. In turn, global trends, for example in terms of overall improvements in social indicators, can also lead to wrong conclusions about their relationship to democratization.

Ross (2004) should be regarded as the most conclusive available research on the topic. How can – if they can at all - the *prima facie* conflicting quantitative evidence reviewed above be reconciled? These studies differ in a number of ways (see table 1). First, geographical coverage. Many studies are circumscribed to a specific region – Africa (Stasavage), Latin America, Kauffman and Ubiergo-Segura, Huber et al, Avelino et al, Brown, Hunter and Brown), while Ross covers the whole world.[19] Second, a few studies are sector –specific whereas others cover social spending as a whole. Findings in the area of health or education may not be consistent across all sectors. Third, some studies focuses on welfare outcomes while others investigate patterns of spending. Fourth, there are important differences in terms of model specification and issues of measurement.

Bearing these differences in mind, a number of relatively robust conclusions come to the fore. The first is that although democracies spend more than nondemocracies they do not perform better in terms of actual outcomes. This conclusion is supported by contrasting Ross (2004) and Avelino et al (2005) and Kauffman and Haggard (forthcoming). Second, when disaggregated by sector, the evidence suggests that democracy is associated with better education and health care. The contradictory findings between Kauffman, Segura-Urbiego, on the one hand, and Avelino et al (2005) may actually result from issues of disaggregation and methodology. Last but not least, it is increasingly clear that there is strong interregional variation in terms of the behaviour of the main variables of interest. Therefore, one can hardly speak of one model of welfare state in the developing world (Kauffman and Haggard forthcoming; Rudra 2007).

In addition to these quantitative investigations, it should be noted that recent case studies have provided additional evidence for improved conditions for the poor under democracy. In the last two decades the more established democracies in the Latin American region have indeed expanded social spending, reflecting growing social and political demands. As a consequence there have come to the fore political responses in

[19] Haggard and Kauffman (forthcoming) also covers the whole world but present their findings in disaggregated by region.

the form of governmental programmes and social expenditures as well as in the form of new legislation expanding entitlements and coverage.

Brazil under Cardoso and Lula is consistently cited as a showcase for the effects of democracy. In this country there appears to have been created a unique virtuous cycle linking universalistic social programs which are strongly rooted in electoral competition. In other words there has been a virtuous cycle. The increasingly universalistic character social policy under Presidents Cardoso and Lula is indeed a product of the creation of an electoral market to which presidents respond to the demands of the rural poor.[20] In the past, before the introduction of the cash transfer programs, the credit for social programs was mostly claimed by local political elites at the sub-national level. Historically, education, health and most notably social assistance have always been at the center of patronage games and clientelistic networks, typically involving local elites. A paradoxical development is that the social transfer programs in Brazil operate in a fairly transparent way, with minimum clientelistic mediation.

Recent literature on the political economy of clientelism argues that public good reforms require political competitors with an incentive to appeal to broad segments of the citizenry (Keefer 2006). Politicians who can make credible promises only to a few – clientelistic politicians, for example – do not have these incentives. In countries such as Brazil, the lack of programmatic parties which could credible claim to deliver public goods is indeed an obstacle to universalism. Thus, presidents have had a strong incentive for poverty reduction because they have become accountable for social policy for the first time. Because the constituency of Presidents is the whole country, they develop a strong interest in universal programs which are not geographically targeted or focused on narrow groups of the population. [21]

[20] See Melo (2008), Melo (1997a; 1997b), Hunter and Powers (2007) and Zucco (2008). For a similar dynamics in Mexico, see Diaz Cayeros et al 2006 and Coady (2003).

[21] The evidence for the electoral appeal of the social programs is virtually ubiquitous when one look at the 2006 Presidential race. This sets in motion a dynamics that ultimately fosters a particular type of universalism. The programmes with the highest redistributive impact of the country have over the last decade generated a politically efficacious constituency. This

BOX 2 Literature review		
Authors	**Sample and Time Period**	**Findings**
Social spending and policy models		
Habibi 1994	67 countries, 1984	Political rights (Gastil index) in prior period (12 years) positively influences budget shares for social spending
Lindert 1994	21 countries, 1880-1930 (mostly European)	No effect of democracy on social spending
Brown and Hunter 1999	17 Latin American countries, 1980-1992	Democratic governments show more rapid increases in social spending in the face of economic constraints than authoritarian regimes, but differences diminish with level of income
Lott 1999	99 countries, 1985-1992 (cross-section for 1990 on health)	"Totalitarian" countries have higher education expenditures but lower health spending
Przeworski et. al. 2000	141 countries, 1950-1990	Democracies have higher health spending
Kaufman and Segura 2001	14 Latin American countries, 1973-1997	Democracy has a positive effect on health and education spending, but negative effect on social security spending
Baqir 2002	100 countries, 1985-1998	Democracy is positively associated with the within-country variation in social sector spending, but not with cross-sectional variation
Bueno de Mesquita et. al. 2003	Global sample, 1960-1999	Coalition size is positively associated with education and health spending

political logic is also a product of the extension of the franchise to the illiterates in the mid-1980s. Indeed the clientele of *bolsa família* is at the time of writing 11 million families – affecting probably some 18 million voters. The clientele for the rural pensions is 8 million beneficiaries, representing a constituency of some 12 million voters. These developments can be unequivocally be traced to the consolidation of a political market for redistributive programmes. For its redistributive impact Ferreira (2006) and Lindert (2007).

Mulligan, Gil and Sala-I-Martin 2004	102 to 110 countries, 1980-1990 (cross-section)	Average democracy scores (1960-1990) have no influence on education spending, pensions, or non-pension social spending
Nooruddin and Simmons 2005	137 countries, 1980-1997	Trade openness is associated with more education spending in democracies than in authoritarian regimes; no such effects with respect to health care
Rudra and Haggard 2005	59 developing countries, 1975-1997	Democracies and authoritarian governments respond differently to economic openness, particularly trade. Authoritarian governments are more likely to cut education, health and social security spending and to see adverse trends in primary enrollments infant mortality
Huber, Mustillo and Stephens 2008	22 Latin American countries, 1970-2000	Duration of democracy is significant with respect to health and education spending, but conditional on the strength of left parties. Democracy has no effect on social security spending.
Rudra 2002	53 LDCs, 1972-1995	Globalization affects negatively social spending
Dion 2004	49 middle-income countries, 1980-1999	Democracies have higher levels of social security, health and education spending, but differences among democratic institutions (particularly the number of veto points) are also significant
Avelino, Brown and Hunter 2005	19 Latin American countries, 1980-1999	Democracy is positively associated with aggregate social spending, but through education spending only; democracy has no significant effect on social security or health spending
Brooks 2005	59 countries, 1980-1999	Democracy interacted with party fragmentation lowers probability of pension privatization
Stasavage 2005	44 African countries, 1980-1996	Democratization leads to greater spending on primary education.
Nooruddin and Simmons 2006	137 countries, 1980-1997	Democracy is associated with higher education shares of budget in the absence of IMF programs, but lower health and education shares in the presence of such programs
Wibbels 2006		Globalization associated with downward pressures in social spending in developing countries
Kaufman and Haggard, forthcoming	1980-2005, 21 countries in East Ásia, Ásia and Eastern Europe	Democracy depresses social security and increase expenditures in health and education. Results conditional on the impact of financial and fiscal constraints
Outcome models		

Moon and Dixon 1985	116 countries, 1970-75 (cross section)	Democracy positively associated with PQLI
Williamson 1987	80 developing countries, 1970	Democracy has no effect on PQLI
Shin 1989	109 counties	Democracy positively associated with PQLI
Young 1990	103 countries, 1985	Democracy positively associated with life expectancy
London and Williams 1990	Global sample, 99-110 countries and subsamples of developing and "peripheral" countries, 1970	Democracy positively associated with PQLI and Net Social Progress Index in global, developing and "peripheral" subsamples
Weede 1993	Global sample (72-97 countries), 1987	Democracy has a modest positive effect on Human Development Index but not on life expectancy
Wickrama and Mulford 1996	Global sample (82 countries, oil-exporters excluded), 1988 and 1990	Democracy has a positive effect on life expectancy, infant mortality, primary education, and Human Development Index
Boone 1996	96 developing countries, excluding OPEC, 1971-75, 1976-80, 1981-85, 1986-90.	Liberal democracies have lower enfant mortality than emerging democracies, socialist or authoritarian regimes.
Brown 1999	94 developing countries, 1960-1987	Democracy has a positive effect on primary school enrollments, although diminishing with level of development
Frey and al-Roumi 1999	87 developing countries, 1970, 1980, 1990	Democracy has positive effect on PQLI in 1970 and 1990, but not in 1980
Zweifel and Navia 2000	138 countries, 1950-1990	Democracies have lower enfant mortality than dictatorships
Bueno de Mesquita et. al. 2003	Global sample, 1960-1999	Coalition size is positively associated with a variety of outcome measures: cumulative years of schooling, literacy, and nine health measures including infant mortality, immunization and access to water.

Lake and Baum 2001	37 to 110 countries, 1970, 1975, 1985, 1987, 1990, 1992 depending on model	In cross section tests, democracy has consistently positive effects on 17 indicators of education and basic health; sole exception is immunization. Democracy and transitions to democracy significant in pooled time series on secondary enrollments, access to water, DPT and measles immunization, and infant mortality
Gauri and Khalegian 2002	175 countries, 1980-1997	Democracy associated with higher levels of immunization in poorer developing countries, but lower levels of immunization in middle-income countries
Gerring and Thacker 2005	188 countries, 1995	Long-term experience with democracy is associated with lower infant mortality
Lake and Baum 2003	Global (128 countries), 1967-1997	Democracy positively associated with female life expectancy in poor countries and female secondary education in middle-income countries
McGuire 2002a	92 developing countries, 1990; 47 developing countries, 1995	Democracy (both long and short-run) has no effect on multiple measures of basic health care provision and under-5 mortality.
Ross 2004	156-169 countries, 1970-2000	Democracy does not have positive effects on infant mortality using imputed data that corrects for systematic under-representation of high-performing authoritarian regimes in existing data sets
Ghobarah, Huth and Russett 2004	179 countries, 2000	Democracy is positively correlated with World Health Organization's Health Adjusted Life Expectancy
Franco, Alvarez – Dardet and Ruiz 2004	140-162 countries, 1998	Freer countries (Freedom House measure) have higher life expectancy and lower enfant and maternal mortality.
Shandra et. al. 2004	59 developing countries, 1997	Democracy moderates adverse effects of various measures of globalization ("dependency")

Notes. PQLI refers to the Physical Quality of Life Index; HDI refers to Human Development Index. Unless otherwise indicated, studies with a single year reflect a cross-section design while those showing a date-range are panels.

Source: Kauffman and Haggard, (forthcoming, p.) and own elaboration

Strengths and limitations of data used

In contrast to the existing literatures on developed welfare states, the literature on social spending and welfare provision is relatively scarce. Whereas the political economy of the welfare state is a theme that is part and parcel of accounts of the development of

national economies and polities of OECD countries in the XXth century, no corresponding body of research exists for developing countries. Although the relative weight of social expenditures in GDP justify these contrasts, it should be noted that the share of social spending in GDP countries in many developing countries is higher than in many OECD countries. Therefore the centrality of social spending only account for part of the explanation.

In fact, an array of factors explains this pattern. First, in the poorest regions of the world such as Sub-Saharan Africa or Asia data are not available for significant periods of time, or can only be found at a high level of aggregation. This has precluded that even researchers in multilateral institutions and OECD universities from doing research on social welfare expenditures in poor countries. There have been improvements in the last decade but the situation is still very unsatisfactory. Second, in addition to missing data, existing data suffer from reliability problems. They can be either grossly inaccurate or, more importantly for the analysis of social expenditures, may not be a good proxy of service provision. Indeed they may reflect patronage spending on personnel rather actual welfare effort. Thirdly, with the exception of a number of countries in Latin America, along with India and South Africa, developing countries have typically weak research institutions and universities which collect data or carry out independent evaluations of social policy.

Advanced econometric techniques have been used to overcome some of the limitations of the data. These include, for example, multiple imputation estimates where non-observed data are imputed using advanced programs such as AMELIA (King et al 2001 and Honaker et al 2003). 22 An additional problem that creates additional technical problems in for assessing the determinants of welfare outcomes is that we should expect countries to produce fewer data when they are authoritarian. This implies that cross-

[22] Multiple imputation involves imputing *m* values for each missing cell in your data matrix and creating *m* "completed" data sets. (Across these completed data sets, the observed values are the same, but the missing values are filled in with different imputations that reflect our uncertainty about the missing data.) After imputation, Amelia will then save the *m* data sets. Researchers then apply whatever statistical method they would have used if there had been no missing values to each of the *m* data sets, and use a simple procedure to combine the results

national datasets tend to exclude authoritarian states. This may lead to the false inferences (Ross 2004).

An additional problem that affects comparative research on the developing world is that some regional organizations that specializes in data collection at a more disaggregated level - such as the Economic Commission for Latin America (ECLAC) – use criteria for collecting the data that are not shared by other regional organizations. As a consequence, cross-regional research cannot be carry out at a lower level of disagregation. In addition, there are rich and detailed datasets for a large number of developing countries that are country-specific, uses nationally defined categories and tha therefore cannot be aggregated into regional data. These problems are even more salient with institutional and political data, which are essential for the study of the links between democracy and social spending.

Global trends in Democratization, Social Spending and Poverty

A cursory look at current global trends in democracy and social welfare around the world would suggest a relatively encouraging picture. Democracy is spreading throughout the globe and the absolute number of poor people is declining. Indeed, at the beginning of the third wave of democratization, in 1974, there were only 41 democracies among the existing 150 states. In 2007, 130 of the current 193 states are democracies.[23] These figures reflect broader changes state- society relations in the last quarter century and have impacted public policy. Currently, there is a clear association between democracy and citizens' well-being. Exceptions to this rule are found in the Middle East and in transition countries of the former Soviet republics. When we turn the focus to poverty trends, the picture seems no less encouraging. The total number of people living in absolute poverty declined by 501 million from 1,470 million in 1980 to 969 million in 2004.

However, when we disaggregate the data by region and country the picture that emerges is rather disturbing. Without the 627 million drop in East Asia (China alone had a 506 million decline), the number of people living in poverty in the rest of the

[23] See Freedom House and Diamond (2003)

developing world increased by 581 million. In sub-Saharan Africa the number of people in absolute poverty almost doubled from 164 million to 313 million. The largest proportional increases occurred in Eastern Europe and Central Asia. In the former soviet republics, the number of people living in absolute poverty grew by more than five times from 3.1 million to 17 million. People living in poverty in Latin America and the Caribbean grew by 40 percent from 35.6 million to 49.8 million.[24] These figures suggest that poverty is a crucial issue in the world and that the politics of poverty programs will remain high in the public agenda of both international and domestic policy-makers for a long time to come.

There are equally alarming news about the rise of inequality. There have been both increases in within and between countries inequality (Bourguignon and Morrison (2002). With the star of the globalization process, there has been a marked polarization of income distribution in the world. Economic growth during the 1990s has benefited the wealthy disproportionately and has concentrated in a few top performing developing countries. In 1980, the richest 1% of the world population earned 216 times the poorest 1%. By 2000, this enormous gap had skyrocketed to 415 times the earnings of the poorest 1% (APSA 2008). Inequality between the United States—the world's wealthiest country—and the world's poorest country in terms of Gross National Product (GNP) per capita calculated in purchasing power parity dollars has risen from an already large 38.5:1 in 1960 to more than 64:1 in 2005. The global distribution of household wealth is even more unequal. In 2000, its Gini coefficient was 0.892 - much higher than Brazil's or South Africa's figure (currently at approximately 0.56). There have also been growing inequalities within the developing world. Within this group, the income gap between its best and worse performers has widened, and is currently larger than that between these countries and the United States. [25].

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[24] Various sources cited in APSA (2008) *The Persistent Problem: Inequality, Difference, and the Challenge of Development Report of the Task Force on Difference, Inequality, and Developing Societies*.

[25] In terms of 2005, Brazil's per capita Gross National Income, (measured by purchasing power parity dollars, or PPP) is more than 12 times greater than that of Malawi—the world's poorest country—but it is only five times less than that of the United States. China's per capita

The issue of increasing inequalities has come to dominate the political agenda in the XXI century in marked contrast with the situation in the 1980s and 1990s when absolute poverty was the main focus of debates in policy and political circles, as well as NGOs and social movements. Indeed the new politics of poverty is increasingly intertwined with issues of inequality. However, a new generation of research is yet to produce large N studies exploring these links. [26]

In the remainder of this section I provide further quantitative evidence of trends and relationships in democracy, poverty and social spending. First, I use the dataset produced by the *Bertelsman Stiftung* to explore the relationships between democracy and social welfare in a number of regions. I also illustrate this relationship with data from the IMF Government Finance Statistics and a combined score of Freedom House and Polity data. Second, I test a few of the hypotheses discussed earlier in the paper with new data from the Harvard Africa Dataset. Finally, I use the ECLAC dataset for a new discussion of the Latin American case.

Figure 1 suggests that welfare spending correlates with indicators of social spending. The data is from a times series cross sectional data on social spending in social security and welfare for 150 countries from roughly 1970 to 2004. Indeed the scatterplot shows a bivariate relationship and therefore capture the influence of ommited variables such as income levels, urbanization rates and age structure. When these are introduced this relationship still holds. For the figures 2,3,and 4, I use data for the *Bertelsman Stiftung*. The countries are selected in the *Bertelsman* dataset according to the following criteria: they have yet to achieve a fully consolidated democracy and market economy, have populations of more than two million, and are recognized as sovereign states. The data cover the so-called developing countries plus a few southern European ones along with countries from the former soviet republics. Figures 2 and 3 show that in Latin America, Sub-Saharan Africa the Middle East, democracies exhibit better social welfare than nondemocracies. Welfare is defined in this dataset in terms of a measure of social safety nets (SSN). The latter is operationalized as an aggregate measure of 10 scores

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income is more than 10 times greater than Malawi's but only 6.4 times less than the United States (op cit).

[26] See Milanovic (2005), Nel (2006), World Bank (2006), De Ferranti et al (2004),

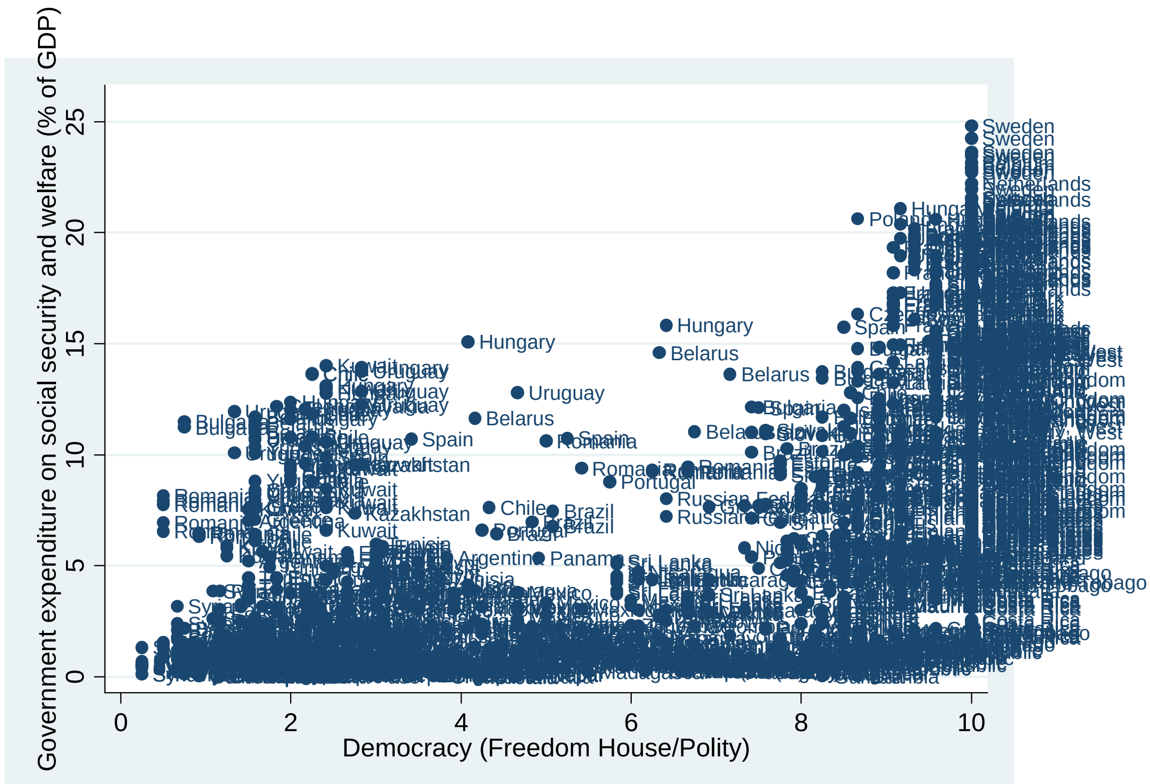
combined to reflect the extent to which social safety nets exist to compensate for poverty and other risks such as old age, illness, unemployment or disability. In turn, the variable democracy is operationalized as existence of free elections as defined in Freedom House methodology.

In Figure 2, the Arab countries are displayed in blue. These countries are outliers and exhibit higher welfare than expected given the extant political conditions, namely lack of free multiparty elections. Oil wealth and level of economic development explains greatly the pattern observed. In Latin America the outlier is Cuba – its position is much above the regression line and close to the zero score in the Free Elections scale. Figure 4 show the results for the Asian countries. We can see a clear clustering of countries around the regression line, with the former communist countries (China, Turkmenistan, Uszbezekistan, Vietnam, Azerbaijan, Kazakhstan, Kyrgyzstan, Belarus)

These scatterplots only show a bivariate relationship between the two variables. However, the association between democracy and welfare is robust to the introduction of further controls, the most important of which is GDP per capita. Table 1 provides the results for a simple regression of GDP per capita and existence of free elections on the existence of social safety nets. The data is a cross section of 119 countries for 2006. The coefficient for free elections is positive and statistically significant at 1%. It reflects the state of affairs contemporaneously. Because currently there are only a few authoritarian socialist countries, the association between authoritarianism and good welfare outcomes can not be fully established controlling for the nature of the economic regime.

Figure 1

The relationship between social security and welfare spending (% of GDP) and democracy



Author's own elaboration

Data Source: IMF Government Finance Statistics and Freedom House and Polity Scores (average score from these two sources)

Figure 2

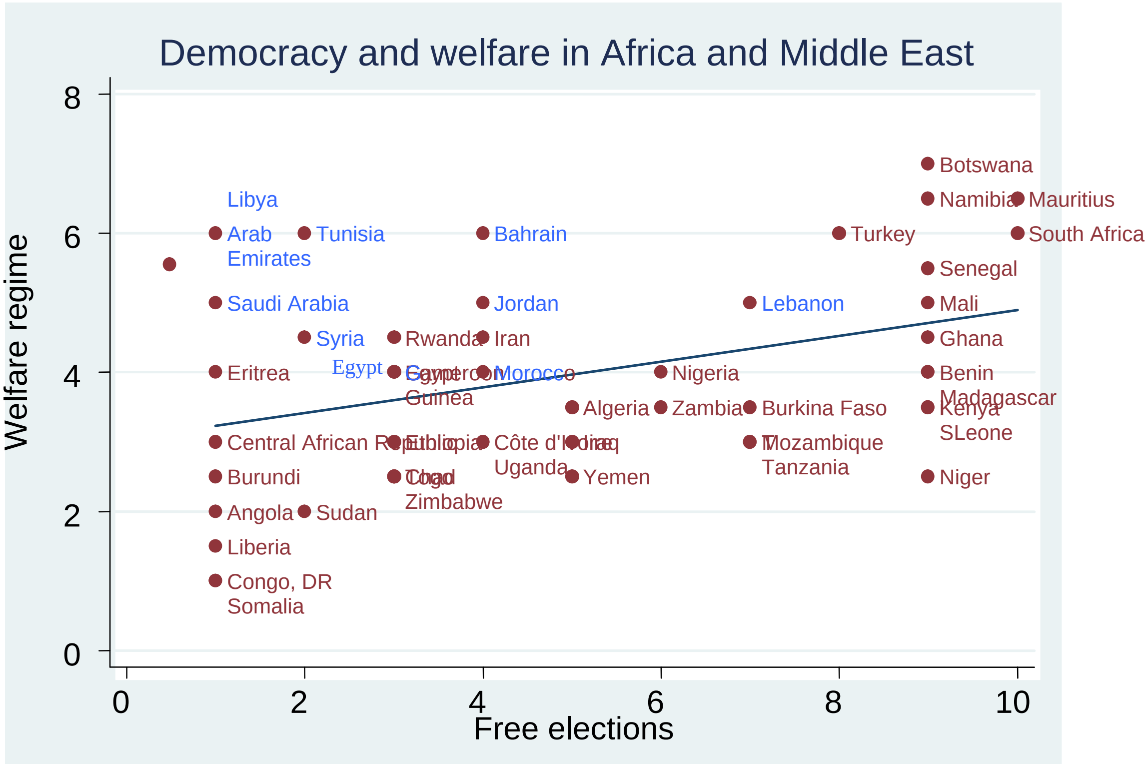
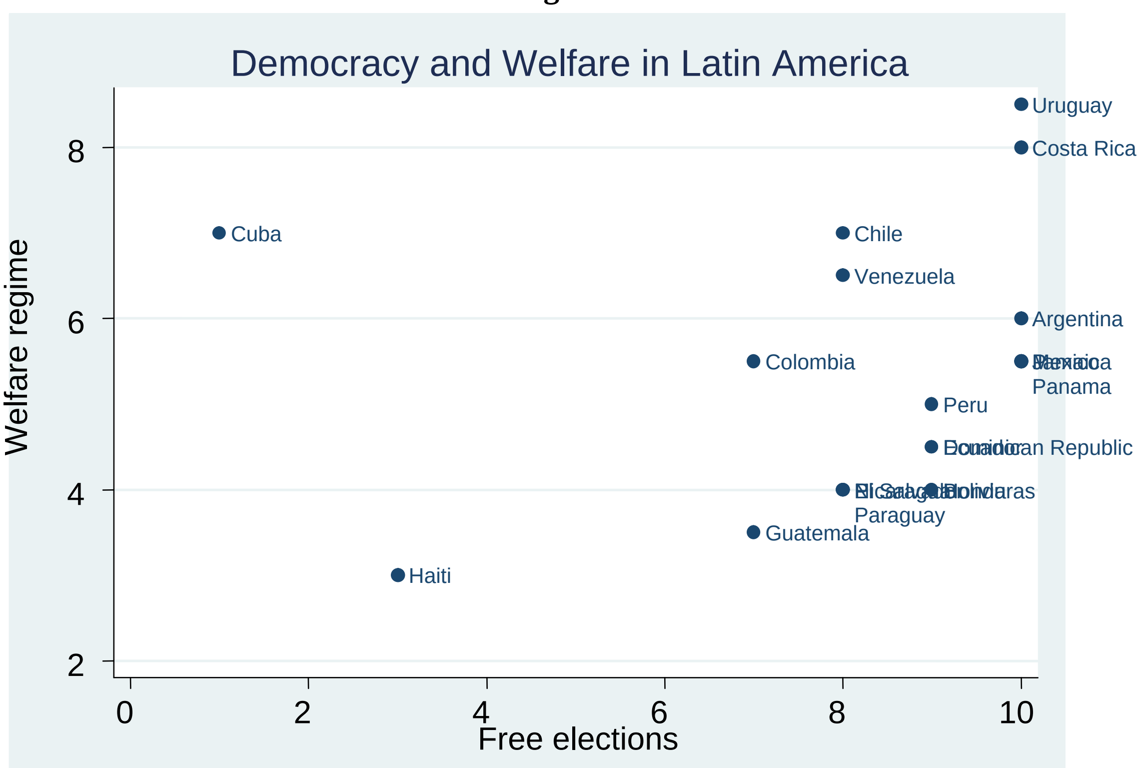
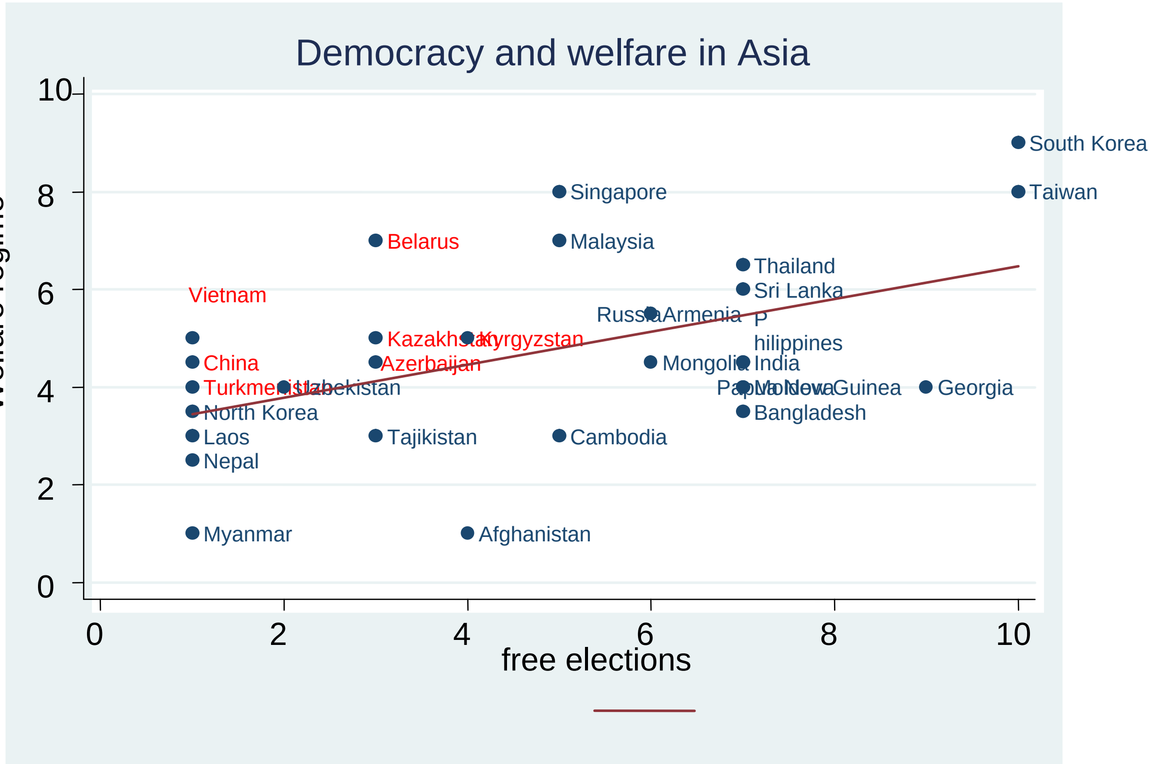


Figure 3



Author's own elaboration

Figure 4



Author's own elaboration

Notes for Figures ,2,3 and 4

Note.Welfare regime is measured by a scale for social safety nets. The latter is an aggregate measure of 10 scores combined to reflect the extent to which social safety nets exist to compensate for poverty and other risks such as old age, illness, unemployment or disability. Source: *Bertelsman Transformation 2008*, Center for Applied Policy Research/ *Bertelsmann Stiftung* [27]. The data for free elections comes from Freedom House.

[27]. Bertelsmann Stiftung, *BTI 2006* Gütersloh: Bertelsmann Stiftung, 2007.

Table 1.
OLS estimation of the determinants of welfare regimes (social safety nets)

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
	Constant	8.112	.363	22.329	.000
	Percapita GDP	.576	.035	-16.471	.000
	Free elections	.114	.029	3.876	.000

a. Dependent Variable: Social safety nets

Adjusted $R^2 = 0.77$ N = 119 countries

* significant at 10%, ** significant at 5% and *** significant at 1%

Notes. Social safety nets is an aggregate measure of 10 scores combined to reflect the extent to which social safety nets exist to compensate for poverty and other risks such as old age, illness, unemployment or disability. Source: Bertelsman Transformation 2008, Center for Applied Policy Research/ Bertelsmann Stiftung [28].

The data for Free elections comes from Freedom House.

[28]. Bertelsmann Stiftung, *BTI 2006* Gütersloh: Bertelsmann Stiftung, 2007.

Table 2

The determinants of social spending in Africa

variables	Dependent variable = health expenditures Coefficients	Dependent variable = educational expenditures Coefficients
Constant	5.8927***	24.2487***
	(.7307)	(2.7148)
GDPPPP	.0085***	.0034*
	(.000)	(.0039)
Trade openness	-.0203	-.1882**
	(.0193)	(.0736)
Nontax revenue	-.0320*	-.1489**
	(.0167)	(.0974)
	$R^2 = 0.09$	$R^2 = 0.24$

N= 46 countries, robust standard errors in parentheses
Fixed effects model
* significant at 10%, ** significant at 5% and *** significant at 1%

Data source: Harvard University's Africa Research Center, author's own elaboration. Dataset covers period 1960-2000, with significant gaps, especially for the last 15 years.

Although the bivariate correlations suggest an association between democracy and social welfare outcomes, the analysis of a panel of 46 Africa countries do not suggest a causal relationship between social spending (health and education expenditures) and democracy. The variables of interest are trade openness and free elections. I introduced as controls real GDP per capita and nontax revenue. [29] The literature predicts a negative impact of nontax revenue in social expenditures. The assumption is that nontax revenue discourages rulers to produce public goods and, unlike tax revenue which creates a bond between tax payers and elected politicians, is not accountability –enhancing. None of the 13 variables used to measure democracy proved to be statistically significant in a fixed

[29] See the essay in Brautigan, Fjeldstad and Moore (2008) and Ross (1999).

effects model for the determinants of health and educational spending.[30] Trade openness was found to be negatively associated with educational and health expenditures, although it was only statistically significant for explaining education at 5%. GDP per capita was used as a control, and as expected, social spending is positively correlated to country income.

Consistent with the claims in the literature, nontax revenue have a robust downward impact on social expenditures. The variable's coefficient is negative for both education and health expenditures and statistically significant at 5% and 10%, respectively. The finding that democracy does not affect spending in this exercise may be due to the fact that there is significant missing data for the last decade when the new wave of African democratization was at its apex (Bratton and Van de Walle (1997). Therefore the lack of association between democratization and social spending should not be considered conclusive.

Conclusions

While there are still disagreement in the literature findings, we can conclude that there is robust evidence that globalization, irrespective of the indicators used, has a consistently negative effect on aggregate social spending. In the Latin American case, growing levels of trade integration has had a substantial negative effect on aggregate social expenditures, with the effect being concentrated markedly in social security expenditures. In addition, there is significant evidence that education and health are relatively immune from such pressures and in some regions some authors argue that expenditures in these areas have expanded. While these effects are found to be global trends, the impact of trade liberalization varies across regions in the developing world. In fact, there is hard evidence that different regions exhibit contrasting patterns which result

[30] Most of these variables are listed in Box 1: Autocracy Score, Authority , Democratic Index (Barro transformation), Democracy Score, Multiparty elections, Monocratism measure, Single party elections, Executive Constraints , Executive Recruitment Competition, Executive Recruitment Openness, Executive Recruitment Regulation , Civil Liberties (transformed by Barro), Competitiveness of Participation, Regulation of Participation

from their distinct institutional legacies from the pre-globalization period (particularly in the social security system), their different fiscal vulnerabilities of countries and their economic dynamism. It is increasingly clear that there is strong interregional variation in terms of the behaviour of the main variables of interest. Therefore, one can hardly speak of one model of welfare state in the developing.

Some recent studies dispute these findings and argue that that trade openness does not constrain government outlays for social programs, and that democracy has a strong positive association with social spending, particularly on items that bolster human capital formation. Nevertheless, the disagreement is rooted in different methodologies for measuring openness, and more significantly, the regional coverage in this strand of the literature is limited to Latin America.

The effects of globalization on welfare spending are no less controversial than the effects of democratization on social policies. Political economy models predict that democracies will favour redistribution and social spending because democracy brings more people with below-average incomes to the polls, and they collectively press the government to redistribute income downwards. This literature also predicts that the effects of democracy is not uniform across the social sectors and that programs with large constituencies – in areas such as primary education or primary health care – are expected to expand under democracy because this would bring government's policy closer to the median voter's preference. By contrast, programs which small and concentrated constituencies, such as special pensions, which caters for the interest of civil servants and formal sector employees, will experience spending cuts.

There is robust econometric evidence from various studies that as countries turn into democracies they will increase their welfare spending. Holding trade openness constant, these studies show that democracy expands social spending in education and health, while keeping social security outlays unaffected. Also, repressive authoritarian regimes retrench spending on health and education, but not on social security. Contrary to OECD countries, however, partisanship has no explanatory power in this relationship. There is research support for the effect of regime in specific regions. The need to obtain an electoral majority prompted African governments to prioritize primary schools over

universities within the education budget. In the two statistical exercises presented in section 3, I found mixed evidence for the role of democracy on social safety nets and on health and education spending. While the first correlation – democracy on social safety nets – was confirmed, the latter was not. The fact that the data covers only the initial years of the democratization in SubSaharan countries process may explain this divergence and the results should be taken with caution. In turn, in East Asia, a country that experiences a permanent move to democratic rule, the average share of social security spending to GDP increases significantly. In Latin America, the evidence of an influence of regime on spending is less clear cut and the findings on the causality are inconclusive. However, there is also considerable support for a positive relationship.

There is also evidence that not only do democracies spend more in social welfare, they also associated with better welfare outcomes. Democracies are argued to do a better job than non-democracies of improving the welfare of the poor and promoting growth. However, this increased spending may not result in more favorable results for the poor because they may favor disproportionably middle income groups and specific clienteles. This explains the some research findings that, when flaws resulting from the fact that most cross-national studies omit from their samples nondemocratic states with good social records are corrected, non-democracies outperforms democracies in key social indicators such as mortality rates.

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