Development, Trade, and Social Insurance

Erik Wibbels (corresponding author)
Associate Professor
Department of Political Science
Duke University
Durham, NC
e.wibbels@duke.edu

John S. Ahlquist
Postdoctoral Fellow
Institute for Research on Labor and Employment
UCLA
jahlquist@irle.ucla.edu

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“Embedded liberalism” characterized the international economic relations among advanced industrial democracies from the end of World War II until at least the early 1980s (Ruggie 1982). Multilateral trading relationships were “predicated on domestic interventionism” (Ruggie 1982: 393) with the explicit goal of maintaining domestic political stability and full employment. The compromise of embedded liberalism implied that the international trading system was subordinated to domestic governments’ needs in managing domestic economic transformations. It is now conventional wisdom in the literature on advanced industrial capitalism that the resulting patterns of social insurance provided the linchpin between diverse approaches to organizing production, the strength of unions and the Left, and trade openness. Indeed, on this point the otherwise conflicting schools of thought associated with Varieties of Capitalism (Hall and Soskice 2001; Iversen 2005) and power resources (Bradley et al. 2003; Esping-Andersen 1990) agree.

While the embedded liberalism framework has focused largely on the policy arrangements of industrialized nations, there is some evidence that there is a positive link between trade openness and the size of government across the world (Rodrik 1998; Adserà and Boix 2002). Many researchers take this as evidence that something akin to the historical compromise characterized by embedded liberalism transcends the OECD. Nevertheless, there is little work examining the links between trade, production and social policy spending (as opposed to government size) in the developing world. Indeed, much work on social policy in such contexts holds that redistributive spending is ad hoc and impervious to generalization. Recent research challenges this notion by showing systematic relationships between year-on-year changes in types of social spending and “globalization” over the last two decades, but we still know little about how fundamental approaches to capitalist production, trade and social policy shape each other in non-OECD contexts. In short, we do not know if the concept of embedded liberalism has legs that travel beyond the OECD.

In this paper, we suggest that the political compromises underpinning embedded liberalism played no part in the emergence of social policies in the developing world. To the contrary, we show that it was not the most open countries but the most protectionist ones that developed the most extensive
systems of social insurance. In doing so, we provide an explanation for why developing countries pursued different trade policies and how those choices affected social spending. We argue that inwardly-focused developmental strategies and insurance-based social policies are deeply intertwined. The relative abundance of labor, rural land inequality, and domestic market size combined in the context of a relatively closed global trading system in the decades following World War II to condition the extent to which development strategies were internally oriented. We argue and show empirically that import substitution industrialization is associated with greater reliance on insurance-based social policy regimes. In such cases, the emergence of social policies had nothing to do with the demands of losers from trade (Adserá and Boix 2002), nor an attempt to placate volatile, internationally-exposed sectors (Rodrik 1998), nor efforts to purchase the compliance of non-tradables to modest wage increases (Aukrust 1977)—all prominent accounts in the OECD literature. Instead, demands for insurance were associated with workers in non-tradable sectors seeking protection from poor paying employment in informal and rural sectors.

We also show that these results hold irrespective of regime type.

Our argument and results have implications for several literatures. First, the embryonic comparative literature on social policy in the developing world has focused on how international factors affect changes in social spending priorities (Avelino, Brown, and Hunter 2005; Kaufman and Segura-Ubiergo 2001; Rudra 2002; Wibbels 2006). Taking a cue from the voluminous literature on market reforms in the developing world, a related literature explores the domestic considerations shaping the politics of social policy reform (Brooks 2002; Mares 2005). Such research has contributed a great deal to our understanding of recent social policy changes, but it does not help us understand why nations began the current era of liberal international markets with such wildly different social priorities.¹ As we show, the substantial cross-national differences in social insurance priorities that emerge from distinct, post-war economic strategies swamp the effects associated with a globalizing international economy. One

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¹ Rudra (2007) is exceptional in noting systematic variance in the overall complexion of social policy in the developing world. Our work can be seen as complimentary to hers in the sense that we seek to explain some of the variation that she identifies.
important implication is that it is at least as important to understand the historic foundations of social policy as it is study their current responses to international economic dynamics.

Second, the nascent literature on social policy in the developing world lacks a theoretical account of the link between capitalist production and social policy—a link that plays a prominent role in the more sophisticated literature on the OECD. Likewise, the literature on development provides limited insight into why countries pursued divergence economic policies in the post-World War II era and how those policies impacted the emergence of social policies. We provide an account both for why seemingly similar countries such as Brazil and Korea chose different economic strategies in the post-war period and how those choices produced radically different social policy regimes. Nevertheless, if our research helps close the gap with the political economy of the welfare state in advanced industrial democracies by showing an affinity between approaches to developmental capitalism and social policy, our findings also contradict the much-discussed “compensation hypothesis”. We concur with recent models of social insurance that inequality and labor market risks combine to shape preferences for insurance (Iversen and Soskice 2001; Agell 2002), but we argue that such risks were most prominent among workers in unexposed rather than trade-exposed portions of the labor market in countries that pursued import substitution industrialization. That being the case, our findings are broadly congruent with those of Iversen and Cusak (2000), who find that increased welfare effort in the OECD is associated with shifting labor market risks and not increased risks from the international economy. We move beyond such work by explaining why labor market risks varied as they did across the developing world in the post-war period.

Third, while there are literally hundreds of studies on the causes and consequences of education spending, we have considerably less research explaining how much countries spend on insurance-based programs. This is surprising because the most recent data shows that governments in the developing world spend, on average, more than twice as much on insurance programs such as social security as on

\(^3\) Recent research on social insurance by Mulligan and Sala-i-Martin (2004), Iversen and Soskice (2001) and Moene and Wallerstein (2001) seem most clearly aimed at explaining dynamics in advanced, industrial countries.
education, and there is five times more cross-national variation in insurance spending than there is in education spending. That governments place such varied emphasis on such a large spending category with such potentially important distributional implications begs for an explanation. Indeed, early and extensive spending on insurance programs in the developing world is likely to have important developmental implications, even if only by crowding out investments in education (Lindert 1994; Poterba 1998).

Finally, our research speaks to the sustainability of liberal trade policies in the developing world by bridging the gap between the historiography of export-oriented and internally-oriented models of development and the new dependency literature (Ahlquist 2006; Mosley 2003; Rudra 2002; Wibbels 2006). The latter literature argues that the economic policies of developing countries in an era of globalization are systematically constrained in ways those of rich countries are not. We are able to provide a framework for understanding why this might be the case and make claims about which countries are more or less advantaged in a liberal international economic system by virtue of their social policies and labor market regulations. Given the close historic link between protectionism and social insurance, we suggest that the contemporary political underpinnings for trade openness are tenuous across much of the developing world. Our findings suggest a longer-term research program: explaining the variation in how successfully countries adapted to the current, open international trading regime.

The rest of the paper is organized into five sections. In the following, we review recent research on social policy, development, and trade in the developing world, noting the advances made but also emphasizing the limitations of an approach that seeks to explain year-on-year changes without accounting for divergent social spending starting points in anything more than a technical sense. In the second section, we describe insurance spending across the developing world as a means to establish our empirical puzzle. In the third section we present our argument and develop hypotheses. In the fourth section we

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4 For the developing countries reporting both social security and education spending in 1998, social security and welfare account for an average of 30% of government spending compared with 13% for education. The standard deviation of social security and welfare spending is 19 while that for education is 5. The biggest social security spender that year was Uruguay (70%) while Lesotho spent the most on education (24%). See the appendix for details on the data.
describe our data and methods in addition to presenting our results. The final section concludes by describing the policy implications of our findings and suggestions for further research.

1. Capitalism, Development and Social Policies

Research examining the welfare states of a handful of wealthy nations dominates the literature on capitalism and social spending. It is a body of work rich in empirical associations (between, for instance, electoral institutions and social spending, trade openness and the size of government, the strength of left-labor alliances and redistribution), though a serious theoretical divide separates those that emphasize the centrality of class-based (Bradley et al. 2003) as opposed to sector-based (Hall and Soskice 2001; Iversen 2005; Mares 2003) conflicts in the birth and evolution of the welfare state. Both approaches, however, find inspiration in Ruggie’s grand compromise, “whereby all sectors of society agreed to open markets…but also to contain and share the social adjustment costs that open markets inevitably produce.” Governments had the latitude to develop social institutions, particularly those insuring workers. Subsequent work has focused on understanding the varying ways in which governments implemented this compromise. Whether liberal, Christian democratic or social democratic welfare states are rooted in class conflict or distinctive varieties of capitalism, the close link between modes of capitalist production, redistribution, and insurance is well established in the literature.

No such unifying theme runs through the truncated literature on the political economy of social spending in the developing world. For starters, while the OECD literature has identified the fundamental ingredients of distinct approaches to capitalism (unionization rates, electoral systems, the coordination of wage bargaining, etc.), there is no systematic account for why developing countries pursued divergent economic policies in the post-World War II period. Of course, the extensive development literature has emphasized the difference between internally-oriented import substituting strategies and export-oriented strategies and explored why countries like Brazil and Mexico pursued import substitution industrialization while Korea and Taiwan did not (Gereffi and Wyman 1990), but we do not have a

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5 For example, by including fixed effects in large panel time-series studies.
6 Ruggie (2003:93)
theoretically tidy account of why countries varied so extensively on their joint use of tariffs, import licensing, export subsidies, price controls, marketing boards, state-owned enterprises and the like.\textsuperscript{7}

Our poor understanding of the key ingredients in choosing developmental strategies represents an important obstacle to identifying any potential link between openness to the international trading system (and models of development more broadly) and social policies. Indeed, a common theme in research on the equivalent of the welfare state in the developing world is that social policy in such settings is less coherent, more idiosyncratic and less amenable to theorizing than in the OECD. Such interpretations probably stem from the difficulty of systematically cumulating the findings of numerous case studies on the impact of, e.g., market reforms on social spending or inequality. Thus, even where case specific research suggest an affinity between import substituting developmental goals and the emergence of social insurance (Malloy 1979; Mesa-Lago 1978) or between export-oriented industrialization and education spending (Amsden 1992; Kim and Topel 1995), the analyses either fail to explain the initial pursuit of economic strategy or lack the kind of conceptual foundations that might provide for generalization beyond a small set of cases. This weakness of the literature is particularly surprising because the post-war quest for improved living standards via industrialization coincided with the development of systematic national social policies across broad swaths of the developing world.\textsuperscript{8}

A recent spate of research has challenged the notion that social spending in the developing world is impervious to generalization by showing systematic relationships between globalization and year-on-year changes in types of social spending (Avelino, Brown, and Hunter 2005; Kaufman and Segura-Ubiergo 2001; Rudra 2002; Wibbels 2006). The resulting consensus is that developmental welfare states are more constrained by trends in the global economy than their counterparts in the OECD but that some areas of social spending are more vulnerable than others.

\textsuperscript{7} This literature, which was particularly active in the late 1980s and early 1990s emphasizes a rich array of factors including: the role of the U.S. in promoting land reform in Asia, the Japanese model of capitalism, authoritarianism, the extent of class conflict, the legacy and development of educational attainment and bureaucratic capacity.

\textsuperscript{8} In several cases, nascent social policies emerged in response to the great depression or even earlier, but such policies tended to be ad hoc responses to pressure groups rather than the systematic policies that emerged later.
Though important, such research does not explain the underlying complexion of spending across countries on the eve of the widespread liberalization of markets in the 1980s. To the extent this variation has been addressed, it is only atheoretically via country fixed effects that are not reported in printed tables of regression results. The analysis of annual changes in expenditures tells us little about how fundamental approaches to international trade, capitalist development and social spending shape each other. While it is interesting that substantial economic opening has measurable, if modest, effects on social spending, such research does not explain why countries varied so substantially in their social spending priorities before the ongoing wave of market liberalization. More concretely, recent econometric models (Kaufman and Segura-Ubiergo 2001; Wibbels 2006) show that a permanent one percent of GDP increase in trade dependence implies a long-term decline in social insurance allocations by about 0.2 percent of government spending. Similarly, Rudra’s (2002:431) interactive model suggests a standard deviation increase in trade dependence reduces insurance spending by .1 percent of GDP conditional on average labor strength. Contrast this impact with the differences in spending priorities between Brazil and Malaysia on the eve of the debt crisis. Despite reasonably similar per capita incomes and demographics, social insurance spending accounted for just under 50 percent of Brazil’s expenditure but only 4 percent in Malaysia. What is remarkable is the extent to which the divergent initial priorities swamp the impact of changes in the global economy.

Recent research on the OECD provides clues on where to look for an explanation of such divergent priorities. Moene and Wallerstein (2001) and Iversen and Soskice (2001) help explain individual and cross-national variation in preferences for insurance, suggesting that demands for insurance (as opposed to purely redistributive transfers) respond to perceptions of risk on the part of workers. Though their work is aimed most clearly at advanced, industrial economies, our argument builds on their notion that the demand for insurance is likely to increase with relative income under certain general conditions. In contrast with standard OECD accounts, however, we focus on the relatively well paid workers in protected sectors of the economy who face a steep drop in the income distribution if displaced. They are the key constituency for insurance spending. Capitalists producing for the domestic
market support these demands to stabilize domestic demand. Such an argument fills a hole in work on the developing world while drawing attention to a problematic assumption in much of the OECD literature, namely that labor market risks are concentrated in trade-exposed sectors.

Finally, the social spending priorities established in the post-war period are likely to have important implications for subsequent developmental trajectories. We know from the standard Barro growth model and more recent work on endogenous growth that human capital accumulation has important implications for various developmental outcomes (Barro 1997). Yet, we have almost no research on the causes or developmental implications of insurance spending, despite the fact that it consumes more than twice as much of the average public budget as education in the developing world. Our analysis of contemporary spending patterns — when combined with Lindert’s (1994) and Poterba’s (1998) findings that insurance spending tends to crowd out investments in education — suggest that early and extensive insurance programs, particularly of the regressive sort evident in the developing world, poorly prepare countries for international competition, have a detrimental impact on long-term developmental outcomes, and thereby weaken support for open economies. Thus, understanding why some countries pursue insurance-based social policies in the first place becomes crucial.

To sum up, there are three major shortcomings in current work on development and social spending in the developing world. First, there is no generalizable account as to why apparently similar countries pursued more or less inward-facing development strategies in the post-World War II era. Second, there is no compelling theoretical story linking particular modes of developmental capitalism to social spending regimes. Third, what literature does exist on social policy has focused on the relationship between the process of international market integration and year-on-year changes in spending categories rather than on the factors shaping fundamental social policy regimes. We provide an explanation both for why some countries chose industrially autarkic economic strategies in the period after World War II, how those strategies shaped the emergence of insurance-oriented social spending regimes, and how those early social regimes have shaped contemporary social policies.

2. Social Insurance in the Developing World
As recent research on the OECD has made clear, there is an important distinction between social insurance and social redistribution or assistance (Mares 2003; Iversen and Soskice 2001; Moene and Wallerstein 2001). While redistribution is aimed explicitly at the poor, social insurance pools individual resources via contributions to the state so that individuals who experience some change in their work status (unemployment, injury, retirement, etc.) receive financial support. Social insurance programs include unemployment insurance, retirement and pension benefits, survivor benefits, injury, sickness, and workers’ compensation. Such programs reflect a combination of contributory taxes on the beneficiary and his/her employer, plus, in some cases, a subsidy from general tax revenue. Given their contributory nature, such policies tend to insure the better off and reiterate existing social hierarchies (van Ginneken 2003; Mesa-Lago 1978; Pampel and Williamson 1989). Such is particularly the case in the developing world where insurance programs cover a relatively small number of economically and politically strategic sectors. From Brazil (Malloy 1979) to South Africa (Lund 1993) social insurance developed on an occupation-by-occupation basis, with the result being programs that had a narrow range of beneficiaries among relatively privileged workers in the formal sector. In this regard, insurance policies stand in contrast to redistributive ones explicitly aimed at the poor (Baldwin 1990; Mesa-Lago 1978), and the distinction between contributory social insurance and social assistance to the poor is central to the ILO’s historic understanding of social policy (van Ginneken 2003:10). While models of redistribution to the poor have a rich vintage, only recently has attention shifted explicitly to social insurance (Iversen and Soskice 2001; Moene and Wallerstein 2001). In the developing world, insurance spending is strongly oriented toward old age transfers but can also include unemployment insurance, survivor’s benefits, disability, etc.

Throughout this paper we operationalize the dependent variable using spending data on social insurance, though as our discussion below makes clear, we are sensitive to claims that spending represents a restricted (albeit important) element of welfare states. As a matter of measurement, we rely on the IMF’s Government Finance Statistics (GFS). The major categories covered are sickness and disability, old age, survivors’ benefits, family and children’s allowances, unemployment benefits, and
housing benefits. Given limited data coverage in the GFS, we use the IMF’s GFS manual as a guide for collecting data on a host of additional countries using country-specific sources (see Appendix for details). As with any cross-national data, nuance is lost in the aggregation of spending on diverse programs into this measure of social insurance, and some of these insurance programs include varying elements of redistribution since benefits may be capped or contributory taxes somewhat progressive. Nevertheless, we emphasize three points: First, the overwhelming share of these programs are contributory in nature rather than redistributive; second, a similar approach to the challenges of measuring insurance spending is taken in the relatively advanced OECD literature, even if the available data is slightly more disaggregated in that empirical context; third, our measure of social insurance substantially improves on the use of overall government spending or government consumption in previous studies (Rodrik 1998; Adserá and Boix 2002) which require the very strong assumption that social spending constitutes a constant share of the total budget across countries and necessarily conflates social insurance with everything else on which government spends.

Figure 1 presents a series of boxplots each of which depicts the distribution of the shares of government spending for a major spending category. Given our interest in the birth of social spending regimes in the development world and the challenges to public finance brought by the debt crisis of 1982, cases include only developing countries in the pre- and post-debt crisis periods. The cross-country variation in social insurance spending in the South dwarfs that of all other categories; in some countries, such as Uruguay and Argentina, social insurance is clearly the biggest government budget priority while in others, such as South Korea and Malaysia, little is being spent. In the post-debt-crisis period, cross-country variation in social security spending has increased in the developing world, despite suggestions that such programs are inconsistent with the demands of global competition and predictions of policy convergence.

**FIGURE 1 HERE**

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9 The largest single program in most countries is social security which is the quintessential insurance program and is highly regressive in the developing world.
It is also the case that these spending priorities appear to be very stable through time. We argue that developing countries’ social spending priorities are directly implicated in their choices of development strategies. As such, spending should not vary radically from year to year. To examine stability across all countries, we calculate the coefficient of variation in social spending using all available observations prior to 1983. Figure 2 presents plots on the distribution of the coefficients of variation for social security spending variables. All variables show extremely low variation relative to their means for most cases, implying that spending is not volatile as a proportion of the government budget. Further examination of specific cases (not reported here) reinforces the notion that insurance spending is not prone to dramatic shifts; cross-sectional variation dominates any within-case temporal changes. This finding has important implications for our empirical analysis below. As there is very little comparable social spending data going back to the 1940s-60s, we are left with spotty time-series data beginning in the 1970s. That social spending priorities appear to change little through time suggests that these priorities are deeply rooted in nations’ political economies and increases our confidence in the inferences we draw about the post-war period writ large on the basis of limited data.

Figure 2 Here

3. The Argument

Given this descriptive data, we now develop a theoretical account of social insurance that emphasizes the affinity between social policy and post-war development strategies. We present our argument in two steps. First, we develop a three-factor argument in which the preferences of land, labor and capital vis-à-vis development strategies are conditioned by the size of the internal market, inequality in rural landholdings, the relative abundance of labor, and the openness of the international economy. Second, we suggest that inward-facing development strategies impact the returns to factor owners and shape the preferences of land, labor and capital with regards to social insurance. The resulting social policy regime fosters the emergence of a labor force (and market) complementing the development strategy.
We contend that one of the primary post-World War II development challenges is the mobilization of a work force appropriate to capitalist development, given the factor endowments and state of the international economy at the time. We are not the first to emphasize the complementarities among the creation, standardization, and regulation of the labor force to the emergence of contemporary capitalism (see, for instance, Weber 1958: 21-62; Esping-Andersen 1990). In advanced countries, it was in large part the demands of “commodified” labor for security against market volatility that underpin both sectoral (varieties of capitalism) and factorial (power resources) accounts of the rise of the welfare state. The challenge of post-World War II development in today’s emerging markets reverses this order. In many cases, large pools of un- or weakly-commodified labor persisted well past the middle of the 20th century, and one of the key challenges for policy makers was stimulating the formation of wage labor markets appropriate to distinct models of development. Indeed, one can see this process as complementary to the need to manage various forms of labor as part of governance strategies across the developing world during this period (Collier and Collier 1991). Consistent with case study research on countries as diverse as Korea, South Africa and Brazil, we argue that governments chose social policies as part of the attempt to foster the emergence of a labor force with skills and incentives congruent with their economic strategies.

We follow Gereffi and Wyman in defining a development strategy as “sets of government policies that shape a country’s relationship to the global economy and that affect the domestic allocation of resources among industries and major social groups.” (Gereffi and Wyman 1990:23) As a substantial body of work in development economics has underscored, the key distinction among post-war development strategies was their trade orientation, particularly in manufactured goods (Dornbusch and Edwards 1991; Fishlow et al. 1994; Hirschman 1958; Sachs 1985; Wade 1990). While nearly all countries began the post-war period exporting some form of commodities, what distinguished subsequent industrialization choices and trajectories was whether the economy was oriented toward serving international or domestic markets. While some countries pursued export-led development (ELI), others pursued import substitution industrialization (ISI)—the development of heavy industry to service
domestic demand. In the export-led cases, economic policies emphasized external competitiveness as the
key for economic dynamism and sought to generate foreign exchange by exporting labor intensive light
manufactures or commodities. Initially, such strategies commonly included export incentives, low trade
barriers (with some exceptions for imports), and the maintenance of weak exchange rates. In the East
Asian cases, these policies resulted in rapid development. The flip side of the export-led model was
import substitution industrialization, with its concerted attempt to foster domestically-oriented heavy
industry. The policy mix was similar in most ISI cases: trade protection, the creation and subsidization of
infant industries, overvalued exchange rates to promote the importation of capital goods, and the
extraction of surplus from traditional commodity exports in order to finance the project. The initial result
was typically rapid industrial growth oriented toward domestic production.

Less well recognized is that social policy and the organization of labor markets were key
elements of these development strategies. Indeed, while a number of important works have emphasized
the centrality of labor for governance strategies (Collier and Collier 1991; Deyo 1990), little research has
examined the use of social policies as a tool for fostering economic strategies. Import substituting
economic strategies created relatively privileged working and middle classes that could serve as both the
labor input for, and the ultimate consumers of, domestic industrial production. But these working and
middle classes were not created by restrictive trade and exchange rate policies alone; social policy was a
crucial ingredient in the creation of labor markets and the distinctive ISI class structure. As explained in
greater detail below, policy makers used social policy as a means to maintain aggregate demand, limit
industrial conflict, and protect the middle and working classes from low wages in traditional sectors.
These social policies inflated urban incomes by limiting the arbitrage of urban and rural wages and
produced a stark insider-outsider politics also noted in Europe’s welfare states (Rueda 2005). In export-
led developers (whether industrial or primary product exporters), on the other hand, policy-makers
created much more fluid labor markets, encouraged the equalization of urban and rural wages, and
developed social policies emphasizing worker mobility at the expense of protection or insurance. In many
such cases, capital and the state actively repressed demands for insurance-oriented spending.
3.1 From Embedded Liberalism and Endowments to Development Strategies

But why did some countries choose inward-focused development strategies? Our account is inspired by Rogowski’s (1987) classic three factor model. Though sectoral models of the economy also hold a privileged place in political economy, the factoral approach reflects the relatively low level of economic differentiation in most developing countries in the middle of the 20th century (Alt et al. 1996) and the long historical view of concern here (Rogowski 1987). Owners of land, labor and capital bargain over the development strategy, defined as above with regards to its trade orientation.

In factoral models, it is the relative abundance/scarcity of a factor that determines its preferences over trade policy, where scarcity or abundance is defined relative to global endowments—a country such as Mexico may appear labor abundant when compared to the U.S., but it is labor scarce when compared to the broader globe that includes China, India and Vietnam. Consistent with the time period and cases under study, we assume that capital is relatively scarce and that the world trading system is relatively closed.10 This latter assumption follows from research documenting embedded liberalism, emphasizing the role of great powers in the organization of the global economy, the preoccupation of great powers with the rebuilding of Europe and the Cold War as well as the relatively slow extension of liberal trade rules to the developing world (Ruggie 1982). As a substantial body of literature makes clear, conditions in the international economy loomed large for post War development, whether among export-led developers (Wade 1990), import substituters (Baer 1972; Hirschman 1968), or primary commodity producers (Bates 1997).

The relatively closed post-war international economy, which we take to be exogenous to any given developing nation, has two important implications. First, it conditions the relative power of land, labor and capital in a society. If factor owners favor policies that direct more income towards themselves, the Hecksher-Olin theorem and the Stolper-Samuelson corollary thereof imply that capital will be

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10 We find this assumption uncontroversial during the period that marks the birth of most development strategies between the end of World War II and the 1970s. Of course, the actual extent of international openness varies during this period, but throughout it is relatively closed when compared with the international economy prior to World War I or what emerges in the 1980s. Among the 60 countries for which we have data on the period from 1960 to 2000, average trade dependence went from 46 percent in 1960 to 75 percent in 2000.
protectionist and favor internally-oriented development strategies across cases. Similarly, the closed international economy benefited labor in labor-scarce countries but hurt labor in labor-abundant countries. Second, the closed international economy reduces the costs and increases the potential benefits of inward-facing, import-substituting policies. The opportunity cost of protectionism were simply lower in a world of high trade barriers.

Consistent with factoral approaches to political economy, we posit a reduced-form conception of the political process. The development strategy is the result of bargaining between factor owners in which the greater the share of national income directed to a factor the greater the bargaining power accruing to those factor owners. The political process is a mapping from income shares into policy. The three-way bargaining situation can be considered akin to a coalition formation game in which owners of, for example, labor and capital can collude against land owners and implement their preferred development strategy even if land owners receive a greater share of national income than either capital or labor separately.

As is immediately clear, such a conception of the political process leaves little room for “the state” as an autonomous actor and provides little nuance regarding political institutions. Though readers familiar with accounts that emphasize the centrality of the state in East Asian and Latin American economic development and others acquainted with the centrality of parties and the extension of the franchise in the OECD welfare state literature might balk at such a conception, we find the approach defensible on several counts. First, a long line of work ranging from the Marxist to the pluralist views the state as the arena for and ultimate aim of social conflict. State managers concerned with political survival seek to maintain sustainable winning coalitions. Thus, while we recognize the important role of the state (and even of particular state leaders such as Nasser in Egypt or Perón in Argentina), we suggest that leaders seeking to prolong their rule face a set of structural constraints that are likely to produce a particular winning coalition and set of policies. State action becomes a reflection of those winning coalitions. In our particular context, this implies that choices over development strategies and social policies reflect the coalitional politics central to our account. Like Rogowski (1987), we do not mean to
imply that the state is never an autonomous actor but that one can fruitfully understand the broad
dynamics of key developmental choices across most cases using a factoral approach. Certainly there are a
number of countries in our sample that pursued economic strategies distinct from what our argument
anticipates, but these off-the-path experiments were typically short-lived (Haggard 1990).\textsuperscript{11} Second, there
is empirical evidence consistent with the logic outlined above that countries with high labor-to-land ratios
liberalized earlier (Sachs and Warner 1995) and that more unequal, labor scarce countries will be more
protectionist (Dutt and Mitra 2002).\textsuperscript{12} Third, we simply find development and social priorities to be so
varied with regards to regime type as to make a clear causal story bearing on the social choice mechanism
impossible. Countries pursued inwardly-focused development strategies in military authoritarian regimes,
populist authoritarian regimes, and democracies; countries like Argentina maintained their inward focus
through repeated transitions across all three. Likewise, social policies were initiated across too broad a
swath of political regimes to make any broad generalizations possible. As Gulligan and Sala-I-Martin
(2004:17-8) summarize:

“multiple regression studies of the determinants of social security spending (e.g., Pampel and
Williamson, 1989; Lindert, 1994; Mulligan, Gil, and Sala-i-Martin 2002; Cutler and Johnson
2004), holding constant population age or per capita income, find neither a significant partial
correlation between democracy and social security spending’s share of GDP, nor a significant
interaction between democracy and the other variables in a spending regression. This result is
robust to the inclusion of alternative control variables such as the Gini coefficient, religion
variables, the female labor force participation rate, and various dummies for continent and
colonial status.

Indeed, despite evidence that democracies have, on average, larger governments (Boix 2001; Lindert
2004), we find no evidence below that regime type has any bearing on the share of government spending
devoted to insurance.\textsuperscript{13}

\textsuperscript{11} Such is most obviously the case with several of the East Asian NICs that experimented with import substituting
policies before pursuing export-led growth (Haggard 1990).
\textsuperscript{12} Empirical investigations find that the extension of the franchise affects trade orientation in ways consistent with
Hecksher-Ohlin predictions, assuming that extending the franchise makes the median voter less likely to have large
downdowns of either capital or land (Dutt and Mitra 2002; O'Rourke and Taylor 2006).
\textsuperscript{13} It also worth mentioning that were we to include the state as an actor, its corporate interests in the import-
substituting cases would be consistent with those of the capital-labor coalition emphasized here. Unionized civil
servants were a key contributor to labor’s overall strength and shared its preference for high levels of protection and
insurance, and the generally shared interests of the state and protectionist capital and labor in import substituting
cases is emphasized throughout the historical literature. See, for example, the review of the historic literature in
The preferences of land, labor and capital over the orientation of the development strategy are conditioned by three factors: the size of the domestic market, the relative abundance of labor, and inequality in rural landholdings. Domestic market size shapes the expected returns of capital, land and labor vis-à-vis inward-oriented policies. Though the underlying coalitional politics inherent in our factor-based approach will vary across cases, the size of the domestic market affects the potential benefits to all factors of internally-oriented strategies. Insufficient domestic demand makes economies of scale in industrially-produced goods more difficult to achieve, reducing returns to all factors. The larger the market, the more likely a coalition in favor of an internally oriented development strategy will emerge and impose its preferred economic policies.

The abundance of labor shapes the coalitional politics surrounding the choice of development strategies while land inequality conditions who will pay the costs of the development strategy. As capital is scarce, the land-labor relationship becomes pivotal (O'Rourke and Taylor 2006; Rogowski 1987). Where labor is relatively scarce, we expect a coalition between protectionist capital and workers implementing a more inwardly-focused strategy. The relatively closed international economy during the era of interest, moreover, provided scarce labor with additional bargaining power and hurt the bargaining power of abundant land. In these cases, the political power of labor, aided by conditions in the global economy, formed political coalitions with import substituting capital and had a great deal of influence in shaping inwardly-focused economic policies that served to protect their interests. Such development strategies were typically pursued at the expense of land. In most such cases, taxes, export controls and agricultural purchasing boards were used to extract the rural surplus to finance industrial subsidies and high wages for labor. As Bates (1982) notes, these policies represented a transfer of wealth from rural to urban sectors. Indeed, when we consider those developing nations most closely associated with coherent internally-oriented economic strategies, they are among the most labor-scarce countries in the world, including Argentina, Brazil, Chile, Egypt, Mexico, South Africa and Turkey. Seminal research on each
of these cases tends to emphasize the centrality of labor-capital coalitions in the development and sustenance of import substituting economic policies.  

Lastly, rural inequality plays a key role in defining how difficult it is to finance an internally oriented development strategy at the expense of land. As the history of import substitution makes clear, internally oriented development strategies are typically financed through high taxes on agricultural production, state controls over agricultural exports, and/or other means of extracting agricultural surplus. Where land is equitably distributed, it is relatively difficult for a capital/labor coalition to extract rural surplus for several reasons. First, as the scale of farms shrinks and their numbers increase, the political and administrative costs to a protectionist capital-labor coalition of taxing the countryside increases. When landowners are few and large, the task of tax collection (or other form of surplus extraction) becomes easier. Second, small and medium-sized landowners are more sensitive to increased costs than wealthy, large landholders as they are typically closer to the subsistence level and with poorer access to credit. In contrast, when rural holdings are concentrated, they represent an attractive target for urban coalitions. This account is consistent with failed or transitory attempts at internally oriented development strategies in a case like Korea, where the equitable distribution of land facilitated a powerful collective rejection of attempts to implement import substituting policies at their expense (Haggard 1990; Mahon 1992). Such an experience contrasts with cases like Egypt or Pakistan, never mind quintessential import substituting cases like Brazil or Chile, where experiments with trade liberalization collapsed in the face of highly concentrated returns to openness and since greater land inequality made large landholders politically attractive sources for financing internally oriented policies (Mahon 1992).

Internally oriented developmental strategies were typically pursued in societies that had large internal markets, scarce supplies of labor and high levels of land inequality (Diaz Alejandro 1984; Murphy, Shleifer, and Vishny 1989). As a matter of necessity, most countries with such large markets responded to the great depression and World War II with a turn inward. As Baer (1972:97) explains “The depression of the Thirties resulted in renewed shortages of imported goods. The fall of foreign exchange

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14 See, on the Latin American cases Hirschman (1968) and Collier and Collier (1991); on Egypt Goldberg (2004)
receipts from exports forced most countries…to curtail imports. The decline resulted at first in increased use of productive capacity underutilized in the Twenties, and later in the creation of new industrial capacity.” Yet, as the experience of several East Asian NICs makes clear, large markets were not unto themselves sufficient to ensure lasting autarkic development policies. The NICs differed from ISI cases in that the NICs were labor abundant and had relatively equitable distributions of land. In the ISI cases, high initial levels of land inequality ensured that the prospective returns to any export-promoting policies would benefit the highly concentrated rural elite. Experiments in export promotion proved politically unsustainable, particularly in democratic contexts (Mahon 1992). In these settings, policy-makers confronted a post-war environment in which a large internal market combined with labor scarcity to produce urban wages high enough to support import substitution while unequal rural landholdings made export promotion politically difficult.15

To be clear, we are not the first to emphasize the importance of any of these factors for the choice of economic strategies. Within the Latin American context, Diaz Alejandro (1984) long ago noted an affinity between market size and policies of import substitution, an insight generalized and formalized by Murphy, Shleifer, and Vishny (1989). Likewise, Rogowski (1987) has emphasized how the abundance of labor underpins the coalitional politics shaping important policy conflicts across a broad swath of countries, and capital-labor, “populist” coalitions against landed interests play a central role in many accounts of autarkic development strategies in the post-war period (Bates 1981; Cardoso and Faleto 1979). Likewise, Mahon (1992) suggests that it was the distribution of the rural gains from trade that distinguished the politics of export-based and inwardly-focused development policies. What does distinguish our argument is the manner in which we pull these somewhat disparate arguments together into an explanation for the choice of development strategies. Also unique to our theoretical account is our attempt to link these economic choices to social policy, a point to which we now turn.

15 Our theoretical discussion is not intended to dismiss cross-national differences within or similarities across development strategies. It is clear that what we today call export-led industrializers pursued policies of import substitution in the 1950s, and several of the ISI cases experimented with policy reforms aimed at promoting exports
3.2 From Development Strategies to Insurance-Based Social Policy

Once an inward-focused development strategy is pursued, it has important implications for social policy.¹⁶ This relationship results from an ongoing distributive struggle among the competing factors and the labor market requirements of an import substituting development strategy, which social policy helps to create. On the former point, where labor was scarce (and thus empowered in the context of closed international markets), it played an important rent seeking role in the broad outlines of social policy. The cases (think Argentina and Chile) with post-war social spending regimes most consistent with what we see in the OECD in terms of social security and labor protections are also cases that saw relatively well organized, protectionist working classes playing a substantial role in the negotiation and implementation of insurance-based social policies in the 1950s and 1960s (Bergquist 1986; James 1988). It is also worth noting that this policy push was concomitant or subsequent to initial pushes into import substitution, which began in the Depression and accelerated after World War II (Baer 1972). In contrast, where labor was abundant, the relatively closed international environment served to reduce the bargaining and organizational power of workers. The absence of working class participation in the formulation of social policies is evident in labor abundant cases as diverse as Korea and Guatemala.

Internally-oriented development strategies had important implications for the interests of capital and labor vis-à-vis social policy. Capitalists in ISI cases have two interests bearing on social policy: first, labor peace in a context of rapid growth in the industrial workforce; and second, the creation of a consumer base large and stable enough to warrant production. Insurance spending served to promote labor peace. One side effect of the centralized production inherent to ISI was that it facilitated the organization of concentrated blue and white-collar workers. As Collier and Collier note, labor stability was most important and most threatened in the dynamic sectors of the urban industrial economy:

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¹⁶ Note that our argument does not necessarily imply that development strategy choices preceded social policy implementation. They can be chosen jointly, as when Perón’s promise of substantial benefits to workers while also promoting ISI policies swept him in to power, or they can be chosen sequentially, as what appears to have happened in Mexico and Korea.
“the paralysis of this latter sector through strikes is therefore an important economic and political event, and the use of repression to control strikes may be especially problematic because of its effect on the skilled labor force in this sector and the greater difficulty of replacing skilled workers.”

In such cases, generous social insurance policies were part of a broad array of wage and labor market policies that served to appease the working class. Second, social insurance served to augment and stabilize domestic demand, a matter of utmost important to internally-oriented capital. Such spending ensured workers incomes during times of hardship, freeing up cash for consumption, guaranteeing capitalists an automatic countercyclical demand boost, and stabilizing domestic demand (Mesa-Lago 1978:6). To the extent injured, displaced or older workers were covered by insurance, they were free to increase consumption (rather than save for a rainy day) while they were employed and maintained substantial purchasing power when they were not thanks to insurance payouts. Insurance spending, of course, was part of a range of coherent social policies. High minimum wages, for instance, served to increase the buying power of labor and increase aggregate demand. When combined with these other policies, the resulting insurance-based social regimes were characterized by labor market protections and high wages that increased costs, of course, but in doing so ensured the size and stability of the domestic market. Moreover, the protected production markets enabled capital to pass on the costs of such programs to consumers, only some of whom were the highly-insured working and middle classes.

The interests of labor complemented those of capital. Labor’s interests vis-à-vis social policy where two-fold: to protect jobs and to increase wages. Insurance spending and related policies served both purposes. One can imagine workers as maximizing their expected wage income, i.e., the probability of finding an industrial sector job times the industrial wage plus one minus that probability times the reservation wage (e.g., farm labor income). Risk is the (ex ante) probability that the worker will not be employed in the industrial labor force. A worker’s preferred level of insurance will be increasing not just in the risk of not holding an industrial job, but also in the difference between modern and agrarian

18 Note that this ex ante preferred level of insurance holds for all workers, not just those who end up holding well-paying industrial jobs. Ex post, well-paid workers will still want insurance to the extent the probability that they
sector wages and the worker’s aversion to risk (Moene and Wallerstein 2001). The actual level of insurance spending will depend both on labor’s preferences and on labor’s bargaining power within the polity. The relatively closed international economy of the 1940s-1960s engendered a situation in which scarce labor had relatively significant influence on the construction of these policies. In such cases, labor’s market power was maximized both as a scarce input into manufacturing production and as a key consumer of the manufactured output (Mallet 1970). Thus, manufacturing labor in import-substituting sectors was economically and politically privileged.

The high levels of inequality between manufacturing wages and farm incomes (especially where landholdings were very concentrated) and government policies that limited the arbitrage of urban and rural wages imply that the actuarial value of a good industrial job tends to be higher in inward-facing industrializers; in the event of job loss, injury, sickness, etc., workers in those societies have further to fall and more to fear. As Iversen and Soskice (2001: 876) explain, “Those most fearful of losing the labor market power of their skills, and hence their ability to secure good health and pension plans through their employer, also will be most concerned about guaranteeing a high level of benefits, even if the benefits are ‘deferred’ to the future.” As emphasized by Iversen and Cusack (2000), there is no reason to believe that such fears are more prevalent in internationally exposed sectors, and in the import substituting cases, stark wage differentials produced considerable uncertainty for labor in the modern sector. In these cases, labor cooperated with industrial elites to lobby for insurance spending on programs such as disability, unemployment insurance, and strong social security systems that served to cushion labor market risks. Mesa-Lago (1978:3) captures the common, stratified dynamic well when he writes that “social security...has often been manipulated to gain the electoral support of a particular clientele, to legitimate a spurious political regime, and to satisfy the needs and coopt (sic) powerful pressure groups which threaten the status quo.” Aside from these insurance programs, labor also lobbied for and often received other social and labor market policies, including employment guarantees, high severance pay requirements,
High minimum wages, collective bargaining, and long-term contracts that served to increase the cost of labor turnover, and thereby provided further insurance against job loss.

Such insurance spending, along with these complementary labor market policies, served a second goal, namely to increase labor incomes. All of these policies served to increase the barriers to firing urban blue and white-collar workers while reducing the incentives to hire additional workers from the traditional sectors. Once these policies were in place, they increased labor turnover costs and thereby provided substantial obstacles for rural workers seeking to break into the modern sector, constrained the supply of skilled workers and limited the arbitrage between urban and rural incomes. This dynamic has been subject to extensive empirical and theoretical work in the OECD (Lindbeck and Snower 2002; Rueda 2005; Agell 2002) under the aegis of the insider/outsider theory of labor markets. For our purposes, Lindbeck and Snowers summarize the fundamental dynamic nicely, “In the presence of labor turnover costs…the labor market is imperfectly contestable and thus insiders have the market power to earn more than the competitive wages, just as firms in imperfectly competitive product markets can charge more than the competitive prices.” These high wages, of course, contributed to the inequality and demand for insurance noted above, and are a fundamental reason that these insurance-centric social policies became so regressive in societies characterized by relatively small “insider” labor markets. Nevertheless, the creation and expansion of such systems responded to the underlying demands of capital and labor—capital with its concern for pacifying labor militance and the stability of domestic demand, and labor with its concern for insuring itself against falling into much lower wages in the rural sector and increasing modern sector incomes.

In countries pursuing export led industrialization, however, social insurance was not congruent with the developmental project. Insurance worked explicitly against the interests of capitalists competing on world markets by driving up wage costs and potentially reducing worker mobility. Rather export-led growth requires substantial productivity growth to generate increasing demand for factors. The most successful export-led countries emphasized policies enhancing worker mobility, especially broad

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19 High wage differentials were a result of high minimum wages, high severance pay arrangements, substantial
investments in basic human capital. This investment in skills had the added effect of compressing the wage distribution by driving down the relative wages of the highly educated and further equalizing urban and rural wages (Kim and Topel 1995). In Korea, for example, the rapid investment in high school education outran the demand for skilled labor; the 90/10 wage ratio fell by 20 percentage points between 1970 and 1985 as the returns to education declined. Furthermore, the workers drawn into the manufacturing sector were the youngest, requiring fewer labor market guarantees (Kim and Topel 1995). This compression of wages in an already relatively egalitarian setting mitigates demands for insurance. This is not to say that workers bore no risks or that they did not prefer some insurance. Since export-oriented developers had abundant labor, however, the closed international system tended to work against them. This combination of the missing coalition partner in favor of insurance (capitalists) and weak relative power implies that export-led developers will tend to place a lower priority on social insurance.

Our reasoning for why ISI countries would prioritize social insurance flies in the face of the conventional wisdom that greater exposure to international markets invariably increases risks. Nevertheless, our argument that domestic labor market risks driven by inequality (combined with workers’ political ability to demand insurance) dominates international risks in the 1960s-1980s period resembles Iversen and Cusack’s (2000:318) argument that “whether economic openness is related to risk depends on the extent to which international market volatility is greater than domestic market volatility.” Price volatility in international markets must be greater than in domestic markets and trade must concentrate rather than diversify risk for the compensation hypothesis to hold. While they caution that the situation in developing countries (writ large) is likely to be different in the current period, export-led industrialization in the 1960-70s tended to diversify a country’s economic portfolio.

3.3 From Early Insurance Spending to Contemporary Social Policy

Finally, we turn to the implications of the historical development of insurance-oriented social policy regimes for contemporary social insurance policy. For many developing nations, the last 25 years have witnessed a marked move toward free markets, and irrespective of the speed and willingness of employment rights and considerable insurance privileges in the modern sectors of the economy.
those transitions, changes ranging from technological innovations to the collapse of the Soviet Union have served to exogenously increase the costs of economic protectionism. Given the protectionist impulse behind many insurance-laden social programs in the developing world, these changes in the international political economy led some to expect such social programs to collapse. Just as the tenets of import substitution have been tossed away, researchers have pointed to the distortionary nature of the social policies associated with insurance regimes and emphasized their substantial drag on economic growth (IDB 2003). These dynamics led many to foresee a withering of insurance spending and contributed to the wave of research investigating the link between changing exposures to the global economy and social spending in the developing world (Rudra 2002; Avelino, Brown, and Hunter 2005; Kaufman and Segura-Ubiergo 2001).

Despite the insights provided by that research, we expect that the political legacies of economic and social policy choices made decades ago continue to cast a long shadow on contemporary social policy. Given that the underlying economic model upon which insurance-based regimes were founded collapsed in the face of the international events that precipitated the debt crisis, there is no doubt that such cases have faced more severe pressures for fiscal retrenchment than countries that had pursued more open policies (Sachs 1985). Indeed, as Brooks (2002) notes, the fiscal cost of some social security systems can become so extravagant that they are privatized. General pressures for fiscal retrenchment, however, have conflicted with the organized constituencies that have mobilized against attempts to cut social insurance spending. In this regard, we expect the dynamics described by Pierson (1996), whereby the previous beneficiaries of state welfare policies served as crucial constituencies against reform, to have played an important role in contemporary social policy.

Easily the two most influential such groups have been the elderly and protected formal sector workers. In many formerly ISI economies, the process of transitioning to more liberal markets included wrenching social transformations and the rapid expansion of the informal sector of the economy. The collective action problems that plague the informal sector stand in sharp contrast to the collective action capacity of the elderly and those formal sector employees that remained in the state sector and privatized
sectors of the economy (utilities, for instance). The relative strength of these actors has been crucial in battles to retrench social insurance spending and attempts to liberalize labor markets. Indeed, the lack of labor market liberalization in many formerly autarkic economies stands in stark contrast to the nearly uniform move toward trade and capital account liberalization, and the related high levels of unemployment have proven endemic to these economies even two decades after the initial steps toward economic reform. In such cases, the demands of fiscal retrenchment are more likely to be reflected in cuts in education, health care and other areas of the budget with weak constituencies.

To be clear, we do not mean to deny that substantial social policy reform has taken place. We do, however, hypothesize that if we want to understand contemporary levels of, rather than marginal reforms or adjustments to, insurance spending, the underlying political dynamics established by the economic and social policy choices made decades ago continue to tell us more about cross-country variation than the exigencies of international markets.

4. Data, Methods and Models

In this section we describe the data we use and then present a series of results from simple regression models. Because our interest in the initial establishment of social spending regimes stands in contrast to the focus of most recent research on the contemporary, post-debt crisis dynamics of social policy, we initially focus on the decades leading up to the debt crisis. The underlying dataset is an (unbalanced) panel time series. There are serious shortcomings in data availability for many countries, particularly prior to 1975, so we are cautious in the claims we draw from the analyses. In order to maximize the number of observations available for analysis, we take means of the relevant variables for each country for all available years prior to the debt crisis and analyze cross-sectional averages. Given the evidence presented above that social spending priorities are very stable through time, averages seem unproblematic and serve to maximize the number of cases under analysis. The annual data is simply too sparse to conduct cross-sectional time-series analysis and even too sparse to analyze unaveraged cross-sections for the 1950s and 1960s, which represents the period we would ideally have data for. We describe the robustness of findings to altering cutoff points and measures of key variables in footnotes.
Averages do complicate our capacity to draw inferences. Though the data is surely limiting, we find the robustness of the findings suggestive, particularly in light of our complementary reading of the historical record of many of our cases.

We choose 1983 as our cut-off point as 1982 was the last year of data before the onset of the debt crisis which drastically altered the macroeconomic environment, fiscal position and fundamental economic orientation of many countries and because of the evidence that spending priorities up to the debt crisis were very stable. Additionally, the debt crisis provided multilateral lending organizations with improved leverage over debtor nations at the same time that these organizations were strongly emphasizing export competitiveness as the path out of crisis. Of course, the Asian financial crisis provided a more fundamental shock to those economies than the debt crisis of the 1980s, but the available data suggests that the crisis did nothing to alter the basic export-led model of development, nor to the fundamental parameters of social policy. Moreover, our results (specifically, those reported in tables two and four) hold for different cut-off dates for “early” social spending priorities (i.e., 1980, 1982, 1985). Indeed, fitting the same models for the 1990s retrieves relationships similar to the period under analysis—a point which underscores the resilience of social spending priorities in the face of the changing global economy.

While we have discussed internally-oriented development strategies as discrete choices, the reality is, of course, more nuanced. Countries varied to the extent they protected domestic manufacturing, and even export-led cases used some levels of import protection. Both ISI and export-led cases maintained significant tariffs and non-tariff import restrictions (Gibson and Ward 1992). As has been frequently noted (Balassa 1981; Nomi 1997), simple trade ratios or deviations from gravity-model trade predictions (Hiscox and Kastner 2006) will mask important variations in trade policy. Indeed, those data sources fail to distinguish quintessential export-led cases such as Korea from archetypal import substituters such as Mexico, the two of which look nearly identical on the eve of the debt crisis according to Hiscox and Kastner’s data. As such, we follow in the spirit of Balassa (1981) and measure internally-oriented development strategies as the proportion of total manufacturing output not exported; higher
values indicate a more domestically oriented manufacturing sector. As noted below, our results are robust on more traditional measures of openness, such as trade as a share of GDP.

We operationalize our notion of an insurance-oriented social policy regime using social spending data. Although there are many components to the government’s social policy strategy, spending variables have the advantage of obvious cross-national comparability. Other important aspects of welfare regimes include wage policies, labor market regulations and worker training. As noted above, we have strong expectations that these non-quantified aspects of social regimes are likely to be closely related to the spending data that we do have. Union-negotiated wages are most likely in ISI cases. Deregulated labor markets (or those regulated to the employers’ advantage) are most likely in export-led cases. Thus, while we cannot test large-scale empirical claims about these crucial other elements of social regimes and are sensitive to Esping-Andersen’s (1990:19) suggestion that “expenditures are epiphenomenal to the theoretical substance of the welfare state”, we are confident that our spending indicators are representative of the broader social regimes and allow for a first cut at testing the argument outlined above.

The spending variable of interest is (central) government expenditure on social security and welfare as a share of total government spending. This standardization emphasizes the importance of governmental priorities rather than overall effort. By IMF Government Finance Statistics standards, the category of “social security and welfare” includes pensions as well as disability, survivors and unemployment insurance, and is overwhelming oriented toward insurance spending.\textsuperscript{20} Data for these variables are taken from the IMF Government Finance Statistics (2005), supplemented with data collected from primary sources and from CEPAL.\textsuperscript{21} Overall spending data are taken from the World Bank’s \textit{World Development Indicators} (2006) (henceforth \textit{WDI}).

Having already established longitudinal stability within countries and meaningful variation across them, we now turn to regression analysis to examine the causal theory outlined above. The first links

\textsuperscript{20} Non-insurance programs tend to be small ones such as benefits for children with disabilities.

\textsuperscript{21} Findings are substantively unchanged if we restrict ourselves to only the IMF data and/or we analyze multiply imputed datasets.
market size, labor abundance and inequality to the choice of development strategy, and the second links
development strategies to early social spending patterns.

4.2 From Endowments to Development Strategies

As indicated by our theoretical discussion, the key predictor variables are initial market size,
labor scarcity and inequality. We measure market size as the log of the product of initial (1960)
population and income levels (log GDP per capita). Labor abundance is measured in a manner consistent
with Leamer (1984) by comparing a country’s share of the global endowment of labor with its share of
the world gross domestic product. Because inequality in land distribution is key to our argument on the
challenge of financing autarkic development strategies, we use Vanhanen’s (2003) data on the percent of
farms that are owned by smallholders. To these variables we add a control for natural resource
production (measured as the sum of fuel and metal exports as a share of merchandise exports). Some have
argued that resource endowments can help finance internally oriented industrialization. Against such
claims one must consider the de-industrializing impact of real exchange rate appreciation associated with
heavy reliance on natural resource exports. We fit this model using ordinary least squares (OLS). There
was evidence of heteroskedasticity, so we report White standard errors.

Table 1 displays the parameter estimates for the ISI model. Findings here are in line with the
theoretical discussion above; ISI is increasing in domestic market size and land equality but decreasing in
labor endowment. The scale of the effects, moreover, is not trivial. A standard deviation increase in
market size (the difference between Nigeria, for instance, and Turkey) increases the level of autarky by
2.4 (the sample mean is 11.5). Similarly, a standard deviation increase in labor scarcity (about the
difference between labor-abundant Indonesia and labor-scarce Brazil) predicts an increase in autarky by
1.9, and the same increase in rural inequality (similar to the difference between very unequal South Africa
and more equal India) increases autarky by 2.1.

Note that estimating this model using 1965-70, 1965-75, and 1970-75 averages for all independent variables and
1975-82, 75-85 averages and 1982 annual values for the dependent variable shows quite similar findings though the
sample size shrinks considerably and the labor endowment variable does not achieve traditional significance levels
in the 1965-70 and 1965-75 specifications. Results also hold using trade openness rather than ISI as the response
4.3 From Autarkic Development Strategies to Insurance Spending

Turning to the impact of development strategies on social policy, we operationalize our notion of social spending regimes using social spending data as described above. We fit several models using social insurance/welfare spending as a proportion of the government budget as the response variable. The general form of the models is Spending ~ Development Strategy + Demand + Regime.

We measure development strategy in two ways. We incorporate the findings above by using the predicted values of ISI from model 1a as covariates. To gauge the robustness of our findings to inclusion of the error terms from model 1a, we also fit the models using the actual values of ISI.

The demand variable measures the relative size of the old-age population.23 We expect the demand for insurance (particularly the pension component of social insurance) to increase with the age of the society. We introduce per capita income to control for the long-standing (but controversial) argument that societal wealth increases the demand for social spending at a faster rate than GDP growth.24 Finally, each country’s Polity score (Marshall, Jaggers, and Gurr 2004) controls for the arguments of Lindert (2004), Adserá and Boix (2002), and Brown and Hunter (1999) that regime type mediates the relationship between capitalism and social spending—they all suggest that democracies produce more social spending, though the precise mechanisms vary.25 Because the standard median voter model predicts increased redistribution as interpersonal inequality mounts, we also include the UT Inequality Project’s indicator of inequality in manufacturing wages. Given that social insurance tends to be regressive in the developing world, we are doubtful this finding will hold. We add this variable separately as it sharply reduces the number of observations available for analysis. Alternative inequality measures, such as UNIDO’s gini coefficient perform similarly but provide even fewer observations. As before, all variables are measured at their pre-debt crisis averages.

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23 See Lindert (2004) on demographic effects on social spending.
24 The empirical findings in this regard are mixed.
Table 2 about here

Table 2 displays the parameter estimates for several models of social security priority. Findings broadly conform to our expectations and have some interesting implications. First, countries pursuing ISI strategies put greater weight on insurance spending in government budgets. All else equal, a country that retains 10 percent more of its industrial production domestically on average over the pre-debt crisis period will allocate about 5 percent more of its budget to insurance expenditures. This finding is robust to different demand variables and whether we use fitted or actual ISI values. Contrary to the “compensation hypothesis” in which insurance spending is more prevalent the more exposed a country is to volatile international markets (Katzenstein 1985), we find that insurance spending in post-war developing countries is increasing in a country’s internal orientation. To examine this relationship graphically, Figure 4 plots the social security spending priorities against the level of industrial autarky. There is clear positive relationship between the two.

Turning to the demand variables, we see that a larger young population significantly decreases social security as a spending priority while a larger elderly population has the opposite effect. We note that these results are consistent with the notion that social security spending crowds out education spending. Finally, parameter estimates for the trade variable suggest no impact on insurance spending. As expected and consistent with the research of Mulligan and Sala-i-Martin (2004), we also find that the level of democracy has no impact on social insurance.

Finally, models 4 and 5 report results including the UTIP inequality measure. In none of the models is income inequality a significant predictor of social insurance spending priorities, all else equal. Our own contention that the gap between formal sector and rural sector wages helps explain the demand

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25 Our response variables are spending priorities, not levels. We therefore have no strong expectation regarding the marginal relationship between democracy and spending priorities. Indeed, our argument is strengthened if we find no evidence of a relationship between regime type and spending priorities.

26 Findings are robust to using 1965-70, 1965-75, and 1970-75 averages for all independent variables and 1975-82, 75-85 averages and 1982 annual values for the dependent variable. Fitting the models using only IMF data for social spending also makes no difference to interpretation. Finally, model results are similar if fit to multiply imputed datasets.

27 Similarly, Rudra (2002) finds little support for the compensation hypothesis in the developing world.
for insurance in industrially autarkic cases is not testable with the inequality data now available. At this point, the best we can show is that more internally-oriented development strategies are associated with higher insurance spending.

Given that ISI is the response variable in model 1 and appears as a covariate in models 2-5, there is likely to be correlation in the error term across equations and possible endogeneity. As a robustness check, we re-estimate models 1a and 2a and 1a and 4a using three-stage least squares (3SLS) with ISI and social security spending as endogenous and the remaining variables exogenous. Results are presented in table 3.

**Table 3 here**

Results from the 3SLS fits are largely in line with those reported in tables 1 and 2. The one exception is that the magnitude and significance of the labor endowment variable is somewhat attenuated in models 1b and 1c. Nevertheless, the sign of the coefficients remain unchanged and ISI remains a strong predictor of social security spending priorities in the pre-debt crisis period.

4.4. From Early Strategies to Contemporary Spending

Finally, Models 6-11 in Table 4 present results examining how initial conditions, operationalized in terms of both autarky and social insurance spending priorities, are related to recent social insurance spending in an era of opening international markets. The dependent variables are measured as average spending on social security for all available years after 1990. As in the models linking development strategies to social spending regimes, we control for per capita income (logged), societal demand for social security (as shares of the population over 64), and regime type. All these variables are taken at their post-1995 averages. The key covariates of interest in each of the models are initial spending on social security as a share of total spending and initial levels of autarky. The results suggest that initial spending levels, themselves a function of earlier development policies, have a strong impact on the outlines of contemporary social policy. As initial spending on insurance increases, so does its priority in more recent budgets (models 6-8). The same holds for initial levels of autarky (models 9-11). Even more telling is that including a variable that accounts for the change in a country’s overall trade exposure
between 1982 and 1995 (models 8 and 11) shows no effect whatever on recent social insurance budget priorities. Initial social insurance spending patterns, as determined by a country’s developmental strategy, dwarf any changes in spending priorities induced by a country’s opening of the world economy during the last 20 years.\textsuperscript{28}

Taken together, these preliminary results suggest two important findings. First, the legacy of social spending priorities established in an earlier era of developmental capitalism cast a very long shadow. Spending priorities are relatively steady through time, and the evidence in this final section suggests that the last twenty years of opening international markets has only served to further entrench spending trajectories. Countries that spent a great deal on social insurance early on are likely to spend more now. In this regard, our findings mirror those found in the OECD where welfare regimes have been reasonably robust in the face of mounting international competition (Iversen and Cusack 2000; Swank 2002). Second, the implications of the findings for the group of countries that spend large shares of the public purse on social insurance are not good. Thanks to political configurations in the post-World War II era, these cases developed social policies aimed at the creation of labor markets poorly suited for today’s global economy. Thanks to the generally narrow constituencies for social insurance programs and their affiliation with unproductive labor market and spending policies, it would not be surprising if such countries have grown more poorly in recent decades and experienced increases in inequality. That initial social security spending serves to increase subsequent spending only underscores the downward spiral that such systems might face. If we take the standard findings on the economic benefits of human capital investments at their face value and consider the possibility that organized constituencies will protect social insurance budgets at the expense of the poorly organized constituencies for health and education spending, the prospects are even more unpleasant.

5. Conclusion

\textsuperscript{28} As before, all these results are robust to varying the periodicity of the averages, using 1975-83, 75-80, and 75-85 values for ISI and early social security spending. Similarly, results do not depend on whether we average late-period variables from 1990 onward, 1995 onward, or 1998 onward. Finally, analyzing multiply imputed datasets in the same way does not alter conclusions.
In this paper we have laid out a framework for understanding the dynamics of developmental capitalism over the last 50 years through the lens of social policy. In doing so, we challenge the pervasive thinking linking increased exposure to trade and social insurance. We argue that autarkic development strategies and insurance-based social policies are deeply intertwined. The relative abundance of labor, rural inequality, and market size all combined in a context of closed international markets in the decades following World War II to condition the extent to which development strategies were autarkic. Import substituting strategies, not export-oriented or liberal ones, are associated with an emphasis on social insurance expenditures (and a range of other protective social policies). We provide three lines of evidence in support of our account. First, we show that countries’ insurance spending priorities are relatively stable through time. Second, we show that initial market size, labor abundance and inequality combine to impact the internal orientation of development policy. Third, we show that inwardly-oriented development policies are linked with insurance spending priorities. We face sharp data constraints, but the results are suggestive.

In emphasizing the historical foundations of social policy, our paper has implications for the growing literature on the link between globalization and social spending in the developing world. We have shown that the priority attached to social insurance differs markedly and systematically across countries and that these differences swamp year-on-year within-country changes associated with economic liberalization in recent decades. If we compare the scale of the effects uncovered here with those in recent cross-national research exploring globalization’s impact on social spending in the developing world, what is striking is how much more important early spending regimes are for shaping contemporary social policy. For instance, our findings suggest that a country that looks like Mexico in 1960 is expected to pursue an autarkic development strategy and emphasize insurance spending to the tune of 26 percent of the budget on the eve of its process of market liberalization. If we turn to recent estimates of the impact of global economic forces on these starting points, we can see how small they are. Taking the midpoint for the similar results reported in Kaufman and Segura (2001: 578) and Wibbels (2006: 454-55), for instance, a substantial 10 percent increase in trade dependence over recent decades is
predicted to reduce social security to the tune of 0.8 percent of spending in a case like Mexico. In dollar (or peso) terms that is not a trivial amount, but it is dwarfed by the fact that a country like Korea that pursued an export-led strategy in the post-war era begins the 1980s spending less than one-fourth as much on social insurance as Mexico. To this day, the two countries evince sharply divergent social spending priorities.

Our findings also suggest the importance of investigating the long-term developmental implications of social policies established decades ago. There are reasons to expect the inequitable distribution of insurance spending and the regressive manner of its financing has served to exacerbate inequality across the developing world. Likewise, there is at least some evidence from OECD cases that insurance spending tends to displace education spending. With regards to government expenditures, the overwhelming focus of the developmental performance literature has been on the benefits of primary and secondary education. The lack of attention to the developmental implications of spending on insurance is surprising given that it represents a far larger share of the average government budget in the developing world. As such, we see the developmental implications of insurance spending to be an important research frontier. Our argument linking interest group politics and the contemporary demand for insurance suggests that the implications for growth and inequality are likely to be negative, though how negative will depend on the extent of the insurance/education tradeoff and on poorly understood relationships between school spending, educational attainment and labor productivity.

Even more important, our results have important implications for the broader literature on the link between trade and social policy. The dominant accounts of the relationship between trade, production, and social policy assume that the underlying logic guiding the relationships among these variables are constant across cases and time—that social policy emerges as a means to compensate various labor market participants for the risks they face and that global economic exposure and social insurance reinforce one another. This assumption echoes Ruggie’s notion of embedded liberalism and is most explicit in the work of Lindert (2004), Rodrik (1998) and Adserá and Boix (2002), though a large body of related literature implies as much. These works reflect modernization theory in their suggestion that all
countries will face similar choices as they negotiate trade and social policies and that the outcomes of those choices will produce similar outcomes the world over. Clearly, our argument and findings belie the notion that economic openness and social insurance necessarily go together, and we believe the work inspired by the OECD cases fails to consider the dynamics of global capitalism, particularly the fundamental importance of countries’ diverse positions in the global economy. While the most dynamic portions of OECD economies were export-oriented manufacturers during the post-war period when welfare states boomed, the comparative advantage of most developing countries was in primary products. One implication is that the labor market and political power of industrial labor in the OECD far exceeded its power elsewhere. Indeed, in the developing world, only countries that pursued import substitution developed industrial working classes large and organized enough to even approximate those in the OECD, and while those workers were able to negotiate substantial insurance programs, they did so in a context of protectionism, not free trade.

That social policy emerged in a context of protectionism probably provides insight into the political sustainability of free markets in such cases. That many early import-substituters continue to struggle economically and see powerful anti-market movements twenty years after substantial economic liberalization suggests that our account of the births of development strategies might be something of more than just historical interest. Indeed, since social spending on protected sectors has been difficult to retrench and their labor markets have proven particularly resistant to reform, these governments have struggled to provide social support to the truly poor, human capital investments that would foster increased productivity, and provide new social commitments to dynamic, export-oriented sectors—budgets are simply too constrained. Labor markets in such countries are typically characterized as sharply divided between labor market insiders and outsiders, with the latter typically employed in massive informal sectors. That social policies fail to undergird market competitiveness in such cases may help explain the recent rise of anti-market sentiments in settings as diverse as Venezuela and South Africa.

A focus on the link between comparative advantage, the global economy and social policy has the added benefit of promising considerable insight into the sustainability of open markets even in cases that
never experienced import substitution and where manufacturing production has recently exploded. Technological innovations, for instance, suggest that even while global demand for manufactured goods is increasing, satisfying that demand will be done using capital intensive technologies that militate against the emergence of large, concentrated industrial working classes so central to the emergence of OECD welfare states. The fragmentation and globalization of production chains has diffused production and further militates against the emergence of large, politically mobilized industrial working classes. It is the case that the new centers of global manufacturing in the developing world are oriented toward exports as their OECD counterparts were fifty years ago, but while such sectors were at the technological frontier and highly profitable 50 years ago, today’s new manufacturing powers fill a market niche in which margins are slim. Smaller industrial workforces and smaller margins, when combined with today’s highly mobile capital, suggest that the political conditions for the emergence of costly, extensive welfare states seem unlikely in today’s developing world. It is telling that social commitments have been falling in many of the world’s most successful developing nations, including China. In short, bringing comparative advantage and the dynamics of global capitalism into the literature on the link between trade and social policies suggests that the bargain of embedded liberalism was a historic anomaly characteristic of a small number of countries.
References


Appendix 1: Data definitions, sources, and descriptive statistics

Unless otherwise noted, all variables appear in regression models as country averages for all available observations prior to 1983

*GDP per capita*: Natural logarithm of real GDP per capita, taken from the Penn World Tables (Heston, Summers, and Aten 2006).


*Inequality*: Estimated household income inequality (EHII) from UTIP (2006).


*Land equality*: Proportion of farmland owned by single families, taken from Vanhanen (2003).

*Market size*: population (MM) * log(GDP per capita). Both population and wealth figures taken from the WDI.


*Polity*: Polity IV score scaled from 0-20 (Marshall, Jaggers, and Gurr 2004). “Late” refers to country averages for all available years after 1990.

*Pop >64*: Percentage of the population over age 64, taken from the WDI. “Early” refers to country averages for all available years prior to 1983. “Late” refers to country averages for all available years after 1990.

*Resource dependence*: Sum of fuel and ores & mineral exports as percent of merchandise exports, taken from the WDI.


Tables A.1 and A.2 here
### Appendix 2: Countries included in the Analysis

<table>
<thead>
<tr>
<th>Country</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
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</tr>
<tr>
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<td>Mexico</td>
</tr>
<tr>
<td>Benin</td>
<td>Mali</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>Mauritania</td>
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<tr>
<td>Bangladesh</td>
<td>Mauritius</td>
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<td>Bahrain</td>
<td>Malawi</td>
</tr>
<tr>
<td>Bolivia</td>
<td>Malaysia</td>
</tr>
<tr>
<td>Brazil</td>
<td>Niger</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>Nigeria</td>
</tr>
<tr>
<td>Chile</td>
<td>Nicaragua</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>Nepal</td>
</tr>
<tr>
<td>Cameroon</td>
<td>Oman</td>
</tr>
<tr>
<td>Congo</td>
<td>Pakistan</td>
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<td>Colombia</td>
<td>Panama</td>
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<tr>
<td>Costa Rica</td>
<td>Peru</td>
</tr>
<tr>
<td>Cyprus</td>
<td>Philippines</td>
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<td>Dominican Republic</td>
<td>Papua New Guinea</td>
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<td>Algeria</td>
<td>Paraguay</td>
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<td>Ecuador</td>
<td>Sudan</td>
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<td>Egypt</td>
<td>Senegal</td>
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<td>Fiji</td>
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<td>Gabon</td>
<td>Sierra Leone</td>
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<td>Ghana</td>
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<td>Gambia</td>
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<td>Haiti</td>
<td>Thailand</td>
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<tr>
<td>India</td>
<td>Trinidad and Tobago</td>
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<tr>
<td>Indonesia</td>
<td>Tunisia</td>
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<td>Iran</td>
<td>Turkey</td>
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<td>Jamaica</td>
<td>Uganda</td>
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<tr>
<td>Jordan</td>
<td>Uruguay</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>Venezuela</td>
</tr>
<tr>
<td>Kuwait</td>
<td>South Africa</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Zambia</td>
</tr>
</tbody>
</table>
Figure 1: The composition of government social expenditures in the developing world pre- and post-debt crisis

*Social insurance spending varies dramatically across developing countries. After the debt crisis, variation in social insurance spending increased.*

**Developing world, 1981**

**Developing world, 1998**

*Note: The thick bar in the center locates the median while the range of the box shows the interquartile range. The whiskers show the range of the data that extend up to ±1.5 times the interquartile range. Dots are outliers. The notches in the side of the boxes depict a rough 95% confidence interval around the median. SS is social security and welfare spending. See appendix for details on the data.*
Figure 2: Distribution of the Coefficients of Variation for Insurance Spending

On average, social insurance spending effort and prioritization are quite stable in the developing world prior to the debt crisis.

Note: The thick bar in the center locates the median while the range of the box shows the interquartile range. The whiskers show the range of the data that extend up to ±1.5 times the interquartile range. Dots are outliers. The notches in the side of the boxes depict a rough 95% confidence interval around the median. All counties included had at least three observations prior to 1983 for all variables. See appendix for data sources.
Figure 3: The relationship between autarky and the insurance spending priorities among developing countries in the pre-debt crisis era

Note: The solid line is a non-parametric (lowess) regression curve. The broken line is the bivariate regression fit.
Table 1: OLS model of development strategy on initial conditions
Larger countries scarce in labor and with more unequal land distribution are more likely to follow ISI developmental strategies in the pre-debt crisis era.

<table>
<thead>
<tr>
<th>Covariates</th>
<th>$\hat{\beta}$</th>
<th>$\sigma_{\hat{\beta}}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market size</td>
<td>0.38</td>
<td>0.09</td>
</tr>
<tr>
<td>Labor endowment</td>
<td>-0.22</td>
<td>0.10</td>
</tr>
<tr>
<td>Land equality</td>
<td>-0.14</td>
<td>0.07</td>
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<tr>
<td>Resource dependence</td>
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<td>0.02</td>
</tr>
<tr>
<td>Constant</td>
<td>4.32</td>
<td>2.93</td>
</tr>
</tbody>
</table>

$N = 60$
Adj. $R^2 = 0.39$
$F (df) = 6.25 (4,55)$

Note: All variables are averages over all available observations prior to 1983. White standard errors reported. Bolded entries are significant at the 0.05 level or better using two-tailed tests.
### Table 2: OLS estimation of social security spending on development strategy

Governments pursuing ISI strategies in the pre-debt crisis era prioritize social security spending.

**Social Security as % Government Spending**

<table>
<thead>
<tr>
<th>Covariates</th>
<th>2a</th>
<th>3</th>
<th>4a</th>
<th>5</th>
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</thead>
<tbody>
<tr>
<td>ISI (predicted)</td>
<td>0.76</td>
<td></td>
<td>0.80</td>
<td></td>
</tr>
<tr>
<td>ISI (actual)</td>
<td>0.46</td>
<td>0.46</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pop &gt; 64</td>
<td>3.16</td>
<td>4.62</td>
<td>3.01</td>
<td>4.83</td>
</tr>
<tr>
<td>Polity</td>
<td>-0.01</td>
<td>-0.15</td>
<td>-0.01</td>
<td>-0.17</td>
</tr>
<tr>
<td>GDPpc (log)</td>
<td>1.80</td>
<td>0.58</td>
<td>1.78</td>
<td>0.63</td>
</tr>
<tr>
<td>Inequality</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td>-21.93</td>
<td>-19.98</td>
<td>-16.51</td>
<td>-23.23</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>N</th>
<th>64</th>
<th>52</th>
<th>56</th>
<th>47</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adj. $R^2$</td>
<td>0.56</td>
<td>0.62</td>
<td>0.47</td>
<td>0.55</td>
</tr>
<tr>
<td>$F$ (df)</td>
<td>6.57</td>
<td>7.1</td>
<td>2.46</td>
<td>2.05</td>
</tr>
</tbody>
</table>

Note: All variables are averages over all available observations prior to 1983. White standard errors reported. Bolded entries are significant at the 0.05 level or better while italicized entries are significant at the 0.1 level or better using two-tailed tests.
Table 3: 3SLS estimation of social security spending and development strategy

Key findings from tables 1 and 2 are generally robust to models accounting for cross-equation correlation in the error terms.

<table>
<thead>
<tr>
<th>Covariates</th>
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<th>1c/4b</th>
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</thead>
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<tr>
<td></td>
<td>( \hat{\beta} (\sigma_\beta) )</td>
<td></td>
</tr>
<tr>
<td>ISI model</td>
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<tr>
<td>Market size</td>
<td>0.38</td>
<td>0.33</td>
</tr>
<tr>
<td></td>
<td>(0.09)</td>
<td>(0.09)</td>
</tr>
<tr>
<td>Labor endowment</td>
<td>-0.19</td>
<td>-0.15</td>
</tr>
<tr>
<td></td>
<td>(0.12)</td>
<td>(0.12)</td>
</tr>
<tr>
<td>Land equality</td>
<td>-0.15</td>
<td>-0.13</td>
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<tr>
<td></td>
<td>(0.05)</td>
<td>(0.05)</td>
</tr>
<tr>
<td>Resource dependence</td>
<td>-0.07</td>
<td>-0.06</td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.02)</td>
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<tr>
<td>Constant</td>
<td>4.07</td>
<td>5.13</td>
</tr>
<tr>
<td></td>
<td>(3.91)</td>
<td>(4.04)</td>
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<tr>
<td>( N = )</td>
<td>55</td>
<td>50</td>
</tr>
<tr>
<td>( R^2 )</td>
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<td>0.33</td>
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<tr>
<td>( \chi^2 )</td>
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<td>26</td>
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<td>Social Security % Gov Ex. Model</td>
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<td>(0.13)</td>
<td>(0.15)</td>
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<tr>
<td>Pop &gt; 64</td>
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<td>4.80</td>
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<td></td>
<td>(0.74)</td>
<td>(0.81)</td>
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<td>-0.20</td>
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<td>(0.15)</td>
<td>(0.16)</td>
</tr>
<tr>
<td>GDPpc (log)</td>
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<td>0.85</td>
</tr>
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<td></td>
<td>(1.32)</td>
<td>(1.46)</td>
</tr>
<tr>
<td>Inequality</td>
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<td>Constant</td>
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</tr>
<tr>
<td></td>
<td>(8.91)</td>
<td>(19.46)</td>
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<tr>
<td>( N = )</td>
<td>55</td>
<td>50</td>
</tr>
<tr>
<td>( R^2 )</td>
<td>0.63</td>
<td>0.58</td>
</tr>
<tr>
<td>( \chi^2 )</td>
<td>102</td>
<td>75</td>
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</table>

Note: All variables are averages over all available observations prior to 1983. Bolded entries are significant at the 0.05 level or better while italicized entries are significant at the 0.1 level or better using two-tailed tests.
Table 4: OLS estimation of current social insurance spending outcomes

Countries pursuing ISI strategies and/or prioritizing social insurance in the pre-debt crisis era emphasize social insurance more in more recent budgets. This relationship swamps any effect of increased trade openness over the same period.

<table>
<thead>
<tr>
<th>Covariates</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
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</thead>
<tbody>
<tr>
<td>Soc. Sec.* (predicted)</td>
<td>0.88</td>
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<td></td>
<td></td>
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<tr>
<td>Soc. Sec.* (actual)</td>
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<td>0.83</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ISI* (predicted)</td>
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<td></td>
<td></td>
<td></td>
<td>0.64</td>
<td></td>
</tr>
<tr>
<td>ISI* (actual)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(0.33)</td>
<td></td>
</tr>
<tr>
<td>Pop &gt; 64</td>
<td>2.22</td>
<td>1.43</td>
<td>1.43</td>
<td>6.11</td>
<td>4.16</td>
<td>4.14</td>
</tr>
<tr>
<td></td>
<td>(1.50)</td>
<td>(0.91)</td>
<td>(0.91)</td>
<td>(1.43)</td>
<td>(1.46)</td>
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</tr>
<tr>
<td>Polity</td>
<td>-0.02</td>
<td>-0.03</td>
<td>-0.00</td>
<td>-0.09</td>
<td>-0.22</td>
<td>-0.22</td>
</tr>
<tr>
<td></td>
<td>(0.25)</td>
<td>(0.21)</td>
<td>(0.23)</td>
<td>(0.30)</td>
<td>(0.26)</td>
<td>(0.31)</td>
</tr>
<tr>
<td>Log GDPpc</td>
<td>1.12</td>
<td>1.76</td>
<td>1.65</td>
<td>-0.010</td>
<td>2.17</td>
<td>2.11</td>
</tr>
<tr>
<td></td>
<td>(1.51)</td>
<td>(1.11)</td>
<td>(1.17)</td>
<td>(1.76)</td>
<td>(1.71)</td>
<td>(1.85)</td>
</tr>
<tr>
<td>ΔOpenness</td>
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<td>1982-95</td>
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<tr>
<td>Constant</td>
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<td>-16.85</td>
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<td>(9.86)</td>
<td>(7.76)</td>
<td>(8.32)</td>
<td>(11.42)</td>
<td>(11.22)</td>
<td>(12.46)</td>
</tr>
</tbody>
</table>

* Denotes variables at or derived from their pre-debt crisis averages.

Note: Dependent variable is social security expenditure as % of government. Predicted ISI values taken from model 1; predicted social security values taken from model 2. Response variables and non-starred covariates are averages over 1995-2003. Bolded entries are significant at the 0.05 level or better while italicized entries are significant at the 0.1 level or better using two-tailed tests.
Table A.1: Descriptive statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Obs</th>
<th>Mean</th>
<th>SD</th>
<th>Min</th>
<th>Max</th>
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</thead>
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<td>ISI</td>
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<td>6.8</td>
<td>11.4</td>
<td>-51.2</td>
<td>32.0</td>
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<tr>
<td>Market size</td>
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<td>36.4</td>
<td>10.1</td>
<td>10.1</td>
<td>57.9</td>
</tr>
<tr>
<td>Labor endowment</td>
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<td>7.2</td>
<td>8.1</td>
<td>0.1</td>
<td>37.9</td>
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Table A.2: Correlations for variables in regressions

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