The Advantages of Backwardness? Globalization and Developing Country Welfare
Regime Transformation

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Rahmi Çemen
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Regime Transformation

by
RAHMI ÇEMEN

has been approved for
the Department of Political Science
and the College of Arts and Sciences by

James Mosher
Associate Professor of Political Science

Robert Frank
Dean, College of Arts and Sciences
Abstract

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Director of Thesis: James Mosher

Those arguing for a “race to the bottom” in the globalization era assume that international factors have negatively impacted the welfare regimes of developing countries. In contrast, little attention has been given to how globalization can produce more opportunities than constraints for developing countries to reform inefficient and inegalitarian welfare regimes and create new ones that support long-run economically sustainable development. In order to investigate whether globalization has positive effects on welfare, three case studies are analyzed: South Korea, Turkey, and Mexico. My first hypothesis is that the relatively minimal institutional base of entrenched welfare entitlements in developing countries allows for the reform of expensive, inefficient, and inegalitarian welfare regimes in order to adapt to globalizations demands, while at the same time providing the innovative policy space to improve the area’s most beneficial to the well-being of the majority of the population, such as health care, education, and social assistance. Second, a full-fledged race to the bottom does not accurately describe the situation in developing countries in part due to the relational component of globalization (i.e. social policy diffusion and transfer). Thus, I argue that developing countries have an ‘advantage of backwardness’ with regards to social policy reform.
Dedication

I dedicate this thesis to my parents, Pam and Ibrahim Çemen. Your love and support has meant more to me than words could ever convey. Thank you guys for everything.
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**Introduction**

Since the 1980s and 1990s, globalization has been partly attributed to the shifting orthodoxy away from inward-oriented economic thinking and the gradual embrace of open markets. Along with enhanced economic interconnectedness, globalization is transforming the manner in which states interact and relate to one another. During the globalization era, international processes and external actors have played an increasingly important role in social policy transformations in developing countries.

Until relatively recently, literature on the link between globalization and welfare painted a gloomy picture. A number of sweeping reforms that rolled back benefits throughout the developed and developing world in the latter portion of the 20th century sought to shift more of the costs of social insurance and services onto individuals, expand private provision, increase competition and accountability within the public sector, and target public spending more directly to the most vulnerable groups in society (Haggard and Kaufman, 2008). Studies focusing on globalization claimed that these reforms were evidence of the deleterious effects that enhanced open market competition and the free flow of capital would have on welfare regimes, resulting in the dreaded “race to the bottom” (Ohmae, 1990).

The logic of a “race to the bottom” in a globalizing world, in its most basic sense, is that high universal welfare standards are incompatible with market competition. In developed countries, these claims have largely been debunked by the voluminous amount of theoretical and empirical research suggesting otherwise (Pierson, 2001; Huber and Stephens, 2001; Brady et al., 2005). Yet, the dominant thinking among scholars is that a
“race to the bottom” is more likely in developing countries (Rodrik, 1998). Indeed, the empirical evidence in the embryonic research on welfare regimes in developing countries has pointed to a general race to the bottom in welfare spending across the developing world (Rudra, 2002; Segura-Ubiergo, 2007). However, this evidence also points out that aggregate welfare spending across the developing world is decreasing much less rapidly in areas which promote human development, such as health-care, education, and creative poverty relief programs (Shou, 2010). This is an important observation considering that certain areas of welfare have been shown to increase inequality due to the manner in which these systems were set up in developing countries (Rudra, 2008). For instance, hierarchical social security systems designed to benefit a small number of select workers face the greatest pressure towards reform from the forces of globalization.

Thus, what those claiming a “race to the bottom” in the welfare regimes of developing countries overlook is the manner in which social policy is being transformed. Welfare regimes which do exist in developing countries are often limited, especially in comparison to the original OECD countries, and were typically created in order to provide social protection for a small group of civil servants and employees in ‘strategic’ modern sectors (Mesa-Lago, 1978). The rest of the population was generally excluded and often forced to rely on traditional family and community relationships as a means of social safety nets (Gough et al, 2004). Furthermore, in this early pre-globalization period, instead of evolving in an egalitarian manner, welfare institutions often grew in a manner which reinforced the status quo (Mallet, 1970).
Now that things have changed, the forces of globalization do indeed constrain the social spending decisions most developing countries can make. Thus, those pointing to a “race to the bottom” are correct in that the need to remain globally competitive has led to a gradual dismantling of these early, relatively expensive, yet inegalitarian welfare regimes. For instance, a large number of pension reforms, starting around the 1980s, reduced the practice of covering the entire deficit of inegalitarian social security systems through the federal budget in many developing countries through the full or partial privatization of old-age retirement pensions (Brooks, 2009).

Globalization can also provide unique opportunities for new welfare systems to emerge that focus on protecting the most vulnerable groups in society and placing an emphasis on economically sustainable development. As developing countries reform inegalitarian and uncompetitive welfare regimes, they begin to relieve the burden on government spending budgets such commitments can place. As they actively take measures to involve all sectors of society in the economy, they increase the sustainability of their long-run growth potential. Thus, welfare reform in developing countries does not represent a full-fledged race to the bottom. Rather, welfare regimes in developing countries are not minimalistic, but different than those in developed countries and better suited for the demands of a globalized world.

That said, the ways in which policy makers are ‘taking advantage of backwardness’ has received less attention. The limited legacies of welfare in developing countries provide an open policy space to create welfare regimes that are better suited to the globalization era. Globalization cannot limit the expansion of welfare in its entirety;
however, it can condition the manner in which new welfare systems emerge in countries that are reaching the level of wealth necessary to adequately meet the social demands of their entire population.

From this perspective, the “logic of industrialization”, which hypothesizes that economic growth *ceteris paribus* leads to welfare expansion, becomes more important in appreciating the manner in which upper-middle income countries with the wealth to create capable welfare regimes react to the forces of globalization. Despite the differences in welfare regimes across upper-middle income developing countries, the similarity that they are all increasing the role of the government in providing welfare for their citizens after they gain the wealth to do so is much more apparent. Furthermore, this process is still occurring in the globalization era. However, the key point is that in many ways it is occurring differently than their developed country counter-parts.

Thus, several important questions emerge: Is there substantial evidence that policy makers across the developing world are choosing to expand or maintain welfare in the areas most associated with economically sustainable development, such as health care, education, and social assistance? Is the “race to the bottom” most visibly seen in the areas most associated with inegalitarian welfare regimes, such as social security systems which expend the greatest benefits towards a small segment of the population? Are developing countries implementing welfare programs at an earlier stage of development and more effectively than their developed country predecessors? Are international factors important compliments in this process? What role does social policy diffusion and
transfer play? Finally, does the relatively limited institutional space in the large majority of developing countries allow for the adoption of innovative policy reforms?

The first claim made in this thesis is that international factors are playing a much greater complementary role in shaping the decision making about welfare reform during the globalization era, especially in developing countries. The existing literature on social policy in developing countries has mostly focused on a small number of mediating factors of globalization\(^1\). Haggard and Kaufman (2008) and Wibbels and Ahlquist (2011) essentially apply the “Varieties of Welfare Capitalism” approach to developing countries by investigating the connection between initial economic growth strategies and welfare regime transformation. Huber and Stephens (2012) and Rudra (2002) directly apply the power-based resource theory to developing countries by focusing on redistributional changes and their relationship to democratic governance, labor union strength, and the presence of left-wing parties. Finally, Mares (2005) investigates across and within country social policy changes based on the political coalitions which support different policy outcomes by looking at the interests of the median formally employed voter.

Although all of these studies implicitly acknowledge the role played by international context, they fail to provide a deeper understanding of how these important factors have complemented or constrained the options available to policy makers in developing countries. For instance, the importance of international financial institutions (IFI) in coercing a large portion of developing countries into welfare state reforms is implicitly recognized by almost all studies. Although the coercive power of IFIs has indeed been constrained by conditional factors, thus not resulting in a full-fledged

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\(^1\) For an excellent literature review see Mares and Carnes (2009).
convergence of social policies, it is also important to appreciate and understand what role technical expertise and loan conditionality of IFIs has played in developing country social policy reform. For example, the World Bank has played a significant role in shaping pension reforms in 51 countries between 1994 and 2004 (Deacon, 2007).

Furthermore, as Dobbin et al., (2007) point out, “the power of global models is increasingly taken for granted even in studies focusing on domestic economic and political conditions” (450). Therefore, globalization also has an important relational dimension. The high-speed spread of technology and information has allowed developing countries to learn and apply successful social policies from a larger international context sooner than developed countries, in the timeline of industrialization, and often times more effectively (Collier and Messick, 1975; Hort and Kuhnle, 2000). In order to understand this process, it is necessary to turn to the literature on social policy diffusion and transfer (Obinger, 2013). As the case studies will demonstrate, these international factors are an integral piece of the puzzle in understanding the process of welfare regime transformation in developing countries.

The second hypothesis is that the relatively minimal welfare regime in the large majority of developing countries provides an opportunity for policy makers to implement efficient welfare programs that are also supportive of long-term economic growth in a globalizing world. This is in large part done by shifting the focus of welfare to the most vulnerable groups of society. Prior to globalization, developing country welfare regimes left the majority of the population uncovered by any formal social safety net, while providing extensive benefits to a select minority (Mesa-Lego, 1978). In other words, even
where generous welfare benefits existed, they were deep but not wide. Thus, the lack of extensive ‘wide’ benefits provides a greater policy space for innovative and redistribution oriented welfare programs when policy makers capitalize on the opportunity.

Finally, it is argued that international factors provide more opportunities than they do constraints on developing country welfare regimes. The competitive forces of globalization have significantly contributed to the decision by policy makers in developing countries to dismantle inegalitarian welfare regimes. Policy diffusion and transfer also allows policy makers to implement welfare programs earlier in their comparative level of industrialization (Collier and Messick, 1975; Hort and Kuhnle, 2000) and in a manner that is better suited to address their unique challenges in a globalized world and long-term goals of economically sustainable development. Thus, in all these ways, it is argued that developing countries can, and in many cases do, take ‘advantage of backwardness’. In other words, describing the situation in developing countries as a “race to the bottom” does not accurately portray the entire picture.

In sum, what this thesis argues is that across the developing world welfare regimes were previously minimal and inegalitarian. The forces of globalization have impacted developing countries to a much greater extent than developed countries, often in ways that reduce inegalitarian and inefficient welfare programs and complement those that support redistribution and human development. The relatively limited legacy of welfare in most cases along with the enhanced relational component of globalization (i.e. policy diffusion and transfer) can, and in many cases does, serve as an advantage to
policy makers in developing countries seeking to create more equal societies with a greater chance of long-term economic growth.

1.1 Case for the case studies

The case studies are selected based on the fact that they are all upper-middle income developing countries. The power of the logic of industrialization argument is confirmed if, on the aggregate, the cases all show signs of creating a welfare state due to a certain level of economic development. The geographic variance between the cases is intended to help distinguish the separate roles of international from regional social policy diffusion and transfer. The in-depth analysis of the case studies is meant to distinguish causal mechanisms. Finally, the three cases are intended to represent ‘most typical’ examples of different upper-middle income welfare regimes in developing countries.

According to the typology developed by Rudra (2007), South Korea represents a productivist welfare regime, Turkey a protectionist welfare regime, and Mexico a dualist welfare regime somewhere between the protectionist and productivist typologies.

The case study of South Korea exhibits the best example of the advantages of backwardness argument. In order to globally compete on international markets with very little natural resources, the welfare regime in Korea augmented the developmentalist objective by focusing on education and reducing state dependency in all other areas. Thus, a very minimal initial base of public welfare was created, with the responsibility of social safety nets falling on family relationships and the voluntary sector for those unable to secure long-term employment.
As Korea began to reach affluence through rapid industrialization, greater pressure began being placed on the government to expand welfare. The severity of the 1997 Asian financial crisis also led to a new social consciousness about the need for improvements in social protection. Moreover, the crisis created the need to turn to outside actors, such as the IMF. However, the open institutional space of minimal public welfare commitments has allowed policymakers to learn and adopt the most successful models from outside actors in order to deal with domestic issues.

The Turkish case represents the advantage of backwardness in the context of EU integration. Without the relatively minimal base of welfare institutionalization and the strong influence of outside actors, reform of inequitable aspects of the Turkish welfare regime would have been nearly impossible for domestic actors. Furthermore, Turkey demonstrates an example of vertical social policy diffusion and transfer since reforms are being imposed from above to a greater extent than the other two cases.

Although the base of welfare was more extensive than the previous two cases in Mexico prior to globalization, it was still relatively minimal in a comparative perspective. It is also possible to argue that, especially in the realm of pension reform, Mexico is an example of social policy diffusion failure, as the Chilean style pension privatization has not led to immediately favorable results. It is argued that with regards to pension privatization, Mexican technocratic leaders diffused the Chilean style pension privatization because of pre-set political convictions and boundedly rational learning (Weyland, 2006). In other areas of social policy, diffusion and transfer have come from a
wider international context and have led to more favorable results. Thus, Mexico is not a theory disconfirming case of the advantages of backwardness.

1.2 Outline of thesis

Chapter 2 provides a literature review that highlights major insights on the welfare regime-globalization nexus; briefly provides a history of welfare regimes in developed and developing countries; traces the evolution of the study of social policy in developing countries; highlights the advantages of backwardness argument; and presents a relational explanation of globalization that accounts for social policy transfer and diffusion. Chapters 3-5 provide case studies on welfare regime transformations in South Korea, Turkey, and Mexico, respectively, with a significant focus on the (post-1980s) globalization era. Chapter 6 concludes by highlighting the key insights gathered from a comparison of welfare regime transformation in the three case studies, with a special focus on the ‘advantages of backwardness’.
2. Literature review

2.1 Welfare regimes: An overview

Following Esping-Andersen’s (1990) seminal work, a welfare regime is defined as the combination of state, households, and markets which determine social and economic welfare. According to Esping-Andersen’s (1990) typology advanced industrialized democracies fall into three classifications: liberal regimes, which have a central role for the market, and a reduced role for the state. The conservative/corporatist regimes emphasize individual and family responsibilities, with a larger, yet still constrained, role for the state. And social democratic regimes choose more generous, universalistic policies, with a central role for the state. Regimes vary along two dimensions: the degree of decommodification and stratification. In the liberal regime, decommodification is minimized as market provision of welfare is central and stratification results from income variations. Decommodification is greatest in social democratic regimes and, as such, stratification is minimal as the system relies on citizenship and a rights-based approach. In the Conservative regime, decommodification is linked to employment status that also determines the level of stratification.

The welfare regime in this study is used as an expansive definition that includes all the possible actions taken by the state to ensure human welfare, social justice, and produce desired social outcomes (Esping-Andersen, 1990). Social policy, the main tool of policy makers in shaping welfare regimes, includes unemployment insurance, pension programs, direct social assistance to poor households, labor market regulations, the
provision of public goods and services such as education, health care, family social services, social services for elderly and disabled people, and support for child care.

This thesis looks at four particularly important areas of social policy: pensions, health care, education, and poverty alleviation programs (hereon referred to as social assistance). The reason for narrowing the scope of analysis to these areas is three-fold. First, covering all the areas of social policy in the three case studies in any manner which does them all justice is not feasible given time and space constraints. Second, the first three of the four areas typically represent the largest portion of government social spending, whereas social assistance represents a new area of social policy in many developing countries with a specific focus on social justice (i.e. redistribution). Finally, it is claimed here that focusing on these four areas can provide a very suitable depiction of the fundamental parts of the welfare regime ‘complex’ (Esping-Andersen, 1990) in many developing countries which is undergoing important transformations in the globalization era. Each area of welfare in the context of developing countries is briefly reviewed in the following sections.

2.1.1 Pension systems

Pension systems in developing countries can be characterized as either having followed a path that involved a centralized role for the government or placed nearly all the burden of coverage on employee-employer relations, with the government mostly providing a regulatory role (Haggard and Kaufman, 2008). The former system typically starts out resembling the corporatist model of social security originating from Bismarck’s Germany (Rimlinger, 1971). In order to secure the support of civil servants and a rising
industrial class, Chancellor Otto von Bismarck created a centralized national social security system and extended benefits to different sectors through several unequal pension funds (Skocpol and Ikenberry, 1983). Although such a model originated to suit the needs of controlling an unruly and increasingly militant rising industrial class, Bismarck’s system became the role model of social security for nearly all late-industrializers and was diffused to countries which faced very differing domestic circumstances. Bismarckian social security systems dominated most of the developing world until radical changes began taking place in the late 1970s under extensive pressure from Washington based IFIs recommending neoliberal models (Weyland, 2006).

Although centralized national systems varied a great deal by context, many similar characteristics also emerged. These systems tended to be urban-biased at the expense of rural workers due to the strategic position of urban industrial sectors for industrialization and political support (Little et al., 1970). In most cases, these systems were obligatory, publicly administered defined benefit schemes, financed largely by payroll contributions (Harris and Tadaro 1970; Mesa-Lago, 1978). Because employee-employer relations funded a large proportion of benefit payments, these systems rested on inter-generational redistribution and approximated “pay-as-you go” (PAYG) systems. To guarantee a reasonable standard of living in retirement, benefits were calculated as a fixed percent of a worker’s last few salaries. When shortages of contributions from current generations led to a deficit in this system, the authorities were often forced to make up the difference directly from the government budget. However, the occupationally-based and contributory nature of these systems meant that they often had
a very small redistributive component (Collier and Collier, 1991; Mallet, 1970; Malloy 1979).

Therefore, although government intervention led to the guaranteed coverage of a number of individuals, these systems still fall under what is dubbed here as ‘inegalitarian’ welfare regimes. This is due to the fact that effective coverage was limited to the formal sector of the economy, where official labor registration and regular predictable wages made the withholding of social security contributions feasible (Weyland, 2006). Urban informal, the rural poor, and seasonally employed workers which earned unregulated incomes for the most part remained excluded from these systems (Mesa-Lago, 1978).

And for developing countries the rural and informal urban sectors represented the largest proportion of the economy, while the urban, formal sector was only a small share of the economy. Furthermore, once these systems were well established even when financial difficulties emerged, set benefits for formal sector workers – which were often fiercely guarded by a cross class coalition of privileged labor unions which had the means to mobilize in their defense – forced spending cuts to typically be politically unfeasible (Dion, 2011).

In contrast to corporatist social security systems, the minimalist model in developing countries experiencing rapid industrialization, mostly found in East Asia, sought to severely reduce reliance on the government (Haggard and Kaufman, 2008; Holliday, 2000). This model mostly involved a strong regulatory role for the government, which forced employees to burden the costs of workers’ pensions in large industries. For a large portion of the population unable to secure long-term employment in the industrial
sector or civil bureaucracy, social safety nets in old age were left entirely to community and familial relationships (McGuire, 1999).

A combination of PAYG and private pension systems would later emerge in European countries labeled as a notational defined contribution system (NDC). NDC systems create a centralized government agency which manages pension accounts. Benefits are determined by contributions, however, instead of investing those funds in the capital market, thus making actuarially based future returns uncertain, NDC systems create virtual accounts that are remunerated with interest rates defined by the government. Similar to PAYG systems, contributions today are used to fund retirement benefits for previous generations (Weyland, 2006).

2.1.2 Health care

Outside of a few exceptional cases, strong government intervention in the realm of health care on a universal basis is a relatively new phenomenon in developing countries. What role the government did play was mostly through the same social security administrations that provided fragmented pension benefits. Thus, access to public health facilities was often based on which social security organization the individual belonged to, with the best benefits extended to a small segment of the workforce and civil bureaucracy (World Bank, *Investing in Health*, 1993).

In the past two decades, in large part due to the changed attitude of IFIs, principal concerns with universal health care have diffused across the globe (Weyland, 2006). These reform efforts have prompted increased government intervention in order to guarantee universal health coverage by extending effective medical attention to the urban
and rural poor. In most cases, these reforms include efforts to change the allocation of resources among differing levels of the health system. Reformers have deemphasized complicated, expensive curative treatments, which are accessible disproportionately to the well-off classes of society, and have assigned priority to improving primary care, which addresses the basic health needs of the poor (Weyland, 2006, 26).

2.1.3 Social assistance

A concern for social assistance is another area of developing country welfare regimes which is a relatively new phenomenon (World Bank, Conditional Cash Transfers, 2009). So far, most programs have focused on getting the poorest members of society actively involved in the economy. Although this area of welfare still often commands less than .1% of most government spending as a percentage of GDP, the fact that this area has gained any attention in relatively poor countries in part reflects the diffusion of international models. The waves of diffusion of these models across the developing world can clearly be seen. For instance, the Brazilian conditional cash transfer model based on school attendance and regular health checkups for the children of poor families has been replicated in many developing countries, especially throughout Latin America. The Bangladeshi Grameen Bank micro-lending institutions developed to encourage entrepreneurship amongst the poor have also spread to developing countries as diverse as Uganda to Indonesia.

2.1.4 Education

Education reforms have seen a great deal of variety across the developing world. However, education systems in many developing countries evolved in a manner that is
regionally and socioeconomically very unequal. In this way, education often reinforced the status quo by providing the best education to the wealthiest urban classes. However, a number of studies have indicated that a successful universalized education system is perhaps the single measure of welfare that best supplements economic growth and reduces inequality.

The clear signs of a successful education system have remained more controversial (i.e. centralized vs. decentralized administrative structures; public vs. private; etc…). Nevertheless, the diffusion of an increased focus on education can be witnessed across the developed and developing world. Among the recent trends include the expansion of pre-primary education and a greater reliance on technology. According to an OECD (2009) report, greater investment in these areas by the government has shown to provide a better educational foundation for children from low-income households. Furthermore, the length of compulsory education has been gradually expanded in recent decades in an effort to ensure that students develop the high-level skills needed to be successful in a globalized economy (OECD, *Education at a Glance*, 2012).

### 2.2 Globalization and the welfare state

Although the exact definition of globalization is often contested, most definitions involve some sort of enhanced interaction and interdependence between states and transnational institutions that entails economic, political, and social dimensions (Hicks, 1999; Guillen 2001). The link between globalization and the welfare state of advanced industrialized economies is one of the most studied areas of contemporary international

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2 For an example in the context of developing country welfare regimes, see i.e. Rudra (2008).
political economy\(^3\). As a result, a lot has been discovered about the causes and
distributional implications of social policies in developed countries (Esping-Anderson,
1990; Huber and Stephens, 2001). However, as Isabela Mares (2009) points out in a
recent review “very little is known about the economic consequences and political
outcomes… in the social policies of developing countries” (94). The fact that so much
attention has thus far been paid to developed countries has led to a sample bias. As a
result, previous theories have not gone to great lengths to identify how globalization
affects developing countries differently due to the fact that they are transforming their
welfare regimes after developed countries.

2.2.1 Race to the Bottom

The race to the bottom (RTB) hypothesis suggests that all countries will embrace
free markets and laissez-faire policies in order to promote competitiveness in a
globalizing world (Mishra, 1999; Ohmae, 1990). The idea that publically funded social
benefits will be the first area of spending cuts is also related to the liberal reform agenda
that took hold throughout the world during the Reagan Presidency in the United States
and the Thatcher government in England. Chile during the Pinochet dictatorship was also
surprisingly influential in this regard (Haggard and Kaufman, 2008; Weyland, 2006).

The standard economic reasoning behind RTB stems from the belief that the
evolution of the welfare state in the first OECD countries is economically inefficient and
therefore politics function against the forces of the market (Ohmae, 1990). The welfare
state is predicted to cause upward pressure on labor costs and have potential negative
effects on the incentive to work. Furthermore, funding of the welfare state becomes

\(^3\) For an excellent compact review see Huber’s (2005) section in *A Handbook of Political Sociology*. 
precarious as states are forced to maintain high corporate tax rates to support excessive levels of welfare spending. Neoliberal globalization is claimed to have increased the influence of ‘footloose capital’ (Rodrik, 1998). To compete on international markets and support export competiveness, governments are now forced to reduce taxes on capital in order to attract investment and reduce capital flight (Zodrow and Mierzkowski, 1986). Government borrowing becomes an unattractive option, since this can lead to higher debt and interest rates, and therefore deter investment. Thus, governments are forced to reduce spending by cutting entitlements, negatively affecting the welfare state.

The harmful effects of RTB are expected to be especially apparent in developing countries which face stricter financial constraints compared to their OECD counterparts (Garrett, 2001; Rodrik, 1998). Thus, the dependence on foreign capital forces developing countries to provide low labor standards and maintain labor market flexibility. In sum, RTB predicts that globalization leads to the lowest common denominator of welfare standards because increased global competition makes it impossible to protect citizens from the risks and uncertainties of market expansion.

2.2.2 Move to the Top

In contrast to RTB, the move to the top (MTT) hypothesis predicts that welfare states are also shaped by forces that are not captured by strictly economic rationales. These ideas are traced back to Karl Polanyi (1944), who argues that the principle of the market economy cannot be easily extended to ‘fictitious’ commodities like labor, land, and money. Thus, ‘decommodification’ occurs as society demands to preserve the human condition outside of market forces. John Gerard Ruggie (2003) extends this claim by
arguing that the evolution of the modern welfare state in developed countries is the result of a “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” (93). A large number of studies have reinforced this ‘compensation hypothesis’ (Cameron, 1978; Katzenstein, 1985; Garrett, 1998; Rodrik, 1998; Adsera and Boix, 2002).

Among the most cited examples of MTT include Geoffrey Garrett (1998), who finds that welfare spending can, in fact, benefit markets by increasing productivity and attracting capital. He does so by demonstrating that even in the social democratic countries, the macroeconomic consequences of redistributional politics has not been negative. However, globalization must be accommodated by a welfare state this is successfully redistributive and therefore promotes social stability. Paul Pierson (2001) claims that supportive interest groups and voters which benefit the most from entitlements have been the key groups to resist the dismantling of contemporary welfare states. Several other theoretical perspectives argue that well-organized labor must coordinate with other middle-class groups (Esping-Andersen, 1990), leftist, Social Democratic or Christian Democratic parties (Hicks, 1999; Huber and Stephens, 2001), or certain entrepreneurs (Mares, 2005), in order to bring about and secure changes in government social welfare commitments.

2.3 Historical evolution of welfare regimes

The MTT argument thus indicates that the previous orthodoxy of a trade-off between economic efficiency and social policy is no longer accepted by the majority of
research on developed countries. The important question then shifts to whether this new wave of thinking also applies to the developing world? Before answering this question it is first necessary to briefly trace the path of welfare state expansion in developed and developing countries.

According to the ‘logic of industrialization’ economic growth and its demographic and bureaucratic outcomes are the root cause of welfare states (Wilensky, 1975, xiii). However, by itself, the logic of industrialization is unable to explain variances in the outcomes of welfare states in developed and developing countries. For instance, the UK, in large part thanks to a focus on textiles, was the world’s first industrialized nation (Rostow, 1990). But modern day Germany, under the authoritarian rule of Chancellor Otto von Bismarck, was the world’s first welfare state. Importantly, welfare state expansion under Bismarck was a response to industrializing after the first wave of industrialized countries (Pierson, 2004). Welfare provision compensated workers for the higher domestic prices of a protectionist development strategy.

After 1923, non-western countries began introducing social policy’s earlier than developed countries in the timeframe of industrialization (Collier and Messick, 1975; Hort and Kuhnle, 2000). The Great Depression exaggerated economic difficulties, leading to the adoption of inward-oriented industrialization strategies. In the post-WWII period – in line with general international trends such as the prominence of Keynesian economic thinking – many developing countries fully implement import-substitution industrialization (ISI) development strategies. ISI strategies intended to replace foreign imports with domestic production through nationalization, subsidization of vital
industries (including agriculture, manufacturing, etc...), increased taxation, and highly protectionist trade policies.

As developing countries sought rapid industrialization through ISI, governments began forming alliances and clientelistic relationships with a small segment of workers and largely ignored the welfare demands of the majority of workers in urban informal and agricultural sectors. Legislation on social policy in most developing countries began exclusively benefiting civil servants, the military, and a limited group of professionals (Mesa-Lago, 1978). Following these groups, the gradual trend was to expand legislation to salaried, skilled, and a few low-skilled workers in large industries that were in the strategic modern sectors (Haggard and Kaufman, 2008). In most cases, these actions were taken to contain labor militancy, promote industrial peace, reinforce divisions between labor insiders and outsiders, and promote insider cooperation.

A somewhat different picture of welfare regime transformation emerged in East Asian countries during the post-WWII period. Many of these countries arose from colonial rule through the presence of strong U.S. support, which encouraged them to adopt export-led development strategies. The need to remain internationally competitive forced these countries to adopt much more ‘residualistic’ welfare regimes with reduced public entitlements (Holliday, 2000). Welfare benefits that were provided by the state mostly focused on a strong role in the provision of universal education (Haggard and Kaufman, 2008).
2.4 Welfare regimes in developing countries during the globalization era

The period from 1980 onwards is defined as the globalization era\(^4\). The globalization-welfare nexus in developing countries is a relatively new and growing area of research (Avelino et al., 2005; Brooks, 2007, 2009; Gough et al., 2004; Haggard and Kaufman, 2008; Kaufman and Segura-Ubiergo, 2001; Mares, 2005, 2007; Rudra, 2002, 2007, 2008, 2010; Segura-Ubiergo, 2007; Weyland, 2004, 2005, 2006; Wibbels, 2006; Wibbels and Ahlquist, 2011). All these studies come to the conclusion that important variations between and within countries still persist. Thus, the above mentioned theories of MTT and RTB do not appear to travel as well to the developing world due to the complexity of the situation there (Mares and Carnes, 2009). However, as several studies have recently noted, these vast differences across countries seem to hang together in empirically coherent ways. For instance, Rudra (2007) focuses on identifying clusters of protectionist and productivist welfare regimes, whereas Haggard and Kaufman (2008) and Huber et al., (2008) place developmental welfare states in a broader historical perspective by emphasizing the importance of regional differences in political economies, their legacies for distributive coalitions, and democracy.

The forces of globalization have had an important impact on developing country welfare regimes. Several studies have applied cross-country time-series analysis to demonstrate that a relationship between globalization and an average of year-on-year reductions in social spending in developing countries does indeed exist (Avelino et al.,

\(^4\) Although 1980 is a somewhat arbitrary date, it signifies the onset of a number of very important changes in many developing countries towards global economic interconnectedness.
Furthermore, several studies have demonstrated that a negative relationship between inequality and trade flows also exist in developing countries (Mahler, Jesuit, and Roscoe, 1997). Thus, these studies come to the conclusion that developing country welfare regimes are more negatively constrained by the forces of globalization than their developed country counterparts (Rodrik, 1998).

Other studies have demonstrated that in areas of welfare spending most important for human capital development, such as health care and education, developing countries are much less affected by RTB (Segura-Ubiergo, 2007). For instance, Rudra (2008) demonstrates that the negative effects of globalization on inequality are mitigated primary by spending on education and, to a lesser extent, health care. In the case of social security, however, increasing government budget allocations have a negative effect on income distribution (65, 244). Shou (2010) builds off of this analysis to claim that rather than RTB, developing countries are experiencing a ‘move to the middle’ in social protection.

As previously discussed, the more privileged classes are traditionally the largest beneficiaries of public social spending, therefore, they are the ones most affected by RTB in developing countries. From this point of view, it is not always necessarily an unfavorable situation in cash-strapped and labor abundant developing countries to reduce aggregate levels of social spending, as long as the reductions are focused on the best-off groups and not at the expense of the most vulnerable. For instance, some developing

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5 Although cross-national statistical analysis has been somewhat constrained to a regional focus on Latin America by many studies.
countries that have spent the most on welfare continue to be some of the most unequal. In Latin America, the southern cone countries (Argentina, Brazil, Chile, and Uruguay) have long been considered the most progressive developing countries with regards to implementing the earliest and most comprehensive welfare states\(^6\). Even today, public welfare spending as a percentage of GDP in Brazil resembles that of many Southern European countries (i.e. Spain, Italy, Portugal, and Greece). Yet, the GDP per Capita and gini coefficient of Brazil is significantly less than the Southern European countries, indicating a large degree of inequality and much less redistribution than the public spending numbers might indicate.

Thus, simply expanding the social spending budget in developing countries does not resolve distributional problems. Many of the anti-globalization proponents have placed too much emphasis on international economic factors, rather than domestic factors and political arrangements which have solidified inegalitarian institutions. Not enough focus has been placed on how developing countries can use social policy as a means to harness the forces of globalization. Furthermore, it is still common practice for scholars working on social policy in developing countries to promulgate the necessity for larger shares of public spending on welfare, with less attention paid to who actually benefits.

### 2.5 Globalization’s positive effects

There are a number of studies that have argued that globalization can advance, rather than inhibit, the achievement of a wide range of favorable social policy reforms from the reduction of poverty to the promotion of economically sustainable development (Bhagwati, 2004; Irwin, 2002; Shou, 2010). In other words, certain types of welfare

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\(^6\) For instance, these countries consolidated their welfare states as early as the 1910s.
retrenchment provoked by globalization are not entirely negative but rather an adjustment aimed at avoiding resource misallocation (Levy, 1999). This is especially the case in developing countries because, as previously mentioned, in most cases before trade and capital liberalization took place around the late 1980s and early 1990s welfare regimes were characterized by their narrow constituencies, stratified and hierarchical structures, and non-redistributive nature. In the globalization era these inegalitarian welfare regimes have undergone transformation into market-oriented structures (Brooks, 2009). This is in part due to the enhanced presence of international actors and transfers in decisions on social policy. It is also due to the fact that inegalitarian welfare regime were comparatively less entrenched, thus providing policy makers with greater institutional space to implement market-oriented reforms.

The fiscal discipline imposed by market competition makes generous benefits enjoyed by a small segment of select workers increasingly unbearable for developing country governments (Shou, 2010). Generous benefits are often accompanied by restrictive laws that prevent labor market flexibility (Waterbury, 1993). Furthermore, as globalization progresses it provides political leaders with incentives to become less entrenched in the political coalitions which previously marginalized social groups, such as rural workers, women, urban informal workers, and those under the poverty line (McGuire, 1999). This is because a gradual consensus has emerged that, above all else, a well-educated, healthy, and cheap labor force is the number one comparative advantage maintained by developing countries over their developed country counterparts (Shou, 2010). Thus, shifting resources to the most vulnerable groups, which inadvertently lays
the groundwork for a system focused more on social solidarity, becomes increasingly important for a healthy economy and long-term development in a globalized world.

2.6 The advantages of backwardness

A number of scholars have argued that late developers have a differed set of opportunities available to them than developed countries which provide certain advantages due to their lateness. The most often referenced source for this argument is Gershenkeron’s (1962) *Economic Backwardness in Historical Perspective*. Gershenkeron (1962) notes how the German industrial revolution was able to take advantage of its backwardness relative to the United Kingdom, adopting existing technologies and techniques that augmented growth, while at the same time avoiding the mistakes made by countries industrializing before them, such as the UK. He also notes how late industrializers were able to develop new and innovative institutions in order to cope with the ‘problems of backwardness’. This meant that the experience of late industrializers was not just later; it was also institutionally more advanced than the early industrializers.

The advantages of backwardness argument can also be applied to developing country welfare regimes in several ways. First, the relatively minimal welfare regimes in developing countries creates a policy space in which innovative welfare programs can be created that focus on redistribution and long-term economic growth. For example, Esping-Anderson (1999), in his discussion of OECD welfare states in a new economic environment, acknowledges that “the real crisis of contemporary welfare regimes lies in the disjuncture between the existing institutional configuration and exogenous change. Contemporary welfare states . . . have their origins in, and mirror, a society that no longer
obtains.” In this context, the minimal level of welfare in developing countries can serve as an advantage for policy-makers seeking to keep uncompetitive, expensive, and inegalitarian welfare measures extremely modest, while at the same time insuring that public and private provision of welfare is expanded to the most vulnerable groups.

Similarly, a key advantage that developing countries have due to their open policy space is the ability to avoid the costly financial burden that comes with over-extending government welfare entitlements, further supplementing economic competitiveness in a globalized world. For instance, a 2012 article in the *Economist* notes that it is possible for developing country governments to make crucial decisions about the size of the benefits and the distribution of the burdens while implementing new systems or further reforming old ones⁷. A second related point is the fact that the majority of the population is young in most developing countries. Thus, they still maintain the ability to avoid the moral hazard of exceedingly low statutory retirement ages before large portions of society are old enough to enjoy the benefits of previous policies and demand their continuation⁸.

Finally, the ability to engage in rational institutional learning is an important advantage enjoyed by developing countries creating welfare regimes after the well-established welfare states in advanced industrialized democracies. Economic growth *ceteris paribus* spurs the necessity of welfare innovations and expansion (i.e. the logic of

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⁸ A third advantage of backwardness that receive less attention in this thesis is the fact that new technological possibilities make welfare schemes in developing countries cheaper to implement and run than their developed country counterparts. This is especially an advantage due to the high costs and difficulties associated with reforming the old systems in developed countries. For example, Britain’s National Health System spent almost ten years and 6.4 billion euros trying to get its records digitized before giving up on the project in 2011. India’s new health-care scheme for the poor is planned to be cashless and paperless from the start, using swipeable smart cards to make payments and convey information.
industrialization). When this becomes the case, developing countries have models readily available to them from other countries that can be adopted to meet local conditions. Moreover, the market disciplining effects of globalization discussed in the previous section can level the playing field with regards to government entitlements within developing countries. Thus, not only can new and more effective welfare programs from other countries be adapted to meet local conditions, but the institutional landscape for their implementation starts at a more even level after globalization. For more on how successful social policy models spread from developed to developing countries, it is necessary to turn to the literature on social policy diffusion and transfer.

2.7 A relational explanation of welfare regime transformation in developing countries

In many cases welfare innovations spread across countries in sweeping waves, or more gradually in an incremental process (Weyland, 2006). In the developing world, the minimal institutional space of previous welfare commitments provides greater room for new innovations to take place, in part explaining why RTB is claimed to be more prevalent. However, in many cases, rather than advancing towards the lowest common denominator of welfare, policy makers in (already minimal) developing countries have used this institutional space to adopt welfare innovations from abroad that meet their specific policy concerns. To better understand how this process takes place in the case studies, it is necessary to first examine the literature on social policy diffusion and transfer.
2.7.1 Policy diffusion and transfer

Very few would argue against the general point that once developing countries become subject to the forces of globalization, their ability to remain in control of their own public policies, including social policy, becomes more constrained. In the policy diffusion and transfer literature, this constraint is explained by vertical and horizontal interdependencies with other countries. For instance, the European accession process and loan conditionality by IFIs are examples of vertical interdependencies. Horizontal interdependencies represent the ways in which countries act strategically towards policies in other countries (i.e. tax competition between states) or emulate policies that turned out successful abroad. In other words, globalization also has important effects on the relationships between countries.

Policy diffusion (Dobbin et al., 2007) is the process by which “policy choices in one country affect the policy choices in other countries” (Meseguer and Gilardi, 2009, 528). The diffusion literature typically applies quantitative studies on the diffusion of innovations and program adoption (Rogers, 1995; Collier and Messick, 1975) and often includes structural and interest-based processes. Policy transfer concerns the “knowledge about policies, administrative arrangements, institutions and ideas in one political system… in the development of policies, administrative arrangements, institutions and ideas in another political system” (Dolowitz and Marsh, 2000, 5). Policy transfer focuses on learning processes (Greener, 2002, 162) and the role of agency (Weyland, 2006). The concept of policy transfer is most often used in case study oriented welfare state research. For the most part, the differences between policy transfer and diffusion are minimal and

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9 For an excellent literature review see Obinger et al., 2013
mostly come from their orientations in different research traditions (Marsh and Sharman, 2009). Both aim to describe and explain how policies are the result of interdependent decision-making (Obinger et al., 2013).

There are three main mechanisms of policy diffusion and transfer: learning, competition, and coercion (Dobbin et al., 2007)\(^{10}\). First, transnational policy learning processes hypothesize that policy makers, when confronted with certain problems similar to other countries, strategically adopt policy models from those countries in order to reduce outcome uncertainty. Learning processes influence the quality of information political actors have about policy instruments and their perceived effectiveness. Other countries’ experiences may, therefore, influence the expectations of political actors regarding the costs and benefits of implementing a certain policy reform (Weyland, 2006). Consequently, policies may be partly or completely adopted (positive learning) or avoided all together (negative learning).

Policy learning is especially important in developing countries because there is often much less domestic capacity for the generation and development of specific measures (Obinger et al., 2013). Moreover, the ability for thinking about long and short-term challenges is often relatively limited (ISSA, 2009). Participation in networks, in conferences and in training courses that involve outsiders with “expertise” and “wider experience” enhances domestic capability. It also provides arguments that policy-makers can use to justify the propositions that they make (Rose, 2005; Baldwin, 2011).

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\(^{10}\) Emulation is a fourth mechanism discussed in the literature. Although emulation and learning are not necessarily the same process, the differences between the two are minimal enough to be grouped into the same category in this study.
So far in this study, learning has mostly been presented as an all-around positive for developing countries. However, the ways in which developing countries apply the opportunities and examples presented by developed countries largely determines whether or not successful outcomes can be reached. For instance, learning might also be undertaken for more opportunistic reasons by domestic politicians seeking to gain a strategic advantage over other political actors. It might be undertaken to gain support for preconceived approaches, in which case examples are “learned” on a selective basis (ISSA, 2009). Closely related to such “learning” is the wish to use what has been learnt to justify proposals that are recognized as unpopular. Policy-makers can hide behind the example of others by using learning as a blame-avoidance strategy (Rose, 2005; Baldwin, 2011). Finally, being seen as willing to participate in a learning process might be recognized as the price to pay for belonging to a certain club, membership of which is valued (Casey and Gold, 2005).

In general, rational and boundedly rational learning processes can be distinguished (Kahneman, 2003). Governments acting in a boundedly rational manner do not necessarily evaluate all available information but, instead, use cognitive shortcuts to reduce complexity (Weyland, 2006). This can be done by, for example, orienting themselves to the experiences of early adopters or neighboring countries that have applied similar policies. Policy learning is related to the concept of lesson-drawing (Rose, 1991; Simon, 1991). As Richard Rose points out, “lesson-drawing draws upon empirical evidence of programmes in effect elsewhere to create a new programme for adoption at home” (Rose, 1991, 21). It might simply mean to copy a program using practice
elsewhere literally as a blueprint, but it can also mean sophisticated information processing of foreign experiences to design a program suitable to specific domestic setting. Policy makers can either draw the wrong lessons from observation, resulting in unsuccessful learning, or rationally learn to implement effective policies, resulting in successful learning.

Second, competition is based on the strategic interactions between states. Heightened global competition causes states to take other countries’ policies into account to realize their competitive advantage or to avoid incurring disadvantages against their competitors (Obinger et al., 2013). RTB is based on the premise that market competition is the singularly most important form of policy diffusion, especially in developing countries (Ohmae, 1990).

Third, coercion focuses on how globalization exacerbates asymmetrical relationships because countries are increasingly pressured to implement supranational regulations. This vertical mechanism is mostly discussed in the literature on international organizations, such as IFIs and the European Union (Strang and Chang 1993).

In general, it is assumed that the importance of social policy diffusion and transfer mechanisms depends on different conditional factors (Holzinger and Knill, 2005). In other words, bilateral relationships influence how states learn from each other or compete with each other. Potential conditional factors include geographic proximity, shared languages, cultural matches, similarities regarding political institutions (political regime type, legal system), ideological positions of the central political actors, the economic
system (type of capitalism), or existing policies (type of welfare state) (Obinger et al., 2013).

2.8 Conclusions

The approach adopted in this study acknowledges the rational nature of competition between states that forms the bases of RTB (i.e. diffusion through competition). However, it is argued that reaching a lowest common denominator of welfare is often politically and economically unfavorable in many developing countries. Instead, policy makers are encouraged to adopt programs that reduce inegalitarian and expensive welfare commitments, while at the same time focusing on improving the situation of the economically inactive classes that would reap the greatest benefit from state welfare. The minimal level of institutional entrenchment of welfare in developing countries creates the space for policy innovations to take place in such a direction.

With regards to policy diffusion and transfer, numerous case studies have demonstrated that the power of IFIs in excreting policy change onto developing countries is not a homogenous process (Dion, 2011). Even in the cases in which similar outcomes occur, research has also shown that it is the domestic conditional factors and alignments of political actors towards a certain policy outcome, as much as the external role of IFIs, which influences the nature of policy diffusion (Weyland, 2006). For instance, policy makers can use World Bank or IMF loan conditionality as a means to gain support for their own domestically backed programs. This finding is supported by several contributions in a 2009 special issue of the International Social Security Review (Volume 62, Number 4) which find that learning is only related to rational patterns in a limited
number of cases. Even though ideas and policies are frequently imported from other
countries, they are typically adjusted to fit certain national requirements and, in
consequence, extensively changed. Thus, the role of IFIs does not result in universal
convergence towards a single policy model.

In sum, globalization can have positive consequences on developing country
social policy reforms under the right circumstances and when policy makers ‘take
advantage of backwardness’. To better understand the ways in which this takes place, the
next three chapters provide case studies on South Korea, Turkey, and Mexico,
respectively.
3. Case Study: Korea

The expansion of the Korean welfare regime since the 1980s has garnered significant scholarly attention due to the traditionally minimal levels of social spending in a comparative perspective. For instance, Esping-Andersen (1992) notes that “Korea is an extreme case of social welfare under-spending... Korea’s social security effort has fallen far behind its degree of modernization” (91). Indeed, spending on health care, social assistance, and pensions prior to 1989 was very minimal in Korea, representing less than 1% of GDP. Consequently, the case of Korea is sometimes used to support RTB arguments because it is claimed that public welfare has been forced to remain minimal at the expense of market competition. This argument, however, overlooks the dynamic of Korea’s welfare regime. As Mares and Carnes (2009) point out, such a static perspective tends to downplay the variation in social spending that has occurred over time.

Indeed, since the mid-1980s, the previous staples of the Korean welfare regime, such as a heavy emphasis on education, have seen significant increases along with health care and pension coverage. Today, industrialized Korea, with a Per Capita GDP greater than a number of Western democracies, has indeed expanded its social spending as a percentage of GDP four-fold from pre-1987 levels. Thus, it is most important to investigate whether this change has been different from countries which created their welfare states prior to Korea? Is Korea a welfare laggard within the time frame of industrialization and welfare? In what ways has Korea taken advantage of its lateness? Finally, what role, if any, has social policy diffusion and transfer played in the expansion of the Korean welfare regime?
Korea perhaps presents the most straight-forward example of a minimal welfare regime being transformed towards an advanced welfare state in the globalization era. After four decades of rapid economic growth, the demographic and social factors of a high income country – highlighted by the logic of industrialization – in large part account for why policy makers began to extend public welfare commitments in Korea. The role of democratization has also been highlighted since the late-1980s (Haggard and Kaufman, 2008). Nevertheless, expanding welfare during the globalization era has prevented the excessive expansion of inegalitarian welfare commitments by imposing the principle of market efficiency. At the same time, however, the forces of globalization cause the government to expand welfare to previously marginalized social groups in order to maintain the long-run sustainability of the economy.

Korea’s lateness in this process has been an advantage in that policy makers have been able to rationally learn successful policy models from abroad in order to meet the pressures demanded by local conditions. Moreover, these reforms have been adopted earlier and more efficiently than the countries in which they were learned from. The traditionally very minimal commitment to public welfare has allowed policy makers during the globalization era to focus government resources towards the most socially important areas of welfare without being bogged down by prior commitments.

Rapid economic growth largely accounts for why Korea has been less influenced by coercion from outside actors (namely IFIs) than the other two case studies during the globalization era. However, with the onset of the 1997 Asian financial crisis, high growth rates and low unemployment collapsed for a short period. Thus, following the crisis, IFIs
also exerted greater influence on transforming the inegalitarian aspects of the Korean welfare regime by imposing industrial restructuring measures that complemented the governments’ shift in focus to creating more extensive social safety nets.

There are still several weaknesses in the Korean welfare regime in large part due to the legacy of minimal public intervention. These include inadequate social safety nets for the ageing and poor population. Nevertheless, the Korean welfare regime provides the best example of the ‘advantage of backwardness’.

3.1 Nation-building, social policy, and Korea prior to 1980

The Japanese colonial era in Korea lasted from the early 20th century until the Second World War. Following Japanese defeat to the US, in 1948 the Republic of Korea was formed under the elected rule of Syngman Rhee. With the onset of the Cold War, the Korean peninsula was divided between Soviet and U.S. zones of occupation in the north and south, respectively. The poor condition of the economy and strong alliance with the US led South Korea (hereon referred to as Korea) to initially be dependent on foreign assistance. By the 1960s, the Korean economy was firmly embedded in the American vision of an international capitalist system.

Given the poor condition of the economy and widespread political and social unrest, a surprising number of legacies from the first decade of Korean independence have persisted or more recently remerged (Ringen et al., 2011). First, Korea was established as a democracy, although it became a dictatorship within a decade following independence. Second, it was from the start a state-centered society. Third, the government was dominated by a strong executive. Fourth, the economy was made the
priority of national development. Fifth, a capitalist economy emerged that was later dominated by a relatively small number of large business conglomerates, famously known as the chaebols. Sixth, the economy was guided by a symbiotic relationship between a powerful government and the chaebols.

In the early years of the Rhee government, a number of land reforms greatly increased the share of small land-holding and allowed farmers to send their children to school. As a consequence, a large number of educated laborers emerged from the country-side eager to find work in the incipient urban industrial sectors (Ringen et al., 2011). These early measures played an important role in reducing overall inequality.

By the end of the 1960s, President Rhee began moving in increasingly authoritarian directions. In 1961 a military coup took place under the leadership of General Park Chung-hee. In 1963, General Park ran for president as the leader of the right-wing Democratic Republican Party (DRP) and won by a narrow margin. At the beginning of his first term, President Park firmly aligned the country in an export-oriented economic development strategy (Haggard, 1990). Since then, Korea has typically been described as a ‘residualistic’ or ‘developmental’ welfare regime (Gough et al, 2004; Holliday, 2000). This is due to the fact that social policy focused on the promotion of wage labor by simultaneously increasing public support for education and severely restricting reliance on the state in all other areas for a majority of the population.

Similar to most developing countries, the welfare regime in Korea prior to the globalization era was characterized by a hierarchical and stratified distribution of welfare benefits and protection. Only a very small portion of the population, mainly government
employees and military personnel, enjoyed the benefits of pensions and health care. The government took very little responsibility in health care and poverty relief for those not working in the large industries. For instance, in 1966 only 7% of total health care services were provided by public institutions (McGuire, 2006, 11). Furthermore, spending on social assistance was virtually non-existent.

The military government launched industrial accident insurance prior to the presidential elections of 1963. Because very little social pressure existed to demand accident insurance, the reform reflects the necessity of the government to take forward-thinking pre-cautions towards labor during the promotion of long-term economic growth by means of industrial manpower (Kwon, 2007). However, the program was limited to large firms with 500 or more workers (Haggard and Kaufman, 2008), indicating that the government was hesitant to expand social protection beyond the chaebols, which were the engine of the Korean economy. Importantly, accident insurance is often the first universally oriented welfare state measure taken. This indicates that Korean leaders had learned from the lessons of welfare pioneers seeking similar aims of rapid industrialization.

A pension system for civil servants and military personal was introduced in 1962-63. These measures were mostly taken to buy off the loyalty of civil servants, since they were poorly paid in comparison to private sector workers (Ringet al., 2011). A National Pension Act was adopted in 1973, however, true to the devotion of reducing state dependency, the scheme was subsequently withdrawn and plans were instead made
to only extend coverage to a small portion of civil servants, military personal, private school teachers, and workers in large establishments.

An experimental pilot health-insurance program for industrial workers in firms with over 500 employees was launched in 1965, but was limited by the fact that it was not compulsory (Haggard and Kaufman, 2008). A national medical insurance program was made compulsory for selected workers in the public sector, schools, and large enterprises in 1977. Some smaller enterprises could join on a voluntary basis. In 1978, government employees and private school teachers became compulsory members and, by 1981 the self-employed could join.

The low degree of public health care did not have a significantly negative effect on the quality of human capital. For instance, Korea achieved dramatic improvements in life expectancy and infant mortality rates, even prior to the late 1980s when measures towards universal health care coverage actually began taking place. McGuire (2006) attributes this to the fact that Korea achieved rapid income growth for four consecutive decades. For instance, the economy grew rapidly during the period from 1972 to 1983 with an average GDP growth rate above 10% and GDP per capita growth rate above 6%. Thus, the growth rate in real wages during this period was estimated at around 9.8% (Amsden, 1989, 201).

An often noted aspect of the Korean education system is the fact that heavy emphasis very early on was placed on primary education. This is attributed to the need to raise the human capacity of the cheap labor force in order to compete globally (Holliday, 2000). Following the Korean War, the government centralized the public education
system under the control of the Ministry of Education. In order to get a better idea how far Korea has come, it is important to understand that around half of Koreans were illiterate following independence from Japan in 1948. Universal literacy was achieved by the early 1970s and today around 98% of Koreans complete upper secondary education, which is the highest rate in the OECD (OECD, *Education at a Glance: Country Note - Korea*, 2011).

The view of Korea as a regulatory welfare state was cemented by the fact that business was a reluctant partner forced to bear nearly all the costs of pension and health care for their workers (Ringen et al., 2011). Employers were generally opposed to taking on the burden of social protection, but were careful not to go against government policy. When the government could not pass welfare off onto business, benefits were significantly low. For instance, the early Park administration implemented a means-tested public assistance program that provided transfers to several vulnerable groups, including the elderly, homeless, and those with mental disability (Haggard and Kaufman, 2008). However, these programs were extremely modest.

Strong economic growth and the success of the export-oriented development model allowed President Park to remain in office for two subsequent elections before he dissolved the National Assembly and suspended the constitution in 1972. The result of Park’s power grab was the Yusin Constitution which gave the President several controls over the parliament and indefinitely expanded the term of presidency. By the late 1970s, protests were mounting against the Park dictatorship. In 1979, mass anti-government

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11 For more on the state-business relationship in Korea during industrialization see Evans, 1995; Wade, 1992.
demonstrations occurred throughout the country. In the midst of the political turmoil, President Park was assassinated.

3.2 Korea since 1980

Shortly after the death of Park Chung-hee, the military general Chun Doo-hwan took control of the presidency. The economic boom continued into the 1980s and early 90s. For instance, during these two decades the economy grew between 7 to 12 percent per year (IMF, various years). By 1990, the stock market increased 28 times its overall value in 1980 (Ringen et al., 2011). Although the government’s presidential nominee, Roh Tae-woo, was able to win the 1987 elections, his victory is not seen as a result of electoral fraud. Following the end of Roh’s tenure as president, Kim Young-sam was elected to office in 1992. Kim had been a long time challenger of the military dictatorship and became the countries first civilian president in over 30 years (Ringen et al., 2011).

High growth rates until 1997 allowed the Korean government to maintain its residualistic welfare regime by maintaining its regulatory role and shifting most of the burdens of social policy off onto employers and voluntary organizations (Ringen et al, 2011). However, this system would not be without its consequences. The 1997 Asian financial crisis fundamentally changed perceptions about appropriate forms of public welfare provision in Korea. By nearly all accounts, the underdeveloped social welfare system worsened the severity of the economic crisis (Ringen et al, 2011). For instance, unemployment increased dramatically from around 2.5% prior to the crisis to an unprecedented 8.8% in February 1999 (Shou, 2010). As a consequence, life-long employment in large industries became unsustainable for many workers and the number
of temporary and daily workers increased rapidly, accounting for more than 50% of the total wage-earning workforce after 1999 (Shin, 2003, 179).

Following the crisis, the government turned to the IMF for the first time to procure a major relief fund. The crisis also seems to have played into the hands of the center-left opposition party, leading to the election of long-time presidential challenger Kim Dae-jung one month after the economy began to collapse (Haggard and Kaufman, 2008). The very low level of unionization and legal constraints placed on union activity meant that the majority of laborers could do very little about the large number of new layoffs taking place as a result of the crisis. Moreover, little could be done to persuade the Korean government away from following the advice of Washington based IFIs and taking measures to increase labor market flexibility (Stiglitz, 2002). Thus, the financial crisis had a major impact on industrial reconstruction of the chaebols (Ringen et al., 2011).

By the elections of Roh Moo-huyn in 2002, economic growth had once again reached a remarkable rate and nearly all the IMF loan was paid off. Roh Moo-huyn successor, Lee Myung-bak, was elected in 2007. The Korean economy was negatively impacted by the global financial crisis in 2008. However, by 2009 strong growth numbers had once again returned. In 2013, Park Geun-hye, daughter of Korea’s most famous ex-leader, made history by being elected as the first female president.

3.3 Expansion of the Korean welfare regime since 1980

The state’s role in the area of pensions was extremely limited prior to the 1980s in Korea. For the most part, this important aspect of welfare was left up to the chaebols and their employees for non-publicly employed workers. This resulted in a small portion of
the majority forced to rely on family and voluntary sector social safety nets for their livelihood in old age.

In 1988, a new pension law was passed which extended coverage to all firms with ten or more workers through a funded scheme with a mild redistributive component (Haggard and Kaufman, 2008). By 1994, 27 percent of the working population was covered. The scheme required workers and employers to contribute for 20 years before qualifying therefore not requiring any immediate outlays. But benefits were set at a very high level, for instance a replacement rate of 70 percent after 40 years. As a result, the program had financial weaknesses from the outset.

The National Pension System and the introduction of the private pension scheme during the early-1990s were designed to be generous because of the small number of beneficiaries when it was originally introduced. The extension of coverage to farmers and fishermen in 1995, however, made the program financially unsustainable (Haggard and Kaufman, 2008). Under mounting criticism with respect to its long-term financial stability, reforms took place to reduce the existing income replacement rate of 70% to 40% (Shou, 2010). Around the same time, the government also introduced a personal pension scheme as a measure of private provision in order to compensate for the National Pension System. The government provided tax deductions in order to attract people to the personal pension scheme (Shin, 2003, 160).

In 1999, the program was extended to all firms and other self-employed and short-term contract workers on a voluntary basis. This sector includes professionals such as doctors and lawyers as well as informal sector workers who strongly opposed inclusion in
the system due to the high contribution rates (Haggard and Kaufman, 2008). The average full pension was then at about 90 percent of the poverty line for a two-person household and about 150 percent of the single-person poverty line. Hence, an elderly couple could hardly live off the pension if the husband was the single breadwinner, as was often the case. By 2009, about 2.2 million persons were in receipt of the full pension. Thus, the system continues to place a relatively minimal burden on the state. For instance, social security contribution rates rose from 3% in 1988 to 6% in 1993 and are only 9 % today.

Chang and Walker (2009) describe the differences between the Korean pension system and the traditional PAYG system very well in the following passage:

While the intergenerational contract under PAYG implies that ‘if I pay contributions for the older generation when I work, future generations will contribute to my pension when I retire’, the more complex Korean intergenerational contract, which was assumed implicitly in the NPS, is that ‘if I provide my older parents’ income and also pay a small contribution for my own old age, future generations will provide a part of my pension’ (429).

Social expenditure for pensions in 2007 in Korea was still relatively small – only 1.7 % of GDP, compared to the OECD average of 7 % (SOCX, various years). However, this comparison with other OECD countries is somewhat misleading considering that the change of pension expenditure in the period 1990-2007 is 130.5 % of GDP. The average change in OECD countries during the same time period was only 14.5% of GDP (SOCX,
various years). Therefore, spending has indeed increased a great deal in the realm of pensions, however, from a very minimal base.

Along with increased spending, measures have also been taken to ensure the long-run sustainability of the Korean pension system. In a 2008 reform, the government mandated that the minimum eligibility age for retirement gradually be increased from 60 to 65. It has long been noted that taking such drastic reforms with an eye towards long-run consequences is difficult in welfare states where established stake-holders have entrenched interests in maintaining their benefits.

Throughout the 1980s, public medical insurance programs in Korea gradually expanded from their traditionally minimal levels. However, true to the commitment to reducing state dependency, the scope of coverage was increased at first mostly through the changed regulatory role of the government. These measures included the gradual reduction of the size of firms required to participate, the expansion of community based funds, and by granting permission for occupational groups to establish quasi-public insurance societies (Kwon, 2005). The scheme continued to be financed by employer-employee contributions while the government provided subsidies to health funds, and insurance agencies paid hospitals and clinics on a fee-for-service basis. This arrangement proved to be advantageous in the sense that it kept government co-payments very low. However, the system was also extremely fragmented by the proliferation of different funds, with the best benefits extended to employees in large industries. For instance, by 1987, only around 50 percent of the population was covered by health insurance, thus resulting in very high out-of-pocket expenses for the majority of Koreans.
In 1989, the government passed a universal social health insurance scheme. An interesting facet of the scheme was that it was introduced from the top-down as part of an effort to modernize, in general, and industrialize, in particular, rather than to responding to intense social demand (Kwon, 2009). Instead of devising new programs, policy experts and bureaucrats studied the policy experiences of advanced nations and transferred their programs to Korea. As Hort and Kuhnle (2000) point out, this enabled the introduction of social policy programmes at an earlier stage of development than the original OECD countries. In other words, Korea was able to reduce the development gap through social policy learning and transfer.

National health insurance reforms in 1998, 1999, 2000, and 2002, integrated the country’s fragmented funds, numbering over 350, into a single national agency known as the National Health Insurance Corporation (Kwon, 2009). Consequently, the health risks of the entire population were pooled into one group, increasing administrative efficiency as well as the financial capacity for redistribution. Moreover, along with administrative reforms overall public expenditure on healthcare has seen a linear increase over the last couple of decades.

Although private providers still play an important role in the Korean welfare regime, the fact that the government currently takes an active role in ensuring that coverage is extended to the most vulnerable groups represents an important institutional break from the previous paradigm of Korean welfare. Today the Medical Assistance Program, funded by government subsidies to cover the fees of the indigent, still only reaches 3 percent of the population (OECD, *Health Care Quality Review: Korea*, 2012),
although around 8 percent of the population is estimated to be living below the poverty line.

A concern for the unemployed poor by the Korean government was virtually non-existent prior to the 1997 Asian financial crisis. Following the crisis, the Dae-jung administration began launching a series of new social assistance policies in order to deal with the changed domestic environment. By 1998, around 10 percent of the national budget was allocated to short-run ameliorative measures (Haggard and Kaufman, 2008, 250). These measures included public works programs that supported 437,000 workers by February 1999; labor subsidies for small and medium-sized firms; and scholarships for children of the unemployed. Other insurance programs such as the Industrial Accident Compensation Insurance, the Labor Standard Law, and the minimum wage system began to cover workers in all workplaces. For instance, the entitlement conditions for unemployment benefits were relaxed.

A crucial step in the establishment of social safety nets came with the introduction of the Public Assistance Program (PAP) which was created after the 1997 crisis by the Dae-jung administration. However, despite the reforms, PAP remains notoriously strict and a great deal of effort in Korean welfare is placed on ensuring that those seeking assistance meet the requirements necessary for eligibility. PAP was replaced by the Basic Livelihood Security System (BLSS) in 2000. In the new scheme the government began providing cash and a package of in-kind benefits, including housing, medical and educational benefits for any individual whose monthly income was less than the minimum amount decided by the government, regardless of age or the ability to work.
This rapidly increased the number of people who receive benefits from 500,000 to 1.5 million.

A clear example of Korea’s advantage of backwardness with regards to rational social policy learning is the implementation of a long-term care program in 2008 after three years of pilot projects. Korea is the first non-original OECD country to initiate a comprehensive long-term care program. After the sweeping welfare reforms following the Asian financial crisis, there are several reasons why long-term care become an attractive option as the next target of expansion. First, there was a consensus among experts that the rapid ageing of the Korean population was a major problems and more important than most current social problems (Kwon, 2009). Second, the provision of long-term care was easy to embrace because it had broad appeal to the public and raised little political opposition. Third, officials of the Ministry of Health and Welfare supported the proposal, not only in order to expand their own jurisdiction, but because they were beginning to worry about future costs, particularly if social admissions to hospitals became more prevalent (Campbell et al., 2009).

The Korean Ministry for Health and Welfare set up a task force to study long-term care insurance in 2000, and the prime minister’s office launched a policy unit in 2002, prior to any serious social pressure calling for the provision of long-term care, due to the fact that Korea’s population is still relatively young. For instance, in 2001 only about 7% of the population was age 65 or older, compared with over 16% in Germany and nearly 18% in Japan. Because Korean health care is largely financed by insurance costs rather than taxes, special attention was paid to policies in these two countries
Thus, serious political concerns associated with population aging, such as the high costs of public in-patient services, had not yet emerged in Korea when the plan was adopted. However, Korean birth rates are currently the lowest in the OECD and the aging population is expected to reach 20% by 2030, at which point long-term care will emerge as a major social issue.

Thus, the adoption of long-term care in Korea signifies a foresighted move by politicians who made a special emphasis to study programs in other countries. The uniform premium and benefit package of Korean long-term care is a heritage of its centralized, single-payer health insurance system. Therefore, the National Health Insurance Corporation administers long-term care alongside health insurance. But in other aspects, long-term care in Korea can be seen as a mixture of the German and Japanese approaches (Campbell et al, 2009; Kwon, 2009).

The Basic Old-Age Pension System, introduced in 2008, provides assistance to elderly people who meet the income and asset criteria but who can’t obtain coverage in the private market. At present, around 70 percent of the elderly receive the benefit. However, the benefit level is set at only 5 percent of the average wage, implying that the program spreads out resources very thinly over a large segment of the older population (Elekdag, 2012).

The Korean Ministry of Education, Science and Technology (MEST) notes that the expansion of Korean education can be divided into two phases: the “Quantitative Expansion” phase (1960s and the 1970s) and the “Qualitative Development” phase (1980-present). During the “Quantitative Expansion” phase the government expanded the
facilities of educational institutions to increase the number of teachers and create more study places, closely monitored student attendance at all socio-economic levels, and sought to expand regional access to public schools in order to increase student enrollment. The second phase was intended to increase the quality of the Korean educational system. According to MEST, this phase entails the establishment of the Special Education Promotion Act in 1977 and Social Education Act in 1982.

During the “Qualitative Expansion” phase, the Korean education system has achieved extraordinary results. According to a 2012 report by Pierson Education, Korea’s education system is currently ranked second in the world only to Finland. A world class education system, however, has not meant that Korea shouldn’t continue to learn from the examples set in other countries or follow general international trends. For instance, several aspects of the Korean education system still raises equity issues, including low investment in pre-primary education and the heavy reliance on private tutoring, among others. Given the link between education and long-term economic success, the Korean government should welcome the opportunity to follow global trends in education reform. Moreover, this is important with regards to improvements in the Korean welfare regime given that policies that promote equal access to education help reduce inequality (OECD, Reviews of Vocational Education and Training, 2009).

To a certain extent, changes towards this direction can be seen. For instance, the focus on equality in education currently dominates the agenda. In 2008, the Ministry of Education, Science and Technology introduced a new set of policy initiatives, aimed at closing the gap in student achievement between urban and rural schools and advantaged
and disadvantaged students. Among the proposed reforms include the establishment of programs aimed at helping rural, low-income, and at-risk students adjust to school and remain in school, and the expansion of digital services to schools, including providing students with remote access to textbooks (OECD, *Education at a Glance: Country Note – Korea*, 2011).

Improvements in the current primary and secondary education are second to the improvements needed outside of the compulsory system. For example, the reliance on industry based job training has left vocational training and career consultation outside of firms very weak in a global perspective. Furthermore, Korea has thus far not followed the global trend of increasing pre-primary education. For instance, spending on pre-primary education was only 0.2 percent of GDP in 2008, the second lowest in the OECD (SOCX, various years). Furthermore, as a recent IMF (2012) study points out, targeted social spending policies, such as universal pre-primary education, can help increase Korean labor market participation (especially by females), serve to boost productivity (especially in the services sector), and promote sustainable and inclusive growth going forward (6).

### 3.4 Conclusions: Korean welfare and the ‘advantage of backwardness’?

What is remarkable about the Korean case is the seamless manner in which the country transitioned from a poor authoritarian ex-colony to an affluent capitalist democracy in less than four decades (Ringen et al., 2011). Along with economic progress, the Korean welfare regime has undergone a great deal of change. Although spending numbers on welfare are still relatively minimal compared to other countries with a similar Per Capita GDP, as Korea continues to go through a demographic
transformation from younger to older, the public spending requirements needed to sustain the system will begin to rise.

During the globalization era, many welfare programs began to expand in Korea. Prior to 1980, Korean social spending was less than 1% of GDP, by 1990 this number had increased to 2.8%, and even by 2000 this number was up to 4.8% of GDP (SOCX, various years). Korean public welfare spending today accounts for nearly 10% of GDP. The OECD average during this same time period has remained at around 20-25% of GDP, indicating at first glance that the Korean welfare regime is falling behind.

However, as Hort and Kuhnle (2000) points out, the expansion of the Korean welfare regime has not only come sooner within the timeline of industrialization, but it has also been qualitatively and quantitatively different than the expansion of welfare in Western Democracies. What remains similar is the fact that economic growth has coincided with the expansion of the Korean welfare regime. What is similar with Korea and other developing countries is that during the globalization era, the expansion of welfare has occurred in a manner that is more socially inclusive in areas such as health care, education, and social assistance, while at the same time maintaining minimal government commitments in the areas in which doing so allows the country to remain economically competitive, such as excessive public provision in the realm of pensions and high co-payments in health care.

In many ways the Korean welfare regime fits the conservative-informal model because the state functions as the guarantor of certain privileges to some groups and not others. However, some elements – such as the newly introduced basic pension system
and the reliance of the state on private and voluntary welfare provision – could be treated as an element of a liberal model. Nevertheless, until the globalization era almost no attention was placed by the state on welfare other than education. Therefore, until 1987, the Korean welfare regime is more accurately described as a ‘residualistic model’.

Despite Korea’s high real GDP growth rates and history of relative income equality, a recent IMF (2012) report notes how inequality has been trending upward over the last decade, indicating deteriorating socio-economic conditions. For instance, income inequality increasing from a Gini coefficient in 1996 of 0.275 to 0.321 in 2008 and the relative poverty rate increased from 9.3% (1996) to 14.3% (2008).

More recently, however, there are indications of improvement in these trends (Elekdag, 2012). Moreover, after spiking in the late 1990s, the unemployment rate in Korea has come back down and remains at a low level in contrast to many other advanced economies (SOCX, various years). Nevertheless, the slowdown in economic growth, the relatively high share of lower paid informal workers, and holes in the social safety net (especially for the elderly), among other factors, have resulted in political pressure to increase social spending.

Along with these domestic pressures, which are associated with the transition to a high-income country, the influence of outside actors has been an important complement to Korean welfare regime transformation. Strong growth numbers largely account for why outside influence from IFIs was avoided until the 1997 financial crisis, in part explaining why social spending in Korea was not well targeted on low-income households. Even in the post-1997 era, only a quarter of cash benefits from the
government go to the poorest quintile of the population (Elekdag, 2012). However, there has been a steady improvement from the pre-crisis situation.

The problems of the Korean welfare regime aside, in many ways Korea is the best example of the ‘advantage of backwardness’. As ferocious rates of economic growth has continued and new welfare difficulties emerge, such as informal employment and future aging, the Korean policy makers have also had certain advantages that come with being a late welfare state developer. For instance, affinities between the Korean welfare regime with that of Germany and Japan have allowed readily available models that could be transferred in long-term care as long as they were adjusted to local conditions. Thus, increases in spending on health care are used more efficiently and adopted earlier than welfare state predecessors to defray the future costs associated with a rapidly aging population.

A key for the future expansion of welfare in Korea is to ensure that spending numbers are increased gradually and used efficiently. Therefore, democratic governance in Korea should also not mean the excessive expansion of welfare entitlements to areas where they are not needed and nearly impossible to retrench once implemented. Thus, it is important for Korea to maintain its ‘advantage of backwardness’.
4. Case Study: Turkey

Prior to the globalization era, the Turkish case exhibited most of the signs of an inequalitarian welfare regime. Following a severe economic crisis in 1980, a number of economic restructuring packages eliminated certain aspects of the previous welfare regime. Given the fragmented structure of the formal social security system, along with the important role played by familial relationships and the voluntary sector, the Turkish welfare regime is often associated with the conservative/corporatist model in Southern Europe (i.e. Greece, Italy, Spain, and Portugal) (Ferrera, 1996). Yakut-Cakar (2007), Huber and Stephens (2012), observe that the welfare regimes in Southern European countries have changed with the European integration process towards a more universalistic and redistributive direction. The question then becomes identifying whether or not the same process is taking place in Turkey? In what ways have actors other than the EU also been influential? Is Turkey focusing on reforming the aspects of their welfare regime that increase economic competitiveness, such as reducing expensive inequalitarian systems and expanding welfare in the areas that benefit the greatest number of individuals? Does Turkey’s lateness provide an advantage over welfare predecessors, such as the Southern European countries? And how are these changes taking place through social policy diffusion and transfer?

The Turkish case provides an excellent example of local actors using social policy diffusion and transfer to their advantage in order to see through domestic welfare reforms towards a welfare regime that is more redistributive while remaining economically
competitive. The influence of the World Bank can clearly be seen at the outset of social security and health care reform in Turkey in the early 1990s. Moreover, in nearly all aspect of social policy reform, the important role of the EU can be seen after 1999. Thus, Turkey also provides a clear example of vertical social policy diffusion and transfer. However, the manner in which the Turkish welfare regime is being transformed – for instance through the reform of burdensome, hierarchical, and inegalitarian social security programs and the establishment of universal programs in education, health care, and social assistance – are why Turkey has an advantage of backwardness.

4.1 Social policy and the Turkish state prior to the 1980s

Between the founding of the Republic in 1923 and the onset of multi-party elections in 1945, Turkey was ruled by the single party government of the founding father Mustafa Kemal “Ataturk”. Ataturk’s Republican Peoples Party (CHP) took a leading role in the economy, officially dubbed as ‘estatism’. The CHP institutionalized state funded welfare in the form of extensive agricultural subsidies along with tax exemptions for rural sector workers (Eder, 2010). However, the agricultural support programs geared towards the country-side quickly turned to political opportunism, with certain regions gaining better benefits than others. Furthermore, as part of the radical modernization program adopted by the Ataturk administration, free education in secular schools gradually transformed the population with a literacy rate of around 10% in 1923 to the 93% today (WDI, 2012). In 1932, Turkey joined the ILO which led to the passing of legislation prohibiting more than six days of work (Aybars and Tsarouhas, 2010).
In this pre-globalization period, the CHP mostly adopted inegalitarian corporatist social security measures which funneled limited state resources to a privileged group of civil servants and the employees of a few large industries. For example, by the end of the 1940s a combined public health and pension system was created based on employment status in state owned enterprises (SOEs) and the civil bureaucracy. This involved the creation of two public social security organizations: the first for wage earners (Sosyal Sigortalar Kurumu, SSK) in 1945 and the second for civil servants and military personnel in 1949 (Emekli Sandigi, ES) (Bugra and Keyder, 2006).

The right-wing Democratic Party (DP) defeated the CHP in the first ever nationally held free and fair elections in the history of Turkey in 1950. The DP administration generally lacked incentives to use the state-capacity to make far-reaching welfare reforms. This is mostly due to the fact that the DP had inherited the estatism policies of the single-party era, and thus SOE’s were already well established by the time they took office. With state control of the economy, it become politically expedient for the DP to artificially raise living standards, such as through investments in unproductive agricultural subsidies, rather than increase social spending in the traditional areas of welfare (Zurcher, 2004). Thus, populist policies continued.

By the end of the 1950s, diminished electoral success and failing economic policies caused DP leaders to become insecure about their political future. As a consequence, they began to adopt increasingly authoritarian policies. The first ever military coup in Turkish history occurred on 27 May 1960. By 1961 the military had outlawed the DP, written a new constitution and, not interested in running the
government themselves, mandated the return to regularly held elections. The CHP returned to government following the 1961 elections, however, this time as the minority party of a coalition government.

The 1961 constitution is viewed by many as the most progressive in Turkish history. For instance, Turkey was declared a ‘social welfare state’ (Article 2), and the right to strike and collective bargaining were granted for the first time ever (Aybars and Tsarouhas, 2010). The ISI economic model was an outgrowth of the previous policy of estatism and was even included in the 1961 constitution. What ISI meant for social policy was that relatively high wage rises to the limited number of industrial workers could be granted to buy off social unrest by politicians, because they could easily be translated into price rises for industrial goods (Zurcher, 2004). Real wages rose by 50 percent from 1963-75. However, only a limited part of the workforce in the modern sector benefited from these increases. By 1976, even the bigger industries were becoming unable to pay expected yearly real wage increases. As a consequence, labor unions become even more unruly and contributed to the already high levels of social unrest.

Health services, which had been gradually improving in the postwar period, expanded after the 1961 military intervention. The Integrated Health Services Scheme, operational from 1960 until the 1980 coup, attempted to universalize health care coverage. However, these attempts failed and actual moves towards universal health care would not take place for another two decades.

In 1965, the Social Securities Society was founded as the first step towards the creation of a more fully developed welfare state. It provided insurance for medical care,
insurance against work accidents, and life insurance (Bugra and Keyder, 2006). In 1967, health insurance was extended to cover all wage earners, not only those in establishments with ten or more employees. In 1971 a third social security fund (Bag Kur, BK) was also introduced for the self-employed, peasants, and farmers (Aybars and Tsarouhas, 2010). However, the addition of BK did not immediately expand to everyone previously outside the scope of coverage due to the inability of these groups to pay the required premiums (Bugra, 2011). The Turkish social security system continued to provide privileged coverage to ES beneficiaries, less extensive benefits to the other two funds, and excluded a large percentage of the population altogether. For instance, even by 1975 more than half the Turkish population, mostly agricultural workers and their families, was not covered by any form of social security.

The Turkish economy was industrializing relatively quickly during the 1963-1976 period with an average growth rate of 6.9% (IMF, various years). However, as was happening in many other countries throughout the world, the inefficiencies of the ISI economic model were becoming increasingly apparent in Turkey. In July of 1979, a long negotiated deal was finally made with the IMF, the World Bank, and the OECD, which would see the release of $1.8 billion in new credits (Zurcher, 2004). However, in order to receive the funds, the Turkish government had to introduce a radical neoliberal economic reform package that included abolishing import and export controls, cutting subsidies, freeing interest rates, raising prices, and, most importantly, cutting government expenditures including social security. The under-secretary of economic affairs, Turgurt Ozal, oversaw the reform process.
4.2 Turkey enters the neoliberal era

By the third military intervention in 1980, the leftist-rightist social unrest had reached an all-time high with the help of both fragmentation and polarization (ideological, religious, ethnic) of political parties. The military government appointed Turgut Ozal as the deputy prime minister with nearly autonomous control over economic reforms. Between 1980 and 1983 the muting of all opposition by the military-backed government allowed for the continuation of the IMF-inspired economic reform package begun in 1979. The stabilization program included extensive structural reforms, including a realistic exchange rate, export subsidies, the encouragement of foreign investment, and the first attempts at the privatization of the enormous SOE sector12 (Waterbury, 1993). After a brief recession, the economy recovered quickly from the 1980 crisis resulting in falling inflation, budget, and trade deficits. The international business community gained renewed confidence in Turkey and credits, in large part denied to the pre-1980 government, began flowing in.

In 1983 the military allowed for the return of elections, however, not before implementing a new constitution. In many ways the 1982 constitution was a reversal of the 1962 one. It limited freedom of the press, the rights and liberties of individuals, and banned all forms of strikes. The usual rights and liberties (such as freedom of speech and association) were still included, however, they could be suspended or limited on the grounds of a large number of ambiguous stipulations (Zurcher, 2004).

The fact that the military-government came out openly opposed to Ozal’s Motherland Party (commonly referred to as ANAP), seems to have been their biggest

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12 SOEs accounted for around 40 percent of all Turkish industry by the late 1970s.
advantage, as the party won a majority in the 1983 election by capturing 45% of the vote (Zurcher, 2004). Once in power, the Ozal administration continued the radical neoliberal economic reform process. ANAP was able to overcome domestic resistance to reforms in part through the use of IMF loan conditionality as a means to justify the radical nature of economic restructuring. Under ANAP rule, the Turkish economy achieved an average of 7% growth throughout the 1980s (IMF, various years).

By 1991 economic growth experienced in the early 1980s had become erratic. For everyone involved, including external actors and many in the general public, the impending debt crisis was becoming well recognized. However, the coalition government which had replaced ANAP in the early 1990s was largely unable to take the drastic measures needed to address the deep structural problems that remained in the economy (Zurcher, 2004). The economic crises came in 1994 due to a sudden exit of foreign capital following the downgrade of Turkey’s credit rating.

The 1994 economic crisis led to a drastic stabilization program including tax raises, cuts in expenditures, rises in interest rates, and sharp price increases for government services and state products. An independent Central Bank was also introduced to encourage exports and a faster rate of privatization. Despite the fact that the emergency measures taken by the Turkish government satisfied the demands of IFIs, no immediate loan package was introduced promising foreign investment.

Facing the 1994 crisis largely on its own had two important effects on the political economic future of Turkey. First, the hand of nationalists was strengthened. As a consequence, the division between nationalist and liberal political parties was further
solidified, contributing to the continuation of a divided government. Second, there was a wide-spread consensus that Turkey needed to maintain a strong relationship with non-Washington based financial actors. In 1997, Turkey placed another bid to become a full member of the European Union. Although rejected in 1997, at the historic 1999 European Council summit meeting held in Helsinki, Turkey was officially recognized as a European country, symbolically indicating, for the first time, that Turkey was a candidate for full EU membership.

The confidence of investors brought about by the 1999 European Council decision led to a brief period of economic stability. However, in 2000 a full-scale flight of the Turkish lira was narrowly avoided. Turmoil between political leaders in the coalition government as to how the economic problems should be handled led to a sudden disappearance in the confidence of foreign investors in 2001. The lira halved in value, almost overnight, and between 2001 and 2002 the economy contracted by 9 percent (IMF, various years).

The Turkish electorate backlashed against the political instability which was in no small part to blame for the three economic crises which occurred in less than a decade. In 2002, a new center-right party, the Justice and Development Party (AKP), won over half of the seats in parliament, securing a majority government under the leadership of former Istanbul mayor Recep Tayyip Erdogan. As promised during their campaign, the AKP was able to tackle many of the economic reforms identified by the Copenhagen criteria for EU membership. The Erdogan government was able to maintain their commitment to a strong economic growth program. As a consequence, inflation fell to single digits for the
first time in 50 years and by 2004 the economy was booming with growth rates nearing 10% (IMF, various years).

The strong economic growth record has largely persisted since late 2002, in large part contributing to AKP reelection in 2004, 2007, and 2011. In 2005, the European Council made the decision to begin accession negotiations with Turkey for full membership. Following the global financial crisis in 2008, a strong focus on macroeconomic stability appears to have paid off due to the fact that, after a brief recession, by late 2009 Turkish GDP growth briefly reached the highest rate in the world. Since 2009, growth has slowed slightly, however, the Turkish economy still continues to achieve an average annual growth rate of around 7%.

In large part because of its strong relationship with the European Union, the AKP has been able to bypass many of the political and institutional constraints which affected previous administrations. For instance, EU liberalization reforms have allowed the AKP to gradually diminish the military’s overwhelming role in civilian politics. Bugra and Keyder (2006) describe the AKP as an “amalgam of neo-liberalism with social conservatism” (213). To an unprecedented degree in Turkish history, the AKP has also openly used conservative Islamic values for political gains.

The dominance of the AKP has had important implications for opposition parties as well. A lack of ideological cohesion between nationalist parties on the left has had a significant impact on the lack of challengers to AKP political success (Onis and Keyman, 2007). However, leading up to the 2011 elections, the CHP began placing a much greater emphasis on social solidarity, including plans to launch a minimum income maintenance
scheme (Yakut-Cakar, 2012). A focus on the universalization of welfare benefits could very well eventually serve as a means for left-opposition parties to pose a real threat to AKP dominance.

4.3 Turkish welfare regime transformation

The inegalitarian nature of the previous Turkish welfare regime is highlighted by the fact that the social security system has experienced high deficits since the early 1990s in large part due to the early retirement of a relatively small portion of the population. Therefore, despite its comparatively young population, Turkey traditionally spent 6% of GDP on public pensions (SOCX, 2006). This expenditure exceeds that of countries such as the Netherlands and Denmark, despite the fact that these countries have 2-3 times as many citizens over the age of 65 relative to the population as Turkey (SOCX, 2012). The European Union Progress Reports on Turkey has time and time again pointed to the high degree of informal employment (which has always been at 40%) – which is in part due to the inegalitarian nature of the previous social security system – as another important cause of the continuous deficit.

Despite these problems, reform of the Turkish social security system was not placed high on the political agenda until the early 1990s and only then in large part due to pressures from the ILO and the World Bank. The hand of the World Bank in Turkish pension and health care reform has often been readily discernible, especially in official blueprints and in the interventions of think-tanks voicing businessmen’s preferences (TUSIAD, 1997). The ILO and World Bank during the 1990’s urged the Turkish government to make urgent reforms in order to control the deficit caused by the social
security system for the sustainability of the system after 2020, when the Turkish population will begin to show signs of aging. In 1995, the ILO conducted a study of the social security system, financed by the World Bank. The study proposed a variety of pension reforms, including alternative mixtures of a reformed and expanded PAYG system, a new private funding scheme, and institutional reforms (ILO, 1995).

Major structural reform of the Turkish social security system was finally introduced in 1999 under the guidance of the World Bank and ILO (Yakut-Cakar, 2007; Elveren, 2008). The reform process has mainly focused on the transfers from the state budget to the social security system, fiscal constraints stemming from the high ratio of pension recipients to active contributors, the balance between the state and market in pension provision, and the necessity for universal coverage (Aybars and Tsarouhas, 2010, 754). The reforms involved a two-stage process. The first stage, beginning in 1999, increased the minimum retirement age of men and woman to 65 by 2050. Moreover, the state contribution to the pension system has been set to 5%, replacing the pre-reformed practice for making budgetary transfers to compensate the entire deficit of the social security system.

Not surprisingly, the reform package received intense criticism from labor unions and the general public. Increased premiums from 70% to 35% of insurees’ minimum wage and caps on existing pension payments, as well as recalculation of some of the previous pension payments, have been the most unpopular. However, the strong EU and
World Bank presence allowed policy-makers to avoid populism and continue to implement reforms advised by outside actors\textsuperscript{13}.

The reform measures taken in 1999 and 2001 were deemed unsustainable due to the fact that the deficit of the social security institutions continued (ASISP, 2012). The second phase of the social security system reform, insisted upon by the IMF and the World Bank, came onto the agenda of the newly elected AKP government in 2003. The second stage of reforms aim to sustain initial changes begun in 1999 while building a stronger system in the long run, starting with a series of reform proposals in 2004 which include administrative reforms based on three pillars: the establishment of universal health insurance, the restructuring of social assistance and services, and the further reform of pensions (Yakut-Cakar, 2007). The Social Security Institution (SSI) was established in 2006 as an institutional structure to harmonize these three pillars (Aybars and Tsarouhas, 2010).

The Turkish pension system today includes an earnings-related public scheme with an income-tested safety net, all included in the state budget, and a flat-rate supplementary pension (OECD, \textit{Pensions at a glance: Turkey}, 2011). An interesting aspect of the Turkish pension system is that a second pillar, in a traditional three pillar system, does not exist. Instead, a voluntary privately managed individual pension scheme, the Individual Pension System (IPS), was introduced in 2003, and serves as the second pillar complementary to the first pillar pay-as-you-go (PAYG) system. There is a tax incentive for the participants and employers who pay contributions in the private

\textsuperscript{13} For more on the ‘usages of Europe’ see Duyulmus, 2009.
system. The same incentive is provided, regardless of whether the participant receives a lump sum or a pension payment (ASISP, 2012).

Administrative restructuring has brought changes that are transformative to the inegalitarian corporatist characteristics of the Turkish social security system. Recently, the three major social security organizations (ES, BK, SSK) were unified under the Ministry of Labor and Social Security (MLSS). This step was taken in order to improve efficiency as well as move towards overcoming the fragmented nature of the previous system (Bugra, 2011). Moreover, the benefit calculation rule has been changed from different bases to 2.5 percent accrual rate for the period until 2015 and 2.0 percent starting from 2015 onwards (OECD, *Pensions at a glance: Turkey*, 2011).

The fact that Turkey implemented these reforms while the population is still relatively young indicates a clear advantage of backwardness. For instance, the MLSS published a White Paper on the social security reform proposal in 2005. This is highlighted by the following quote at a conference in 2006:

> We have prepared this reform with a scientific approach confirming to the realities of Turkey far from populism. The reform will not give better results as of tomorrow but will be effective in [the] long term. Turkey is introducing this reform before it is imposed to. If we do not introduce the reform as of today, we have to introduce more harsh reforms five years or ten years later as it happened in the European countries (MLSS, 2006).
Prior to 2003, the Turkish health system was highly fragmented by several different public agencies funding and providing health care coverage to different segments of the population. Although a government-financed program covered those earning less than one-third of the minimum wage (the Green Card program), informal-sector workers account for over 25% of the workforce and only some of these were covered as dependents (OECD, *Reviews of Health Systems: Turkey*, 2008). Serious problems also existed with regards to delivery. Moreover, allocative efficiency of health services was poor, with the majority of health expenditures allocated for more costly inpatient and outpatient hospital-based services instead of preventive and primary health-care services (OECD, *Reviews of Health Systems: Turkey*, 2008).

Major reform of the health care system was not placed on the political agenda until very recently. In 2003, the Turkish Ministry of Health initiated the Health Transition Program (HTP) in order to achieve more efficient and effective health services. As a part of the program, institutional and organizational reforms aim at eliminating fragmentation and duplication in the health financing and delivery systems and assuring universal access to health insurance and health services (OECD, *Reviews of Health Systems: Turkey*, 2008).

The World Bank backed health care reform package officially went into action in 2008. State expenditure on health care has increased from 5.3% of GDP in 2003 to 6.8% in 2010 (HDI, various years). Thanks to the World Bank Health Transformation Project, patient satisfaction has increased and out-of-pocket payments have decreased (ASISP, 2012). Under the reform process, all three social security funds (SSK, BK, and ES), as
well as their corresponding hospitals, are institutionally united under the management of SSI and linked to MLSS. The unification of the social insurance organizations and their hospitals has been a positive development as it provides a minimal package of health services on a universal basis, regardless of employment status (ASISP, 2012). Thus, signaling the move of the Turkish welfare regime in a direction that promotes social solidarity.

A World Health Organization report in 2011 makes an assessment of the performance of the Turkish health care system. Basic health care coverage has increased from 70% in 2000 to 98% in 2010. There have been important improvements in terms of the depth of coverage, such as extending health care services to poor people (WHO, 2011, 18-19). However, the report also highlights some problems. For example, hospital based services do not provide adequate levels of coverage and the costs of pharmaceuticals could represent a large percentage of out-of-pocket expenditures. Therefore, now that the scope of coverage has been greatly expanded, improvement of the depth of coverage is considered very important (WHO, 2011, 19).

A significant reason for the dramatic increase in the health status of Turkey is due to higher and more effective public spending on health care (OECD, Reviews of Health Systems: Turkey, 2008). While both total spending on health care and public spending on health care do not appear to be excessive, judging by spending levels in other OECD countries, when Turkey is compared to other upper middle-income countries, its overall health spending is not excessive but public spending on health is at or above the average level in comparable countries. In the first three years following the introduction of the
HTP in 2003, although health expenditures rose rapidly, increases in both total and public spending on health care seem to have remained affordable because economic growth in Turkey was also rapid (OECD, *Reviews of Health Systems: Turkey*, 2008).

The General Directorate of Social Services and Child Protection was created in 1986 and is in charge of all the central social assistance schemes in Turkey. But institutionally, the directorate was under-funded and insignificant until the early 1990s. The important change came with the increasing use of the ‘Fund for Encouragement of Social Cooperation and Solidarity’ (SYDTF), which was responsible in providing emergency relief for the citizens in severe deprivation and poverty. However, as Bugra and Keyder (2006) point out, SYDTF was characterized as a last resort mechanism. SYDTF later became an important independent agency under the name the General Directorate of Social Assistance and Solidarity (SYDGM).

Although reform of the social security system has been underway since the 1990s, the government did very little to address poverty and social exclusion until after the 2001 economic crisis. Starting around 2001 means-tested social assistance began receiving a small portion of the state social spending budget by certain institutions directly involved in poverty alleviation. For instance, spending on social assistance and non-contributory payments increased from around .4% of GDP in 2006 to .7% in 2011 (WDI, various years). Although this may seem like a small amount, any increase in this area would appear to be a surprising development given the history of over-reliance on voluntary charity organization and municipalities. In line with its ideology, the center-right AK government has also enthusiastically supported the introduction of microfinance
projects, such as the Grameen Bank, as a form of poverty reduction and support of entrepreneurship, especially amongst women in the poorer Southeastern regions of the country (Eder, 2010).

As of January 2012, the mandatory General Health Insurance System (GHIS) became fully active and extends coverage of health insurance to the whole population, with contributions paid by the individual or the state, based on the results of a means test (EU, *Progress Report: Turkey*, 2012). As a consequence, the green card system has been abolished. The Government also seems to be planning to convert the pilot Social Risk Mitigation project, currently administered by the World Bank, into a permanent program of social assistance. This project is a conditional cash transfer program where the conditionality pertains to regular check-ups and school attendance for the children of the beneficiaries. In spite of its means-tested and conditional character, this policy, too, is significant because it involves cash transfers on a regular basis as a citizenship right and not as a charitable deed.

The Turkish state has traditionally provided free primary, secondary, and tertiary education. Turkey has a more centralized and less flexible system of education than most EU countries. According to the OECD (2006) *Economic Survey: Turkey*, upgrading education is perhaps the most important key for strengthening long-run growth. In recent years, overall education expenditures have seen a gradual increase from around 3% of GDP in 2009 to over 4% by 2013\(^4\).

In complete contrast to Korea, Turkey still has the human capital characteristics of a developing country. For example, in 2009, 69% of the adult population had less than

\(^4\) Datamonitor for Turkey: accessed 01/27/2013.
upper secondary education, compared to an OECD average of 27%. Only 13% of the adult population had tertiary education, in contrast to an OECD average of 30%. In 2009 the average expected time in education was 13.7 years for boys and 12.9 years for girls, compared to OECD averages of 17 and 18 (SOCX, 2012). In addition, as Gonenc et al., (2012) point out, the proportion of science, engineering and technical students at both tertiary and vocational secondary levels is comparatively low (18).

The inegalitarian nature of the education system in Turkey has led to a small proportion of high-quality education institutions equipping a relatively few students with very strong skills relative to international standards. However, the rest of the Turkish population generally scores very low on international tests, such as OECD administered PISA tests of academic proficiency of 15-year-old students (PISA, 2012). The lack of active measures taken to combat socio-economic and regional disparities in large part accounts for why spending on education has gradually increased, but public spending per student has not and remains one of the lowest in the OECD (Gonenc et al., 2012).

Despite the long road ahead in Turkish education reform, important progress has also been made. Moreover, Turkey has several advantages. Institutional learning from the experiences of other countries has allowed policy makers to push forward reforms in two areas now deemed very important for increasing the international competitiveness of the workforce through education: the expansion of compulsory education and the use of technology.

Since the late 1990s, policy efforts helped to extend the length of compulsory education and increase school enrolment rates. Compulsory primary education was
extended from five to eight years, and enrolment rates in compulsory education rose from 85% in 1997 to 99% in 2011 (Gonenc et al., 2012). Pre-school enrolment also increased, with the transition to free pre-school education at age 5 in pilot provinces. Extending pre-school education is essential because it reduces the influence of socio-economic background on educational achievement (PISA, 2012). Net enrolment rates in secondary education increased from 38% in 1997 to 67% in 2011 (Gonenc et al., 2012).

A new law passed in April of 2012 extends the length of compulsory education. By putting the minimum length of education at 12 years, the law provides Turkey with one of the longest durations of compulsory education in the OECD. As emphasized in the Ministry of Education’s 2010-14 Strategic Plan (Government of Turkey, 2009), raising and rebalancing quality throughout the education system is the priority for the 2010s, following the focus on quantitative targets in the 2000s.

As part of the above mentioned Strategic Plan, the most recent ambitions of the Ministry of Education to completely digitize primary and secondary education teaching materials clearly indicate an advantage of backwardness. The previously poor quality of education materials for the poorest regions of the Turkish public school system has left a dramatic void that is being filled by throwing out old methods of teaching (i.e. pen and paper) and completely digitizing class room materials. First introduced in 2010, the pilot project titled the Movement to Increase Opportunities and Technology (FATIH) signifies the largest single allocation of resources to education in the history of modern Turkey. The FATIH project aims to enable all teachers in primary and secondary schools to instantly access any document on the web that they may need for their class, project the
documents on an interactive smart board (in replacement of traditional black boards), and provide all students with their own tablet PC’s in order to provide an integrated interactive education environment.\footnote{Online newspaper article from Todays Zaman titled “Turkey launches ambitious FATİH project in public education”. Accessed on 02/27/2013.}

4.4 Explaining the EU’s role in Turkish welfare reform

In order to better understand how outside actors have vertical interdependencies with the social policy of developing countries, it is necessary to take an in-depth look at the EU influence on Turkish welfare regime transformation. Although the EU presence is, obviously, not a very significant factor in the other two cases, closely analyzing how Turkish social policy reforms have been shaped by the EU provides a compelling demonstration of vertical policy diffusion and transfer.

Issues related to social security institutions – including pensions and health care – in Turkey have been scrutinized more profoundly by the European Commission since the start of accession negotiations in 2005. Even though the Copenhagen Criteria does not specifically include social security reform, the economic criteria regarding the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union require Turkey to address the fiscal imbalances arising from the social security system (EU, \textit{Progress Report: Turkey}, 2006).

Negotiations on specific chapters began including social policy and employment in 2005. The start of the accession negotiations in 2005 has accelerated the involvement of the EU within the social policy domain in Turkey. The budgetary allocations assigned
by the EU for Turkey to reform the national pension system have also substantially increased since 2005 (EU, *Progress Report: Turkey*, 2006-2012).

Analysis of different instruments such as Progress Reports, Accession Partnership documents, and screening reports indicate that the EU has insisted on four aspects of welfare reform in Turkey: measures to assure financial sustainability of the system; institutional restructuring in order to develop institutional capacity; remedying the unequal treatment of different groups in order to create adequate protection; and the introduction of sufficient health care for the whole population (EU, *Progress Report: Turkey*, 2006-2012).

4.5 Conclusions: The next European welfare state?

The Turkish case presents a real paradox with regards to RTB theories. The period of greatest welfare expansion, occurring over the last decade, has coincided with: a) a majority right-wing government; b) during the era of globalization; and c) in a context of weak labor unions and heterogeneous interests groups which would serve to gain the most from inclusionary social policy. Yet, over the last decade, nearly all measures of Turkey’s welfare regime have experienced significant change. Indeed, social spending in Turkey has surpassed the cases of Korea and Mexico.

In the Turkish context, a very significant reason for welfare expansion has been external coercive factors, most importantly the EU membership process. In fact, the case of Turkey is not the only example of the EUs positive effects on social policy transformation. Similar to Turkey, in the South European countries of Greece, Portugal, and Spain, public social expenditures as a percentage of GDP were considerably lower
than the OECD average in 1980. It was 11.5 for Greece, 10.8 for Portugal and 15.5 for Spain. In 2003, these figures had reached, respectively, 21.3, 23.5 and 20.3 (Huber and Stephens, 2012).

The advantage of backwardness for Turkey has been the fact that inegalitarian welfare measures have been greatly reduced in the globalization era. Moreover, the relatively minimal base of support for welfare has allowed the conservative AKP government to expand programs intended to make welfare more accessible to the most vulnerable members of society. Moreover, social policy diffusion and transfer has led to the establishment of a system of welfare that is beginning to resemble the socially inclusive models in Europe. However, the efficiency measures being taken today are also establishing an institutional base that will ensure that Turkey remains competitive in the long-run, thus establishing measures today that avoid the pitfalls of the Southern European predecessors.
5. Case Study: Mexico

The case of Mexico is unique in that it takes place in Latin America, a region traditionally associated with the earliest and most comprehensive systems of welfare in the developing world. However, these systems were also very inegalitarian in nature, and Mexico is no exception. In the globalization era, dramatic economic reforms, in part brought about by pressures from Washington based IFIs, allowed the reform minded authoritarian regime to usher in an era of welfare transformation. Although the base of welfare was more extensive than the previous two cases prior to globalization, it was still relatively minimal and in part explains why radical reform was possible.

The case of Mexico demonstrates how social policy diffusion and transfer were used strategically by domestic actors to implement outside ideas that they favored. It is also possible to argue that, especially in the realm of pension reform, Mexico is an example of social policy diffusion failure, as the Chilean style pension privatization has not led to immediately favorable results with regards to increased coverage and savings. Thus, the case of Mexico raises several important questions with regards to the advantages of backwardness theory: Is Mexico a theory disconfirming case that the policy space created by minimal welfare legacies can lead to positive results for developing countries in the globalization era? Do the reforms in health care, social assistance, and education confirm the ‘advantage of backwardness’ argument? To what degree can social policy diffusion and transfer be given a causal role in the transformation of the Mexican welfare regime?
It is argued that with regards to pension privatization, Mexican technocratic leaders diffused the Chilean style pension privatization in the early 1990s because of pre-set political convictions and boundedly rational learning (Weyland, 2006). In other areas of social policy, diffusion and transfer have come from a wider international context and have led to more favorable results. Moreover, the relatively minimal institutional base of welfare has allowed for the radical break from previous forms of welfare. Thus, Mexico is not a theory disconfirming case.

5.1 Mexico and the welfare state before the 1980s

The Mexican Civil War began in 1910 with the struggle to overthrow the authoritarian leader Porfirio Diaz after 30 years of dictatorial rule. A new constitution was adopted in 1917 which committed the national government to social justice and a ‘welfare state’ that included universal rights to retirement pensions, health care, and education (Brooks, 2009). By 1920 there was a return to regularly held elections. After the revolution, central power was weak and the need for centralized decision making in order to supervise the economic recovery became apparent (Haggard, 1990). The “Sonoran dynasty” and subsequent violent rebellions throughout the 1920s allowed state leaders to create a central government and national army. The military became powerful but subordinate to the civilian government.

By the 1930s, Mexican political elites had firmly established the National Mexican Party, later renamed the Institutional Revolutionary Party (PRI), under the leadership of former military commander Elias Calles. Because the PRI resulted from the cohesion of a diverse range of political interests, the ideological composition of the party
has always been broad, often changing by context, and typically hard to identify by any specific set of definitions along a left-right spectrum. What held the party together was mostly its corporatist pillars of support, composed of the most influential political and professional groups in Mexico. This coalition of support caused early efforts by Calles to expand the welfare regime – in line with commitments promised by the constitution – to often become stymied by powerful opposition from business interests (Brooks, 2009, 215).

During the presidency of Calles’s successor, Lazaro Cardenas (1934-40)\(^\text{16}\), two important principles of Mexican politics were set in motion. First, presidents could be powerful, personalist decision-makers, but only for the length of their term. Second, the authoritarian regime was held together by a political party (the PRI), rather than an individual life-long leader, which allowed a line of hand-picked presidents to rule for the next seven decades.

Slowing economic performance after 1938 opened the door for a new business-state alliance in support of state economic planning (Haggard, 1990). President Cardenas established the basic foundation for a more powerful, centralized authoritarian state by co-opting a coalition of labor elites, financial bourgeoisie, and the owners of small and medium sized businesses which benefited from his economic policies. Later, President Miguel Aleman (1946-52) solidified the commitment to state economic planning by accelerating the subsidy of large industries deemed to be the most strategically important for economic growth (Waterbury, 1993). The global trend of Keynesian economic

\(^{16}\) Cardenas is best remembered by many Mexicans for his popular 1938 decision to nationalize the oil industry, which funded around three fourths of the federal spending budget, including social spending.
thinking also significantly affected the decision of Mexican political leaders to play a central role in the economy.

The IMSS became the first autonomous, nonprofit, decentralized social security institute that would oversee the administration of social insurance benefits for select industrial workers in 1945. Like the other two cases, the initial creation of a social security system was hierarchical and intended to benefit only those workers in select industries. For instance, as late as 1960 social security coverage still only reached 12 percent of the workforce. Both employers and employees were forced to share the costs of the IMSS, with employers shouldering a larger burden. Fifty percent of contributions to IMSS were used to provide medical care for workers and their families, and the other 50 percent was earmarked for disability, old-age pensions, and compensation for work-related accidents (Dion, 2011). The protests of teachers and public employees in the 1950s contributed to the establishment of the public employees’ social security institute (ISSSTE) in 1960, around the same time that a militant teacher’s movement was being severely repressed (Dion, 2011, 94). The ISSSTE included benefits exceeding those of the IMSS.

The populist policies of the PRI were rejuvenated by the election of President Luis Echeverria in 1970. From 1972 until the end of the decade, the percentage of SOEs tripled as the country became firmly oriented in an ISI economic development strategy. The new government also enacted a short lived set of reforms which increased spending on education and social welfare, revised labor laws to allow for more frequent wage adjustments, extended subsidies on basic food-stuffs, and significantly increased the
geographic coverage and benefits of the IMSS, including non-contributory rural pensions and day care for the children of working mothers (Dion, 2011; Haggard and Kaufman, 2008). The social security reforms undertaken by the Echeverria administration were intended to provide nearly universal lifetime coverage for most Mexicans. However, this goal was far from being achieved due to the fact that the majority of the population still lived and worked in the rural agricultural or urban informal sectors.

Advances were also achieved in welfare reform under President Lopez Portillio (1976-1982). The Portillo administration attempted to regain the PRI’s majority in the countryside with a variety of new social programs in education and health care (Haggard and Kaufman, 2008). Education reforms attempted to rapidly expand primary school construction and reduce illiteracy rates. The PRI also created programs intended to expand health care to lower-income sectors and made significant progress in extending services into rural areas, adding approximately 10 percent of the population to the 44 percent covered by the IMSS. Thus, although still limited and stratified, the Mexican welfare regime showed significant signs of moving in an egalitarian direction during the second half of the 1970s.

5.2 Mexico, crisis, and globalization

In 1982, the Latin American debt crises of the 1980s began with the announcement by the newly elected Miguel de la Madrid government that Mexico would not be able to service its foreign debts. The debt crisis resulted in a large number of structural economic reforms and the persistent reliance on IMF relief loans. Adjustment and stabilization policies focused on fiscal discipline, inflation control, labor market
flexibilization, pension and tax reforms, reducing subsidies, and signing of the General Agreement on Tariffs and Trade (the predecessor of the World Trade Organization), which committed Mexico to lowering tariffs and trade barriers (O’Neil, 2013). The reforms were pushed through quickly by the authoritarian PRI throughout the 1980s and 90s. During the ‘lost decade’ GDP growth rates declined and inflation over this whole period was 88 percent from 1982-88. The government’s austerity measures included economic pacts with organized labor and the private sector, severely restricted wage increases, limited social spending, and increased prices for basic commodities producing a drop in real wages of nearly 50 percent from 1982 to 1988.

When Madrid’s Secretary of Programming and Budgeting, Carlos Salinas de Gortari, was designated as the PRI’s next presidential candidate for the 1988 election, for the first time in over half a decade a left-leaning opposition party successfully ran against the PRI. However, Salinas won the 1988 election, in part due to wide-spread voter fraud (Haggard and Kaufman, 2008). Although the fiscal deficit and inflationary pressures were brought under some degree of control since the onset of the 1982 crisis, economic growth was slow and volatile.

Another debt led crisis occurred in 1994 due to an overvalued peso, a weak banking sector, and a decreasing rate of foreign reserves. The peso lost about half its value in a few weeks, GDP fell by seven percent, inflation soared to triple digits, and over one million Mexicans lost their jobs (O’Neil, 2013). Faced by a severe credit crunch and rapidly decreasing federal reserves, the Mexican government turned to the IMF and United States Treasury for assistance in 1994. A number of large structural loan deals
were made and Mexico avoided a complete economic collapse. Growth numbers from 1996 until 2000 somewhat stabilized at an average of 5%.

Economic crises in Mexico raised public awareness for the need to expand economic ties with richer countries in order to compete globally. As a result, President Salinas proposed the North American Free Trade Agreement (NAFTA) with the United States and Canada. Amidst considerable controversy in Mexico and the US, NAFTA went into effect near the end of the Salinas Presidency in 1994. President Salinas also continued the drive to privatize hundreds of SOEs (including Mexican banks) (Waterbury, 1993). Privatization and the expansion of exports under Salinas led to a significant increase in foreign investment (O’Neil, 2013).

The PRI presidential candidate following Salinas, Ernesto Zedillo, was Secretary of Education in the previous administration and vowed to continue the reform of the economic system begun by his two predecessors. Due to the adoption of new elections laws and increased media scrutiny, the 1994 elections are viewed to have been free and fair (Haggard and Kaufman, 2008). Surprising many, the PRI was able to maintain its hold on the executive for another six years by winning around 50 percent of the vote.

In 2000, for the first time a non-PRI candidate, Vicente Fox, was elected to office from the right-wing National Action Party (PAN). In 2006, another PAN candidate, Felipe Calderon, secured the presidency, further solidifying the new era of democratic governance. In 2012, concerns about waning economic growth and unrelenting drug violence led to the election of another PRI president, Enrique Pena Nieto. However, the

17 At the time, NAFTA was the most comprehensive and ambitious free-trade agreement in the world (O’Neil, 2013).
current political environment has changed a great deal towards more democratic
directions in the twelve years that a non-PRI president has been in office (O’Neil, 2013).
The economy stagnated again between 2001 and 2003 and, in spite of a slight recovery
between 2004 and 2006, GDP growth contracted a great deal following the 2008 global
financial crisis. The economy recovered in late 2009, but growth has once again been
sluggish at around 4% of GDP since then (IMF, various years).

5.3 Welfare state reform since the 1980s

The 1982 debt crisis negatively impacted the already shaky fiscal balance of the
IMSS and ISSSTE due to high levels of inflation, early retirements, and a reduced
number of new contributions. Throughout the 1980s, major reforms to the Mexican
pension system were avoided. Instead, incremental reforms were made that were
generally ineffective in solving the financial problems of the social security system
(Brooks, 2009, 134). Several World Bank reports were also quick to point out the
problems of the Mexican social security system and offered neoliberal remedies (World

By the early 1990s, significant reforms of the Mexican social security system
began taking place. For many developing countries throughout Latin America, the
Chilean pension privatization in 1981 was seen as a way to generate domestic savings,
which would support macroeconomic stability and growth (Weyland, 2006, 42; Brooks,
2009, 24). The process for Mexico began when several members of the PRI began in
1989 to visit Chile and learn about their system (Brooks, 2009, 168-169). Shortly after,
the government set plans in motion to replace the PAYG defined-benefit pension system with a mandatory, defined-contribution system of privately managed individual accounts.

During the decision making process about pension privatization, the World Bank still played an important role in constraining the choices of policy makers. World Bank reports recommended a three-pillar approach to pension reform, calling on the government to: 1) restructure the IMSS system into a flat-rate, minimum-pension benefit, possibly funded with general taxes; 2) provide fully funded, privately administered occupational pensions based on the current severance pay requirements; and 3) adopt a system of private, defined-contribution individual accounts. The Mexican reforms followed the World Bank recommendations to separate social services and health care from the pension system and significantly raised the base contributions for a minimum pension. Under the new system, the minimum period of contribution for entitlement to the minimum pension went up from the previous 9.6 years to 33.7 years (Valdes-Prieto, 2007). Contributions to the individual savings account were also reduced to 6.5 percent of wages (Bayon, 2009) and housing credits began being deposited directly into individual accounts (Brooks, 2009).

The Retirement Savings System (SAR) and new Social Security Act were adopted in 1992. The SAR was the first step taken by the government towards fully privatizing the IMSS. The next big step came in 1995 when several new laws were passed through Congress and took effect in 1997. During the planning process of the reforms, Finance and Central Bank officials worked closely with World Bank representatives before presenting the 1992 and 1994 reform proposals, often meeting more than once a month
(Dion, 2011, 146). Dion (2011) also points out that money from the World Bank was more or less conditional on the reform of the IMSS (146). Although none of the reforms turned out to be exactly what the World Bank had recommended, the availability of World Bank financing to support the transition increased the feasibility and range of reform options that Mexican policy makers considered.

One of the goals of the 1995 reform was to provide an incentive for self-employed and informal workers to enroll themselves in the social insurance system (IMSS, 1995). However, this has seldom been the case. Brooks (2009) points out that active contribution rates have gone down every year since the reforms, even in the context of economic growth (200). Low contribution rates have resulted in lower pension replacement rates for Mexicans in the future as individuals leave and enter the workforce but maintain an individual account (Dion, 2011). The financial balance of the IMSS has also not greatly improved. Moreover, the manner in which the privatization has taken place has meant that the government is still forced to cover past inegalitarian pension commitments, while a very small percentage of previously excluded Mexicans are able to get and hold employment long enough to make the payments necessary for a minimum private pension account. For all these reasons, the privatization of the Mexican pension system is often viewed as a failure to meet the ambitious goals initially set out by the project.

In 2005 and 2007, legislation was also passed to reform ISSSTE from PAYG to individual savings. This was done to harmonize the social security institutions in order to increase efficiency. Here again, the important role of World Bank expertise and promise of financial aid can be seen (Dion, 2011). However, World Bank pressure alone does not
account for why policy makers chose to go through with another round of privatizations in social security. A more important factor is the continued belief by conservative governments that reducing the state’s role in the realm of social security would improve long-run efficiency, without fully comprehending whether such an approach is actually better for the system as a whole.

In 1984, the universal right to health protection was written into the Constitution. As Bayon (2009) points out, “although rights were formally recognized in the constitution, they were given without any legal mechanisms or infrastructural investments to make them effective in practice” (305). At the same time, the private sector was designated as an integral part of the health system. The ISSSTE health care reform strategy was similar to that of IMSS. The contribution structure was changed to match that of the IMSS in order to facilitate future reforms to service provision. The long-term goal of health care reform has been to unify the public health infrastructure and move toward unified public health insurance.

President Zadillo proposed a health care reform package that envisioned, among other things, a substantial expansion of the role of the ministry of health in the provision of health care for uninsured sectors of the population. Although reforms were not passed exactly in the manner envisioned by Zadillo, his administration was able to successfully pass a reform of financing that replaced revenues from payroll taxes with direct financing from the public treasury (Gonzalez-Rossetti, 2004, 79-80).

The turning point in Mexican health care came with the Fox administration decision to pass a national universal health insurance plan in 2004. The new Popular
Insurance (Seguro Popular) is intended to supplement the existing social security organizations by providing access to Mexicans outside of any pre-existing funds. Seguro Popular is a voluntary national health insurance program that is largely means-tested, noncontributory insurance program exclusively for the lowest income earners excluded from the formal labor market. Because over 50% of Mexicans had no health insurance in 2003, reaching the universal health insurance coverage claimed by the government today has been no small task. However, the government’s commitment to the universalization of public access to health care can visibly be seen by the increases in spending numbers. By 2010, 6.3% of GDP was spent on health care. That same year, 3.1% was spent on public and 3.2% on private (WDI, various years). These numbers have seen some significant increases since 1995 when public spending fell behind private by over one percentage point. The problem now facing the Mexican government is expanding the quality and depth of services\textsuperscript{18}.

The initiation of a major new anti-poverty program (PRONASOL) under Salinas represents both a response to left-leaning challenges to PRI dominance and an attempt to develop an organizational counter-weight to the power of corporatist opponents within the PRI (Haggard and Kaufman, 2008). In many ways, PRONASOL allowed the leading party to direct antipoverty resources to electorally important districts while other unpopular reforms were being implemented. However, the program also laid the groundwork for subsequent non-contributory means tested programs that have become an important part of the Mexican social safety net.

\textsuperscript{18} New York Times article “Mexico’s Universal Health Care is Work in Progress”: accessed 02/20/2013.
Following the 1994 crisis, PRONASOL was revoked in large part due to the fiscal constraints of the government and came back under the new name of PROGRESA. The influence of the Brazilian conditional cash transfer model based on school attendance and regular health checkups for the children of poor families can be directly seen in the decision to implement PROGRESA. During the process leading up to PROGRESA’s adoption, Mexican policy makers frequently visited Brazil to learn about their similar program. In 1999, PROGRESA covered 2.6 million families, and by 2005, the program had expanded to about 5 million families (Diaz-Cayeros et al, 2006, p. 15). However, in line with IMF and World Bank recommendations, policy specialists who designed PROGRESA based funding requests on the explicit premise that the program “could only be enacted if it maintained a relatively limited budget” (Diaz-Cayeros et al, 2006, p.56-57).

The Fox administration expanded the coverage of PROGRESA by creating an additional program in 2001, Opportunidades, and improving transparency. Opportunidades further expanded into rural regions and covered twice as many non-urban poor families as it did at the beginning of Fox’s terms. President Calderon continued the support of Opportunidades, and program expenditures continued to grow, albeit at a slower pace. Opportunidades is often internationally lauded as a model for poverty alleviation programs (World Bank, *Conditional Cash Transfers*, 2009). Moreover, the programs have been popular in Mexico, contributing to its institutional continuation through three presidential administrations with very little changes other than expanding the scope of coverage (Dion, 2011).
Although state funded education has been a long standing part of the Mexican welfare regime, there has also been a wide educational gap between higher- and lower-income groups, marked differences in the quality of education, and the very low levels of education attained by the poorest 40 percent of the population (Bayon, 2006). Due to a series of policy reforms, near-universal primary education was attained in the 1990s. Compulsory education was also extended to ten years in 1993. Although this led to the average duration of school attendance to increase from 6.1 years in 1991 to 7.4 years in 2001, the gap between the poorest 20 percent and the richest 20 percent has widened from 7.3 to 8.1 years (de Ferranti et al, 2003). Although the Mexican government currently spends around 5% of GDP on education, there has been slow progress of extending upper-secondary and university education and the quality of public education has generally remained very poor. Thus, the major problem has not been funding, but rather inefficiency in the allocation of resources and enduring bureaucratic and corporatist legacies.

In 1995, most children only made it through primary education and only 78% progressed on to secondary education. By 2009 this number was up to 95% and the majority remains through high school (O’Neil, 2013). However, Mexico’s educational system is still subpar. On the PISA tests, Mexico’s students score lower than students from all the other OECD countries in reading, math, and science (PISA, 2010). Employers and graduates complain about the mismatch between training and opportunities: too many political science majors, for example, and not enough engineers. According to a study by Mexico's National Association of Universities and Higher
Education Institutions, 40 percent of Mexican university graduates over the last ten years are now unemployed or working in a different field from the one they studied.

Enrolment in early childhood education has been associated with better performance later on in school (PISA, 2010) and can also mitigate social inequalities and promote better student outcomes overall. In a majority of OECD countries, most children begin education before they are five years old. In Mexico, 99% of four-year-olds participated in education in 2010 (Mexico ranks 4 of 38 upper-middle to high-income countries in this regard), a jump of 29 percentage points since 2005, when Mexico ranked 21 of 30 countries. A 2002 reform made pre-primary education compulsory as of academic year 2008-09. Thus, in some small ways, the Mexican education system also has an advantage of backwardness with regards to the long-term success of the system.

5.4 Conclusions: The theory disconfirming case of Mexico?

With regards to social spending, income inequality, and pension coverage, Mexico exhibits the least successful welfare regime during the globalization era out of the three case studies. However, it would be wrong to claim that Mexico is a theory disconfirming case of the ‘advantage of backwardness’.

The policy diffusion with regards to pension reform that occurred in the globalization era led to poor results, but was not wholly brought on by competition, but rather because Mexico did not diffuse models from highly successful predecessors. Instead, as pointed out by Weyland (2006), cognitive biases and bounded rationality led Mexican political leaders to adopt a Chilean style model of pension privatization, rather than rationally seeking a NDC model from abroad in advanced industrialized
democracies that were more likely to be successful when properly adopted to local conditions.

Within the other three areas of the welfare regime examined, Mexico confirms the original theory very well. Although still needing significant reform, strong improvements in health care have taken place in Mexico over the last decade in line with global trends. Mexico has one of the largest scale targeted assistance poverty relief programs in the developing world. Although the verdict amongst political scientists and economists is not yet out about the effectiveness of targeted welfare in developing countries, when implemented properly, these programs can have positive results with regards to increasing overall human capacity of the worst off in society. Finally, education has also seen significant reform. Although more improvements in education are needed, the advantage of backwardness is demonstrated by the fact that compulsory education has been increased significantly in Mexico, along with government spending in order to see the reforms through.
6. Conclusions

This concluding section first provides a comparison of the case studies from the perspective of an ‘advantage of backwardness’. Several lessons are then highlighted which shed some light on the future study of social policy and welfare regimes in developing countries. Finally, there is a conclusionary summary.

6.1 Turkey, Mexico, and South Korean welfare regime transformation in comparative perspective

What all three case studies have in common is that they initially started out with a relatively minimal and inegalitarian role played by the state in the domain of welfare. Similar to the Bismarckian systems which laid the groundwork for welfare states in Europe, social policy in developing countries began with a stratified distribution of social protection. However, these systems evolved in a manner that reinforced the status quo as a result of their contributory nature on an occupation-by-occupation basis and high degree of urban bias (Mallet, 1970; Mesa-Lago, 1978).

The forces of globalization have delivered a permanent blow to these previously inegalitarian welfare regimes through several severe crises which highlighted the need to remain economically competitive. In all three cases, globalization fundamentally changed the dynamic of social policy toward providing the most vulnerable members of society with welfare benefits. Furthermore, the increased relational dimension of globalization has heightened the role of outside actors, such as IFIs and the EU. Finally, the relatively
minimal base of welfare in developing countries has allowed policy makers to harness the forces of globalization without being bogged down by previous reforms.

Of the three case studies, it can be argued that the conservative-informal Korean welfare regime now provides the most comprehensive welfare, even though Korea is the second greatest spender on social policy as a percentage of GDP (Turkey spends the most). It can be argued that Korea has taken the greatest advantage of backwardness, due to the extremely limited degree of public welfare entitlements until enough national wealth was accumulated to make innovative reforms. Moreover, the rational learning of social policy from developed countries once a social demand emerges that required innovative reforms is also a key part of the Korean welfare regime. Remaining globally competitive while augmenting the general welfare of its population during the transition from a manufacturing to consumer based advanced economy will be an important challenge for policy makers, however, the foundations for such a transition are being laid through the use of innovative social policy.

The conservative/corporatist-informal welfare regime in Turkey still faces several challenges on the way to economically sustainable development and eventually becoming a full-member of the European Union. However, decreasing the inegalitarian welfare measures that hold the economy down, while focusing on efficiency, are sure to provide an advantage to Turkish long-run economic growth. Moreover, increased EU scrutiny along with global trends in health care reform has led to a revamping of reforms geared towards improving the situation of the most vulnerable groups of society. Thus, the case of Turkey provides a clear example of how vertical social policy diffusion and transfer
play an important constraining role on the ability of domestic opposition to welfare reform, while strengthening the hand of policy makers focused on social inclusion and economic sustainability.

Finally, the liberal-informal welfare regime in Mexico highlights the ways in which the positive effects of an open policy space and social policy diffusion and transfer can be mitigated by conditional factors. The case of Mexico also highlights how inegalitarian welfare measures are significantly subject to reform once a developing country becomes fully integrated into a global market system. Finally, Mexico has followed general international trends in areas other than pensions, further confirming the advantages of backwardness argument.

6.1.1 Pensions

In the case of Turkey and Mexico, reform of pensions can be observed from the previously inegalitarian and inefficient structures beginning around the globalization era and gaining significant momentum in the early 1990s. Although at first this process may appear to be a result of the coercive power of IFIs, such an analysis only tells part of the story. Rather, what both cases demonstrate is that domestic actors had incentives to restructure pension systems in a manner that was more efficient – or perceived to be more efficient – based on reforms in other countries. Thus, the three-pillar model of reform promulgated by the World Bank was adjusted to a significant degree by actors within each country. In Turkey, this has resulted in a mixed PAYG/private system in which the government maintains the ability to expand coverage to all of the working population, thus laying the ground work to augment social solidarity.
In Mexico, the complete privatization of the pension system has mostly been viewed as a failure to meet the ambitious goals set out by the project. Moreover, the new system has not made any short term adjustments to the previous inegalitarian system, but at the same time has made it more difficult for the government to regulate the expansion of coverage. Thus, it would appear that the case of Mexico is a theory disconfirming case that international policy has diffused in a manner in which inegalitarian pension systems are under transformation due to globalization. However, policy diffusion in the Mexican pension systems has mostly been a result of emulation of the Chilean model of privatization, which appeared to be very successful at the time that reforms were initiated. Because a small group of Mexican technocrats believed that the Chilean model provided an ‘advantage of backwardness’, the model was adopted without full appreciation of its implications. Thus, bounded rational learning accounts for why Mexican leaders adopted a Chilean style pension privatization (Weyland, 2006), instead of looking at foreign models in Europe that could have been applied more successfully given domestic settings.

The case of Korea demonstrates how the need to expand coverage with regards to pensions was adjusted to meet local conditions, while still in line with global trends of reducing state dependency while expanding the scope of coverage. Following the East Asian financial crisis in 1997, it became apparent that the Korean government would need to take a more active role in the area of reducing the inegalitarian nature of the previous system in order to provide coverage for a greater number of workers. Moreover,
this process was augmented by the influence of IFIs which coerced reforms in the area of pensions to a much greater extend.

6.1.2 Health Care

TMK demonstrates the manner in which the principal diffusion of health care has occurred across the globe (Weyland, 2006). In all three cases, the increased role of the government in providing health care coverage on a universal basis over the last couple of decades can be seen. Moreover, in all three cases, but especially Turkey and Mexico, active measures have been taken to improve the situation of disadvantaged groups with regards to access to basic health care.

The case of Turkey and Mexico demonstrate the powerful coercive effect that outside actors and the spread of ideas can have on health care reform. In all three cases, prior to globalization, access to quality health care depended on the individual’s employment status in fragmented social security funds. The powerful forces of market competition and the important technical and financial role played by IFIs in these two cases allowed rational local actors to reform health care towards an egalitarian direction. The groundwork for an egalitarian model has been laid by the publically funded initiatives to increase basic coverage to the entire population. Going forward, these programs will most likely begin to focus on increasing the quality and depth of coverage.

6.1.3 Social Assistance

With regards to improvements in social assistance, all three cases demonstrate how active measures in the last two decades have been taken to improve the situation of the worst off members of society. The diffusion of creative poverty relief programs, such
as targeted assistance and microfinance, has played an important role in bringing the
disadvantaged members of society in relatively poor countries into the realm of economic
productivity. Although typically means-tested, and therefore fragmented in nature, such
programs are a complete departure from the past history of mostly ignoring the needs of
vulnerable groups. Because such programs provide any benefit to poorer members of
society, they implicitly acknowledge citizenship, and therefore lay the groundwork for
social solidarity.

6.1.4 Education

Policy diffusion and transfer have also been important factors in education, in that
it has led to the realization that the government must improve the education of the entire
population in order to increase global competitiveness. Moreover, two important trends
can be seen across the cases. First, education has been expanded to include a larger and
more equitable portion of the population. Second, the length of compulsory education has
expanded.

6.2 Welfare regime change in developing countries: The lessons

This study contributes to various debates in the globalization-welfare regimes
literature. By expanding the focus beyond a small number of original OECD countries
and examining the unique experience of welfare transformation in the developing world
during the globalization era, this study has exposed the limitations of conventional
wisdoms on the complex relationship between globalization, institutional legacies, policy
diffusion and transfer, and welfare politics in the developing world.
Before moving on, it is important to recognize what this study does not claim. It is not claimed that international factors are the single causal mechanism of social policy change in developing countries. Many domestic actors and local conditional factors have an important influence on welfare regime transformations. Thus, policy makers often look at internal circumstances before making decisions about social policy. In fact, rationally learning from the successes of developed countries and applying that knowledge to local conditions is a key component of the ‘advantage of backwardness’. Furthermore, it is not argued that welfare legacies in developing countries do not exist, or that stake-holders in the welfare systems of developing countries have no political clout. In many cases policy makers do have to take into consideration the demands of domestic actors, and in some cases the final outcomes of welfare reforms clearly demonstrate this dynamic. Finally, it is not argued on the other extreme that policy makers in developing countries reform towards redistributive directions for the singular purpose of increasing international legitimacy or because of the dominance of normative values, although in some cases such an argument could more easily be made (i.e. health care reform) than in others (i.e. pension privatization).

The findings in this study have demonstrated that traditional welfare systems have been under significant challenges from the pressures of globalization. Welfare regimes in countries with various backgrounds have been forced to make adjustments and adapt to changing circumstances. Cutback on social security and welfare expenditures seems to be a common practice for most developing countries. Consequently, the current literature suggests that social policy in the developing world is unsustainable due to RTB.
What the case studies indicate is that since the globalization era, RTB does not tell the entire story. As developing countries are exposed to the forces of globalization, their welfare regimes actually grow wider, but denser. Indeed, inegalitarian aspects of welfare are often given fewer resources. However, other programs that promote the greatest number of beneficiaries become enhanced.

A general theme across the case studies is the fact that the logic of industrialization is an important force in the transformation of welfare regimes. Despite the contextual factors and differences between countries at a similar level of development, the similarities are much more apparent. As countries reach a certain level of development, somewhere in the range of $10,000 GDP per Capita, the social and demographic factors associated with a high income country begin to force the expansion of welfare. For example, prior to globalization, Korea had a very minimalist welfare regime and at the same time witnessed the greatest migration of capital. However, out of the case studies, Korea has experienced the greatest amount of growth in a short period of time and has gone to the greatest lengths to create a welfare state during the globalization era. In other words, globalization does not systematically undermine the viability of expanding welfare regimes.

The findings of this study also have important implications on convergence hypotheses in IPE. Local actors have continued to maintain a certain degree of autonomy. Moreover, when convergence has appeared to take place, it is not always indicative of the hegemonic power of advanced states and NGOs. Often time’s local actors in developing
countries apply the demands of international actors to meet their own needs in a strategically rational (or boundedly rational) manner (Weyland, 2006).

Nevertheless, international factors continue to have a positive impact on welfare regime change in developing countries, resulting in a certain degree of convergence. For instance, across the case studies, the role of IFIs has been important during the globalization era in shaping the preferences of domestic actors, allowing domestic actors to use IFI loan conditionality strategically, and providing important technical and financial resources. Therefore, through the in-depth analysis of the case studies, the causal paths of convergence can be traced while still appreciating the preferences of actors based on domestic conditions.

Finally, through an in-depth analysis of the case studies, important piece of the puzzle as to why and in what ways certain social policies are diffused and transferred across seemingly heterogeneous states is explained. Here it is also important to look at the role of rational (and bounded rational) learning from other states. These developments are also augmented by the sea change in thinking on social policy, which is recently reflected by the changed views of IFIs (World Bank, *Investing in Health*, 1993). What can be witnessed with regards to social policy diffusion and transfer is a shift from inegalitarian welfare regimes, to welfare regimes that are beginning to focus on equitable distribution of benefits and economically sustainable development. Therefore, the reform of inegalitarian welfare regimes is more than simply a process of taking away benefits and state protection. It is about finding ways to remain globally competitive while still meeting the demands of local constituents and conditional factors. In doing so, welfare
retrenchment serves certain purposes which are not entirely detrimental to aggregate wellbeing in these nations.

It is argued here that in the case of developing countries, globalization provides more opportunities in welfare reforms towards redistribution and market efficiency than constraints on overall welfare. Therefore, it is important for future studies to move beyond the investigation of whether or not welfare retrenchment has taken place. Instead, the question should be how welfare restructuring has taken place. The changing nature of welfare away from certain areas, such as excessive social insurance programs, towards other such as education and health care, has led to claims that globalization is leading the state away from welfare and towards workfare (Mittelstadt, 2005). Here again, it is important to see that investment in public services, such as education and primary health care, may do more for equity than premature attempts to build social insurance institutions. The case studies demonstrate that while the retrenchment in the traditional welfare protection is taking place, programs that were downplayed previously, such as social assistance, education, and health care, has gained increasing emphasis and became the critical components of the strategies to maintain macroeconomic growth and political stability during the globalization era.

Finally, this study has important implications on path dependency and research investigating the role of welfare legacies. Although past histories of welfare remain important, as countries adjust to changing international and domestic circumstances they show a great deal of change in similar directions. Furthermore, minimal welfare legacies in these countries have generally allowed radical changes to take place.
6.3 **Summary Conclusion: The advantages of backwardness?**

This thesis has applied a case study based approach in order to study whether developing countries are experiencing RTB by analyzing their welfare regimes in the globalization era. Since RTB does not appear to describe the entire picture, the analysis has also focused on how other forms of social policy diffusion and transfer are playing an important role in the three case studies. The comparative perspective confirms the results that developing countries do have an ‘advantage of backwardness’ in that they can diffuse and transfer social policies that are more suited to address their long-term challenges in a globalized world. As Gerschenkron (1962) made clear, developing countries can see the path of developed countries and adapt extra policy measures in order to catch up with them in a short period of time.

It is therefore argued that developing countries have an ‘advantage of backwardness’ because globalization provides incentives to reform inefficient and inegalitarian welfare programs towards a manner that supports redistribution and economically sustainable development. The relatively minimal welfare regime in developing countries opens a policy space for innovative welfare reforms. At the same time, developing countries have certain advantages through rational learning due to the fact that they are developing their welfare regimes after developed countries.
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