UMSL Global

1-1-2000

Building Political Consensus and Distributing Resources

Theodora-Ismane Gizelis

Occasional Paper No. 2000-3
April, 2000

Occasional Papers

Building Political Consensus and Distributing Resources

Theodora-Ismene Gizelis

BUILDING POLITICAL CONSENSUS AND DISTRIBUTING RESOURCES:

The Political Goals of the Welfare State and their Application in South Korea and Malaysia

Theodora-Ismene Gizelis, Ph.D.
The Theodore Lentz Post-Doctoral Fellow in
Peace and Conflict Resolution Research,
Center for International Studies, and
Research Associate, Department of Political Science
University of Missouri-St. Louis

After September 19, 2000:

Academy of Athens
Athens, Greece
Gizelisi@ath.forthnet.gr

Note: Support for this project was provided by the Lentz Peace Research Association and by the Center for International Studies and the Department of Political Science, University of Missouri-St. Louis. The author alone is responsible for the interpretations and conclusions presented. This paper was completed in April, 2000 and slightly revised in September, 2000.

"The capitalist threat is that the system is unstable, liable to breakdown. That's one threat. And second, the system is very powerful. It's extremely successful. And due to its success it penetrates into areas of life-of society where it doesn't really belong" (PBS 1998).[1]

In France the Juppé government reduced social benefits to cut down the public-sector deficit by over one-third to fulfill the Maastricht treaty's criteria. Nevertheless, the French government policies led to a series of strikes that had a tremendous impact on the French economy. A couple of years later, the Asian crisis in September of 1997 hit the South-East Asian countries one by one, Thailand, Malaysia, the Philippines, and Indonesia all experiencing currency tumbles and stockmarket crashes. In South Korea, the political inertia before the run-up elections created panic among the investors and the living standards of the average citizen were threatened (*Economist* 1997a, 20; *Economist* 1997b, 83). The reality of the economic meltdown left most of the South-East Asian countries in shock and at a loss in knowing how to deal with slower economic growth and necessary economic restructuring and its political consequences.

The situation in South East Asia and in Europe provides some indications that governments need to be responsive to the demands of the population. One of the problems with most of the Asian countries is that they have no elaborate programs to provide unemployment benefits, while they face the possibility of almost zero economic growth for the next three years.

One of the foremost governmental institutions, which seem to be threatened by international capitalism, has been the welfare state. Gilpin (1987) claimed that the future of the national welfare state is at stake in a non-welfare international system. Nevertheless, the phenomena of civil unrest in various countries such as France, South

[1] Interview of George Soros by Danny Schechter in PBS.

Korea, and Thailand (Indonesia had already experienced riots) were indicative that welfare states are even more in need than ever. Rodrik (1997) argues that global economy creates winners and losers, while the governments are caught in the middle amidst the different social groups. Governments maintain social integration and protect segments of the population from the effects of global economy by actually increasing the levels of welfare spending. The neo-institutional arguments of public choice theory and the compatibility literature on the welfare state support the Rodrik argument (North 1990, North and Weingast 1989, Knight 1995, and Fitoussi 1996).

The study of welfare states remains relevant and current even with the increasing scientific and journalistic interest at the phenomenon of globalization. The optimistic arguments on globalization support that globalization of economic transactions can improve the chances for economic development and growth. On the other hand, globalization can be a double-edged sword. As the recent public reactions to the World Trade Organization (WTO) meeting in Seattle and the meeting of the World Bank and the International Monetary Fund (IMF) in Washington, D. C. (April 2000) revealed there is a shattered consensus to the promise of globalization. The reactions are not deriving anymore from political adversaries to a global free market system, but from popular disdain and resistance (Borosage 1999). To understand the significance of the welfare state within the context of increasing globalization, it is necessary to explore the *raison d'être* of welfare programs and to identify the ways that welfare programs interact with other critical political and economic variables such as income inequality and political stability.

In this study I argue that welfare transfers have been traditionally a mechanism that governments apply to avoid incidents of political instability and reduce income inequalities. Nevertheless, in the short-term governments may focus primarily on political stability as their ultimate goal and they make choices that increase income inequality. In the long-term, however, redistribution of resources and political consensus that lead to long-term political stability can coexist as goals and associate with high levels of welfare expenditures.[2] This study discusses the two principal functions of welfare programs, consensus-building and redistribution of resources, and it presents a theoretical perspective on how governments define short term vs. long term policies in social spending. The cases of Malaysia and South Korea are examined to illustrate the presented model.

A basic assumption regarding governmental behavior that is embraced in this study is that governments have as an ultimate goal to remain in power, hence most governments try to balance policies that maintain competitiveness and political stability. Rodrik (1997) argues that the globalization process creates domestic winners and losers, while the governments are caught in the middle amidst the different social groups. Hence, depending on domestic dynamics, governments face a serious policy dilemma regarding the effects of global economy on the local economies.

In most of the debates regarding the future of the welfare state, political issues are often overlooked. The welfare state as an institutional framework was initially established to build up consensus within the population by way of redistributing resources. The central message that permeates this study is that welfare transfers cannot be studied in political vacuum. Welfare transfers are only one of the many mechanisms

[2] The levels of welfare transfers that they may seek depend on the choices that the societies make regarding their goals of economic growth, political stability, and the distribution of resources within the societies.

that governments possess in redistributing resources. As long as governments use welfare transfers, we need to explore their role in economic and political development.

This paper is divided in four sections. The first section concentrates on the history of the welfare state. The second section looks at the process of political and economic development. In the third section the focus turns to two cases that elaborate the key points of the theoretical argument. The concluding section discusses the policy implications and future extensions of this study.

1. BUILDING POLITICAL CONSENSUS AND DISTRIBUTING RESOURCES: THE POLITICAL GOALS OF THE WELFARE STATE

A variety of elaborate government and non-profit organizations' programs fall under the category of welfare programs, since the term "welfare" is not restricted to the programs sponsored by the state. In its narrowest definition, the phrase "welfare state" denotes specific policies and services provided by the state. Usually, educational and military expenditures, and public investments are excluded.[3] In a broader sense, "welfare state" refers to either a specific type of polity, or a form of the state, or a certain type of society (Pierson 1991, 7).

Most of the historians of the "welfare state" accredit imperial Germany as the forerunner of modern welfare programs. In 1881 Bismarck instituted the basis of the first social security legislation in an effort to shift the loyalties of the working class. Bismarck's system was a "carrot and stick" policy, targeting the social democratic movement, and it was planned to cope with prevailing social problems. The state had the monopoly providing social insurance, which enhanced the paternalistic nature of the

[3] Educational expenditures contribute more into equality of opportunity rather than to social security and equality. For more information on this argument see Wilensky (1975). For the variety of welfare programs and the different types of welfare state, see Baldwin (1989), Kloosterman (1994), and Sainsbury (1991).

German state. The insurance reform was not an actual expansion of the state's functions but a qualitative transformation (Ullman 1981, 134-135).[4]

The term "welfare state" was coined in Britain in 1941, while Great Britain alone was standing against Germany. The predecessor of the British welfare state was established in 1911 as the Liberal government's National Insurance Act, promoted by experts such as William Beveridge and prepared by Winston Churchill and Lloyd George. This Act was targeting the "left out millions who were miserable" in the heyday of the British empire. In both cases of policy-making, British administrators replicated the social policies established in imperial Germany (Flora and Heidenheimer 1981, 18-19).[5] The welfare state has been an integral component of the developmental process and the solidification of the state within the developed countries in the late 19th, early 20th century.

In this study I conceive welfare state as a societal structure. The terms welfare programs, welfare transfers, and welfare state are all used in this study for variation without any alteration to the conceptualization of welfare state. The state intervenes in the distribution of economic and social resources to secure their equitable reallocation and

---

Last, but not least, see the seminal work by Epsing-Andersen (1990).

[4] For a different opinion regarding the beginning of the modern welfare state see Lindert (1994).

[5] We can separate the welfare state's development into four major periods. From 1880 to 1914 most of the developed countries, excluding Canada and the United States, introduced state-organized systems for workers' insurance and compensation. The state assumed the responsibility of protecting the workers who were incapable of earning a living due to sickness, age, or unemployment. In the years after the First World War, from 1920 to1940, the welfare state was consolidated and the foundations of the modern welfare state were grounded. In Britain for the first time the government managed the negotiations between the organized labor and the industrialists. Most of those developments in the welfare system occurred in attempt by governments to mitigate intense social crises (Pierson 1991,106-107, 116).
The period after 1945 was the "Golden Age" of the welfare state. During this period, social expenditures as a percentage of GNP increased geometrically. The initial reforms became comprehensive under the principle of universal citizenship. There was a broad consensus in favor of an extended welfare state along with economic growth. Following this path of sustained growth, the 'Golden Age' lasted for thirty years. In the mid-seventies, after almost a hundred years of continuous growth, the welfare state came under scrutiny. The confidence of citizens in the capacity of mixed economic systems to provide economic

guarantee a minimum level of income. Moreover, the welfare state provides social cohesion, by reallocating resources. Hence, in this study the role of welfare state as both distributive and integrating mechanism is explored.

The core of the western welfare state has been political and social security, and equality. In the modern welfare state, social security has been associated with the expansion of social rights and comprehensive social citizenship. Both elements of the political system are associated with social inclusion and universal in-scope policies. The social welfare state distributes either direct funds or services in-kind to secure the working class from contingencies, such as involuntary unemployment, sickness and injuries, maternal leaves, and old age retirement. Despite the popular view that welfare payments mainly assist the poor, these payments are only a small portion of the government transfers.[6] Thus, in many cases the term "social security spending" is preferred to "welfare state" to delineate the role of social security in maintaining a minimum income level (Pampel and Williamson 1988, 16).[7] We can distinguish three primary goals of welfare programs: redistribution, efficiency, and social cohesion in the society.

Redistribution targets the promotion of equality or social justice. Any time that the issue of inequality is embraced, it is presumed that the state is going to intervene in

---

growth and social equity was eroded due to economic stagnation during the seventies and early eighties (Pierson 1991, 125, 141).

[6] John Mueller a senior economic advisor who was a Reagan Republican conservative recently was engaged in a study on who are going to be the winners and losers under the privatization of Social Security in the United States. To his surprise, applying simulation and forecasting models, the facts indicated that no private institutional structure could efficiently provide the stability and security that state supported social security does. The only segment of the population that will benefit from the privatization of social security is single men, because they tend to have higher incomes and they live fewer years. Although many debates focus on the two extremes, either very wealthy or very poor segments of the population, it is an undeniable fact that the primary recipients of welfare transfers and social security are the middle class, which after all bears a significant political weight (Mueller 2000).

[7] On the conceptualization of welfare state see Flora and Heidenheimer (1981). For various policy

the process of redistributing resources.[8] Ironically, the quest for social security dates back to the liberal arguments for individual freedom and limited action by the state. It is only the state, however, that can provide social security and welfare programs. The state is the only institutional mechanism in modern society that can provide a form of collective intervention to the demands for entitlements. States have the authority and the power to ensure that the redistribution is going to take place.[9] Hence, the impact of globalization that threatens the political and economic autonomy of the states to make policy choices.

The problems of the welfare expenditures arise from the supply-side (e.g. Who is going to bear the costs? At what point these costs do more harm than good? Does the welfare state offer the opportunity for moral hazard and free riding?). What remains critical, however, is that the welfare state must work based on a socially defined conception of what amount of welfare is enough. Demarcation lines are built by social consensus (Offe 1994, 87-90). The goal of efficiency becomes pertinent, because of market imperfections (i.e. adverse selection, externalities), while social unity (building

---

applications of 'social citizenship', a concept initiated by Alfred Marshall in 1949, see Klausen (1995).

[8] There are four possible domains of redistributive policies. First, the state either promotes greater equality or establishes minimum standards to prevent segments of the population from falling below the socially acceptable levels of living (e.g., housing, health care, level of education). Second, another issue concerning distributive policies is their range: universal or specific to particular segments of the population. Third, sometimes the emphasis is on the means to achieve redistribution (providing services such as medical care in school kids) and on the impact of policies on specific variables delineating the citizens' well being (e.g., health, food sufficiency). In the fourth domain, redistributive policies are divided between those that emphasize access and equality of opportunity (e.g., education) and those that focus on the amount of service that is on demand. The distinction between equal access and amount of a service can be summarized as follows: the former is concerned that everybody starts from the same point, the latter aims at everybody ending at the same point (Goodin and Le Grand 1987, 5-8).

[9] There are concerns regarding the authority of the state to provide welfare programs. First of all, from a critical point of view, the state distribution follows the predetermined distribution of resources. The right critique to welfare state is that welfare programs create a condition of moral hazard, since they provide incentives to people to get into undesirable behavior. On the other hand, the counter argument remains that the state is the only institution that has the power to ensure that the system is not abused. Most of the arguments that favor state interference are based on moral and ethical considerations. The most well known argument is by John Rawls. Thus, the tradeoff is between the society's need to expand its production and

consensus) is one of the very initial objectives of the welfare state, through which the welfare state becomes a contributing factor to social integration. This aspect of the welfare state remains secondary in the literature, although it deserves further exploration as a positive externality of government intervention.

The next logical question that arises is whether the three goals (distribution, consensus-building, efficiency) of the welfare state are complementary or contradictory to each other. Although inefficiencies may arise from the price discrimination process (redistribution includes different prices to different segments of the population and may create disincentives), there is no substantive trade-off between redistribution and the other goals of the welfare state. At face value, the majority of the literature agrees that the role of government as a redistributive mechanism brings about inefficiencies (Alesina and Rodrik 1991, 1994). Thus, the role of welfare expenditures in alleviating market imperfections is contradictory.

The redistribution of resources and building political consensus can be compatible or contradictory to each other, depending on the time span of government choices. Equity and efficiency are compatible in the long-run, but this may not be the case in the short run. The distinction between long and short-run is neither clear nor it is explored in the literature. It is quite fundamental, however, to understand the functions of welfare programs and their interaction with levels of political stability and income distribution. For the purpose of this study I define short-term policies those that have an effect within one year from the point of implementation (e.g., policies that may lead to the manipulation of economic indicators before elections). Long-term policies are those that have an effect within five to ten years after their implementation. These definitions are

the redistribution of the production goods in a socially appropriate way (Taylor-Gooby 1994, 82-85).

quite arbitrary, however, they provide a time framework to comprehend the political process involved in policy making on social issues.

Following the above-mentioned distinction between short-term and long-term effects, we can distinguish long-term and short-term functions of the welfare state. Redistribution of resources is the welfare programs' function on which most of the economic and public choice literature is focusing. Empirical analysis and a simple overview of the time series data on income distribution reveal it is one of the most resilient socio-economic variables, unless the redistribution targets the initial levels of the allocated resources (e.g., an extensive and progressive agricultural reform performed in South Korea) (Deininger and Squire 1996). Altering the level of income inequality is definitely a long-term goal, as it requires many years for changes in income inequality to become apparent if at all. Hence, it becomes obvious that in the case of an immediate political or economic crisis, altering the levels of income inequality is not going to be a viable option for a government whose rule is threatened. Inevitably, governments perceive that an effective income distribution is a long-term shot compatible with long-term economic goals, whereas avoiding political disruptions a shorter-term political goal.

Nevertheless, welfare transfers can reduce political violence in the short-term, while in the long-term by maintaining the level of income distribution at an acceptable level the welfare state can enhance long-term institutional stability. The Bismarck laws or the changes that occurred in Great Britain, in the period from 1914-1918 are examples of welfare laws that were created with short-term effects in mind rather than long-term ones. It is quite obvious that the conception of those laws was not targeting long-term changes in the distribution of resources, rather the focus was on creating support for the political regime or to reduce political confrontation, hence building-consensus.

Thus, in the short-term, welfare programs are targeting political instability that can be immediately threatening to the political system. In this case redistribution may reduce the probability of regime change, but it will not necessarily reduce income inequality. Governments may choose to attract groups that are essential for the survival, thinking about their short-term interest of remaining in power. Inequality may actually increase among the various socio-economic groups. In the short-term transfers and welfare programs may become useful to the political survival of the government, but in the long-run the redistribution may have a crowd-out effect on investment or lead to increased taxation to support the desired programs. Hence, the short-term policy may have adverse effects in the long-run as welfare programs become inhibitive of economic growth. On the contrary, a welfare system becomes efficient if the short-term goals do not undermine the longer goals of equity and political stability.

Long-term policies that focus on institutional political stability depend on the consensus established between the government and the population (North and Weingast 1989, North 1990). On the other hand, long-term income inequality can be erosive to the stability of the political regime. Given the empirically supported argument that political stability is a necessary condition for economic growth and development, long term sustained economic development can be undermined by a severely unequal distribution of income, which may contribute to political instability.[10]

The coordination between short-term and long-term effects of welfare transfers can be best seen in developed countries, where welfare programs have functioned as the

[10] It is questionable whether income inequality is directly related to political instability. Income inequality is the necessary rather than the sufficient condition that leads to political instability.

foundation of a more egalitarian income distribution, harmonized with stable political systems and higher levels of economic development. Do developing countries follow similar patterns of welfare structures? The answer is that developing countries seem to have qualitatively different paths of welfare state development, because of the different impact that long-term inequality may have on political institutions. Nevertheless, I assume that the fundamental reasoning behind the establishment of welfare transfers remains the same, regardless of level of development. Governments want to maintain political power. Thus, welfare transfers can be used to mitigate social grievances. The case of Malaysia elaborates how a developing country used welfare transfers to reduce long term income inequality among the three ethnic groups and to maintain regime stability in the long run.

Malaysia applied welfare programs that improved income distribution in the long-run and through that assembled the population around the common goal of economic development. Economic development was a process in which every group or segment of the population could participate; hence the long-term support to the political system was achieved.[11] On the other hand, South Korea's welfare policies were more of short-term time spans, targeting political consensus to maintain uninterrupted economic development. Hence, the two countries present opposing paths to economic development and policy choices on the type of the welfare transfers and programs.

The following section discusses the existing theoretical debate on equity vs. efficiency and presents the theoretical framework that explores the dynamics between

[11] Endogenous theories of growth have indicated that investment has positive externalities on economic development. For efficient investment to occur, however, a stable political system is required. By enhancing political stability, welfare spending indirectly affects the level of economic growth. On the other hand, it is unclear whether welfare transfers are actually enhancing income inequality or suppress it

income inequality, political stability, and welfare transfers. A central point of discussion is if governments are aiming at their short-term interest, then why do governments choose in the first place long-term policies that reduce income inequality and enhance political instability.

2. Welfare State: The Quest for Political Stability and Equity

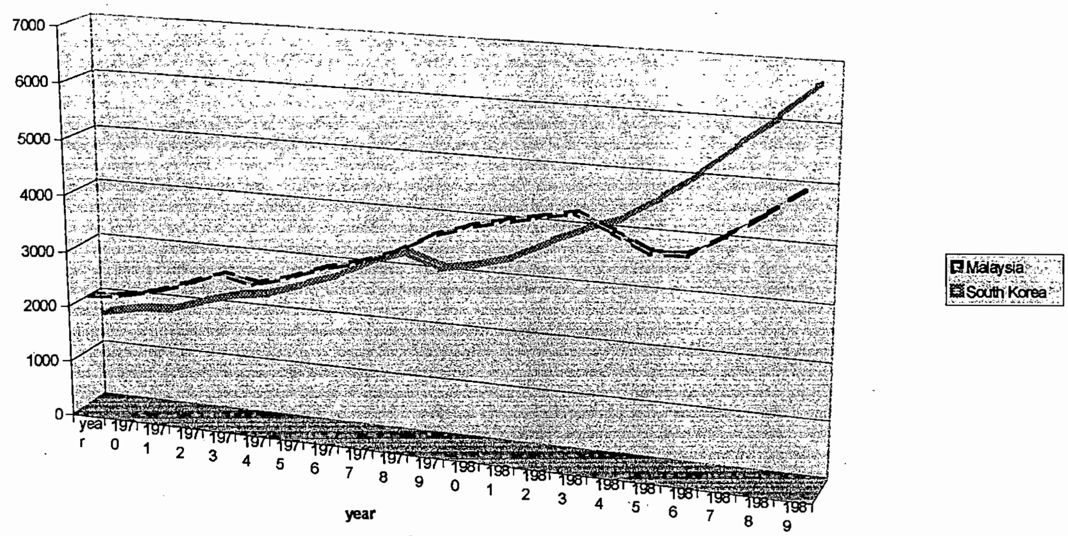
South Korea and Malaysia may seem quite unlike cases for comparing the path of welfare state development to build political consensus. As cases they exhibit several commonalities and differences in critical variables that could explain the different political choices regarding the welfare programs. South Korea's welfare programs were more influenced by short-term policy goals, while Malaysia's political choices were the outcome of long-term factors leading to an elaborate welfare state for developing countries' standards. To begin with both countries share a colonial past, although from different imperial power. South Korea was under Japanese imperial rule. Malaysia, on the other hand, was a subject of the British empire and currently a member country of the Commonwealth. Both countries have an authoritarian developmental state, and they consider sustained economic growth and development as their primary goal.[12]

On the other hand, there are fundamental differences between the two countries as well. Contrary to South Korea, which is almost completely homogenous with the minor

[12] Currently Malaysia is a middle-income developing country with annual GDP per capita at the range of $10,750(PPP). Malaysia as a country resembles by far the Asian Tigers in income distribution and integrity of the business environment than any other developing country. Malaysia as a country resembles by far the Asian Tigers in income distribution and integrity of the business environment more than any other developing country. South Korea, on the other hand, is one of the Four Dragons of East Asia (Taipei, Singapore, South Korea, Hong Kong - before the integration with China) with unprecedented growth rates. Emerging out of the Korean war, South Korea had national income comparable to the poorer countries of Africa. In 1996 its GDP per capita (in PPP terms) was $14,200, comparable to the income of the poorer members of the European Union and OECD (Greece and Portugal). To illustrate the tremendous economic change in South Korea in the time span of 30 years, Korean GDP per capita is eight times' higher than that of India (CIA *Factbook* 1997).

exception of 20,000 Chinese, Malaysia is a country ethnically divided into three major groups that at periods have clashed. Until 1969, when the worst ethnically related civil violence occurred, Malaysia had been relatively stable and peaceful. The ethnic violence that erupted in Malaysia was related to the dissatisfaction of the local Malays for having a lower economic status compared to the ethnic Chinese and even the Indians. The critical socioeconomic element in Malaysia is the disparity between political and economic status. This is related to ethnic divisions, but also to the division between the rural and urban population. This unique characteristic of Malaysian politics led to policies of welfare programs that extensively targeted long-term income distribution to mitigate political violence that can be threatening to the regime stability (Meerman 1979).

Despite the periods of ethnic strife, Malaysia achieved an economic growth rate around 7 per cent annually during the period from 1961 through 1976. More recently, Malaysian economy went to even more impressive rates of economic growth (on average 9 percent in the period from 1988 through 1996). The development plans allowed the government to utilize the economic resources to redistribute wealth and to alleviate poverty. Currently the economic crisis in the field of electronics threatened these levels of economic development, yet foreign investment is still maintained in high levels (*Factbook* 1997, Meerman 1995).



Data Source: World Penn Tables v. 5.6

Figure 1. Real GDP per capita for Malaysia and South Korea, 1970-1990

Contrary to Malaysia that ascribed to shared economic growth as a goal from the very beginning, South Korea chose economic growth, as the predominant goal, pushing the labor force into an effort comparable to wartime periods. South Korea never experienced a climactic event of civil violence comparable to that of Malaysia. Political instability, however, was not unknown in South Korea. In the case of South Korea political violence took the form of labor strikes and student riots and demonstrations during the late '70s and early '80s. The fundamental goal of the South Korean government was economic development. To achieve that goal the government supported big business and tolerated managerial repression and harsh working conditions imposed on labor (long hours of work and high rates of industrial accidents were commonplace).

Labor resistance to austerity measures and these policies contributed to the fall of the Park regime in 1979, while the transition to democracy made it difficult for the following regimes (Roh Tae Woo) to choose coercion as a policy when it was required.[13] The high levels of economic growth volatility, where periods of double-digit growth numbers in 1987 and 1988 were followed by single digit numbers (6.8 per cent in 1989), forced the Korean government to alter its economic policies. The repression of the previous decades and the militancy of labor did not allow the choice of policies similar to the Japanese ones where labor was incorporated in non-coercive patterns of interaction with management. South Korea, therefore, could not achieve the pacification and neutralization of the labor that Japan did. Aside from political repression the other possible policy choice was welfare and social development that would have built up social consensus (Kong 1995, 638-639).

Despite the different paths of economic development that the two countries followed, both countries are interesting cases to explore how economic development interacted with political variables. They provide plenty of evidence on the dilemma that governments face between economic growth and political stability. Provided that the two processes are interrelated, efficiency (economic growth) must be followed by equity. Moreover, South Korea and Malaysia are informative cases on how political instability is related to income distribution.

The policy choices of Malaysia and South Korea are of paramount importance, since they can be applicable to other countries as well. The shifts in their policies were relatively uneventful indicating a great capacity and flexibility to adjust to new external

[13] Civil violence in the form of riots and active student movement is not unknown in South Korean political life. Although successfully contained, student movements were prominent in the '60s and early '70s (1965,

challenges. They provide useful insights to the following theoretical discussion about the long-term and the short-term interactive relationship among welfare programs, income distribution, and the stability of the political regime. As the following analysis shows the interaction of welfare expenditures with economic and political variables is a complicated phenomenon that calls for an integrative approach.

The debate of equity (redistribution of resources to reduce inequalities of wealth) vs. efficiency (maximum production given available resources) remains an important issue for economic theory, since Kuznets (1955) and Kaldor (1956) reintroduced the topic in the mid-fifties.[14] For any modern industrialized state the question of economic efficiency and social equity touches on the nature of the political and economic institutions that are socially acceptable. The welfare state as an institutional framework is at the core of the interaction between economic growth and economic equity, which reflects social justice as well (Baldassari and Piga 1996, 257-258).[15]

In this context social cohesion implies that there is a core of values, perceptions, and beliefs that a critical proportion of the population shares regarding the political system and the interaction between society and the state. These values permeate different ethnic, social, religious, or any other type of groups that may divide the society. Avoiding political violence depends on building perceptions that enhance the support of the population for the political regime. In developed countries, the welfare states were

---

1972, and 1980).

[14] One of the first studies on this area was Lenski's (1966) theoretical argument that combines the "functionalist" and the "conflict" school of thought. Lenski argued that countries that do have a surplus product tend to follow the power distribution in the society, when they distribute the surplus (the conflict argument). The surplus is affected by technology, which determines the political and economic structure, as well (Cutright 1967, 562).

[15] Inefficiencies undoubtedly plague the welfare state. Nevertheless, eradicating the welfare state inefficiencies should not jeopardize the existence of the welfare state.

established to maintain a certain level of income distribution that was socially acceptable and to build up long-term political consensus.

Marshall, engaged in the study of economics to explore the phenomenon of poverty and its causes, modified Weber's concept of citizenship to include social rights out of humanitarian interest.[16] Citizenship as a concept precludes this functional role of membership and participation of heterogeneous individuals in contemporary societies. Citizenship is related to the right to work, as a form of participation in society. Since employment is connected with multiple forms of participation in society, social security benefits and welfare transfers are a means of supporting segments of the population to remain active members even when they go through unexpected contingencies, such as unemployment and illness (Leisink and Coenen 1993). As an outcome of the evolution of citizen's political and economic rights, welfare institutions interact with the political dynamics and the level of economic development that prevail within a country. The effectiveness of the welfare state depends on the level of efficiency of the political system. Hence, the institutional structures developed in the effort of providing citizens with basic economic rights (such as basic income social security transfers), reflect the effort to build a social consensus.[17]

[16] Although a neo-liberal who firmly believed in Say's Law, Marshall's analysis indicated that sometimes the market was not the most benevolent distributor of resources. Even though he was reluctant in accepting government intervention, he argued that improvements in public education and reallocation of resources, when the market distribution favors lines of production with increasing returns, are desirable (Barber 1991, 193-195).

[17] The development of citizenship as an integrative mechanism is related to the evolution of capitalism and the creation of the nation states. What becomes critical are the ways that citizenship can evolve under increasing economic and political integration and migration. The current experiences in international relations with ethnic conflicts indicate that citizenship remains a concept strongly related to a territorial unit. Hence, the impact of the international changes in the domestic arena will be reflected on how the concept of citizenship and the institutional structures based on it are going to be reformed. The problem becomes even more obvious with the European integration process and the reaction of citizens to the progressive reduction of their citizenship rights.

Although most studies focus on the industrialized countries, where the functional concept of citizenship is predominant, it is also essential to look at developing countries. Most of the developed countries share similar institutional and political structures. They also exhibit a similar pattern of responses to economic and political challenges. On the other hand, developing countries present a broader range of political and economic dynamics and a variety of development paths. The goal is to understand over a wider range of cases how governments administer welfare transfers to achieve their political and economic goals, given economic and social constraints. A study on how welfare structures interact with political violence and income distribution will be enlightening both in theory and also in policy implications. There is no clarity within the literature, as the following section shows, on the different ways these variables interact with each other. Nevertheless, the distinction is critical for policy making.

Welfare Transfers and Development: A Trade-off or a Compatible Choice

The literature on the welfare state converges on the single point that there is no unique factor that can enlighten the evolution of the welfare state. The research is separated into two large domains of theoretical explanations. The first group of theories emphasizes socioeconomic and demographic factors, while the second one underlines the critical role of political forces internal to the state.[18] All of the arguments presented in

[18] Overall, according to the socio-economic theories there are four primary societal developments which account for the necessary, but not sufficient, conditions that gave rise to the welfare state: First, the impact of industrialization that led to the decline of the agricultural and rural populations. Industrial production created landless workers who concentrated in urban centers (Urbanization). Second, because of urbanization the workers experienced involuntary unemployment. On the other hand, industrialization stimulated sustained economic growth at unprecedented levels. Third, demographic changes altered the composition of the labor force. Infant mortality declined substantially, while life expectancy increased. Finally, nation states steadily increased their areas of jurisdiction. The state apparatus became more centralized and organized (Bureaucratization). Civil and political rights expanded to incorporate larger segments of the population (Pierson 1991, 13-14).

For many researchers, whose arguments are embedded in the structural-functionalist theories, industrialization has been the primary cause of the welfare state. One of the first specialists in the field, this chapter underline and integrate the processes that determine the development of the welfare state and its interaction with political stability and income distribution.

The literature on income distribution has been relatively recent, focusing strictly on the economic dimensions of redistribution and its effects on economic growth. Aside from the early works on income distribution and growth during the fifties, there was

---

Harold Wilensky (1975) considered the welfare state to be a response to the new social needs that industrialization had created. In both capitalist and socialist societies the social and economic arrangements reflected the technological logic of industrialized production (Pierson 1991, 15-16). According to Pierson, the industrialist thesis remains important, but it is limited in explaining the evolution of the welfare state. It only captures the necessary conditions of economic growth and industrialization, without incorporating the sufficient conditions for the emergence of the welfare state dictated by political factors. Its unidimensional argument fails to distinguish between the different forms of welfare states developed in particular societies (Pierson 1991, 18, 21).

The modernization approach is an extension of the industrialization thesis, combining economic with political factors. The growth of the welfare state is associated with the evolutionary change of society to more complex and developed forms. The concept of modernization is deeply rooted in the structural-functionalist tradition of Emile Durkheim. Modernization brings specialization and fragmentation in society. In highly differentiated societies citizenship is the integrative mechanism of the society. Under comprehensive citizenship, civil rights are related to property rights and political freedoms (Flora and Alber 1981, 39-40). The modernization approach considers the welfare state as the outgrowth of two processes: the development of the industrial society and the emergence of mass democracy with universal political and social citizenship. Due to the complexity of the applied models in the modernization literature, empirical research is limited with few exceptions (e.g., Flora and Alber 1981).

Despite the significance of the demographic factors on socio-economic variables, few research designs have isolated their impact on governments' expenditure patterns. The age structure of a population not only determines the level of public expenditures but also the types of programs and services that the state provides. In developed countries, the aging population brings an increase in pensions, a significant component of welfare transfers. Being politically active, the aged population acquires significant political power through democratic procedures that facilitate the influence of policy-makers (Pampel and Williamson 1989, 165-168). Scholars have voiced two different positions on the subjects of political factors and the welfare state. One group of them emphasizes societal political forces. In this school of thought there is the power resources model by Korpi (1989) and the working class-strength theory developed by Shalev (1987).[18] The power resources model recognizes that power processes are mobilized in different ways in the political and economic spheres. Despite variations, the primary premise of these models is that the welfare state is the outcome of class-based political struggles designed to stimulate state intervention in favor of the working class (Pierson 1991, 29-31).

The second group of scholars, who focus on political factors, assumes that state actors have their own interests in promoting welfare programs. The state representatives seek reelection, and welfare programs provide them with popular support. This category of theoretical models includes the public choice models, which emphasize the role of the bureaucratic apparatus in determining the welfare state's size (Skocpol 1985, Orloff and Skocpol 1984, Skocpol and Amenta 1986). Demographic and economic changes create diversified groups, which articulate their interests via electoral participation. Welfare development is the outcome of political struggles between opposing ideological groups (Usui 1994). To bring political harmony the government needs to satisfy their demands. Thus, according to the bargaining approach the welfare institutions are emerging as the outcome of the bargaining between the government and the various demographic and political groups. These fundamentally long-term processes shaped welfare states though the years, by altering the economic structures and the bargaining process among the various groups and the government. Two of these processes are of primary importance, the increasing limited research on that issue until recently. The theoretical neglect of income distribution is partly due to the lack of sufficient theoretical interest, despite the traditions of the Ricardian and Marxist economics. Although income distribution was a primary issue in both Marx and Ricardo's writings, their theoretical arguments did not exhibit any forecasting ability, because income shares of production factors have being unstable over time. On the other hand, for marginalist economists, income distribution was a secondary aspect of economics (Baldassari and Piga 1996, 261).

Only when macroeconomic theories revised their microeconomic foundations, did income distribution and its impact on the efficient production frontier become popular topics for analysis. Moreover, the current studies depart from Kuznet's line of argument by emphasizing the impact of income distribution on the rate of growth of income, rather than looking at the interaction between level of income and income distribution.[19] Most of the income distribution-growth literature (Alesina and Rodrik (1991, 1994); Perotti (1993, 1996)) look at the effects of an unequal distribution on economic growth.

The models developed by Alesina and Rodrik (1991, 1994), Persson and Tabellini (1994), and Perotti (1993) look at the impact of income distribution on economic growth through the medium of tax collection by the public sector. Taxation crowds out investment necessary for economic growth. Nevertheless, as Alesina and Rodrik (1994), argue the trade-off occurs because taxation is not solely oriented for income redistribution but for productive public spending as well.

---

levels of urbanization and the increasing numbers of the dependent population.

[19] The predominant view among economists is that greater inequality positively affects the level of taxation and redistribution. Any transfer of income from the more well-off to the less well-off reduces the availability of income to be appropriated for investment. Thus, less capital is accumulated and the rate of growth is slower. Most of the economic models use as theoretical foundation the median voter theorem and assume the democratic processes. Another precondition of these models is that the agents are heterogeneous, although not all authors agree on the factors (Baldassari and Piga 1996, 263). There are

In an earlier article Alesina and Rodrik (1991) endogenized governmental policies. Their effort was to extend the growth literature and create a link between the growth literature and literature on majority voting on tax rates by Romer (1975), and Meltzer and Richard (1981) (Alesina and Rodrik 1991, 3).[20] The primary implication of their model was that the regime type, the distribution of wealth, and the levels of economic growth are interrelated. Governments have to choose a level of growth that is not optimal but socially acceptable.[21] Moreover, the distribution of wealth is more beneficial when it occurs from the wealthiest quintile of the population to the middle segments of the population (Alesina and Rodrik 1991, 29).[22]

Overall, the economic models address the issue of equity-wealth as a trade-off rather than a political choice. The level of development of the society determines the type of relation between the two variables. Equity becomes a precondition for economic growth only after a certain level of development has been obtained. The more intense the redistribution process is, the heavier the taxation is on the wealthier groups. Consequently, redistribution causes disincentives to investment, and through lower levels

---

several paths through which income distribution affects the rate of economic growth.

[20] The study of the redistributive functions of government has attracted a plethora of public choice theorists. The most interesting theoretical work comes from Meltzer and Richard (1978, 1981), Aranson and Ordeshook (1981), and Peltzman (1980). Meltzer and Richard argue that the increase in suffrage and the *income inequality* have determined the growth of government in the last two centuries. On the other hand, Pelztman, although he agrees on other grounds with Meltzer and Richard, argues that education and high levels of *income equality* determine the large size of the government. Peltzman's argument is not based on the median voter theorem. In his model, the political candidates compete among each other for votes and promise higher income distribution in favor of their supportive coalitions (Mueller 1991, 327-330).

Meltzer, Richard, and Peltzman assume a vertical redistribution of resources. They also suppose that the beneficiaries of government growth (e.g., public employees) support the expansion of governmental functions. Both assumptions were challenged on the grounds that redistribution is neither strictly vertical, nor are the attitudes of the public employees different from those of the majority of the population. The redistributive role of the government is an important determinant of government size, but not the sole factor (Mueller 1991, 332-333).

[21] Growth does not have a normative connotation in their work. Accumulation of wealth does not imply a welfare improvement for all the segments of the population.

[22] In their article the authors emphasized 'distribution of wealth' rather than 'distribution of personal income'.

of investment it has a negative impact on economic growth.

Political Stability and Income Distribution: Are they linked?

It is fairly well established that political stability and economic growth are also interconnected (Barro 1991, Alesina, Roubini, Özler, and Swagel 1992). Very few researchers have actually connected income distribution with political stability. Muller's (1985) article deals with regime type, income inequality, and political violence. The critical question is whether income inequality causes political violence regardless of level of development. If income inequality does not have any significant effect on the level of political violence, then any highly developed country should not consider income inequality as a political issue.[23]

Muller concludes that there is a definite positive relationship between political instability (he limits his indicator to deaths from violence) and income inequality. His results confirm that a country cannot emphasize economic growth, while ignoring the macro-economic effects of income inequality. Moreover, intermediary regimes (in terms of responsiveness) are prone to political violence compared to those that have either low or high levels of political violence (Muller 1985, 60).

The relationship between political violence, income distribution, and welfare expenditures is critical, since it determines the extent to which income inequality causes political violence. Despite the significance of political violence on the regime stability and sustained economic development, most of the current studies on income distribution and development tend to restrict its use in their empirical studies (Bénabou 1996, 3-4).

[23] Studies have concluded that the relation between income inequality and political violence is spurious, while controlling for levels of economic development (Hardy 1979; Nagel 1974; Weede 1981). The literature is divided in two camps on whether political violence is the outcome of discontent or that of "resource mobilization", and the organizational structure of the general dissatisfaction (Muller 1985, 48).

The relationship between political instability and income distribution is a rather elaborate one.[24] There is no indication that extreme inequality is the necessary and sufficient condition for political violence to ignite. Perceptions of what is the actual level of deprivation of the various groups are also critical and they need to be present for an unequal distribution to lead to political violence.

Generally speaking levels of political deprivation, income inequality, and other forms of social and political decline are not important as independent events. The relationship between political stability and economic development is even more controversial.[25] What is critical is how people perceive and measure their living standards with their conceptions of how life should be. It is not a coincidence that major revolutions (such as English, French, Russian) did occur in periods of economic uprising. Although higher economic growth should be inhibitive of revolutionary trends or other forms of civil unrest, by itself is not sufficient to preclude civil violence, if segments of the population believe that their living standards are declining (Davies 1962, Brinton 1938, Chong 1991, 236-237).[26]

Collective action literature provides an explanation on why in cases of extreme inequality, levels of political instability are lower. Any type of revolution or organized form of civil violence is a collective action and as such, it is subject to the well-known

---

[24] There are an extensive number of articles that deal with the issue of socio-economic stability and that follow the argument that socio-political stability affects income distribution through property rights alterations. For more information about this literature see Alesina and Perotti (1996) and Gupta (1990).
[25] The studies by Alesina, Ozler, Roubini, and Swagel (1992) and Londregan and Poole (1990) reach opposite conclusions. The former study concludes that major political instability can lead to low economic growth, whereas growth has no impact on governmental instability. The latter study supports that there is no evidence in favor of the hypothesis that political instability reduces economic growth, rather that low economic growth reduces the probability that governments will survive (Feng 1999).
[26] This is critical of the future of many developing countries in this period of globalization. Globalization as a process may or may not cause serious economic and political problems within developing countries, but how segments of the population perceive that globalization affects their lives is important to their

problems of collective action. For any group to organize the participants must feel socially obligated to actively participate. Political mobilization requires both strong organization and leadership. The ability of the organizers to effectively lead the population to win the necessary economic and political concessions by the government is critical (Chong 1991, 232-236).

In developing countries, most of the leaders of revolutions come from the middle class, since they are the ones that have the resources and the educational background to provide the necessary organization. Without access to means of communication and to institutional structures, an effective organization is not possible. In developing countries the middle class is the one that has the accesses necessary to achieve an effective organization. Their cooperation and support to the political system is essential for long term political stability to be maintained. On the other hand, their dissatisfaction with the political system can lead to different paths of political activities.[27]

Integrating the Welfare State with the Political Variables

Within the context of public choice theories, North and Weingast (1989), Miller (1989), Shepsle (1979, 1991), and Calvert (1995) have emphasized the significant role of institutions in the enforcement of the state' laws. Institutions have several interpretations in social sciences. Most of the interpretations are restatements or specifications of the broad definition by Durkheim: "all the beliefs and modes of conduct instituted by collectivity" (Durkheim 1895, lvi). For Durkheim, social facts (e.g., moral rules) are independent of individual entities and place constraints on individual behavior. Durkheim perceived that integration and solidarity are the outcomes of patterned

---

responses.

[27] For more theoretical information on the background movements' organization look at Gurr's *Why men*

interaction, which impede *anomie*. In developed societies organic solidarity develops out of the individual differences, since functional differentiation increases the interdependence of the individuals (Corse 1977, 129-132; Calvert 1995, 217).

The rational choice approach to institutions moves away from Durkheim's collectivism, emphasizing the significance of individual actors in shaping institutions. The first approach perceives institutions as constraints, rules of the game that restrict individual behavior (North 1981, 1990; Shepsle 1979; North and Weingast 1989). The second one conceives institutions as equilibrium outcomes of an underlying social game. Both approaches deal with specific cases of social games. Voluntary exchange is the primary mechanism for the selection of a new competitive equilibrium and the goal is the reduction of transaction costs (Knight 1995). A third approach, recently developed, emphasizes the bargaining process among actors in establishing institutions (Bates 1989, Miller 1992, Knight 1992).

The bargaining approach is broader and tries to explain why different institutional outcomes emerge from various alternatives. The foundation is individual (or group) self-interest, but the analytical emphasis is on the distributional differences of the various institutional alternatives (Knight 1995, 107-108). Knight argues that asymmetries in the ownership of resources reflect the bargaining power of the actors (in this case societal groups or classes) during their social interactions.[28] What becomes a necessary

---

rebel (1971), Hirschman *Exit, voice, and loyalty* (1970), Kriesberg *The sociology of social conflict* (1973).

[28] During each interaction, a variety of factors determines the availability of resources. The resources of the actors do not dissipate after each bargaining process, rather they may be used to accomplish another bargaining round with other actors. Furthermore, the ownership of resources affects the actors' attitudes towards risk. The higher the cost from not coordinating, the more risk averse an actor is. Actors who are expecting to lose less tend to be more risk acceptant. Commitment to specific institutional outcomes becomes a function of actors' resources and capabilities to choose among alternatives. Rational actors adjust their behavior through various social interactions until equilibrium is reached (Knight 1995, 109-110).

ingredient for institutions to be viable is cooperation among the various agents. Cooperation implies that even if the immediate act has a negative effect, there are indirect benefits for all the participants (the most extreme case is the prisoner's dilemma).[29]

There are two advantages of the bargaining approach. First, it allows for distributional differences between the various institutional designs. Second, according to the distribution of resources, the actors compete to choose the most advantageous social institution. Because of these characteristics, the bargaining approach is useful to analyze a wide range of social institutions. In the case of welfare institutions, the goal of governments is assumed to be the desire to maintain a relatively stable political system. On the other hand, citizens or segments of the population aim at maintaining basic socio-economic rights. Hence, the bargaining process occurs between various social groups and the state.

Without a doubt, the state has a monopoly on coercing the citizens and extracting resources. Nevertheless, the government must ensure that the process does not undermine the political system in the long run. To do so, the government bargains with the citizens in providing them with security and other services in return for the citizens' contribution of the required resources (North and Weingast 1989, 806-807). In this implicit bargain between the government and the citizenry, welfare programs function as the institution for the government to exhibit its commitment to the bargaining rules.

To achieve its goals, a government builds sustainable coalitions to obtain resources from the society at the minimum possible cost. For these coalitions to be

[29] Even more significant is that cooperation does not imply that the institutional design is the most efficient, yet it permeates both informal and formal social institutions. Although the literature on cooperative equilibrium is still rudimentary, studies have shown that cooperation provides multiple opportunities and complicated interactions among the participants Calvert (1995). For more extensive study of the literature

viable, the governing elites must be able to reach larger segments of the population. The government provides the citizens with security and other services in return for the citizens' contribution of the required resources (Organski 1996).[30]

This complementary perspective on the welfare state has two areas of exploration. The first one is related to the wage distribution literature, and it focuses on the impact of welfare expenditures on workers' incentives (Fitoussi 1996, 337).[31] The second area of concentration focuses on the positive externalities that government programs on education, public health, and public investment can have on economic development. This study expands the research on the second area, by integrating the bargaining theory with the concept of relative political capacity.

A Critique of the Economic Models

The integrating approach on the welfare state contradicts the theoretical arguments and the implications of the literature applying economic models. Although economic equality is associated with higher levels of economic development, the dominant perception is that societies face a trade-off between equity and efficiency. If the society chooses growth as its ultimate goal, the efforts to maintain or improve income distribution will become detrimental to the success of the efficiency objective. The economic models have three shortcomings. First, by applying the median voter theorem,

---

on cooperation and coordination in game theory see Crawford and Haller (1990), and Banks and Calvert (1992).

[30] During the early years of European history, the rulers had an incentive to validate the existing terms of bargaining, so they could extract the resources necessary to wage war. Institutions arose to enhance compliance with the bargaining rules and secure the private economic and political rights of the citizens (North and Weingast 1989, 808). Dealing with threatening situations, governments needed not only the majority of the citizens to contribute to the common effort, but also to establish domestic social discipline. In return, the government provided security for the citizens.[30]. This line of argument can extend to similar implications with the complementary perspective on the welfare state.

[31] Of course the antithesis is that welfare state creates disincentives to save, choose assets, and build entrepreneurial spirit.

the authors automatically restrict their research to democracies and they limit the individual preferences that are acceptable (Baldassari and Piga 1996, 267). The second problem is the lack of consideration that welfare programs often exhibit characteristics of public goods (e.g., vaccination). Government expenditures or programs can create positive externalities, particularly on public health and human capital, which enhance economic development and growth.[32] The third limitation is the assumption that income redistribution is strictly targeting the lower economic layers in society.[33]

Nevertheless, this assumption is rather ambitious and contradictory to empirical reality. The welfare state, however, does not always function for the benefit of the less well-off. Non-poor social and economic layers have their own direct benefits from welfare programs that they maintain through the use of welfare. Goodin and Le Grand (1987) emphasize that the word 'redistribution' acquires a different meaning, as some welfare programs function as 'redistribution over the life cycle.' That implies that transfers are not always from the well-off to the less fortunate, but that they offer security to the well-off themselves. The best example is contributions for pensions. At the end of the working day the same amount of earnings, held from employees, will have been transferred back to them when they retire.

[32] Aside from the economic models that are based on micro-economic structures, there are very few macro-economic models that try to capture income inequality by analyzing industrialization and its impact in occupational differentiation. The argument of this literature is that the growing middle class acquires bargaining power due to industrialization. The relationship, however, is not linear but curvilinear, indicating that higher growth rates in combination with greater population rates lead to greater inequality. Nevertheless, most of the early macro-economic studies used inappropriate measures of income inequality and their empirical findings were inconsistent (Stack 1980, 274-275). For some of these studies look at Jackman (1975); Cutright (1967); and Paukert (1973).

[33] Public choice scholars assume that redistribution of economic and social resources has a strictly vertical motion from the higher to the lower strata. For example Meltzer-Richard (1978, 1981) and Peltzman (1980) contradict each other empirically regarding the impact of income equality on government size.

Most of the public choice models, which are based on Becker's seminal model (1981), follow the premise that democratic processes bolstered the welfare programs.[34] If this argument holds, the politically active middle income groups should benefit more than lower income groups, since the latter tend to be less organized. Tullock (1970) argues that the voting process affects the redistributive decisions.[35] Poor people, usually, represent the majority of the voting population more than well-to-do segments of the society. On the other hand, poor people have less political power. Moreover, for a party to win, the poor people's vote is not sufficient, and middle-class votes are also necessary (Barr 1993, 86-87).[36] Thus, welfare programs function as insurance for people who are poor for a small fraction of their lives (Goodin and Le Grand 1996, 5-6).[37]

[34] The most recent empirical works on the impact of interest groups and political fractionalization on government's size include a study by Mueller and Murrell (1986). Mueller and Murrell picture a political system where competing parties provide interest groups with benefits and services in exchange for their electoral support. Their findings support the theoretical argument that interest groups and the percentage of the population that votes positively affect the size of the government. However, contrary to Meltzer's and Richard's theoretical assumptions, the redistribution caused by interest groups' activities goes from the poor to the rich. The total size of the population has a negative impact on government size. The authors consider this result noteworthy because it indicates that the government's role is not strictly redistributional. Government provisions have the quality of a public good (Mueller and Murrell 1986, 141-142).

[35] The argument that the middle classes disproportionally benefit from welfare programs was first articulated by Tullock (1970, 1971). This hypothesis converges with the theoretical argument by Peltzman on the role that economic equality has on government size. Moreover, as Peltzman (1976) and Stigler (1971) argue any form of regulation which is the outcome of interest groups' activities, ends up as extraction of monopoly rents (Barr 1993, 94).

[36] Williamson and Pampel (1986) argued that in many countries the increase in welfare expenditures can be explained by the political power of the middle class rather than the strength of the working class.

[37] An extensive study of both developed and developing countries by the International Labor Office shows that in developing countries the whole population does not benefit equally from public expenditures. Two critical reasons are that the decision making process is remote from most of the population, and the differences between rural and urban populations. The majority of poor households are located in rural areas, hence, they receive less support compared to those in developed countries (Lecaillon, Paukert, Morisson and Germidis 1984, 128-130). A more detailed analysis of itemized public expenditures in specific countries (Chile, Colombia, Panama, Puerto Rico, Hong Kong, Iran, Malaysia, Philippines, Sri Lanka, Canada, and the United States) indicates that not all types of public expenditures enhance redistribution. For instance, at face value social welfare expenditures are most progressive. However, if the composition of the expenditure is specified, then it is revealed that the largest percentages of social welfare transfers are pensions. Most of the developing countries' recipients of pensions are civil servants, who belong to middle or even higher income groups. In reality, the relatively poor segments of the population receive a much smaller proportion of the social welfare transfers. Similar trends can be identified in health expenditures. Moreover, public expenditures on mining, industry, and transportation are neutral, having no

Despite the positive effects that welfare programs have in maintaining a minimum income, the initial distribution of resources prohibits a more egalitarian transfer that will have a progressive effect on income distribution. In Latin American countries, the middle class benefits the most from the welfare programs. Recent studies in Brazil, Uruguay and other countries show that around 40 per cent of the poorest segments of the population received only 18 per cent of welfare transfers and 8 percent of social security benefits. The middle income groups, however, received 70 per cent and 35 per cent of these resources respectively. In the Dominican Republic the wealthiest families receive 60 per cent of health care benefits and pensions. Pensions in particular have a severely regressive effect on income distribution. In Chile, despite the efforts to extend the welfare coverage, 30 per cent of the working force remains outside the welfare system. In Venezuela, a more extreme case, the actual transfer is from the workers to the state, since the pension at the end is much lower than the initial contributions (Mesa-Lago 1991, 200; Hauseman and Rigobon 1993, 10-11).

Furthermore, if interest groups are significant forces in shaping the size of the welfare state, this unequal distribution of resources is magnified. The role of interest groups is usually associated with increasing industrialization and specialization. Both processes create transaction costs. According to Becker's model (1983), interest groups function as both an efficiency-enhancing and redistributive mechanism. Nevertheless, public choice theories have emphasized that distributional coalitions enhance inequality (Pampel and Williamson 1989, 168-169). The more organized the groups are, the more successfully they capture the distributional effects of government policies. Thus, the

effect on income inequality. Finally expenditures on higher education are regressive (Lecaillon, Paukert, Morisson and Germidis 1984, 166-168).

distribution of welfare benefits does not always correspond to the needs of all the segments of the population.[38]

Most of the public choice theoretical arguments provide valuable insights regarding the political processes that determine government size. Nevertheless, most of the models are static in nature, focusing on equilibrium relationships in democratic and developed societies (Mueller 1991, 337). They fail to capture the long-term process in which democratic procedures and interest group activities shape the size of the government.

What these models fail to distinguish is between short and long-term goals that governments may have. The actual goals of welfare policy are not always clearly defined by the existing studies.[39] In the previous section income distribution and building consensus were considered the two principal functions of welfare state. It was also suggested that depending on the time-frame, building social consensus is complementary, and not antithetical, to the redistribution of resources. An efficient welfare state in the long-run should reduce inequality or at least maintain an acceptable level of economic differences among the various groups. Through its effect on income distribution, the welfare state can support the stability of the political system. It should be expected that states with high levels of relative political capacity can harmonize their long-term political and economic goals to achieve sustainable economic growth. The short-term

[38] Another possible explanation of distributional inequalities or inefficiencies is the distance from the source of the services. The proposed explanation is that the financial and time cost of travelling affects lower income population more than higher income (Goodin, Legrand, and Gibson 1987, 130-131). Of course this explanation could corroborate why distributional inequalities exist between rural and urban populations in developing countries.

[39] Landau (1986) tried to identify whether government expenditures on various areas stimulate economic growth in LDCs. In most cases, government expenditures did not have any significant effect on growth. However, he ignored the possible indirect effects that government expenditures (educational expenditures, public investment) may have. He also failed to consider the differences between government consumption

effects of the welfare state, however, may differ quite significantly, since in the short-run welfare programs target political stability as the primary goal. If there is a harmony between long-term and short-term goals, then the impact of the welfare state could actually be indirectly positive to long-term sustained economic growth. Due to increasing demand for socio-economic security, the role of the state has been modified to secure a constant flow of social services rather than providing emergency relief (e.g., Poor Laws).

A Model of Welfare Transfers and Economic Development

The basic assumption of this study is that an efficient government builds the necessary social consensus to support a stable political environment conducive to economic development. Doing so, governments use the welfare state programs to integrate segments of the population under the sweeping concept of "social citizenship." Thus, under the presented theoretical framework, the most critical function of the welfare state would be to protect the political system against disruptive changes of the political system. Political instability is often the outcome of an unequal distribution of economic and political power within the society. Welfare institutions intervene and alter the original allocation of resources in the society. The government mitigates social grievances to promote political stability, interfering with the efficient but often socially unacceptable distribution of income in the market (Scully 1991, 200).

A variety of activities from protests and strikes to more extreme forms of riots and revolutions determine the degree of political violence and the survivability of a political system. For any government, controlling political instability remains a practical goal. Aside from the eradication of the causes of political instability, it is common practice

---

and welfare expenditures, or other more directly distributive government expenditures.

among all types of political systems to assemble the population around institutions, which are acceptable either to a significant majority or to politically essential segments of the population. Welfare institutions were created as a response to the likelihood of political violence (Germany) or as an effort to unite the whole population in the common effort of warfare (England). Thus, welfare programs constitute an effort by states to build social cohesion and reduce the possibility of political violence through bargaining with the most critical groups for their survival.

If we accept the argument that welfare programs reflect an attempt to create social cohesion, along with redistributing resources, then we can explore how the state uses its programs to promote sustained economic growth. This trend is not unidimensional, but it reflects the capacity of the state to interact with domestic and external economic and demographic factors. Given the prior discussion on long-term and short-term goals of the welfare state, I argue that in the short-run, within two years maximum, the states redistribute resources to avoid immediate political crisis that are disruptive to the economic and political system. This type of redistribution is clearly focusing on building a consensus. If governments are interested in long-term stability and economic growth, then the redistribution of resources will target the politically relevant groups for the government's survival. In this case the type of income redistribution will be institutionalized and the created welfare state will be an elaborate system of institutions that through positive externalities can positively enhance political and economic development.

As Figure 2 shows, the long-term political goals of income distribution and political stability are strongly related to the level of economic development. As the literature indicates, each variable is a critical part of the larger puzzle regarding the choices that governments make. Although trade-offs are present in any system, this line of reasoning does not always circumscribe social choices. As it is mentioned earlier, acquiring social cohesion is often a by-product of government intervention. Thinking strictly in Manichaean terms, one ignores the possible existence of such by-products. Thus, the indirect impact of government intervention, which can capture the positive externality of the welfare state, is usually ignored in the literature.

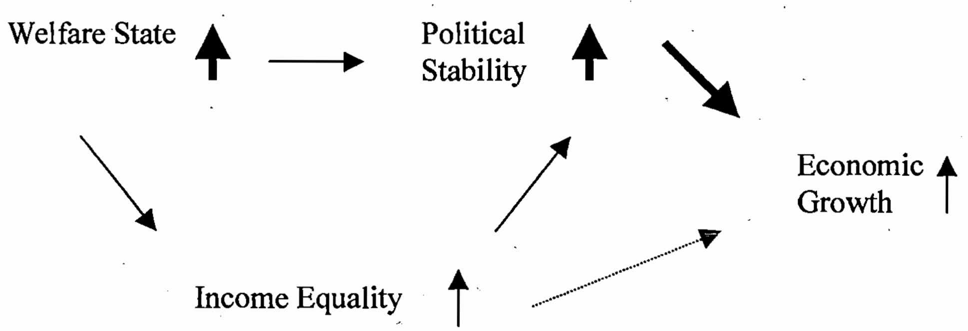


Figure 2. Welfare Transfers and Economic Development

The socio-economic theories consider the welfare state to be a response to both industrialization and increasing democratization. Both processes alter fundamental social structures and create the necessity of a mechanism that integrates society (modernization argument). All of the original theoretical frameworks suggest that the initial role of the welfare state was to build the necessary social cohesion for sustained economic development. In this context I argue that instead of focusing on the redistributive function of the welfare state, research should look at its function to maintain political stability. Income redistribution becomes a complementary function rather the primary goal of welfare transfers. In simple terms governments do not redistribute resources because they desire an equitable distribution of wealth, but because they desire to remain in power. Hence, the redistribution will target groups that are politically critical. If governments desire to drastically alter the redistribution of resources, other means such as planned agricultural reforms are more appropriate and efficient.

In this line of reasoning it makes more sense that the goals of welfare state will be short-term. Why do governments even bother to be engaged in long-term programs? Going back to the principles of the bargaining model, for governments to alter the planning horizon of the various social groups and to prevent them from perceiving political violence as a viable option, it is necessary to alter their own incentive structure through strong commitment to political and economic redistribution.

In more socially homogenous societies the need to build organic solidarity is less critical than in socially heterogenous societies. Hence, the time frame that governments are willing to commit to the redistribution of resources varies according to the levels of heterogeneity within critical social institutions and their overall level of development. The critical variable to determine the type of welfare policies a government wants to follow is the time preference and the power asymmetries of both the government and the social groups, as well as how far they are willing to commit and build-up a social consensus.

All things being equal, strong governments, where the opposition is weak and non-threatening and they do not feel the pressure to alter the planning horizons of their support groups, will choose less elaborate welfare programs that target short-term problems of political violence.[40] Hence this type of government, regardless of political regime, has short time preferences and low level of commitment.

On the other hand, governments that face strong opposition and continuous challenges to their authority cannot efficiently function without building a consensus first among the critical groups to sustain the political system. In such cases the governments need to alter the time preference of the various social groups, where political violence is not a desirable goal in the long-run. As the bargaining theory of institutions and public choice theories on property rights show, governments need to signal long-term commitment to national political stability. And once again it is necessary to emphasize that the degree of commitment is with respect to politically relevant groups.

England established modern welfare programs only during WWI, when the need to bring in the whole population to the war effort was imperative. Without the fear of war, Poor Laws were the furthest the British government was willing to provide the citizens. Germany, on the other hand, was barely one unified state when Bismarck was faced with problems of labor demands. At that time period it was necessary for the German government to enact laws that will enhance the long-term stability of the country. This argument can extend to developing countries as well. It is even more relevant as the currently developing countries have to make even faster policy choices between domestic goals and external pressures. The cases of Malaysia and South Korea elaborate the different time preferences and degree of commitment in the government policy choices and the dilemma they face between competitiveness and socio-political

[40] There are several definitions of 'strong government', in the context of this study, however, it is relevant to define as a 'strong government' one that has a lot of bargaining power and resources with respect to the competing socio-economic groups. In this case governments that need a smaller supportive coalition to remain in power or governments that rule over relatively homogenous societies are considered stronger

stability.

3. *Malaysia and South Korea*

As Sarel (1998) argues the Asian 'miracles' are hardly miraculous if the initial conditions of economic development are taken into consideration. Either in the form of agrarian reforms or through welfare, health, and educational transfers a reduction of obstructions to economic growth inequalities was pursued. Even in South Korea where growth was the primary goal, an extensive agrarian reform occurred first. Both South Korea and Malaysia have one of the lowest Gini coefficients among developing countries. Political and economic development was not a linear path of modernization, but the outcome of policies that balance out domestic and external goals. Political violence is not unknown to either country, yet both countries managed to avoid a spiral effect of political violence and economic underdevelopment. Moreover, the comparative analysis of the two countries shows how governments with different time preferences and bargaining power choose different paths of social and economic development.

The two cases elaborate that income inequality by itself is not a sufficient cause for the government to experience civil violence. Perceptions of people regarding the quality of their lives can be actually more critical in conjunction with deep cleavages in the society (rural vs. urban, ethnic divisions, labor vs. management) can be explosive. The two cases corroborate that welfare transfers remain one of the many tools that governments use to accommodate the public' dissatisfaction, or that of specific groups (labor in South Korea) and alter their planning horizon where political violence is not an attractive option.

---

than others, hence less willing to commit in the long-run.

Welfare transfers are not the unique mechanism to build up consensus, health expenditures and education are two other mechanisms that are even more efficient in the long-run as the case of Malaysia shows. Nevertheless, welfare transfers can be faster in implementation. Thus, welfare transfers are particularly applied in the short-run to eliminate phenomena of political violence, like in South Korea during the '80s. Welfare transfers can actually accentuate income inequality, if other measures are not taken to satisfy the longer term goal of smoothing income distribution. The health expenditures in Malaysia and the agrarian reform in South Korean are two possible solutions.

The Korean Case

The homogeneity of the population allowed the South Korean governments to follow rather repressive policies, particularly towards labor. For South Korea's economic planners the ultimate priority was to grow economically. Redistribution was a secondary issue. Moreover, the initial agrarian reform provided South Korea already with a relatively lower income inequality compared to other developing countries. Hence, the South Korean governments did not develop the preference of socially responsive policies and the long-term policy did not match the short-term efforts to alleviate political instability.

Nevertheless, in the long run the South Korean case shows the deleterious effects that rapid economic growth may have on the society and the political system. For South Korean governments, civil unrest was a factor of labor militancy and students' demands for more democratic procedures. The inclusion of welfare policies was a response to the social pressures towards the state. As public choice models predict, the increasing democratization allowed channels of interest articulation and aggregation via civil unrest (riots and strikes).

At the end of the Korean war (1953), South Korea was a devastated country with GDP per capita of $67. In less that 20 years Korea achieved tremendous rates of economic growth. Meanwhile, politically the Syngman Rhee government was becoming increasingly autocratic, while Western values were embedded into the educational system. The clash between an autocratic regime and the democratic-ideals of the students led to riots and uprisings that resulted in the end of the Rhee regime and a coup in 1961.[41] Nevertheless, the military regime lay the foundations for the economic development and it was progressively transformed into a civilian government in 1963. What also happened during the late '50s and the early '60s was an agrarian reform under the auspices of the United States as well. The agrarian reform altered the initial redistribution of resources, allowing for faster economic growth. The success of the agrarian reform was partly due to the strength and the commitment of the regime. (Kong 1995, 632-633).

The Park regime (1961-1979) created the Economic Planning Board (EPB) to promote the five year plan of economic development. Similar to Malaysia, the priority in South Korea was to build a well-trained and efficient bureaucracy. And similar to Malaysia, the private sector was protected and considered as co-partner in the effort to build up the Korean economy. Thus, the Park regime chose to signal personal and institutional commitment to the private sector that the government would play by the rules. To make that commitment credible the government decided to intervene only when it was necessary and government interventions were predictable. The Korean

[41] It is interesting in the case of Korea that the mobilization for education did contribute to the many incidents of civil violence, where the students have been the primary initiators.

government chose economic growth as the primary goal and all policies were targeted toward higher rates of economic growth (Root 1996). The driving force behind any developmental policy was the state that played a particularly dominant role, and the large businesses (*chaebols*).[42]

The problem with the first development plan was that it produced imbalanced economic growth and it aggravated imbalances between sectors. The emphasis on export-oriented industrialization created a gap between export-oriented businesses and those that were domestically oriented. Furthermore, imbalances between urban and rural populations were persistent as well. To resolve these problems the Korean government tried to strengthen agriculture with low-interest rate loans and intervened with the price of rice to reduce the income inequality between urban and city residents (Lee 1996, 20-21).

In the 1970s despite the two oil shocks, the collapse of the Bretton Woods' system, and the weakening of the international trade, South Korea continued its economic expansion. It actually gained momentum by participating in projects with other developing countries in Asia and the Middle East. On the other hand, while the manufacturing sector was restructured and leading the acceleration of economic growth, the government could not adjust the prices of the agricultural products. As a result the gap between the rural and the urban sectors increased. Inflationary trends and inefficiencies caused by the chemical and heavy industries endangered the perspectives of economic growth. The Korean government tried to moderate the rate of economic

---

[42] The structural changes that took place in the '60s under the Park regime transformed the Korean economy from an agricultural one to a semi-industrialized and currently to an industrialized one. The share of manufacturing in gross domestic product rose from around 13 per cent in 1961 to 28 per cent in 1974, while the share of agriculture dropped from 40 per cent to 25 per cent during the same period. The

growth with the third development plan (1972-1976). The emphasis was not strictly on economic growth but rather on " harmony in growth". During the following decade there was a switch in the economic policies with an emphasis on economic stabilization, a rather weak point in Korean development (Lee 1996, 21-22; Hasan 1976, 8). Price stability, market liberalization, balance between heavy industries and small businesses were the primary goals (e.g., tariffs declined continuously from 21 per cent in 1985 to 8 per cent in 1993). Moreover, the service sector started developing. Mismanagement of the economic plans led to critical delays and an aging manufacturing sector, although the Korean economy was able to switch to an open economy with finance and trade liberalization (Kwon 1990, xxii; Lee 1996, 30-33).

The Korean society discovered that growth and political stability are two complementary rather than antithetical goals. Even more critical is that without prior institutional and political stability rapid growth can cause instability. This is true particularly for transitional periods as most of the Korean regimes experienced with the student riots and later on with the labor stoppages and strikes. Part of the problem of Korean policies was the effort to fix and deal with the obvious economic problems rather than to address structural problems. The agrarian reform performed by the early regimes was a critical structural reform that reduced income inequality and had beneficial effects for the rapid economic growth that Korea experienced in the '60s and the '70s. Another critical issue here is how people perceived the business cycles that began to occur in the Korean economy (Lee 1996. 44-45). The incidents of civil violence during the '80s corroborate that business cycles produce massive pessimism in the society, and threaten

industrialization process was followed by a rise in wages and a decline in unemployment from 8.2 per cent in 1963 to 4.1 in 1974 (Hasan 1976, 4).

the stability of the political system. Once the stability of the political system is undermined, the levels of investment may decline.

The Park regime (1961-1979) and the Chun regime that followed (1980-7) tried to deal with the increasing problems. The Park and Chun regimes chose to build up first the economic foundations of the society and then to allow for democratization, which became inevitable with the advancement of capitalism. Moreover, democratization allowed for the erosion of the common goal of economic growth. Hence, Korean governments were forced into different choices to maintain political stability. From authoritarian development, South Korea moved to consensual development (Kong 1995, 634-635). During the late '80s and the early '90s the issue of income redistribution became a priority, unlike previous years where the main goal was to grow first and then redistribution would follow, although Korea already had one of the most equitable distributions of income among the developing countries (Kwon 1990, xxiii).

During the '60s, the income distribution of Korea was fairly stable, yet problems remained between the rural and the urban sectors, despite the efforts of the government to maintain a stable relationship between rural and urban incomes. The heavy industrialization of Korea actually aggravated the income redistribution between the rich and the lower income segments of the population. The existence of a large underground economy (more than half of its GDP during 1978-1985) contributed even further to welfare and income inequalities, since the government was unable to collect the necessary taxes and resources to redistribute income (Yoo 1990, 385). Contrary to common beliefs that Korea is one country that combines economic growth with equity, empirical data show that aside from the period 1969-71 or before 1974, income distribution has deteriorated with growth (Yoo 1990, 385). Through the years, the Korean government has gone from periods where welfare transfers were an essential component of policy making to alleviate welfare and income inequalities (early '80s- under the Chun and the Roh regime) to periods of growth-oriented policies (the most recent example being the 6th five year development plan).

South Korea provides an interesting case of development, where rapid economic growth was the primary goal. Nevertheless, the sinister focus on economic growth as a goal undermined on multiple occasions the stability of the economic and political system, weakening the ability of the state to assume its initial developmental role (Kim 1993). In South Korea the long-term policy did not match the short-term efforts to alleviate political instability. Often, welfare transfers were used to satisfy the temporary demands of specific groups in an effort to avoid further confrontations between the labor and the *chaebols*. Thus, there was a change of course on policies, which created even further fears during the '90s.

The Counter Example of Malaysia

Understanding the patterns of economic development in Malaysia requires a comprehension of the fundamental economic and political divisions among the three ethnic groups that comprise almost 95 per cent of the total population. Until 1969, when the worst ethnically related civil violence occurred, Malaysia had been relatively stable and peaceful. The ethnic violence that erupted in Malaysia was related to the dissatisfaction of the local Malays with a lower economic status compared to the ethnic Chinese and even that of the Indians. As it will be analyzed further in this section, this unique characteristic of Malaysian politics led to policies of income distribution that seem to be counterintuitive (Meerman 1979).[43]

Malaysia was part of the United Kingdom's empire, until it became independent in 1957. Since its independence Malaysia has been a federation of two Borneo states in Indonesia and 11 states of the Malay peninsula. The population consists of primarily Malays (55 per cent of the population), Chinese (35 per cent), and Indians (10 per cent).[44] Among the three ethnic groups, Malays are rural, predominantly residing in the four northern states of the peninsula. Chinese are primarily the urban residents with incomes twice as large as the Malays, residing in the state of Salangor that surrounds the capital Kuala Lumpur, the most highly developed region in the country. Financially, Indians fall in between the Chinese and the Malays, working as rubber tappers. Although economically the Chinese are by far the most powerful group, politically the Malays have control (Hammer et al. 1995).

Even though the transition from the British empire to independence was without serious contention among the three ethnic groups and without any significant transformation of the political and economic structures, ethnic polarization was the primary threat to Malaysia's economic development. The political and economic stability of Malaysia depended on the balance among the three ethnic groups and particularly between the Chinese and the Malays. After Independence an elite consensus was reached via bargaining among the three major political coalitions (United Malays National Organization (UMNO), the Malayan Chinese Association, and the Malayan Indian

[43] Th ethnic divisions of Malaysia are partly the outcome of the colonial policies of Great Britain that allowed and even encouraged the immigration of Chinese populations to Malaysia altering the demographic structures in Malaysia.

[44] The remainder of the population (less than 1 per cent) consists of various ethnic groups. The British policy of immigration encouraged the explosive mixture of Chinese, Indians, and Malays. Until the beginning of the 20th century the Malays were the majority of the population, even further back in history they were the only ethnic group inhabiting Malaysia. By the end of 1930's Malays were a minority within

Congress). Malays would have control of the government in exchange for full citizenship status for the Chinese and the Indians. Nevertheless, the Chinese soon dominated commerce and business (Root 1996, 70-71). The growing economic gap between the Chinese and the Malays was one of the leading causes of the ethnic bashing against the Chinese in 1969. Some of the most violent rioting in Malaysia's history occurred following the election on May 10, 1969 where 196 people were killed.

Through the period of ethnic strife between the Malays and the Chinese, Malaysia experienced an overall economic growth periods of around of 7 per cent annually from 1961-1976. Economic growth was the outcome of the alliance among the *élites* that implemented changes to try and re-distribute resources to the underdeveloped segments of the Malaysian population. More recently, the Malaysian economy achieved even more impressive rates of economic growth (on average 9 percent in the period from 1988 through 1996). The financial conditions in Malaysia summarized in Table 1 show that the financial system was strengthened in the past five years. A sharp drop in foreign direct investment forced the government to turn to incentive packages and to lower corporate taxes to 32 % in 1994, and to 30 per cent in 1995 (Coplin and O' Leary 1994, 54).

---

their own land.

Table 1

Summary of Malaysia's Financial Conditions

Average	*Exchange rate US$1 =*	*Foreign Debt (US$ Million)*	*Debt Service (US$ Million)*	*Debt Service Ratio*	*GDP (1985 prices - M$millions)*	*GDP Annual growth*
1985	**2.483**	**20269**	**5399**	**30.4 %**	**--**	**--**
1989	**--**	**--**	**--**	**--**	**98247**	**9.2 %**
1990	**--**	**--**	**--**	**--**	**107779**	**9.7%**
1991	**2.750**	**17780**	**3042**	**7.6%**	**117103**	**8.7%**
1992	**2.547**	**19837**	**3072**	**6.6%**	**127039**	**8.6%**
1993	**2.574**	**23411**	**3545**	**7.0%**	**--**	**--**
1994F	**2.690**	**25175**	**3650**	**6.8%**	**--**	**--**

Note: The Handbook of Country and Political Risk Analysis, pp. 54-56.

Until now, among the developing countries, Malaysia could be characterized as a success story according to the classical theory of economic growth. Currently Malaysia is a upper-middle-income developing country with an annual GNP per capita at the range of $4,680 (Atlas method, US$) compared to $10,500 for South Korea and $1,110 for Indonesia. Since the mid-80s Malaysia's annual growth rate has been higher than that of South Korea (8.8% and 7.6% for Malaysia and South Korea respectively during the decade 1987-97). Its income places Malaysia above the average of the upper-middle income countries, and ahead of all the Latin American countries except Mexico and Venezuela.

Malaysia followed a slightly different economic development path than those of South Korea, Singapore, or other South East Asian countries, which chose economic growth as the predominant goal, and followed policies of export-led development pushing the labor force into an effort comparable to wartime periods. The Malaysian economy is a mixture of private enterprises and public management, and the primary goal has been the achievement of both political and economic stability among the three major ethnic groups. Trade is one of the primary drives in Malaysia to achieve high levels of economic growth. Malaysia's exports were 94.3 in US$ billions in 1997, while Korea's exports were only 38.1. Imports constitute 92.8% of Malaysia's GDP versus 38.8% for South Korea. Constant economic growth is a necessary precondition for the realization of the governmental development plans (New Economic Plan (NEP)), which allow the government to utilize the economic resources to redistribute wealth and to alleviate poverty.

The critical socioeconomic element in Malaysia is the disparity between the political and economic status among the three ethnic groups. This is related to ethnic divisions, but also to the division between the rural and urban populations. The extremely slow process of income distribution led to racial conflicts on May 1969, where the preexisting formula for peaceful co-habitation of the three ethnic groups collapsed. Riots started in Kuala Lumpur, when Malays demanded the expulsion of non-Malays.[45] The Malay political leaders (including the current prime minister Mahatir) argued that economic and political equity among the three ethnic groups was necessary for harmony to be re-established. In other words Malays demanded to become active economic actors as well as political actors (Root 1996, 71-72). After that period, the Malaysian government tried to re-organize the economic and political foundations of the country and to eradicate ethnic tensions. To do so, the Malay government implemented the New Economic Policy (NEP), a plan that ran from 1971 through 1990 with a dual goal: (i) first

[45] At that time Malays controlled only 1.5 percent of businesses, contrary to 22.5 per cent hold by the Chinese, while the rest of the corporate equity was under foreigners (Root 71).

it was the eradication of poverty among all Malays,[46] and (ii) the second goal was to reduce the economic disparities among the ethnic groups, so certain levels of income would not be associated with specific ethnic groups. The most critical element for the success of the NEP was the continuity and the stability of the state structures.[47]

For the NEP to be successful, politicians had to commit to policies that would prevent any form of power and political abuse in the Malaysian civil service. Moreover, the Malaysian bureaucracy does not reflect the inequalities that in other countries are apparent between bureaucrats and citizens such as the Philippines and India. Another essential component that supports the NEP is the unification of public and private business into a common national goal and common objectives. Doing so, the Mahatir government (in power since 1981) introduced the "Malaysian Incorporated Policy" (1983). The role of the bureaucracy is to support the partnership between private and public sectors.[48]

Based on the foundations of solidarity between the private and public sectors, NEP was a rather successful program. An overview of the NEP program shows that the program to a large extent benefits the rural and poor segments of the population (Malay in its majority). There are three primary channels of redistribution that the Malaysian government followed: education, health quality and expenditures, and welfare transfers. The combined federal expenditures per capita on education, health, and pensions were highest in rural regions, where the Malays live, and lowest in the area of Selangor, where

[46] Part of the aggressive policy of political and economic equality was the reaffirmation of equal citizenship, political participation, and office holding, as well as tolerance of religion, language, and other institutions of the minority coalitions (Root 1996, 72).
[47] Since the NEP allowed for the predominance of politics over economics, the Malaysian government followed with several acts to monitor and administer the public service and guarantee its neutrality.
[48] The Mahatir government favored consultations between private and public sectors to build up a national consensus, while obsolete laws were abolished, and training programs for managers and bureaucrats were

most of the Chinese reside. In terms of ethnic groups, controlling for the region, Malays receive per capita benefits that exceed the mean by 22 per cent, while the Chinese's benefits are 30 per cent lower than the mean (Meerman 1979, 7).

Although in other areas such as public utilities, the Chinese urban dwellers tend to benefit more than the rural residents Malaysia still has a far more equal distribution than other middle-income developing countries of resources between rural and urban populations. In fact Malaysia's Gini coefficient is one of the lowest in the region (33.7), while South Korea's Gini coefficient is 33.9 and China's is 34.5. Malaysia has one of the lowest percentages of population below the poverty lines in the world. The percentage of the population below the poverty line is 15.5 nationally (in 1989), while Indonesia's population below the poverty line is 17.9 (1987), India's is 40.9 (1992), and the Philippine's is 52.0 (1985). The significance of low income inequality is critical for further economic development, as most of the empirical studies on growth indicate that higher levels of inequality reduce the rate of economic growth (Feng 1998, Perotti 1996). The caveat to the successful implementation of the NEP is high rates of economic growth.[49]

The policies of NEP have been the most successful in the area of medical care. Rural areas have above the average and far above the metropolitan areas' consumption of medical services. Race and levels of income are not determinants of the use of medical facilities (Meerman 1979, 310). In 1974, 19 per cent of all public expenditures on in-patient visits was received by the poorest quintile and 20 per cent by the richest. In 1984 25 per cent of the expenditures was received by the poorest quintile, while the richest

established with the participation of the private sector (Root 1996, 83-84).

[49] Equality should be achieved through employment and assets, rather than expropriation or use of existing

quintile received 16 per cent of the total expenditures (Hammer et al. 1995, 530-532). These results imply that more poor people used public medical facilities than the richer segments of the population after the implementation of NEP. Comparing across countries, 88 per cent of the Malaysian population has access to health care, whereas only 43 percent has access in Indonesia, and 59 per cent in Thailand. The best medical access in the region is in South Korea (100 per cent) (World Bank 1998).

Overall, NEP's policies regarding health expenditures and education were effective in redistributing resources and improved the quality of the human capital with significant ramifications for the whole economy and economic growth (Hammer et al. 1995, 540-541). Aside from the tangible and direct effect that these variables may have on economic and social development, there are externalities that are created either in the form of increasing productivity of the labor force, or in maintaining political stability. The role of the private sector is critical in providing services and resources to the richest segments of the population and releasing public resources for the poorest segments of the population (Hammer et al. 1995, 548).

In the case of Malaysia, the combination of private and public economy does not coincide with the neo-classical growth policies. Despite the seriousness of the current situation, Malaysia remains a success story over the last twenty years. Even more important is that the ethnic and socio-economic divisions in the Malaysian society did not become a burden for its economic development, unlike the African countries where after the decolonization process ethnic strives destroyed any attempts to build up a stable political and economic environment (e.g., Uganda, Congo, Somalia).

The success of Malaysia can be attributed to political institutions, which actually

wealth (Meerman 1995, 28).

affect some of the fundamental economic variables. Private savings and investment, as well as a decline in income inequality, are critical in affecting economic growth. The political institutions within a country reflect the levels of political and economic freedom, and they determine the levels of political stability and consensus. A stable political environment attracts both foreign and domestic investment, while private savings increase (Feng 1998, Alesina and Sachs 1988, Cukierman, Edwards, and Tabellini 1992).

The two case studies illustrate the choices of governments regarding economic growth and political stability. Malaysia, on the other hand, is a country that encountered the problem of ethnic divisions. For Malaysia building consensus was essential before economic growth could be achieved as a goal. There was an interest for the government and the ruling *élites* to build political consensus among the three groups that will be stable in the long-run. Hence, short-term concerns of political stability and long-term goals for economic development had to coincide. The elaborate welfare policies established by the NEP policies indicated the long-term commitment of the Malaysian governments to an equitable distribution of resources among the three ethnic groups. Hence, shared economic growth was almost a necessity for the country to be able to develop.

Malaysia's economic development has been less spectacular though more stable than that of South Korea and with much fewer incidents of political instability, aside from the unique case of 1969. South Korean government policy choices were not inferior than those of Malaysia, but inspired by different goals and time preferences. Initially South Korean governments aligned with the *chaebols* had more power and resources not to consider long-term commitment to welfare policies. It was only after the erosion of the economic system and the increasing levels of democratization that made groups such as labor politically relevant that the South Korean governments were faced with the policy dilemma of being socially responsive vs. economic growth.

4. Concluding Discussion

Why do governments use welfare transfers? Governments apply welfare transfers to prevent regime changes. In some cases (e.g., South Korea) the policy choice is to temporarily prevent the political unrest with short-term programs. In other cases, such as that of Malaysia, governments try to combine short-term and long-term goals. This study offers two critical points in the area of social and economic development. First, welfare programs can not merely be reduced or increased. They are the outcome of fundamental structural changes that alter the nature of the political and the economic system and systematic policy choices to balance out social stability with economic development. Although political issues are often overlooked in the studies of the welfare state, in policy recommendations it is critical to consider that the welfare state was established for the very political reason of regime stability. Hence, the welfare state cannot be studied in political vacuum and as long as governments use welfare transfers, we need to explore their role in economic and political development.

Second, for welfare transfers to be beneficial, the short-term goals of regime stability must converge with the longer goals of a more equitable distribution, sustained economic growth, and political stability. The significant distinction between the long-term and the short-term choices of welfare transfers is quite prominent in the cases of South Korea and Malaysia. These government choices become even more relevant under the increasing effects of globalization on domestic economies. This study points out that more research is required in defining and explaining why some governments choose short-term goals and others long-term ones and what are the long-term effects of each type of policymaking. Welfare programs are a complicated institutional structure that needs to be studied under a different theoretical and empirical light, where emphasis shifts from economic choices to political ones.

Works Cited

Alesina, Alberto, and Dani Rodrik. 1991. *Distributive politics and economic growth.* Working paper no. 3668. Cambridge, MA: NBER.

Alesina, Aberto, and Dani Rodrik. 1994. Distributive politics and economic growth. *The Quarterly Journal of Economics* 109: 465-490.

Alesina, A., N. Roubini, S. Özler, and P. Swagel. 1992. *Political instability and economic growth.* Working paper no. 4173. Cambridge, MA: NBER.

Alesina, Alberto and Jeffrey Sachs. 1988. Political Parties and the Business Cycle in the United States, 1948-1984. *Journal of Money, Credit, and Banking*, 20, 1: 63-82.

Andersan, T., K. Moene, and A. Sandmo. 1995. *The Future of the welfare state.* Oxford: Blackwell.

Ames, E. and R.T. Rapp. 1977. The Birth and Death of taxes: A hypothesis. *Journal of Economic History*, 37: 161-178.

Arbetman, Marina and Jacek Kugler. 1996. Relative political capacity: Political extraction and political reach. In *Political capacity and economic behavior*, ed. Marina Arbetman, and Jacek Kugler, 11-47. Boulder, CO: Westview Press.

Baldassari, Mario, and Gustavo Piga. 1996. Distributive equity and economic efficiency: Trade-off and synergy". In *Equity, efficiency, and growth*: *The future of the welfare state*, ed. Mario Baldassari, Luigi Paganetto, and Edmund S. Phelps, 257-275. London: Macmillan.

Baldassari, Mario, Luigi Paganetto, and Edmund S. Phelps. 1996. *Equity, efficiency, and growth: The future of the welfare state.* London: Macmillan.

Baldwin, Peter. 1989. The Scandinavian origins of the welfare state. *Comparative Studies in Society and History* 31, no.1: 3-25.

Banks, Arthur S. 1996. *Cross-NationalTime-SeriesData.* Binghamton, NY: SUNY Binghamton.

Banks, Jeffrey S. and Randall L. Calvert. 1992. A battle-of-the sexes game with incomplete information. *Games and Economic Behavior* 4: 347-72.

Banks, Jeffrey S., and Eric A. Hanushek. eds. *Modern political economy: Old topics, new directions.* New York: Cambridge University Press.

Barr, Nicholas. 1993. *The Economics of the welfare state.* 2nd ed. Stanford: Stanford University Press.

Barro, Robert. 1991. Economic growth in a cross-section of countries. *Quarterly Journal of Economics* (106): 407- 443.

--------. 1996. *Determinants of economic growth: A cross-country empirical study.* Working paper, no. 5698. Cambridge, MA: NBER.

Bates, Robert H. 1989. *Beyond the miracle of the market: The political economy of agrarian development in Kenya.* Cambridge: Cambridge University Press.

Becker, G. S. 1983. A theory of competition among pressure groups for political influence. *Quarterly Journal of Economics* 98 (August): 371- 400.

Bollen, Kenneth A., and Robert W. Jackman. 1985. Political democracy and the size distribution of income. *American Sociological Review* 50(August): 438-457.

Booth, David, ed. 1994. *Rethinking Social Development: Theory, Research and Practice.* Harlow: Longman.

Borosage, Robert L. 1999. *The Global Turning.* http://www.ourfuture.org/readarticle.asp?

Bourdieu, P. and J. Coleman, eds.1991. *Social theory for a changing society.* Boulder: Westview Press.

Brinton, Crane.1938. *The anatomy of revolution.* New York: Free Press.

Calvert, Randall. 1995. The rational choice theory of social institutions: cooperation, coordination, and communication. In *Modern political economy: Old topics, new directions.* eds. Jeffrey S. Banks and Eric A. Hanushek, 216-268. New York: Cambridge University Press.

Chong, Dennis. 1991. *Collective action and the civil rights movement.* Chicago: The University of Chicago Press.

Crawford, Vincent P. and Hans Heller. 1990. Learning how to cooperate: optimal play in repeated coordination games. *Econometrica* 58:571-95.

Cutright, Philips. 1967. Inequality. A cross-national analysis. *American Sociological Review* 32(August): 562-578.

Coplin, William D. and Michael O' Leary. 1994. *The Handbook of country and political risk analysis.* Eds. Political Risk Services: Syracuse, New York.

Cukierman, Alex, Sebastian Edwards, and Guido Tabellini.1992. Seignorage and political instability. *The American Economic Review* 82:537-555.

Davies, James C. 1963. *Human Nature in Politics*. New York: Wiley.

Deininger, Klays and Lyn Squire. 1996. A new data set measuring income inequality. *World Bank Economic Review*, 10 September: 565-91.

Downing, Brian M. 1988. Constitutionalism, warfare, and political change in early modern Europe. *Theory and Society* 17: 7-56.

Economist. 1997a. The IMF and Asia. November 22nd: 20-21.

Economist. 1997b. A fatal resolve not to bulge. November 22nd:83-87.

Epsing-Andersen, Gosta. 1990. *The three worlds of welfare capitalism*. Princeton, New Jersey: Princeton University Press.

Feng, Yi. 1997. Democracy, political stability, and economic growth. *British Journal of Political Science* 27:391-418.

--------.1999. *Democracy, governments, and economic performance: Theory, data analysis, and case studies.* Forthcoming.

Fitoussi, Jean-Paul. 1996. Welfare state: Leaner or starved? Competitiveness and social cohesion. *In Equity, efficiency and growth: The future of the welfare state*, ed. Mario Baldassarri, Luigi Paganetto, and Edmund S Phelps, 329-342. London: Macmillan.

Flora, Peter, and Jens Alber. 1981. Modernization, democratization, and the development of welfare states in Western Europe. In *The development of welfare states in Europe and America*, ed. Peter Flora, and Arnold Heidenheimer, 37-79. New Brunswick: Transaction Books.

Flora, Peter, and Arnold Heidenheimer. 1981. The historical core and changing boundaries of the welfare state. In *The development of welfare states in Europe and America*, eds. Peter Flora, and Arnold Heidenheimer, 17- 33. New Brunswick: Transaction Books.

Gilpin, Robert. 1987. *The Political Economy of International Relations*. New Jersey: Princeton University Press.

Goodin, Robert, and Julian Le Grand. 1987. *Not only the poor: The middle classes and the welfare state*. London, Boston, Sydney, Wellington: Allen and Unwin.

Gupta, Dipak K. 1990. *The Economics of Political Violence*. New York: Praeger, 1990.

Gurr, Ted Robert. 1970. *Why men rebel.* Princeton, New Jersey: Princeton University Press.

Hammer, Jeffrey S., Ijaz Nabi, and James Cercone. 1995. Distributional Effects of Social Sector Expenditures in Malaysia, 1974 to 1989. In *Public Spending and the Poor.* eds. Dominique van de Walle and Kimberly Nead, 522-554.Baltimore: The Johns Hopkins University Press.

Hardy, Melissa. 1979. Economic growth, distributional inequality, and political conflict in industrial societies. *Journal of Political and Military Sociology* 5: 209-27.

Hasan, Parvez.1976. *Korea: Problems and issues in a rapidly growing economy.* Baltimore: The Johns Hopkins University Press for the World Bank.

Hauseman, Ricardo and Roberto Rigobon. 1993. Government spending and income distribution. In *Government spending and income distribution in Latin America.* eds. Ricardo Hauseman and Robert Rigobon, 1-15. Washington, D.C.: Inter-American Development Bank.

Hauseman, Ricardo and Robert Rigobon, eds. 1993.*Government spending and income distribution in Latin America.* Washington, D.C.: Inter-American Development Bank.

Hicks, Alexander, and Joya Misra. 1993. Political resources and the growth of welfare in affluent capitalist democracies, 1960-1982. *American Journal of Sociology* 99(November): 668-710.

Higgins, Alexander G. 2000. Leaders discuss wealth disparities. *Associated Press.* (January 28, 10:04 EST).

Hirschman, Albert O. 1970. *Exit, Voice, and Loyalty.* Cambridge, MA: Harvard University Press.

International Monetary Fund. *Government Finance Statistics Yearbook,* various issues.

International Monetary Fund. *International Financial Statistics,* various issues.

Jackman, Robert W. 1975. *Politics and social equality: A comparative analysis.* New York, London, Sydney, Toronto: Wiley.

--------. 1976. Politicians in uniform: Military governments and social change. *American Political Science Review* 70: 1078-1097.

Kaldor, Nicholas. 1956. Alternative theories of Distribution. *Review of Economic Studies* 23: 83-100.

Kim. Eun Mee. 1993. Contradictions and limits of a developmental state: with illustrations from the South Korean case. *Social Problems* 40 (2): 228-249.

Klausen, Jytte. 1995. Social rights advocacy and state building: T.H. Marshall in the hands of social reformers. *World Politics* 47(January): 244-267.

Kloosterman, Robert. 1994. Three worlds of welfare capitalism/ The welfare state and the post- industrial trajectory in Netherlands after 1980. *West European Politics* 17, no., 4:166-189.

Knight, Jack. 1992. *Institutions and Social Conflict*. Cambridge: Cambridge University Press.

--------. 1995. Models, Interpretations, and Theories: Constructing Explanations of Institutional Emergence and Change. In *Explaining Social Institutions*. eds. Jack Knight and Itai Sened, 95-121. Ann Arbor: The University of Michigan Press.

Knight, Jack and Itai Sened. 1995. *Explaining Social Institutions*. Ann Arbor: The University of Michigan Press.

Kong, Tat Yuan. 1995. From relative autonomy to consensual development: the case of South Korea. *Political Studies.* XLIII: 630-644.

Korpi, Walter. 1989. Power, politics, and state autonomy in the development of social citizenship: Social rights during sickness in eighteen OECD countries since 1930. *American Sociological Review* 54, no. 3: 309-328.

Kriesberg, Louis. 1973. *The sociology of social conflicts.* New Jersey: Prentice-Hall, Inc.

Kugler, Jacek and Marina Arbetman. 1997. Relative political capacity: Political Extraction and political reach. In *Political Capacity and Economic Behavior*, eds. Marina Arbetman and Jacek Kugler, 11-46. Boulder, CO:Westview Press.

Kuznets, Simon. 1955. Economic growth and income inequality. *The American Economic Review* XLV no.1: 1-28.

Kwon, Jene K. 1990. Introduction. In *Korean Economic Development.* ed. Jene K. Kwon,xxi-xxv. New York: Greenwood Press.

Landau, Daniel. 1986. Government and economic growth in the less developed countries: An empirical study for 1960-1980. *Economic Development and Cultural Change* 35: 35-75.

Lecallion, Jack, Felix Paukert, Christian Morrison, and Dimitri Germidis. 1984. *Income distribution and economic development: Analytical survey.* Geneva: International Labor.

Lee, Hyung-Koo. 1996. *The Korean economy: Perspectives for the 21st century.* New York: State University Press of New York.

Lindert, Peter. 1994. The rise of social spending, 1880-1930. *Explorations in Economic History* 31: 1-37.

Londregan, J John B. and Keith Poole. 1990. Poverty, the coup trap, and the seizure of executive power. *World Politics* 32: 151-183.

Meerman, Jacob. 1979. Public Expenditures in Malaysia, World Bank: Oxford University Press.

Mesa-Lago, Carmelo. 1991. Social Security in Latin America. *Economic and social progress in Latin America: 1991 Report,* 179-216. Washington, D.C.: Inter-American Development Bank.

Meltzer, Allan H., and Scott H. Richard. 1978. Why government grows (and grows) in a democracy. *Public Interests* 52 (Summer): 111-118.

Meltzer, Allan H., and Scott H. Richard. 1981. A rational theory of the size of the government. *Journal of Political Economy* 89(October): 403-418.

Miller, Gary J. 1989. Confiscation, credible commitment, and progressive reform in the United States. *Journal of Institutional and Theoretical Economics* 145: 686-692.

Mueller, Dennis. 1991. *Public Choice II.* rev. ed. Cambridge, New York, Port Chester, Melbourne, Sydney: Cambridge University Press.

Mueller, Dennis C., and P. Murrell, P. 1986. Interest groups and the size of Government. *Public Choice* 48, no. 2: 125-145.

Mueller, John. 2000. *Social Security Reform.* http://www.ncpssm.org/issues/social_security/mueller_winners.html

Muller, Edward. 1985. Income Inequality, Regime Repressiveness, and Political Violence. *American Sociological Review* 50(February): 47-61.

--------.1988.Democracy, economic development, and income inequality. *American Sociological Review* 53: 50-68.

Nagel, Jack. 1974. Inequality and discontent: A nonlinear hypothesis. *World Politics* 26: 453-472.

North, Douglass C. 1981. *Structure and Change in Economic History*. New York:Norton.

-------. 1990. *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

North, Douglass C., and Barry R. Weingast. 1989. Constitutions and commitment: The evolution of institutions governing public choice in 17th century England. *Journal of Economic History* XLIX, no. 4: 803-832.

O'Connor, James, S. 1988. Convergence or divergence? Change in welfare effort in OECD countries, 1960-1980. *European Journal of Political Research* 16:277-96.

Organksi, AFK. 1996. Theoretical link of political capacity to development. In *Political capacity and economic behavior*, ed. Jacek Kugler, and Marina Arbetman, 47-67. Boulder, CO: Westview Press.

Orloff, A. S., and T. Skocpol.1984. Why not equal protection? Explaining the politics of public social spending in Britain, 1990-1911, and the United States, 1880s-1920. *American Sociological Review* 49, no. 6: 726-750.

Pampel, Fred C. and John B. Williamson. 1988. Welfare spending in advanced industrial democracies, 1950-1980. *American Journal of Sociology* 93, no.6: 1424-56.

Paukert, Felix. 1973. Income distribution at different levels of development: A survey of evidence." *International Labor Review* 108 (August-September): 97-125.

PBS. 1998. http://www.pbs.org/globalization/soros.htm

PBS. 1998a. http://www.pbs.org/globalization/hormats.htm

Peacock, Alan T., and Jack Wiseman. 1961. *The growth of public expenditure in the United Kingdom*. Princeton: Princeton University Press.

Peltzman, Samuel. 1976. Towards a more general theory of regulation. *Journal of Law and Economics* 19 (August): 211-40.

--------. 1980. The growth of government. *Journal of Law and Economics* 23(October): 209-288.

Perotti, Roberto, 1993. Political equilibrium, income distribution, and growth. *Review of Economic Studies* 60: 755-776.

---------.1996. Growth, income distribution, and democracy: What the data say. *Journal of Economic Growth* 1: 149-187.

Persson, Torsten, and Guido Tabellini. 1994. Is inequality harmful for growth? Theory and evidence. *American Economic Review* 84, no. 3: 600-621.

Pierson, Christopher. 1991. *Beyond the welfare state? The new political economy of welfare*. Pennsylvania: The Pennsylvania University Press.

Root, Hilton. 1996. *Small countries big lessons: governance and the rise of east Asia.* Oxford: Oxford University Press for the Asian Development Bank.

Quinn, Dennis. 1997. The correlates of change in international financial regulation. *APSR* 91, no. 3: 531-53.

Rodrik, Dani. 1997. *Has globalization gone too far?* Washington, DC: Institute for International Economics.

Sainsbury, Diane. 1991. Analyzing welfare state variations: The merits and limitations of models based on the residual-institutional distinction. *Scandinavian Political Studies* 14, no.1: 1-29.

Sanders, David. 1981. *Patterns of political instability*. New York: St Martin's Press.

Sarel, Michael. 1998. Growth in East Asia: What we can and what we cannot infer. In *Development and Underdevelopment.* eds. Mitchell A. Seligson and John T. Passé-Smith, 407-421. Boulder: Lynne Rienner Publishers.

Scully, Gerald W. 1991. Rights, equity, and economic efficiency. *Public Choice* 68: 195-215.

Shalev, Michael. 1987. The social democratic model and beyond: Two generations of comparative research on the welfare state. *Comparative Social Research* 6: 315-351.

Shepsle, Kenneth A. 1979. Institutional arrangements and equilibrium in multidimensional voting models. *American Journal of Political Science* 23:27-59.

Skocpol, Theda. 1985. Bringing the state back in: Strategies of analysis in current research. In *Bringing the state back in*, ed. Peter B. Evans, Dietrich Rueschemeyer, and Theda Skocpol, 3-37. Cambridge: Cambridge University Press.

Skocpol, Theda, and E. Amenta. 1986. States and social policies. *Annual Review of Sociology* 1, no.1: 131-157.

Stack, Steven. 1980. The political economy of income inequality: A comparative analysis. *Canadian Journal of Political Science* XIII, no.2: 273-286.

Stigler, George. 1971. The theory of economic regulation. *Bell Journal of Economics and Management Science.* 2 (Spring): 137-46.

Summers, Robert and Alan Heston. 1995. *The Penn World Table* (Mark 5.6). Cambridge, MA: National Bureau of Economic Research.

Tabellini, Guido. 1990. *A positive theory of social security.* Working paper no. 3272. Cambridge, MA: NBER.

Tullock, Gordon. 1970. *Private wants, public means.* New York: Basic Books.

Tullock, Gordon. 1971. The charity of the uncharitable. *Western Economic Journal* 9: 379-92. (to check number and pages)

Ullmann, Hans-Peter. 1981. German industry and Bismarck's social security system. In *The emergence of the welfare state in Britain and Germany*, ed. W. J. Mommsen, and Wolfgang Mock, 107-133. London: Croom Helm on behalf of the German Historical Institute.

Usui, Chikako. 1994. Welfare state development in a world system context: Event history analysis of first social insurance legislation among 60 countries, 1880-1960. In *The Comparative political economy of the welfare state*, ed. Thomas Janoski, and Alexander M. Hicks, 254-278. Cambridge, UK, New York, N.Y.: Cambridge University Press.

Yoo, Jong Goo.1990. Income distribution in Korea. In *Korean economic development.* ed. Jene K. Kwon, 373-393. New York: Greenwwod Press.

Weede, Erich. 1981. Income inequality, average income, and domestic violence. *Journal of Conflict Resolution* 25: 639-53.

Wilensky, Harold, L. 1975. *The Welfare state and equality: Structural and ideological roots of public expenditure*. Berkeley: University of California Press.

The Wold Bank. World Development Indicators CD-Rom. 1998.

www.enteract.com

www.americas.com