

property rights. It is far from obvious that the purer the economic systems are, the better they work. It is far from obvious that clearly defined private property rights work best with unregulated free markets. The capitalist world economy experienced its fastest growth with the lowest income inequalities when, at least in continental Europe, substantial sectors of the economy (even some sectors of industry) were publicly owned and managed and when government implemented quite extensive interventions into the workings of capital markets. The performance of core capitalist economies after substantial privatisation and deregulation of markets was underwhelming and nowhere near the growth rates of the 1950s and 1960s while the incomes (and wealth) of the top deciles exploded in comparison with the incomes at the bottom of the society. As I am writing this review, in March 2009, governments around the world have already spent 11 trillion USD of taxpayer money (about 1500 USD for every individual on this globe, including those living in poor African or Asian countries) to bail out the private sector. It looks like private firms in the absence of strict government regulations can also have 'soft budget' constraints. It is not inconceivable that a large proportion of the banking sector has to be nationalised to rescue the world from a crisis, which could be worse without massive state intervention than the 1929–1933 Great Depression was. At least at the moment when I am writing this review it looks like a mix of public and private ownership, planning and markets are not only possible, but may be necessary for the survival of capitalism. Capitalism and free markets have to be defended by smart states from capitalism, from *laissez faire*. This reads like some sort of 'third way' to me.

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#### **Stephan Haggard – Robert Kaufman:** *Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe*

Princeton 2008: Princeton University Press, 473 pp.

*Development, Democracy, and Welfare States: Latin America, East Asia, and Eastern Europe* represents a multi-level and multi-dimensional comparison of welfare-state formation in developing and formerly communist countries in Latin America, East Asia, and

Eastern Europe. Its central question is: What explains the formation and divergence of welfare states in developing and formerly communist countries that have undergone some degree of democratisation? Through an investigation of the historical formation of welfare states in this diverse range of countries from 1945 to 2005, Stephan Haggard and Robert Kaufman discover distinct patterns that are predominant for each of the world regions. The evaluation of inter-regional diversity leads to a comprehensive analysis of the factors that influenced the characteristics of the welfare states before and during democratisation.

One of the greatest contributions of the book is the structured comparison of twenty countries from three world regions, which detects and explains inter-regional variation without ignoring intra-regional variation. After a general comparison between Latin America, East Asia, and Eastern Europe, the authors make a detailed comparison of countries within each region for two time periods: 1945–1980 and 1980–2005. Given that each country's story could be viewed as unique, the authors find a balance between investigating the details of each country's uniqueness and understanding what can be generalised about each region. They argue that the patterns within each region are consistent with the factors that matter for understanding social policy developments. On an even higher level of generality, the authors assess the relative explanatory power of a multitude of variables that influence welfare-state formation more generally.

Haggard and Kaufman argue that the important explanatory variables for welfare-state formation can be classified into three groups. First, from a historical perspective, the distributive coalitions and economic interests that were formed by early political choices had lasting influence on future social policy reforms, similar to the power-resource approach. Second, the different development strategies that were

implemented influenced the structure of the economy and also social policy and labour market institutions. Third, the regime type or degree of democratisation determined the scope of the influence of electoral politics and interest group pressure.

#### *Historical origins: 1945–1980*

To assess the initial conditions and important historical factors, the first part of the book explains the unique characteristics of the three regions by providing a rich historical account of the general development of each region between 1945 and 1980. Again, the findings oscillate between generalisations derived from the diversity of the regions and the examination of intra-regional variation, which includes important cases where specific countries deviate from the regional pattern. Latin American welfare systems tended to have substantial social benefits for a limited segment of the population (urban workers) while excluding the rest of the populations (primarily the rural sector). East Asian welfare systems historically spent significantly less than the other regions and focused this spending on education over other social policy areas. The Eastern European approach to welfare was defined within the framework of the socialist economic and communist political systems that existed, implying relatively universal benefits and state-led welfare.

Data on early social spending during the period before 1980 indicate that Latin American countries had significantly higher levels of social spending than East Asian countries did, while East Asian countries had higher spending on education. (Due to the lack of social spending data, Eastern European countries were excluded from this part of the analysis.) Apart from the social spending data, the authors investigate the unique development patterns of the three regions: import substituting industrialisation (ISI) in Latin America, export-oriented growth in East Asia, and state-led in-

dustrialisation in Eastern Europe. After some justification of the regional clusters, the authors trace the unique historical paths of the three regions in search of political realignments that serve as the critical junctures in social policy formation. These critical political realignments determine the 'subsequent political and organisational capacity' of relevant actors that are typically important in welfare-state literature, such as the working class, peasants, and political parties (p. 46).

One important example of the extensive arguments that were made is that the role of labour movements or labour parties in social policy formation or reform was an outcome of specific historical critical junctures and the development strategy of each region. In Latin America, the dualism of the labour market (between urban working class and rural or peasant class) meant that, as social funds developed, they were almost exclusively for the benefit of the urban working class, not rural agricultural workers. The ISI development strategy of the Latin American countries did not create a demand for skilled labour, which allowed the dualism of the labour market to persist and did not create incentives for strong investments in education. The lack of incentive for reform in these structures implied that labour movements were effectively excluded from the welfare-state formation and the reform process in most Latin American countries.

In East Asia, the authors argue that decolonisation encouraged investments in education as a nationalist policy, but notably investments in other policy areas were low. Further, the development model implemented in East Asia was export-oriented growth, which required upgraded skills to meet the demands of firms (p. 69). The lack of a labour movement in East Asia meant that there were no significant *political* incentives for parties to attract the support of labour and the *development strategy* did not require or encourage social spending in

policy areas other than education and basic health care. Historical events and development strategies jointly promoted higher levels of education spending compared to the other two world regions, but limited social spending in other policy areas.

In Eastern Europe, during the time period from 1945 to 1980, there was state-led industrialisation in which the central state closely managed economic activity and the development strategy was determined largely by the Soviet Union's influence over these countries. This strategy included many *de facto* 'universal' social policies and benefits that encouraged education to support the industrialisation of these countries. Social policy, in part, was used as a means of buying social peace, particularly since the 1960s. Haggard and Kaufman, among others, argue that this created significant entitlements that had strong influences on reform during democratisation.

*Democratisation, economic crisis, and welfare reform: 1980–2005*

In the process of democratisation Haggard and Kaufman observe a 'continuing divergence in welfare strategies across the new democratic regimes' (p. 181). They find that regime type (or degree of democratisation) is a significant explanatory variable in regressions for the level of social spending in East Asia and Eastern Europe, but not in Latin America. Rather, they argue that the two main explanatory variables for the divergence in welfare strategies are the economic and fiscal constraints on the government during democratisation and the political legacy of prior social policy commitments. In East Asia, social spending increased dramatically during democratisation due to 'minimalist welfare legacy and favourable economic circumstances' (p. 202). A period of high growth and relatively quick recovery from economic crisis meant that many East Asian countries had the economic and fiscal ability to increase

social spending dramatically. The limited degree of social spending historically meant that there were few vested interests trying to protect their social benefits at the expense of others.

In Eastern Europe, transitional recession and fiscal constraints made increases in social spending either unfeasible or very costly. Yet the entitlements established before the transition to democracy implied significant political pressure to increase or at least maintain social benefits, which also 'muted' the partisan differences in social policy (p. 360). The authors argue that the historical legacies present in Eastern European countries were relatively similar (compared with the degree of variation in Latin America or East Asia) and that social policy systems show a substantial degree of convergence (p. 220). The main distinction that is made is between early and late reformers.

In Latin America, the relative significance of different variables varied significantly from country to country. Overall, there were substantial political and economic constraints on social policy reform in that there had been a relatively high level of spending on a relatively limited portion of the population, which created strong vested interests that would attempt to block reforms designed to diffuse benefits to other segments of the population. Simultaneously, both democratic and competitive authoritarian regimes faced electoral pressure to increase spending on anti-poverty programmes (p. 219). The interaction of these electoral pressures for reform and vested interests trying to block reform create very different outcomes in various countries. In addition, the Latin American countries differed significantly from each other in terms of the degree of fiscal and economic constraints on spending. The variations within each region outlined here are explored in a detailed manner across various policy areas in the second part of the book.

#### *Dealing with variation and alternative explanations*

As mentioned above, one of the outstanding contributions of this book is that it includes a wide range of cases from different world regions and distinguishes the different patterns between regions without neglecting important variations within each region. Handling this much variation in a multi-level fashion is certainly a daunting task and can also become problematic. One method that is applied in the book is to calculate the average regional value for various welfare state indicators or explanatory variables, then to use a t-test to determine whether it can be confidently claimed that the two regions differ significantly (in other words, this method tests whether between-region variation is significant compared with intraregional variation). Given significant intra-regional variation, it frequently turns out that the difference in the averages between the regions is not significant. This means that only limited conclusions should be drawn from the data analysis. This may not be problematic given that the richer part of this research is in the thorough historical analysis of the process of development, democratisation, and welfare-state formation. Indeed, trends from the qualitative analysis do suggest that the regions cluster in important ways, but it is almost unfeasible to justify that the variation between regions is more significant than the variation within regions. But the findings of the book are essentially based on the robustness of the inter-regional variation.

Given that the main conclusions of this book are based on how the welfare state diverges in the three regions, it is essential to have robust divergence in both the outcome (welfare state) and the explanatory variables (historical legacies, economic conditions, etc.). Even though I recognise that it would have been unfeasible to include another dimension of variation, I wonder if

some factors that were determined to be less significant (for instance, regime type) would have been significant if the analysis had not assumed regional clusters *a priori*. Performing separate regressions for each region may have concealed some important variables that, while they did not vary substantially within the region, would have more significantly explained the countries' welfare state outcomes. For example, perhaps regime type would appear significant if a regression analysis was performed for all countries together (not divided by region), the way Przeworski et al. (2000) did to study the relationship between democracy and development.

As Haggard and Kaufman clearly outlined, the regions do show divergence in their patterns on average, but it would also be meaningful to test whether the grouping by region is the one that shows the greatest divergence in welfare state outcomes. If we consider the countries – Mexico, Costa Rica, the Philippines, and Thailand – regime type could also be a meaningful way of grouping these countries that would differ from their regional grouping. These questions, rather than challenging the findings of the book, suggest another dimension that should be investigated to develop a deeper understanding of the nature of the diversity of welfare state outcomes. Giving greater relative predominance to the non-regional characteristics of countries could be very informative for evaluating alternative explanations, including testing standard explanations for the development of welfare commitments. The comparisons in this research took place on two levels: between regions and within regions. Cross-regional comparisons could also be very informative, not only to determine whether other possible variables are significant, but also to understand how the variables already found to be significant interact in different contexts. Given that this book is the first research to undertake the challenging task of comparing welfare

states across these regions, it is also very informative for possible future comparisons.

The in-depth comparative investigation into the welfare states in developing and former-communist countries provided in *Development, Democracy, and Welfare States* is unprecedented. This book will likely be the point of departure for most future work on welfare states in any of these regions. It is a thorough investigation of many potentially important factors that influence welfare-state formation. By doing so, it addresses so many relevant questions that extend far beyond the scope of a single book. The conclusion of the book, in addition to presenting the significant findings of this initial investigation, could be read as a research agenda for students of welfare-state (re)formation in Latin America, East Asia, and Eastern Europe. In particular, the conclusion highlights the importance of further research on the impact of international influence on welfare-state (re)formation in these regions, the role of actors in relation to the significant influence of historical legacies, and the distribution of preferences in electoral systems and their importance for welfare state outcomes.

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#### **Asghar Zaidi: *The Well-Being of Older People in Ageing Societies***

Aldershot and Vienna 2008: Ashgate and European Centre for Social Welfare Policy and Research, 318 pp.

*The Well-Being of Older People in Ageing Societies* deals with the well-being of older people defined as individuals above the enti-