

Economic Sustainability of Social Service State:
Implications for East Asian Countries

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I. Introduction

This paper is a preface to comparative social policy aiming to lay out the fundamental principles in developing strategies for a sustainable East-Asian welfare state model. This will be done through analyzing the successes and failures of advanced welfare states in terms of contending issues regarding redistribution that have become prevalent in our current society. Setting apart the evaluation of social investment as producer of a positive spiral of development and redistribution, it is evident that the current society is at a turning point of readjusting priorities between the two main objectives of modern capitalism; development and redistribution. Whether the welfare state paradigm chooses to maintain or shift its position, we hope that a sustainable welfare state will be established at the very base of state management. Seemingly, the outlook for such anticipation seems rather optimistic insofar as the securing of economic development is fulfilled. In short, in an era where the provision of future strategy for the East Asian welfare state model has become increasingly significant, strategies that may promote economic sustainability of the welfare state is essential.

1. Proposing a New Strategy for Typology

This paper commences by diverging from the traditional conceptualization of the welfare state. The first step towards this is the departure from the dichotomy between industrialism, which focuses on the level of welfare state expenditure, and the welfare regime theory, which focuses on institutional legacy and path dependency. This research tries to take a step beyond these two approaches, which are represented by the convergence theory and the diffusion theory, the main theories in the field of comparative welfare state. In order to do so, this study places itself on the mid-point in terms of epistemic stance between the two ideologies; although most welfare states are not marching to the same beat of the drum, the claim that specific models of welfare states are powerless to shape its future due to institutional passivity may be recognized as excessive determinism.¹

The intention of this study, which maintains a middle-of-the-road epistemic stance, does not end in merely surveying the economic merits of various welfare states and its typologies. The basic principles that may increase the potential for welfare sustainability may be deduced from the comparative analysis of regime types. Such outcomes may function as the cornerstone for structural adjustment strategy proposals for the paradigm shift of the East Asian welfare states. Thus, this paper attempts to reconsider existing mainstream welfare typology strategies from a new perspective; the first step is to examine the

¹ If we were to subscribe to the institutional characteristics of the welfare regime theory, the setup of the project "The Paradigm Shift of the East Asian Welfare State Model" itself will be impossible. In the perspective of the welfare regime theory, we are merely the offspring and heir of our relevant welfare state system.

relative structure of welfare programs, and expand the notion of social safety nets from income security to livelihood security.

Prior to proposing a new typology consistent with the structure of welfare programs, it is necessary to categorize the concepts of social policies relevant to the type of programs they are affiliated with. The definition of social policy structure applied in this study may be classified into two contrasting models; the 'cash transfer model' programs and 'social service' model programs. The former includes income security programs such as social insurance (i.e. pension insurance, sickness insurance) and income security programs such as child allowance (i.e. demogrant), and social assistance programs that target the socially disadvantaged class. The social service model aims to solve social problems through public services, where needs-satisfying mechanisms will be ultimately delivered to the recipients through tangible and intangible services. Such social problems may include care provision (old-age/child rearing), education, housing, employment, health/medical care, and environmental issues and so forth. The basis of a new typology is set by the relative constitution of cash transfers and social services as shown in <Figure 1>. The results from K-means cluster analysis for the new typology are also shown in <Table 1>.

If we were to classify welfare states depending on the relative proportion of social service and cash transfer, a quadrant consisting of 'low-low', 'low-high', 'high-low', 'high-high' will be derived in a conceptual level. However, as is apparent from <Figure 1>, the 'high-low' quadrant, although feasible in theory, is not relevant in reality due to various reasons.² The other 3 quadrants may be called as the 'integrated social service model' (high-high), the 'social assistance model' (low-low) and the 'social insurance model' (low-high).

More comprehensive analysis will be elaborated later in the text, but the results of this study, which is to determine what type of welfare state maximizes political and economical sustainability of a particular state, are as follows. First of all, should we base our measurements on the degree of sustainability, it is demonstrated that the economic robustness of the welfare state depends not only on the absolute sum, but also on the relative proportion of the constitution. Second, overall sustainability is augmented in states that promote social service as well as cash transfers, rather than just focusing on the latter. In addition, in states that enhance social services, sustainability is high in welfare types that exceed a certain level of social expenditure.³

² At this current phase, a strategy to enhance social services without cash transfers is non-existent, and even implausible.

³ This study is an analysis of the past experiences of advanced welfare states. Although it is important to develop a vision for a unique East Asian welfare state model, learning and commencing from the experiences of advanced welfare states does not necessarily mean that we are attempting to follow the exact path of others. In some ways, it is convenient for late starters to benefit by gaining lessons from the experiences of developed countries. In this context, we should pay full attention to the productive welfare systems of European strong-small states, where

The implications of comparative social policy analysis are rather simple. To state simply, the direction of restructuring reforms in the East Asian welfare states should be focused on the shift towards a 'social service state.' As a matter of fact, the conclusions derived from this research are not entirely new. Such emphasis on social investment and social service has already become a standard survival tactic for many European welfare reforms, where they are faced with a quite different situation compared to that during the golden ages of capitalism (Esping-Andersen et al. 2002).⁴

Contrary to such developments in the Northern European states, the composition of welfare expenditure in East Asia appear to be running backwards, so to speak. The main index often used to discuss the rudimentary characteristics of a welfare state is the net social expenditure level. In the East Asian case, the net social expenditure is significantly lower than that of developed countries. (Refer to <Table 2>). However, a greater predicament may be found in the laggard composition of social expenditure that excessively depends on cash transfers. As you may observe in <Table 2>, a complete comparison between East Asia and main welfare states is impossible due to the limitations of data availability in certain categories. However, under the premise that general reforms will not occur, the proportion of social service expenditure will decline unprecedentedly in ten to twenty years time due to the rapid expansion of pension allowances.

2. Background for Strategies to Enhance Social Services

The shift towards a social service investment state is essential not just because the trends of reform in developed countries are also heading towards a parallel direction. Considering the changes in the social and economic conditions of our society, such alterations may offer a valid view of strategic statecraft in future East Asia.

robustness is maintained despite the pressures of globalization. Such robustness was materialized through social services that aimed for productivity, such as child and elderly care, education and health services, rather than cash transfers based on consumption. The reason why policy lines focusing on social service is productive is due to its growth-friendly effect; for example, increasing opportunities for social participation of women will create productivity, which will in turn boost up the birth rate. A well-reared child will become the human resource of the next generation.

⁴ It is important to note that although the integrated social service model represented in Northern European states have been proved through experimental analysis to have high substantiality, it does not mean that we should follow the course of Nordic Europe. Despite the need of strategies to increase the amount of social service close to cash transfers, we must acknowledge that the net expenditure of cash transfers in Nordic Europe may be excessive. In fact, many reform bills presented by the left wing reflect the need to cut down the replacement rates of cash transfers that infringe labor incentives, such as the sickness payments.

First, the shifting trends in the economic sector purport that policies for social service enhancement may bring positive changes in the remodeling process in the industrial structure, characterized by the decline of labor demand in the manufacturing industry and the increase of labor demand in the service industry. In reality, the social service sector expanded following the financial crisis, but was focused in areas such as the food, taxi and truck industry, which resulted in excessive competition and low-wage, low-skill characteristics as of the service industry. Although there has been an increase of social service needs by the general public in the care service sector, such as care for children, the elderly and the disabled, social services in the relevant sectors have rather abnormally not grown. Such developments are not susceptible to the contemporary trends of transition towards the tertiary service industry from the secondary industry, and may be construed as an archetypal case of market failure because it fails to automatically create a market in the social service sector, which is, in fact, what the society really needs. Public sector intervention corresponding to market failure is vindicable, making publicly led social service enhancing strategies one of the most valid solutions amongst other alternative interventions tactics. With the consolidation of social services, available labor forces will shift from unstable low-wage, low-skilled services in the restaurant and transportation industry to social service sectors such as child and elderly care. In addition, an apt level of observation of government roles will induce a smooth transformation of the industrial structure without negative conditions of market distortion.

Second, demographic changes, most noticeably caused by low fertility rates, and the resulting ageing society will ultimately stunt domestic economic growth by reducing the general economically active population, and simultaneously inducing the growth of financial expenditure in the public sector caused by increasing costs of medical treatment and pensions. However, there is also a potential for new growth motives stirred by the general rise of demand for social services and the development of elderly care related industries. In addition, further growth motives will be created through the enhancement of children and family related social service investment, which will maximize human capital in current and future amongst the production population. In sum, the need for the restructuring of a 'social service state' is steadily rising to meet the increasing demands of social service fueled by low fertility and ageing society, and also to cultivate human capital as alternative growth motives.

Third, the changes in family structure, mostly from the diversification of the family explain the increase in the number of single households and elderly households, call for the development and expansion of an alternative social service. The market in itself may be insufficient and slow to provide the needs of the new family structure. On the other hand, public led social service enhancing strategies may result in positive effects towards production by fulfilling the needs of diverse families, especially through assimilating the elderly generation and educated women into the economically active population.

Now let us review the reasons why the cash transfer model has gained prominence over the social services in traditional welfare states. Traditionally, cash transfers and social services had the tendency to be treated as functional equivalencies for similar needs. Thus, the evaluation of the classical social policy

field designed by economics prioritizes cash transfers, which they believe is superior in protecting consumer rights and minimizing administrative inefficiency. It is no coincidence that cash transfers developed before social services in most welfare states. However, the table has been turned as the golden age of capitalism has come to an end, and we live in a period facing 'the crisis of the welfare state' triggered by entering the phase of generally low growth. The social service sector has been gaining more attention in consideration to the following two aspects- contribution to growth and its effect in pro-welfare politics. Despite its external functional equivalency, the two spheres conceive politically and economically contrasting effects. Recent empirical researches reached a conclusion that the welfare state model that emphasizes social services end up achieving stronger political and economical sustainability (Ahn, 2000, 2005; Esping-Andersen et al., 2002; Huber and Stephens, 2001).

For the remainder of this paper, I will elaborate on the discussions regarding the aforementioned issues in the order presented. First, I will criticize the path dependency theory, also referred as institutional determinism, which has been affirmed by welfare regime theories. In its stead, I will assess the potential in extracting other viable factors for welfare sustainability. Second, I plan to carry out a theoretical and experimental analysis regarding the economic sustainability of social services and cash transfers. Finally, after organizing the lessons derived with the comparison with developed states, I will attempt to establish the principles and directions for East Asian welfare state reforms.

II. Re-examination of the Welfare Regime Theory

1. The Study of Welfare Regimes on the Economic Achievement of Social Services

It is needless to say that the classification of welfare capitalism into several institutionally diverged systems has become the mainstream standpoint in recent comparative social policy.⁵ In my recent study (2005), I have focused on dividing developed capitalist states, prior to the kick-off of globalization in the 1980s, into three regimes according to the ways in which their welfare system coincides with production. In order to do so, I have analyzed the statistical differences in the perspective of various variables relating to the welfare state and production systems. Through this study, it has been confirmed that each of the three regime types possess unique methods of survival tactics. The results are rather interesting; there is

⁵ There have been vast levels of discussion in this area. (Ebbinghaus and Manow, 2001; Kitschelt et al., 1999; Huber and Stephens, 2001; Hollingsworth and Boyer, 1997; Schmitter and Lemburch 1981; Lemburch and Schmitter, 1982; Goldthorpe, 1984, Albert, 1991; Hollingworth, Schmitter, and Streeck, 1994; Hall, 1999; Iversen et al., 2000; Hall and Soskice, 2001; Berger and Dore, 1996; Crouch and Streek, 1997; Ahn, 2005; Baek, 2005; Boyer, 1996; Rhodes and Apeldoorn, 1997; Piore and Sabel, 1984; Soskice, 1991, 1999; Lange and Meadwell, 1991)

not much discrepancy regarding the fruits of growth, only the achieved level of redistribution defines the hierarchical categorization of the welfare state in the order of social democracy, conservative and liberalism. In other words, the three welfare regimes uniquely combine welfare and production. However, at least during the period of analysis, social democratic welfare states were most visibly successful in achieving the fundamental objectives of welfare and production, followed by the conservative and liberal welfare state (Ahn, 2005, 2002). Such experiential studies on welfare regimes may be found in research conducted by Huber and Stephens (2001), Baek (2005), etc. A rather amusing conclusion shared by these recent studies is the designation of the universal and day-to-day social services as the source of success in social democratic welfare regimes.

The abovementioned theories based on past experiences may not be applicable to the period of post economic globalization and the hegemony of neo-liberalism. One of the main objectives of this research is to probe the sustainability of the welfare state based on data that better reflect recent conditions.

2. Beyond Institutional Determinism: Epistemology and Methodology

Other than institutional path dependency, there are several other issues to consider in the context of this study, which aims to determine the factors of welfare sustainability during the welfare expansion period of advanced welfare states. Such issues may be associated with the reexamination of the welfare regime approach, in terms of both epistemology and methodology.

As is well known, mainstream sociological institutionalism stresses institutional path dependency. Their core proposition is that the policy structure of a certain state during a certain period is subjected to its legacy from the past. However, according to recent disputes in social science, without claiming basis on the recognition of 'historical turning points'⁶, the institutional path dependency theory is inclined to turn out to be excessive determinism (Ahn, 2000; Nee and Ingram, 1998; Rothstein and Steinmo, 2002; Sang-Hoon Ahn, 2005). The new perspectives suggest the possibility for certain systems to break away its institutional determinism and alter its path when confronted with historically critical changes. Crouch (2001) defines the relationship between welfare regimes and productive regimes as 'institutional probabilism,' and purports that although the probability for a welfare regime to follow certain developmental phases is significant, institutional legacy in itself is insufficient. In other words, the complementarities among the two theories argue that welfare states are path dependent only based up 'probability.'

Neo-institutionalism denies absolute determinism and recognizes the possibility for new institutional changes. Once the neo-institutional understanding is accepted, the epistemological foundations for the consideration of strategic elements for sustainable welfare state reforms may be ensured. The disillusion from historical turning points may transform our believes from a passive one that deems welfare state

⁶ The concept of 'critical juncture' suggested by Lipset and Rokkan has to do with this notion (Collier and Collier, 1991).

systems as 'already established' to a rather assertive belief of institutional opportunities to establish a new system of welfare.

In addition, the potential for designing a sustainable welfare state or exercising reforms that may establish one is relatively high considering the incomplete framework of the East Asian welfare state, and the rapid speed of political and social change. The significance of this study, which aims to determine the institutionally specific factors of welfare sustainability through the experiences of advanced welfare states, is in this context.

The validity of the argument that the East Asian welfare states may, or must, reform in the direction of sustainable development is reinforced through the following. As it has been popularized through the discussion on the character of the East Asian welfare states, the East Asian welfare states tend to be evaluated as a hybrid case of western advanced welfare states. Also, many speculate that its characteristics are changing as well (cf. edited by Yeon-Myung Kim, 2002). As I have discussed above, contemporary East Asia is facing rapid changes in various dimensions such as its macro economic structure, industrial characteristics, demographic constitution, cultural tendency, etc, which in turn result in problems including growth without employment, social and cultural obstacles for women participation, low fertility rates, the problems from a rapidly ageing society, etc. Such environmental modifications point out that it is indeed time for the adoption of a new statecraft strategy.

Institutional legacy is by no means absolute. With the assertiveness to lead new strategies for the welfare state, especially combining the factors that secure sustainability in advanced welfare states, the remaining obstacle is the recognition of methods to actually confirm the sustainability factors. This research is conducted by combining a context-centered approach, which verifies the regime type as highly sustainable, with the variable-centered approach, which positively generalizes the sustainability of each factor (Ragin, 1987). The adoption of this methodology, digresses from the recognition of collecting and applying the merits of experientially distinguishable welfare regimes to a new welfare state strategy, rather than broadly illustrating generally three or four different welfare regimes. Thus, the method used in this study is not to simply follow a certain welfare state model, but to understand the strengths and weaknesses of different welfare regime types to identify the characteristics that may aid economic sustainability so that we may draw up a unique East Asian welfare state strategy.⁷

⁷ As a matter of fact, welfare regimes are qualitatively divided in the welfare regime theory, which was mostly influenced by Esping-Andersen(1990), and in recent discussions regarding the diversity of capitalism. However, in characterization, these regimes are not considered as completely exclusive entities. Ultimately, welfare regimes are classified according to hierarchy, and existing studies are aware of this point (Ahn, 2000, Shalev, 1998). For example, in the case of de-commodification, the total points from indexation are later treated as the order between states. It is also visible that the attributes of stratification are explained in hierarchical order (cf. Esping-Andersen, 1990).

III. Social Services, cash transfer and Economic Sustainability

When bringing attention to the welfare state in terms of state management, it is crucial to embody a strategy that may result in a 'productive' welfare state. However idealistic welfare states may be, they also need to face reality. Although justifying practices that result in redistribution may be the ideal and fundamental principle of welfare states, realistically the biggest challenge the welfare state faces when it comes to managing the state is keeping production as a guarantee in exchange for national welfare.⁸ Even the power resources theory, which emphasizes the influence of labor movements in the development of social democratic welfare states, admits economic growth or creation of resources as necessary condition for the development of the welfare state. Although these facts are sometimes buried into oblivion, they are indeed not anything new (O'Connor and Olsen, 1998).

When Esping-Andersen (1990, 1999) triggered the discussions on the three welfare state regimes, the maintenance of a productive system was a critical part of his argument (Ahn, 2002, 2005). However, it may be judged that the academic circles in the social policy field were too concerned with the 'politics of redistribution' to consider methods that allow welfare and productivity to operate in accordance. In the following section, I will attempt to clarify the relationship between productivity and welfare, developing from the view that the contemporary welfare state is capitalist, and that any advocate of redistribution has no choice but to admit the importance of growth in order to achieve welfare development.

Compared to the states that have the ability to circulate welfare investment into productivity, the welfare state that does not have this ability will find it arduous to gain national political support. Naturally, we should give full attention to economically sustainable welfare state models and its strategies. Comparisons on economic sustainability will be divided into two areas. First, a technical analysis will be executed in order to determine the most highly economically sustainable welfare regime out of the three that have been previously introduced. The later section will consist of a generalization analysis to confirm the superiority of a social service focus on state policy design. This will be done through examining the constitutions of productive welfare states that adopt social service centered policies as a source of economic sustainability. Prior to positive analysis, the outlining of the advantages of the social service welfare state model in the context of traditional discussions on growth and redistribution will be given.

1. Theoretical Discussions on Productiveness of Social Service

⁸ It can be argued that all welfare states aim for a 'productive welfare state.' Even if the foundational objective of the welfare state is to pursue equality, this is not possible without efficiency to fundamentally create resources. Therefore, disregarding ideology or state conditions, it is only obvious for states to make efforts to maximize 'productivity' in providing 'welfare.' (Ahn, 2000; Esping-Andersen and Regini 2000, Esping-Andersen et al., 2002).

Although the questioning of the welfare state's economical and political sustainability has recently become a substantial issue in the field of comparative social policy, it is by no means a neoteric topic. Discussions regarding the fundamental existence of the welfare state, or the crisis theory of the welfare state, have already become a classic ever since the new rights and new lefts claimed that the welfare state is destined to doom (Pierson, 1991). Needless to mention, such trends of scientific beliefs are dissipating due to various theoretical and experiential studies that prove the invalidness of such determinism based crisis theory that all welfare states are destined to a death sentence. It is impossible for any state to keep its welfare expenditure level at 0 percent. The question is then, what type of welfare state is relatively robust during crisis, or what factors secure the sustainability of a welfare state.

Academic questions concerning the economic sustainability of welfare states may digress into the following: what policies are productive or unproductive? Which programs will result in greater productivity? As we have mentioned above, policy programs in welfare states are generally classified into cash transfer programs, which directly provide income security, and service programs, which resolve various welfare needs. The availability of social services may reduce the costs of market consumption for basic needs, and result in the increase of actual disposable income. Such outcomes offered by social services may be considered functional equivalencies of cash transfers, at least in terms of effective demand. However, as existing studies suggest obliquely, diverging effects will be resulted depending on which program has the priority over the other (Huber and Stephens, 2001; Esping-Andersen et al., 2002; Ahn, 2005; Baek, 2005; Hong, 2005).

There already exist various studies in the field of economics that investigate the effects of the welfare state on economic growth. However, the dissident, which concentrate on supply-side economics and emphasizes the distortion of the economic incentive system, will be omitted from this study's main arguments, mainly because it is irrelevant to extracting the factors of sustainability. Instead, this study chooses to focus on the claims of the proponents.

The most widely known positive aspect of welfare after Keynes (1973) is the logic that effective demand will be created by welfare payments which will in turn result in economic growth. The anticipated gap between cash transfers and social services involving effective demand is narrow, because with fixed income, the settlement of needs through social services also affects the increase of disposable income. Whereas cash transfers can contribute to productivity solely by creating effective demand, social services are predicted to contribute in more direct and versatile ways by building up human capital and creating employment (Esping-Andersen et al., 2002; Sang-Hoon Ahn, 2002). Now, let's take a closer look.

First, because social services are intangible benefits that could only be transferred through people, the development of the social services sector will automatically generate employment. Also, developing the social service sector has a twofold effect when it contributes to the increase of total labor supplies. For instance, the enhancement of child care systems will facilitate educated women to actively participate in

the economy rather than staying at home, and will also simultaneously unearth a previously untapped labor market that targets women. Another example is the employment security service, which is targeted for those who are in a disadvantaged position in the labor market, such as the elderly, the disabled and the unemployed. Such services may increase total labor supply by contributing to labor training and re-training, which will extend the target population's lifetime employment period. Also, the enhancement of employment security services will simultaneously facilitate the labor market for social service in this sector.

Second, social service development eventually reinforces productivity due to its investment effects on human capital. The long-term effect of early human capital development through public child care services is the promotion of productivity, which will eventually create wealth in the society. Social services relating with education, employment and medical health also pertain the characteristics of human capital investment, and share the growth-friendly attributes. In the current age of globalization, where social capital in most developed countries have become knowledge-based, it can be told that the growth promoting characteristics in human capital investment are growing especially strong.

Third, economies of scale are guaranteed in cases where the social services are supplied by public sectors. Due to its inability to expand in the market, social services in the areas of child and elderly care, medical health, etc, secure economies of scale in the public social service sector. This reduces the total expenditure on service purchasing and encourages other types of consumption, which will eventually induce higher productivity.⁹

Fourth, adopting merit goods that have preventative characteristics are ultimately more efficient in situations where negative cost expenditure is expected. However, the market tends not to choose preventative merit goods due to the short-term profit and loss calculations. For example, initial investment for children education or the promotion of preventative medical health consumption must be managed by the public sector to be fulfilled in a desirable direction;¹⁰ yet another example of social service provided by the public sector to eventually contribute in productivity.

Fifth, social services with active labor market policies such as employment security services may assist economic growth through aiding industrial restructuring and minimizing the costs of social discord caused by lay-offs inevitable in the process. In reality, the more states are fully equipped with social

⁹ Although public child care is much underdeveloped in Korea, for example, consumers prefer public child care over private because public child care offers the same quality for a cheaper price. This case may be an example of the role of economies of scale in the public social service sector.

¹⁰ According to international comparisons, there is a tendency for social service expenditure and public security expenditure to be inversely proportional. Such may lead to interpretations that social policy in general, especially the fostering of sound members of society through social services, play a preventative function in relation to human capital, and also the minimization of deviating individuals.

policy safety nets with active labor market policy, as in Northern Europe, the less the intensity and frequency of labor-management disputes. Also, these states have the tendency to attain industrial restructuring at just the right moment, and earlier than others at that, which naturally enhances productivity.

On a theoretical level, the assumption that social services play a larger role in enhancing productivity than cash transfers may be hypothesized as the following: 'the larger the proportion of social service expenditure in the total public welfare expenditure, the greater the economic achievement.' This hypothesis will be empirically tested in the next section.

2. Comparison between the Economic Sustainability of Social Services and Cash Transfers

A pooled cross-sectional time series analysis across twelve western welfare states over thirty years reports the relationship of 'Real growth rate = 3.654 - 0.072 * Social expenditure as a percentage of GDP' (Ahn, 2002).¹¹ Of course the explanatory power of this equation is not high, and in cases where the regime dummy variable is inserted, it is emphasized that the negative effects of welfare to growth is, on average, lower in the European model compared to the Anglo-Saxon model. However, through this result we cannot fully deny the fact that there may exist a basic negative correlation between the two. It is being found in numerous cases where growth and distribution/production and distribution are compared in sum one-on-one that the studies yield similar results. This fact is the experiential proof that is often used to attack the welfare state by the proponents of the market capitalists, the most active among them being mainstream economists. However, as proposed in this study, should we assess the efficacy of the welfare state by separating cash payments and social services, we can tell an entirely different story.¹²

Since the arguments regarding eurosclerosis in Europe have been first put forth, many countries in Europe have in fact suffered from fiscal deficiencies. However, we must not overlook the fact that the reforms to remedy this situation has not entailed the entirety of the welfare state program, but have mostly focused on pension plans with excessive cash transfers, such as social insurance and social assistance programs. The social services were not subject to reform pressures to subsidize, and have in some cases actually expanded in the stead of decreased cash transfers. It is interesting to note that the cash transfer reforms were more easily successful in countries in which the social service sectors were well developed.¹³

¹¹ $R^2=0.039$, the coefficient is significant under 0.05 level of significance.

¹² <Figures 2 to 4> show that, when tracing the trends of our three clusters of welfare types, the relationship between social expenditure, real GDP per capita, and unemployment does not seem to be clear.

¹³ The recent 'Scandinavian Revival' is deemed the result of countries decreasing the rate of income complementation while maintaining/strengthening social services. In contrast, most continental European model countries are stunted in their reform efforts due to the lack of funds to compliment their cash transfer sector.

Viewed in this light, it can be said that social service sector is now the new alternative to cash transfers in maintaining the welfare state in the political reform level, not only in theory but in reality as well. Now, let's make a more positive assessment of how the two main components of the welfare state, cash transfers and social services, demonstrate their differences.

Thus, we can conclude that although perhaps the sum of social expenditure does not have a definite relationship -- or even have a negative correlation with-economic development, we can conclude that when the spending on social services takes a larger portion in the total expenditure of a society, that society's propensity towards economic development increases correspondingly.

Let us now reaffirm our conclusion with a more intricate generalization analysis of the variables. The pooled cross-sectional time series analysis depicted below includes data from 15 countries (France, Germany, Belgium, Austria, Japan, United States, England, Australia, Ireland, Swiss, New Zealand, Sweden, Denmark, Norway, and Finland) that spans for ten years, 1990 to 1999. The data, which combines cross-section and time series, brings forth the problem of violating regression assumptions. In other words, the data has a high probability to become exposed simultaneously to the problems of autocorrelation, heteroscedasticity, and contemporaneous correlation. In this case, the OLS cannot be an adequate assessment method, so we must use alternative ones. This study, recognizing that the above problems exist in a compound fashion, utilizes the Panel Corrected Standard Error (hereafter called PCSE) method. There are many methods in assessing pooled time series cross-section analysis, and the reason we chose the PCSE estimation over the LSDV (Least Squares Dummy Variable Model) and the ECM (Error Components Model), the other two methods most commonly used for this purpose, is as follows:¹⁴ First, we already know that when assessing with OLS that the problems of autocorrelation, heteroscedasticity occur. Secondly, when we use the LSDV method, it is virtually impossible to produce a theoretical explanation of the dummy variable. The third problem involves contemporaneous correlation. To sum, in order to include autocorrelation, heteroscedasticity, and contemporaneous correlation, we conclude that the PCSE estimation method is the most appropriate choice we have (Beck and Katz,

¹⁴ What assessment model to use is the crucial decision that has to be made in utilizing pooled time series cross-section analysis. These models include the LM test, which assesses whether a certain time or country has a specific effect; the Hausman test, which judges the difference between fixed effects and random effects; and the Breusch-Pagan LM test. After applying all tests including the heteroscedasticity test and the autoregression test, we have statistically assessed that it is best to use the PCSE tests. All tests were conducted with STATA (version 8.2), and due to limitations of available space an exact report of the testing process itself will not be elaborated here. Among PK and PCSE, as the PK analysis result has a higher chance of committing a type I error due to the relatively short time series of the available data set used in this study, we should give the PCSE results primary consideration (Huber and Stephens, 2001; Beck and Katz, 1995). However, as the PK assessment is commonly used, we display the results from both tests equally.

1995)..¹⁵ To augment this weakness, we also display the assessment results from the PCSE method as well.¹⁶

<Table 5> depicts results from the positive analysis of whether welfare state program constituents such as cash transfers and social services demonstrates a significant difference in economic sustainability as measured by actual GDP per capita. First of all, through the results from the PK analysis, we find the hypothesis that the higher the proportion of cash transfers to the elderly, disabled, occupational hazards, occupational accidents, the sick, and family in the total public welfare expenditure, the lower the actual GDP per capita, to be significant (see Model 3 in <Table 5>). On the other hand, the percentage ratio of social service expenditures on areas such as the elderly, the disabled, family, medical care, and ALMP to the total public welfare expenditure showed to increase the actual GDP per capita (see Model 4 in <Table 5>). We can conclude from these results that welfare states that strengthen social services have an upper hand in terms of economic sustainability to welfare states that utilize cash transfers.

Let's take a look at the pooled cross-sectional time series analysis results on level of unemployment depicted in <Table 6>. In the Model 7, there is no statistically significant relationship between cash transfers and unemployment. The depreciating effects on unemployment rates that expanding social services relative to the total expenditure has is visible statistically, and this can be seen in the Model 8.

As we have reviewed thus far, economic achievement, which is expressed by the level of economic wealth and unemployment, shows how a state's welfare program is consisted. Specifically, we can observe that there is a large discrepancy in the level of economic achievement depending on the relative proportions between cash transfers and social services. To sum, we can state that economic sustainability becomes relatively lower when the welfare state is planned with the central mechanisms being cash transfers. By expanding social services to develop the welfare state and gratify welfare needs, we can expect the program to increase productivity and decrease unemployment, resulting in an increased economic sustainability through accumulating wealth in the society. Thus, we have now acquired empirical evidence that supports the claim that it is insufficient to measure economic sustainability by merely looking at a welfare state's level of expenditure. In conclusion, we can now state confidently that even in the age of globalization it is recommended to utilize production friendly social services when formulating the reform strategy for an effective welfare state.

IV. Implication for the East Asian Welfare State Reform

¹⁵ For an elaboration of the related logic and assessment of pooled time series cross-section analysis, refer to Janoski and Hicks(1994), Nielsen and Gaddy(2001), Rubinfeld(1998), Stimson(1985), and Sayrs(1989)

¹⁶ Reflecting results from the many pre-assessments we have gone through in order to choose the present analysis, we have implemented the PCSE estimation which assumes the heteroscedasticity among panels and panel-specific 1st order autocorrelation

We have thus far investigated how we could strategically establish the foundation for a highly productive welfare state, basing our discussion on economic and political sustainability in the context of our highly globalized world of today. The experiential evidence and logic reviewed in this paper are but a prologue towards the transition of East Asia to a social service investment state from a comparative social policy point of view. The quest for collecting ample evidence to satisfy the burden of proof regarding the claim that welfare services are actually development friendly is on the scholars in the field of social welfare. It is irresponsible to consider new welfare programs without knowledge of how welfare services contribute to national productivity, especially in the light of the fact that social expenditure will soon come to take up a sizable portion of the total state budget.

Traditional welfare states have developed mostly based on cash transfers, but in the case of a few European countries social services have developed alongside the allowances. The interesting fact is that even in the era of globalization characterized by unlimited competition these few states are still managing to balance production and welfare, and have even succeeded to bring about a welfare friendly political environment. However, even in these countries overpriced payrolls in terms of cash transfers are subject to reform, and accordingly recent efforts have focused on readjusting the cash transfer level regarding social insurance. Countries that have focused mostly on cash transfer policies without the general development of social services are now enforcing reform measures while suffering under the so-called eurosclerosis. Countries that have not only failed to develop social services but have also failed even to develop universal cash transfer policies currently possess the drive for development, but are exposed to various social problems, spearheaded by the issue of unemployment. Should we locate the dual goals of modern welfare states in development and distribution, it seems that "smaller is better" is not the case in welfare states; even without considering the unfair treaties with International Organizations.

If it is impossible to dispose of the welfare state in its entirety in this neoliberalist era where the discussion regarding the welfare state is focused more on the failure of the state rather than the failure of the market, the most urgent task on our hands is to develop a East Asian welfare state model that harmonizes both development and distribution. Thus, should we need a strategy that will bring about a East Asian welfare state that is high in productivity complementation, the strategy's fundamental aim should be to focus its investments on social services rather than the excess expansion of cash transfers, and thus create a social service investment state.

Also, a universal social service scheme is a superior strategy in that it fosters a welfare friendly political environment (Ahn 2003). As most cash transfer related to social insurance take care of only potential welfare needs in the future, people tend to prefer social services, which directly resolves the population's welfare needs. The expansion of employment in the service area as a result of the expansion of social services allows more constituents of the society to obtain jobs both directly and indirectly, and these people will naturally be in favor of the welfare state. If popular support is an essential political factor in

the sustaining of the welfare state, a universal social service state will have much higher political sustainability.

Now, the fact that we need to search for the new strategy towards economically (and politically sustainable) East Asian welfare states in a model that emphasizes the social service area is somewhat established. However, in the case of East Asia there is a visible lack of universal social services (Ahn and Lee, 2005; Hong, 2005). This allows for a pessimistic viewpoint that East Asia's welfare system does not have much sustainability. According to the existing studies, western welfare states are stuck in a "tri-lemma" of fiscal deficit, unemployment, and unequal income that cannot be resolved simultaneously. It is argued that East Asia, on the other hand, as it has a relatively low level of total welfare expenditure, is free from this tri-dilemma. The remaining problem is whether the transition towards a social service welfare state can be achieved with the citizenry behind it despite the vulnerable class debate and a policy inertia that emphasizes cash transfer. It is certain that the creation of a welfare state that is development friendly and able to be politically sustainable is no longer a secondary agenda in the management of the state. When we look upon the experience of the western states of the dangers involved when one loses the timing of welfare reform-the danger being the possibility of falling into the slippery slope of policy dependence-it is apparent that the time given to us is not as long as we think.

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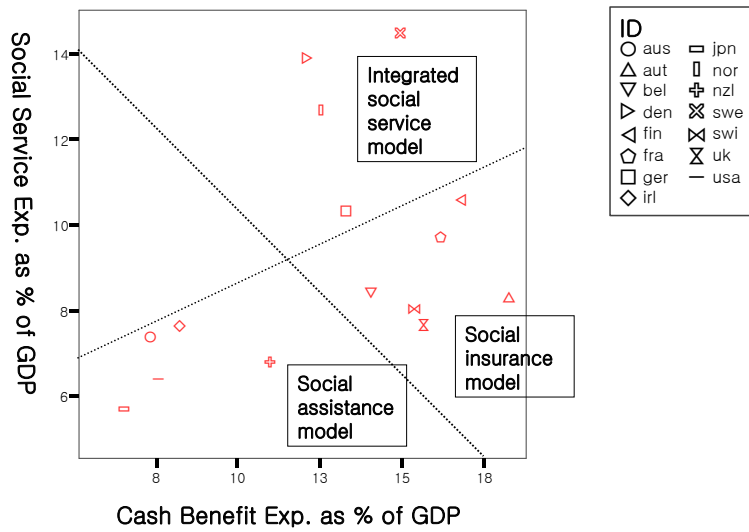
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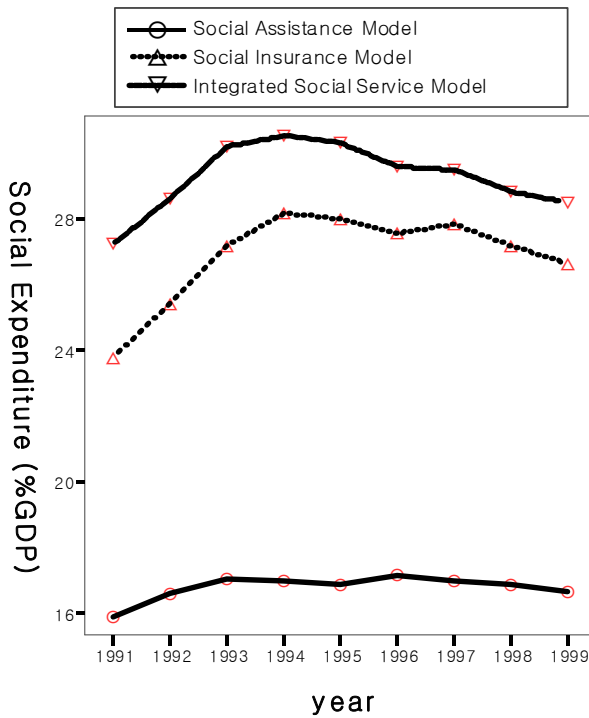
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Appendix: Figures & Tables

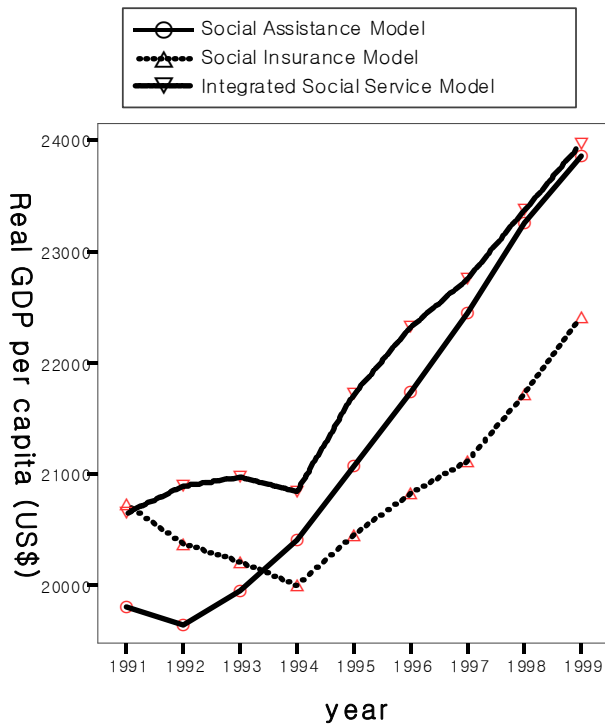
<Figure 1> New Typology of Welfare States based on Expenditure Composition (OECD SOCX, approximately the year 2000)



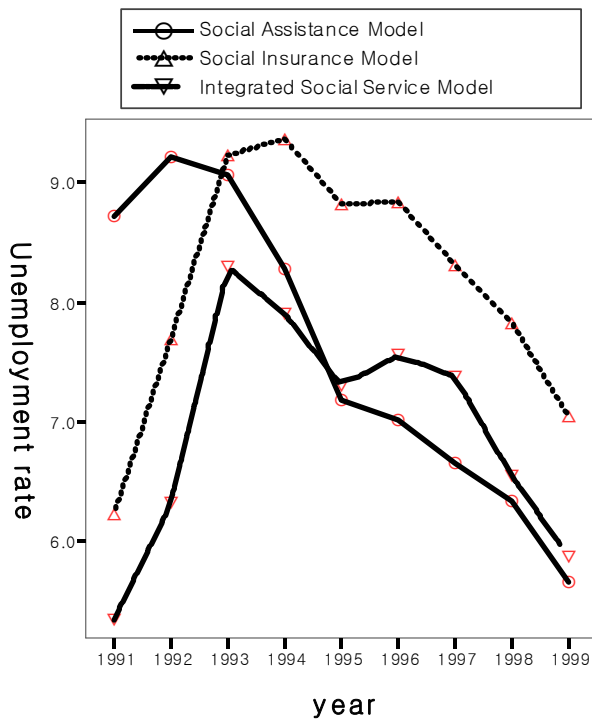
<Figure 2> Public Social Expenditure as % of GDP (CWSD, 1999)



<Figure 3> Real GDP per capita (CWSD, 1999)



<Figure 4> Unemployment rate (CWSD, 1999)



<Table 1> Results of K-means Cluster Analysis

	<i>Social assistance model</i>	<i>Social insurance model</i>	<i>Social service model</i>
Cash Benefit center score	8.12	16.03	13.21
Social service center score	6.77	8.77	12.85
Countries	USA, Australia, New Zealand, Ireland, Japan	Austria, Belgium, France, Switzerland, UK, Finland	Sweden, Denmark, Norway, Germany

Note: p-value of ANOVA results for 3-cluster K-means cluster analysis is lower than 0.001.

<Table 2> Composition of social expenditure by countries (OECD SOCX, circa 2000, % of GDP)

	<i>Public social expenditure</i>	<i>Cash transfer</i>	<i>Social service</i>
Sweden	28.9	14.4	13.2
France	28.5	17.9	9.2
USA	14.8	7.9	6.7
Japan	16.9	9.1	7.5
East Asia	6.1	2.3	3.6

<Table 3> Variables analyzed in the pooled TSCS regression analysis

<i>Variable</i>	<i>Operational definition</i>	<i>source</i>
Per capita GDP	Real GDP per capita (US\$, 1996)	CWSD(2004)
unemployment	Standardized unemployment rate	CWSD(2004)
Productivity	GDP per labour hours as PPP calculated	GGDC(2005)
Government consumption	Government consumption as % of GDP	CWSD(2004)
CPI	Consumer price index	CWSD(2004)
Balance of trade	'export – import' as % of GDP	CWSD(2004)
Capital investment	Capital investment as % of real	CWSD(2004)
Labour force	Total labour force as % of workers in workable age	CWSD(2004)
Real interest rate	Real interest rate (%)	GGDC(2005)
Labour demand	Business sector wage as % of national income(NI)	CWSD(2004)
Cash transfer	Cash transfer of old age pension, pension for the disabled, occupational injury compensation, allowances for families as % of total social expenditure	OECD(2004)
Social service	Social service expenditure as % of total social expenditure	OECD(2004)
Social expenditure	Social expenditure as % of GDP	OECD(2004)

<Table 4> Descriptive statistics of variables

<i>Variables</i>	<i>Min.</i>	<i>Max.</i>	<i>Mean</i>	<i>S.D.</i>
Per capita GDP	14320.03	32127.90	21714.96	3229.87
unemployment	2.00	16.70	7.63	3.37
Government consumption	13.17	29.44	20.22	3.81
CPI	-0.27	10.38	2.53	1.74
Balance of trade	-2.58	12.66	2.62	3.40
Capital investment	16.62	36.20	23.37	4.03
Labour force	61.64	85.58	73.98	5.97
Real interest rate	0.06	7.37	1.84	1.15
Labour demand	0.52	0.76	0.62	0.05
Cash transfer	33.24	66.28	51.47	7.65
Social service	28.33	48.63	37.79	5.80
Social expenditure	10.97	36.39	24.16	6.09

<Table 5> Pooled TSCS regression Results for the models with GDP per capita as dependent variable

	<i>Model 1</i>	<i>Model 2</i>	<i>Model 3</i>	<i>Model 4</i>
Capital investment	166.0 (0.013)	220.0 (0.000)	175.6 (0.010)	130.2 (0.054)
Labour force	201.7 (0.000)	189.6 (0.000)	196.3 (0.000)	151.5 (0.000)
CPI	-280.1 (0.000)	-305.7 (0.000)	-267.1 (0.000)	-214.1 (0.000)
Balance of trade	98.2 (0.131)	139.9 (0.028)	116.3 (0.086)	99.3 (0.161)
Government consumption	-165.1 (0.000)	-	-176.0 (0.002)	-199.7 (0.014)
Social expenditure	-	-126.6 (0.006)	-	-
Cash transfer	-	-	-15.1 (0.660)	-
Social service	-	-	-	111.8 (0.006)
Constant	6762.8 (0.015)	6153.4 (0.075)	7839.9 (0.066)	7414.8 (0.024)
R2	0.989	.990	0.9872	0.9724

Note: upper scores are regression coefficients; p-values in parentheses

<Table 6> Pooled TSCS regression Results for the models with unemployment rate as dependent variable

	<i>Model 5</i>	<i>Model 6</i>	<i>Model 7</i>	<i>Model 8</i>
Labour demand	-9.052 (0.222)	-8.806 (0.263)	-7.684 (0.295)	-3.120 (0.672)
Real interest rate	0.153 (0.122)	0.138 (0.163)	0.162 (0.098)	0.081 (0.375)
Productivity	-0.210 (0.050)	-0.200 (0.067)	-0.232 (0.029)	-0.134 (0.147)
CPI	-0.166 (0.053)	-0.147 (0.099)	-0.154 (0.068)	-0.181 (0.020)
Government consumption	0.534 (0.000)	-	0.465 (0.002)	0.542 (0.000)
Social expenditure	-	0.292 (0.045)	-	-
Cash transfer	-	-	-0.087 (0.065)	-
Social service	-	-	-	-0.263 (0.000)
Constant	7.218 (0.249)	10.363 (0.045)	12.938 (0.056)	11.425 (0.039)
R2	0.5251	0.6013	0.5584	0.5939

Note: upper scores are regression coefficients; p-values in parentheses