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Financing Welfare Regimes: A Literature Review and Cluster Analysis

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SUMMARY

This report studies how the composition of public revenues in terms of sources (like taxation, contributions to social insurance programmes, mineral rents, aid) is associated with different welfare regimes and social policy outcomes. It is divided into two main halves: a literature review and cross-national data analysis.

The first half uses a model derived from scholarly research into the development of Western welfare states which identifies five explanatory factors, the “5 I’s”: industrialisation, interests, institutions, ideas and international influences. It applies this to the development of tax and revenue systems as well as welfare systems in the West, and then considers its applicability to the developing world. The conclusion is that the model has less purchase in understanding welfare and revenue systems in the developing world. Here, the patterns of industrialisation, interest formation and representation, institutional development, ideational influences and the entire international environment are very different: more complex, variegated and heterogeneous. Consequently, their ability to explain welfare and revenue systems is more indeterminate.

The second part of this report recognises this heterogeneity by using cluster analysis to identify patterns in welfare regimes and revenue systems across the developing world. It analyses data for 65 non-OECD countries (excluding small countries) for the year 2000, covering welfare regimes, revenue structures, and the relationship between the two.

The hypothesis that higher tax levels are associated with greater state effectiveness in meeting welfare/security needs is not clearly borne out. It is only the scope of *social security contributions* that appears to correlate with proto-welfare states in the developing world. In addition this cluster relies very little on revenues from minerals and oil. This proto-welfare state cluster comprises two distinct geographical zones and historical antecedents: the countries of the former Soviet Union and its bloc members and the relatively industrialized countries of southern South America.

The fast-developing countries of East Asia and some other middle income countries in Latin America and MENA present an interesting anomalous picture in 2000. They exhibit relatively low shares of government social expenditures, revenues, income taxes and social security contributions, yet record relatively good social outputs and welfare outcomes. This suggests that security and illfare are mitigated by other domestic, non-state, informal or private institutions. This group includes several ‘developmental states’ with considerable infrastructure capacity but which have not prioritised traditional social policies. Here one might expect to see new forms of collective management of risk emerge. Indeed this can already be seen in some of the outliers in this group, such as Turkey, Korea and Chile.

In contrast to this pattern, we observe a small group of countries in southern-eastern Africa with high spending and high tax revenues, but with poor welfare outcomes. This combination partly reflects the damaging effects of AIDS over the previous decade, but not entirely. Finally, the other major world regions, including South Asia and Africa, exhibit weak government and poorly functioning formal and informal security mechanisms.

The report is subject to several important qualifications. Comparative global data on all these issues lags far behind the questions we want to ask. Cluster analysis is an imperfect art rather than a rigorous statistical technique. There are significant outliers in several of the clusters. Finally, the data relates to the year 2000 and thus takes no account of the quite extensive developments in social programmes in some countries over the last decade.

Acronyms List

AIDS	Acquired immune deficiency syndrome
GDP	Gross domestic product
GNI	Gross national income
HCA	Hierarchical cluster analysis
IGO	International Governmental Organizations
ILO	International Labour Organisation
IMF	International Monetary Fund
KCA	K-means cluster analysis
MENA	Middle East and North Africa
NGO	Non governmental organisation
OECD	Organization for Economic Co-operation and Development
UN	United Nations
UNICEF	United Nations Children's Fund
USA	United States of America
WDI	World Development Indicators

INTRODUCTION

This report studies how the composition of public revenues in terms of sources (like taxation, social insurance contributions, mineral rents, foreign aid) is associated with different welfare regimes and social policy outcomes. It is divided into two main halves: literature reviews and cross-national data analysis.

The first half summarises theories and research. It reviews four sets of theoretical and empirical literature: on the development of social policies and welfare states in the 'West', in particular in Europe; on applying these theories to the developing world; and in a parallel way literature on the emergence of tax and revenue systems in the West and on the relevance of these frameworks and findings to the South. It notes parallels and differences in the findings on fiscal states and welfare states, and the more striking differences between the North and the South.

In the second part we develop a novel model of welfare regimes and demonstrate its utility as a framework for analysing social policy in the developing world. Subsequent sections then operationalise this framework using data for 2000 and introduce the methods of cluster analysis. We present a global map of welfare regimes together with supporting data and analysis; introduce revenue sources and map their cross-national patterns again using cluster analysis; and finally present our findings on the relationship between welfare regimes and state revenue structures. It should be stressed that this empirical analysis relates to the year 2000 and thus takes no account of the quite extensive developments in social programmes in some countries, such as Korea, Chile and China, over the last decade.

The conclusion asks, is there a relationship between specific revenue structures, regime types and welfare outcomes across the global South? It also adds qualifications and cautions about interpreting this type of analysis.

I. THE DETERMINANTS OF WELFARE AND REVENUE SYSTEMS: LITERATURE ON THE DEVELOPED AND THE DEVELOPING WORLD

In this part we review existing literature on the emergence of tax and welfare regimes in the 'West' or OECD world and consider their applicability to the developing world. In practice this means reviewing four relatively distinct sets of research on:

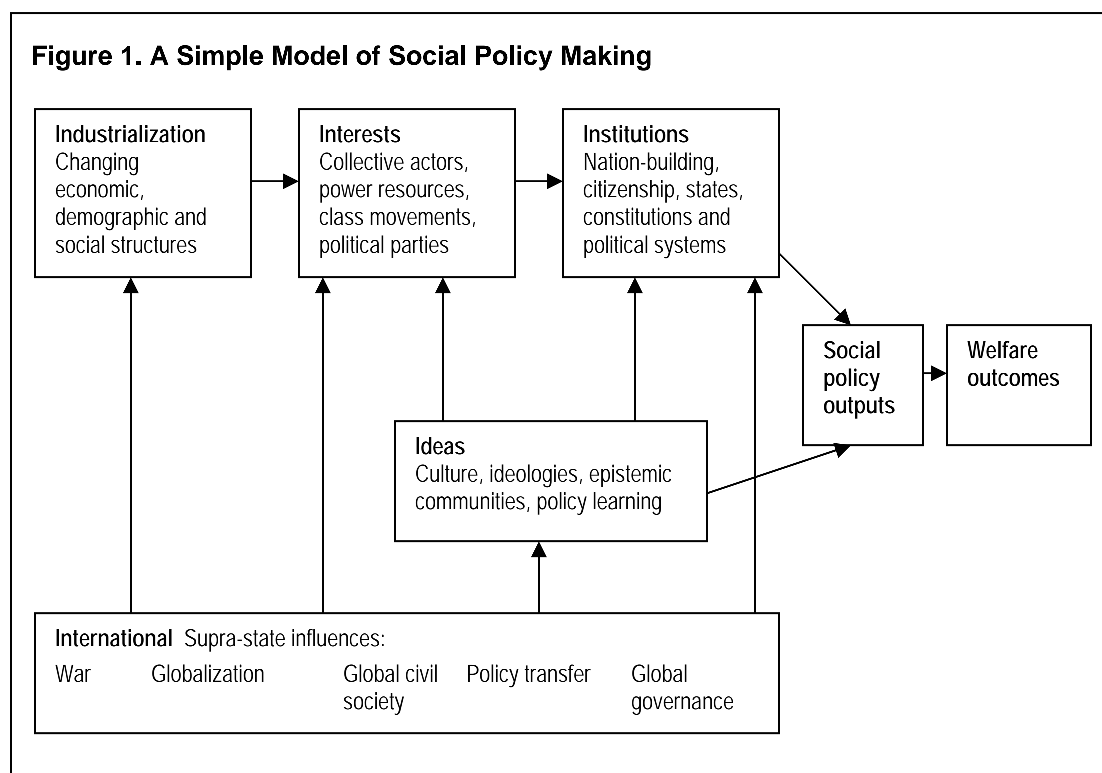
- the development of social policy systems in the OECD,
- the development of tax systems in the OECD,
- the emergence of social policies in the developing world,
- and the emergence of tax and revenue systems in the developing world.

To do this we draw on two recent synthetic works. Gough (2008) reviews theories of Western welfare states and considers their relevance or otherwise for understanding social policies in the developing world (see also Gough and Therborn 2010). Braütigam, Fjeldstad and Moore (2008) similarly review theories of taxation and state-building in the West and consider their implications for understanding tax and revenue policies in developing countries.

1.1 Determinants of welfare states in the West

Gough (2008) presents a model of policy making which identifies five determinants of social policy. These are labeled the "five I's": Industrialization, Interests, Institutions, Ideas/Ideologies, and International Influences. A simple model of the relationship between these determinants and social policy 'outputs' is portrayed in Figure 1.

The following draws on a long history of case study and comparative research into social programmes across the OECD world, which is briefly summarized below (see Gough 2008 for detailed arguments and citations).



Source: Gough 2008: 44

i) ***Industrialization and other macro-social changes***

In the 1950s and 1960s, the dominant school identified social policy as a consequence or correlate of industrialization. The dependent variable was public social expenditure as a share of GDP and the relationship was demonstrated in time series and cross-sectional analysis. It was generally agreed that "economic growth and its demographic and bureaucratic outcomes are the root causes of the general emergence of the welfare state" (Wilensky 1975:xiii). The bases of European welfare state development were two: new social challenges and new resources to meet them. Industrial capitalism produced both.

The explanations of this relationship vary. Some argued that as societies develop, the decline of traditional forms of provision "calls forth" new public bodies and responsibilities. Polanyi in *The Great Transformation* writes of the "societal responses" to social upheavals brought about by the "disembedding" of labor markets from prior social relations. Industrial capitalism tore apart the social patterns of minimal protection of the subsistence family, the village, and the guilds, and it brought together large numbers of men and women outside traditional tutelage, in factories and new cities, creating and incessantly increasing the challenges of social disintegration and of social protest. Others identify the demographic transition that accompanies economic development and transformation as a prime mover, requiring public responses to growing groups like the elderly or small families. All these theories predict growing public social expenditures and converging social programmes in industrial societies.

ii) *Interests: collective actors, power resources, democracy and parties*

A second set of explanations emerged in the 1970s moving beyond macro-social changes to prioritize the collective organization and powers of major social actors, notably social classes. In the new societies of industrial capitalism two powerful, opposite *interests* converged in generating public social policies. There was the interest of the industrial proletariat in at least some minimally adequate housing and social amenities in the new industrial cities, and in acquiring some kind of security in cases of injury, sickness, unemployment, old age. That interest was soon organized, in trade unions, mutual aid societies and labour-based parties. On the other, there was the interest of political elites in social order and the quality of the population.

A recognition of the role of class-based interests is a feature of the "social democratic" and the "power resources" or "democratic class struggle" models of social policy (Korpi 1983). In an original study of the cross-national policy perspectives of labour and business interests in 1881 and 1981, Therborn (1986) found (not surprisingly perhaps) the labour and trades union movement advocating greater state economic interventions, full employment policies, universal and extensive social policies and greater fiscal redistribution and economic equality. Business organizations favored incentives to growth, private provision plus low coverage of social benefits, and low redistribution. The hypothesis was that the distribution of power resources between the main social classes of capitalist society determined the extent, range and redistributive effects of economic and social policies. These interest-based theories have been corroborated in numerous studies (Stiller and van Kersbergen 2005). The upshot is that "class struggles matter" and "politics matter". It was not so much the industrialization and modernization of Europe and the West that generated welfare states, but the way this was reflected in class cleavages, class organizations within civil society, their respective powers, their economic and social mobilization, and later, their parliamentary representation. A crucial factor has been the emergence of ideologically-based parties pursuing a class-based program of reform, in place of clientelist or personalized parties.

Nevertheless, the power resources approach could not explain the early introduction of social policies by non-class-based parties, or the subsequent emergence of strong but different welfare systems in countries with relatively weak unions and social democratic parties, but strong Christian Democrat parties. This complexity was combined in Esping-Andersen's (1990) influential work on welfare state regimes, which identified not two but three worlds of "welfare capitalism": liberal, social democratic and conservative or Christian democratic.

iii) *Institutions: states, constitutions and political systems*

A third group of theories claim that political *institutions* mediate the impact of societal interests and/or interpret the welfare state as a 'final stage' of state building. Institutions turned challenges, resources, and interests into consolidated, self-reproducing realities. The welfare state is part of a longer-term process by which power is accumulated in nation states by building state capacities, collecting taxes and constructing citizenship. While Marshall (1950) saw the welfare state as the extension of citizenship rights to include social rights, European scholars, notably Stein Rokkan, developed a much more extensive theorization of the welfare state as a final stage in nation-building in Europe (Flora 1999). The role of social policy institutions in the building of nation states and welfare states has long been acknowledged. For one thing, a welfare state requires an effective tax state, as Schumpeter (1918/1991) long ago recognized. In several countries there was an overarching drive toward welfare statism, as in Bismarck's Germany where social insurance in the 1880s provided a social motor to consolidate the unification of 1870/71 (Rimlinger 1971). In several federal countries today, the welfare state can act as a force for unity: when secession threatens, the welfare state can act as a lightning rod for articulation of interests and provide compensation for socio/ethno-territorial divisions and inequalities (Obinger et al 2005).

By the late 1980s a "new" institutionalism had entered comparative research on social policy development. One important strand identifies the centralization of decision making at

the summit of political systems and the extent to which the executive is insulated from parliamentary and electoral pressures as important to the development of extensive social policies. If power is dispersed and there are many veto points, then relatively small and well-organized groups can block the systemic changes required to radically reform health or social security programs (see Bonoli 2000). Thus federal systems (see Obinger et al 2005), or constitutional separation of powers, hinder the development of welfare states; doubly so if both are present. Another strand emphasizes the bureaucratic legacies of past social programs; the way that public teachers and health workers, for example, or new "clienteles", such as old age pensioners, can mobilize to defend and extend social programs and benefits (Pierson 2000, Flora 1986-7).

iv) Ideas: culture, ideologies and epistemic communities

The above three factors were combined into a popular synthesis (see eg. Huber et al 1993). Yet they omit one factor commonly emphasised in the 19th century—the role of ideas and their influence on reforming elites. Three levels, varying from more to less abstract, can be distinguished here: the role of a) cultural systems; b) ideas and dominant ideologies; and c) epistemic communities and policy transfer (Haas 1992). Formative ideas behind the emergence and development of European welfare states included the European rights tradition, British social Liberalism and French post-revolutionary Republicanism, Social Democracy and social Catholicism. Later inputs came from Keynesian economics, though this harmony between economy and social policy is commonly perceived to have broken down with the challenge of monetarism in the 1970s (Mishra 1984). Now, however, theories of "human capital" and "productive social policy" provide further ideational support. Thus, social policies were not and are not solely about redistribution. Some policies, such as early school meals provision in Britain, have always been perceived as performing a productive public good role.

v) *International and supra-state influences on policy making*

The former accounts all share a focus on internal factors in explaining the emergence of national welfare states in OECD countries. The only exception to this until recently was a recognition of the impact of war on social policy, notably the decisive role of World War II in the emergence of "big government", high taxes and extensive welfare states. But relatively little has been made of comparative differences in the war experiences of nations, between victors and vanquished, and between those countries occupied or fought over and those not.

Apart from this, the external environment – for example, the post-war settlement of the United Nations system and the Bretton Woods institutions – has been taken for granted, and for the first three decades was mainly benevolent. Only recently has the impact and constraints of trans-national and supra-national factors on the making of social policy come to be recognized with the discourse and part-reality of "globalisation". The dominant hypothesised impact on the welfare states of the West was initially negative: the retrenchment of uncompetitive welfare states, a "race to the bottom" in taxation, regulation, state responsibilities, social rights and redistribution (Mishra 1999). However, the clear results of empirical research are surprising: contrary to the "race to the bottom" story, the share of social expenditure in GDP positively correlates with openness to trade across the OECD, and this link appears to be growing in strength (Cameron 1978, Rodrik 1998, Garrett 1998).

1.2 Lessons for Developing Countries

To what extent, if at all, does this model help understand the extent, patterns and dynamics of social policy in the developing world? What follows provides a few brief comments on this big question.

i) ***Industrialisation and post-industrialism: economic and social conditions and change***

The importance of societal conditions and structural change remain central to understanding social policy in the developing world. Industrialization explanations are likely to remain relevant in the newly emerging "workshops of the world", particularly in Asia. But in most of the emerging market economies the growing secondary sector is combined with larger tertiary and primary sectors than were European societies in the late 19th and early 20th centuries - with implications for growth, taxation, labor market security and the applicability of the European social insurance model. Above all, the pervasive dualism of developing economies, the gulf between major cities and rural areas, and the extensive spatial inequalities, is beyond comparison with Europe now *and* Europe a century ago.

Furthermore, most of the non-Western world has never experienced the long post-war booms interspersed, until now, with only mild recessions, which formed a benign environment for the rise of European welfare states. Plummeting commodity markets, financial crises, and demographically overburdened stagnations have haunted it most of the time. The more successful exceptions, like Japan and later South Korea, have witnessed burgeoning social policies, but still far short of European levels.

It is true that an unprecedented demographic transition is underway across much of the world, which suggests dramatic new 'requirements' for schools, pensions and health services. Yet the role of families and households in attempting to mitigate risk and secure welfare is also far more extensive in the developing than in the developed world. The development process today is squashed in time, is highly uneven, and is more constrained by global economic developments than in the 19c and early 20c (see below). All these factors complicate any simple transposition of lessons from European industrialisation to the developing world.

ii) ***Interests***

Both the interests of social rights and the interests of social fear are weaker outside Europe. This is mainly because societies are much more fragmented: between urban and rural areas, within large agrarian sectors (between labourers and peasants), and within urban areas, between formal and informal employment. On some exceptional occasions progressive coalitions may arise, but such coalescence of interests has been difficult to sustain in consistent policies and institutions.

In the zones of global accumulation, notably East Asia, proletarianization proceeds at breakneck speed, and has fostered unofficial trade unions and militant class struggle in uneven ways. In such countries, one might predict the classic European "social insurance dynamic" (Hort and Kuhnle 2000): social insurance begins with groups of manual and factory workers in large industrial firms, gradually rippling outwards to include medium and small enterprises, agricultural, white-collar and service workers, the self-employed, and later, in some countries, even the unemployed and housewives. However, this lesson is not applicable where capitalist development is not accompanied by proletarianisation, and not necessarily where it is. The labour movement is almost everywhere weak or non-existent, squeezed between repression and deregulation. The growing structural power of capital and its willingness to exert agency power also contributes a bias against comprehensive welfare systems.

iii) ***Institutions***

Institutions have traveled across the world, including the nation-state and social insurance, but nowhere has a European-style welfare state emerged. However, the role of welfare systems in extending citizenship as a later phase of state and nation-building in Europe has some parallels in the global South: from the development of social protection policies in the face of the 1930s depression in the Southern Cone of Latin America, to the ambitious plans for welfare states in newly independent ex-colonies such as Sri Lanka and Ghana, to the concessionary social programs to stem revolutionary pressures such as the Philippines in the early 1950s. There is a need for a more comparative study of these paths, of

their very different antecedents[1] and of the forms of social citizenship on offer. However, all these cases presuppose state institutions with certain minimal capacities and legitimacy: a welfare state presupposes a reasonably functioning Weberian state. Where states are failed, "shadow" or collapsed, this cannot happen.

A related question concerns the export of Western-style democracy across the world, notably since 1990, and its impact on pressures for social programmes. However, there is no simple link between the spread of 'democracy' and the emergence of real social rights. In East Asia authoritarian leaders have introduced social policies to strengthen national solidarity, secure the loyalty of elites and legitimize undemocratic regimes. Moreover, democracy has also fostered the clientelistic political machine, initially in the USA – deals whereby citizens trade votes for access to employment and transfers. Clientelism is now a pervasive feature shaping the nature of, and access to, welfare programmes across the world.

The impact of constitutional structures on social policy development is difficult to discern from research undertaken in the OECD. One lesson from a comparative study of health care in Europe and the United States is that universal social programs and rights are blocked when providers and private interests organize ahead of consumers and civil organizations. This is a critical lesson at a time when privatization policies encourage private providers, giving them an institutional "head start" over consumers and citizens.

iv) *Ideas*

Outside Europe, and its settler off-shoots, there is no tradition of civic or popular rights to draw upon. But there are powerful ideas of social justice within Islamic, African and Gandhian cultures, for instance. The emergence of proto-welfare states in East Asia has also prompted the study of the "Confucian welfare state": a "fundamentally different orientation to social policy" to the West and "an independent path of welfare state evolution in East Asia" (Rieger and Leibfried 2003: 261). In late 20th century Latin America, an indigenous transplant of social Catholicism, the Theology of Liberation has played a significant role, in Brazil above all.

Many countries have pursued roads to modernity different from T.H. Marshall´s idea of social citizenship following upon political citizenship. Rather, they have followed a much more central idea of national development, recognised in recent research on the developmental state. This was pioneered by Japan under pressure to catch up with Europe whilst maintaining national cohesion. The Japanese project presupposed a strong, externally threatened but not defeated national culture, capable of overwhelming class conflict. This model still has some appeal, but the dominant source of ideas over the last three decades has been neo-liberalism, promulgated by Western governments and intergovernmental organisations.

v) *International influences*

It is when considering the impact of other global factors that the ability of European history to offer any useful lessons is most severely tested. The developing world today is enmeshed in a network of economic relationships with powerful financial and corporate actors, is part of a world society of inter-governmental institutions with powers to constrain and sometimes control Southern governments, and is subject to ruling ideas and ideologies promulgated by powerful epistemic communities, notably that of economists.

Contrary to naïve interpretations of globalisation, the world's most generous welfare states have developed in societies wide open to and heavily dependent on the world market, such as Belgium, Netherlands, Scandinavia. Unlike in the West, where social protection emerged early on as the only alternative to trade protection, in much of the developing world the necessary state infrastructure has been destroyed by neoliberal reforms promulgated by international institutions and powerful states. The sequencing in the South is too often the

[1] Such as Therborn's (1995) 'four roads to modernity' – pioneers, 'settler' countries, colonies, and independent-but-constrained nation states.

opposite of that in the North: globalization has preceded welfare state formation and previous forms of national economic protectionism have been forcibly swept aside before even a rudimentary system of social protection has been put in place.

In terms of policy transfer and learning, Europe's experience offers ambivalent lessons. Studies of the influence of the Bank and other external actors on pension reforms in the transitional countries of Eastern Europe have found that, even in such vulnerable states, domestic interests and institutions strongly mediate external policy advice and pressures. However, many highly indebted low-income countries in the South lack the power and institutional capacities to adapt international policy models to their contexts. Policy transfer imposed by fiat or threat of heavy penalties or conditionality is very different from policy learning—indeed, they can be mutually exclusive. This is a novel barrier to the emergence of autonomous social policy in much of the South.

The tide within intergovernmental institutions may now be turning. International organizations have been very important conveyors of ideas, of different kinds. The ILO has importantly inspired formal sector labour rights. The UN, from its l974 Women´s Conference in Mexico has spread ideas of gender equality, and the UN Convention of the Rights of the Child and its permanent child-focused organization UNICEF are highlighting children's well-being. Deacon (2007) provides a detailed account of the debates and contests between inter-governmental organisations, including between the UN family and the more powerful Bretton Woods institutions. There is some evidence that crass anti-welfare stances are being modified in the light of experience, but no evidence to date of an emerging 'progressive programme of global social policy'.

1.3 Determinants of the tax state in the West and implications for the developing world

Can we replicate the model above applied to the tax state? Do the "5 I's" illuminate the structure and policies of tax states as well as the structure and policies of welfare states? If so, we have a powerful framework for understanding their relationships. We shall argue that the model is indeed applicable, drawing on Braütigam, Fjeldstad and Moore (2008) where similar conceptual categories are deployed. Rather than replicating the above structure, with separate literature reviews for Europe and the West and the developing world, the two are combined here.

i) ***Industrialisation and development***

The association of greater proportionate tax revenues with higher levels of economic development is a robust finding across both time and space – a relationship first noticed by Adolf Wagner in the 19c and named after him. 'Official tax-collectors in richer countries, and especially in countries with a relatively small agricultural sector, succeed in capturing higher proportions of national income for the government' (Moore 2008: 40). However, there is still much variation in tax revenue unaccounted for by income per head, and the reasons for the relationship are disputed. Wagner himself, and several social policy scholars noted above, explain it in terms of industrial society fostering new needs and demands for public services. Others credit the spread of the formal economy which enables records to be kept and taxes to be collected in a more uniform and bureaucratic way (Ardant 1975, Brewer 1989). There is in fact no contradiction between these two explanations which can be subsumed within the 'modernisation' framework discussed above.

Economic development, as well as expanding tax revenues, also brings with it a shift in the nature of taxation: 'from levying taxes on specific items (salt, tobacco, carriages, individuals) to levying them according to accounting categories (income, sales, turnover valued-added, profits)' (Moore 2008: 40). Moore claims that in the developed world this has been accompanied by a shift from coercion to contract in the tax relationship. Coercive taxation is characterised by arbitrary assessment, coercive collection and the absence of any representation for taxpayers in tax policy decisions. Contract taxation is characterised by 'revenue bargaining' – the exchange of tax revenues (for the state) for institutionalized

influence over public policy (for citizens)' (Moore 2008: 36). However, this transition cannot be assumed in the South (nor in parts of the North). Rather, this points to the role of interests and institutions, the second and third factors in our model, in mediating the relationship between economic development and tax revenues.

ii) ***Interests***

That the pattern of taxes normally reflects the interests of the powerful is perhaps too obvious a point to make, though it has rarely been subjected to scholarly investigation (Braütigam 2008). Similarly the ability of taxes that are perceived to be unjust or coercive to foster tax rebellions is a part of the historical record, from the Roman Empire to the Poll Tax revolt against the Thatcher government in Britain. Thus there is a complex link between interest groups, perceived interests and the tax system. The direction of causality is difficult to disentangle. There is an interesting debate over the extent to which undemocratic governments imposing tax hikes foster demands for democratic reforms. Ross (2004) argues that if an undemocratic government raises the tax burden without a commensurate increase in desired services, then citizens tend to press for greater representation. Lieberman (2003) has researched the ways that race and class determine bargaining power over taxes and public expenditures in Brazil and South Africa. He notes how a cross-class alliance among whites in South Africa fostered higher income tax levels and higher benefit levels (for whites) – a pattern we shall observe below.

iii) ***Institutions***

The role of taxation in building states is a common theme among students of the state. 'The history of state revenue production is the history of the evolution of the state' (Levi, 1988). We have already noted Schumpeter's analysis. Michael Mann's immense historical study of power emphasises the role of tax-raising powers (1993, notably chapter 11). Braütigam (2008: 1) writes: 'Taxation may play the *central* role in building and sustaining the power of states, and shaping their ties to society'. Though theoretical explanations of this relationship differ, all agree that the administrative, fiscal and institutional capacity of governments to pursue public goals both engenders and reflects tax raising-powers. Here the parallels between institutional determinants of welfare state and tax state are very strong.

Yet, more detailed studies of political institutions reveal different associations with tax levels. Gerring et al (2005) found that countries with 'centripetal' constitutions, whose incentive for 'voice' rather than 'veto' (political systems that were unitary rather than federal, parliamentary rather than presidential, and list-proportional rather than first-past-the-post) could collect higher levels of taxes (cited in Braütigam 2008: 10-11). Steinmo (1993) relates the differences in tax systems between Sweden, the US and Britain according to features of their constitutions, electoral rules etc, in a related way to the studies of Pierson and Immergut on welfare policies noted above. The extent of variability among Southern states is likely to be greater still.

Again, the impact of democracy on tax revenues is disputed for developing countries. Fauvelle-Aymar (1999) finds that autocracies have higher levels of taxation than democracies, whereas Thies (2004) finds the opposite. This is similar to the contradictory findings on the links between democracy and the origins of social policies, noted above. These findings suggest that there is no automatic link between the emergence of state systems and revenue-raising powers across the global South.

iv) ***Ideas***

The influence of culture, dominant ideas and policy learning also features in the literature on tax systems. For example *cultural* values have an independent effect, as when public spiritedness or cultures of giving such as *zakat* foster a greater willingness to pay taxes. Tax compliance is affected by the perceived legitimacy of the government. This merges into a more instrumental account of tax compliance: 'Countries with sizeable shadow economies or informal sectors have lower tax morale, as people in the formal sector can more easily observe large numbers of others escaping the tax net' (Alm and Torgler 2004). Levi's finding

in some European countries that a belief in the welfare state makes people more willing to pay taxes, reminds us again of the close link between tax states and welfare states – if only in the most developed European welfare states (Levi 1988: 52). The emergence of 'revenue bargaining' cements this link. However, the widespread acceptance of the need to pay taxes may rest on a prior political settlement between major interest groups. Interests can shape ideas.

v) ***International influences***

The impact of war on the development of the European tax state is prominent and much researched. According to Tilly (1985), war made the state: it requires both administrative capacities and taxes. For this reason, preparation for war and war-fighting has also fostered popular demands for accountability and for parliaments to represent the tax payers. Thies (2005) extends this argument to the existence of external *threats* to a state and also to internal threats from rival elites. Peacock and Wiseman's (1961) 'plateau' effect then demonstrates that war-time levels of taxation and spending persist into peacetime.

Aside from war, international influence is the arena, claims Moore, where the past fiscal history of Europe and the OECD offers the fewest lessons to the developing world. Unlike the core OECD states, the developing world today exists in a transformed international environment which profoundly reduces their dependence on domestic tax-payers for revenue. This is for four main reasons. First, many developing countries are in receipt of large non-tax revenues from natural resources which are in demand due to the emergence of a global economy. This provides these governments with natural resource rents and reduces their reliance on taxation.[2] Second, for many other poor countries foreign aid from donors provides a second external revenue stream. Both of these large revenue streams 'were not available to governments when the OECD countries were comparably poor' (Moore 2008: 34). Many argue that these streams create a 'resource curse' and 'aid dependency' respectively. In turn, they argue, this fosters patronage, waste and graft, and renders governments illegitimate, ineffective and unaccountable.

Third, reliance on external revenues undermines the social contract and revenue bargaining and encourages middle-class exit into private and overseas welfare markets. 'Unless the middle class is also catered for by state provision, good quality social provision can't be sustained' (Deacon 2007: 172). But to bind in the middle classes, if not the elite, requires a willingness to pay taxes, which is undermined if taxation of mineral wealth, or aid, or other grants from abroad, weakens this social bond, or if private options are easily available. 'The proposition is that the dependence of governments on broad taxation for revenue is good for the quality of governance' (Moore: 34). Finally the IMF and other IGOs have played an unprecedented role in guiding and enforcing fiscal policies in the developing world, with no parallel in the 'emerging market economies' of the North in the 19c and 20c.

We can draw a mixed conclusion from this survey for the prospects for effective, sustainable and non-coercive taxes in the developing world. On the one hand, economic and political development is likely to foster less coercive taxation and greater revenues. 'Coercive taxation is especially likely where ruling elites are unrestrained by their subjects…; economies are poor, rural, agrarian and subsistence' (Moore 2008: 62). On the other hand, the absence of clearly represented interest groups and political settlements, the permeability of political institutions, the reliance on rents and aid, the intrusion of the IMF and the resultant 'dependent learning', all undermine the development of effective governance via revenue bargaining, and the ability to raise sustainable tax revenues.

1.4 Conclusion

[2] Since this is the subject of the report by Hinojosa et al (2008) we do not consider it in detail here.

To what extent does this survey of two disparate scholarly literatures tell a similar story? What are the implications for the development of tax states and welfare states in the developing world?

First, the development and industrialisation explanation holds some truth: both tax and social spending shares are associated with levels of national income per head. This can be explained from both the spending side (to meet new 'social needs' and demographic pressures) and the revenue side (the ability of states more effectively to levy taxes in emerging market economies). However, this relationship leaves much variation unexplained and is mediated by other factors. Furthermore it is severely qualified in today's developing world by several factors. First, the pervasive dualism of developing economies, the gulf between major cities and rural areas, and the extensive spatial inequalities, is beyond comparison with Europe now *and* Europe a century ago. The role of families and households in attempting to mitigate risk and secure welfare is also far more extensive in the developing than in the developed world. Finally, the international economic environment is very different and in general less benign than the post-war period of Western welfare states.

Second, the role of countervailing interests and 'pressures from below' in shaping welfare and tax systems is more complex and indeterminate than the history of the West records. This is partly the result of the dualisms and fragmentation noted above. In addition, trades unions and labour-based political organisations have been squeezed between repression and deregulation and thus weakened. Business and financial interests exert more structural and agency power. The ability of other collective 'horizontal' sources of identity and mobilisation to substitute for this is unproven. None of this rules out an emerging collective interest in expanding rights-based welfare, but it makes it less likely.

Third, the role of the welfare state and the tax state in European state-building has some parallels in developing countries with effective states, such as in East Asia. Here one might expect to see the parallel expansion of state social programmes, spending and taxation. However, in poorer world regions the state-building process has been stalled by a variety of factors, including the intervention of powerful external actors. A welfare state must presuppose a minimal Weberian state. Similarly, democracy has an ambiguous effect on the tax-welfare state: the conflicting evidence points to an undetermined relationship mediated by other factors.

Fourth, the cultural variety of the developing world exceeds that found within the homelands of the welfare state; its import is still not fully understood. Quite new ideas supportive of an *active* state have emerged within parts of the developing world, notably that of the 'developmental state' in Japan and East Asia, but this does not usually entail an extensive *tax* and *welfare* state. In much of the world, dualist economies and clientelist politics foster low tax morale and undermine willingness to pay taxes and use public services. Finally, the dominant ideology of neo-liberalism (which has now reached its limits) has blocked indigenous welfarist ideas and imposed 'dependent learning'.

Fifth, the global environment has utterly changed since the first industrial transformations in the 19c and the first three quarters of the 20c. Here the ability of European history to offer any useful lessons is most severely tested. The developing world today is enmeshed in a network of economic relationships with powerful financial and corporate actors exerting structural power, is part of a world society of inter-governmental institutions with powers to constrain and sometimes control Southern governments, and is subject to ruling ideas and ideologies promulgated by powerful epistemic communities, including that of economists. Globalisation has provided in certain countries streams of rent and aid monies not available to Western countries in their modernisation phase, which can undermine the scope for domestic taxation and domestic welfare institutions. For the past three decades the diverse domestic roads to the institution we now label 'the welfare state' were replaced by a global one-size-fits-all road, mapped and laid down outside the countries concerned, though this neo-liberal model is now slowly breaking up.

All these contrasts constrain the emergence of tax and social policies in the developing world – and the lessons which can be learned from the earlier histories in the West.

To deal with this variety, complexity and under-determination we go on to develop a distinctive conceptual framework and methodology in the remainder of this report.

II. WELFARE AND REVENUE REGIMES IN THE DEVELOPING WORLD: AN EMPIRICAL CLUSTER ANALYSIS

One underlying lesson from European social policy is the importance of path dependency: how, once established, patterns or constellations of social policies tend to reproduce and are rather impervious to radical change, short of encountering a major crisis or external intervention. Esping-Andersen (1990) argues this most forcefully in his influential framework of welfare state regimes, which has received considerable empirical confirmation. Recently, Gough and Wood extended this framework to identify a wider range of "welfare" regimes (distinguished from welfare state regimes) across the developing world (Gough and Wood et al 2004; Gough 2004; Wood and Gough 2006). In what follows we apply this approach to the study of welfare regimes and revenue structures.

2.1 The regime framework

Esping-Andersen (1990) developed the welfare regime framework as middle-range theory. Studying developed, capitalist, democratic nations, he argued that there are "qualitatively different arrangements between state, market, and the family" and rejected simplistic rankings on one dimension: "The linear scoring approach (more or less power, democracy or spending) contradicts the sociological notion that power, democracy, or welfare are relationally structured phenomena..... Welfare-state variations.. are not linearly distributed, but clustered by regime types" (Esping-Anderson 1990:26).

Though there have been attempts to apply the regime framework to other parts of the world, including Central and Eastern Europe, Latin America and East Asia, these all adopt the original conceptual framework developed to understand the OECD world (e.g. Lee and Ku 2007). In contrast, Gough and Wood contend that to apply this paradigm to the nations and peoples of the global South requires a radical re-conceptualisation in order to recognize the very different realities across the world.

In essence, there must be a broadening of focus from *welfare state regimes* to *welfare regimes*. First, the welfare mix must be extended beyond 'the welfare state', financial and other markets, and family/household systems. The important role of community-based relationships must be recognized, ranging from local community practices to NGOs and clientelist networks. In addition, the role of international actors cannot be ignored as it often has been in the welfare state literature: this embraces aid, loans and their conditions from international governmental organizations, the actions of certain transnational markets and companies, the interventions of international NGOs, and even the cross-border spread of households via migration and remittances. The result is an extended *welfare mix* or *institutional responsibility matrix* as illustrated in Figure 2.

Figure 2. Components of the Institutional Responsibility Matrix or Welfare Mix

	National	Supra-national and extra-national
State	National and local government; quasi-governmental institutions	International governmental organisations, national donors
Market	Domestic markets and economic actors	Global markets, multi-national corporations
Community	Community practices and organisations, NGOs	International NGOs
Household	Household transfers, services and strategies	International household transfers, services and strategies

Source: Gough 2004: 30.

In addition, second, the 'de-commodification' of labor has less salience as a measure of security in societies where labor markets are imperfect and livelihoods diffuse and a wider range of indicators needs to be employed. Third, political mobilizations in many developing countries are more diffuse and particularistic with less intentional impacts on state policies; indeed, the state is more weakly differentiated from other power systems.

On this basis, Gough and Wood (2004) posit the existence of two meta-welfare regimes in the modern world alongside the welfare state regime: an informal security regime and an insecurity regime.

Informal security regimes describe institutional arrangements where people rely heavily on markets, community and family relationships to meet their security needs (though to greatly varying degrees). These relationships can be hierarchical and asymmetrical. This often results in problematic inclusion or 'adverse incorporation', whereby poorer people acquire some short-term assistance at the expense of longer-term vulnerability and dependence (Wood 2004). The underlying patron-client relations are then reinforced and can prove extremely resistant to civil society pressures and social policy reforms along welfare state lines. Nevertheless, these relations comprise a series of informal 'rights' and afford some measure of security.

Insecurity regimes describe institutional arrangements which block the emergence even of stable informal security mechanisms, and thus generate gross levels of insecurity and poor welfare outcomes. These regimes often arise in areas of the world where powerful external actors interact with and reproduce weak state forms, conflict and political instability (Bevan 2004). The result is a circle of insecurity, vulnerability and suffering for all but a small elite and their enforcers and clients.

This theoretical model of three meta-regimes is more general than the original welfare state regime framework, but it does retain the theoretical corollary of *path dependence*. Notwithstanding the unifying and converging forces of global capitalism, it emphasizes the variegated and path-dependent patterns of development or underdevelopment across different zones of the world. It holds out the promise of a parsimonious conceptualization and understanding of human insecurity and welfare in the contemporary world, which yet does not force inappropriate categories and systems of thought on the immensely diverse range of countries in the modern world.

2.2 Operationalising and Analysing Welfare Regimes

The regime concept rests on the idea that linear scoring approaches do not capture the systemic realities of country welfare or illfare systems because variations are not linearly

distributed. The appropriate method for testing this hypothesis is cluster analysis. The analysis presented in this section and the next summarises a more detailed analysis in Abu Sharkh and Gough (2010).

Methods: cluster analysis

There are two major techniques of cluster analysis - hierarchical cluster analysis (HCA) and k-means cluster analysis (KCA) – and we use both here. This is unusual since most recent studies in comparative social policy use only HCA (e.g. Hinojosa et al 2008).

Hierarchical cluster analysis identifies relatively homogeneous groups of cases according to the selected variables based on an algorithm that starts with each case in a separate cluster and combines clusters until all cases form a single cluster. The results are usually presented in the form of dendograms: 'a visual representation of the steps in a hierarchical clustering solution that shows the clusters being combined and the values of the distance coefficients at each step. Connected vertical lines designate joined cases. The dendogram rescales the actual distances to numbers between 0 and 25, preserving the ratio of the distances between steps'. Dendograms 'can be used to assess the cohesiveness of the clusters formed and can provide information about the appropriate number of clusters to keep. Yet the final choice of the number of clusters is something of a judgment call. In addition, the HCA technique assigns countries to clusters in a hierarchical way – once assigned they cannot change the cluster they belong to.

To improve this judgement, we use at a second stage *k-means* cluster analysis. This is designed to identify relatively homogeneous groups of cases based on selected characteristics, using an algorithm that requires one to specify the number of clusters in advance. Compared to HCA it permits the recombination of cases and clusters over repeated iterations – an important advantage. Initial cluster centres form by assigning each case in turn to the cluster with the closest centre and then updating the centre, until final cluster centres are identified. The pre-specified number of clusters can be generated by theories or by previous observations.

In this study we use the two techniques in sequence. We begin with dendograms generated by HCA and observe the number of major clusters these identify. At the next stage we specify that number of clusters in the KCA analysis. In practice the procedure is not so neat and a variety of k-means around that number must be tried to cater for outlier countries which require a cluster of their own to reduce the variability of the larger clusters.

KCA also generates many useful statistics. The distance between cluster centres enables one to relate clusters according to their proximity to others. The analysis of variance F statistic provides information about each variable's contribution to the separation of the groups (though these statistics are opportunistic since the procedure tries to form groups that do differ). We used this information to discriminate in favour of cluster results where each variable contributes more equally to cluster discrimination.

Cluster analysis is a time-consuming process: numerous runs must be undertaken varying according to the variables included (entailing a trade-off between validity and coverage) and the number of k-means clusters identified. It is also important to note that it is a descriptive not an analytical statistical technique so it cannot directly explain the patterns uncovered.

Countries included

In this report we exclude the OECD world and concentrate our attention on the remaining countries, for two reasons. First, there are numerous studies of government revenue structures and of welfare regimes in the developed world, whereas research into the global South is much sparser. Second, we wished to relate government taxation and revenues to

country welfare regimes drawing on our previous paper which also excluded the original member states of the OECD.

Also, in order to exclude large numbers of smaller states, countries with a population of less than 3 million people were excluded. This left potentially 127 countries which report data or let the UN or World Bank 'negotiate' data with the country. However, variations in data availability restricted the final number of countries to 65 or less (see Abu-Sharkh and Gough, 2010).

Variables

This report restricts itself to the two major dimensions of welfare regimes originally theorised by Esping-Andersen: the welfare mix and welfare outcomes. The *welfare mix* describes the entire pattern of resources and programmes that can act to enhance welfare or security in a nation state. To operationalize this across the non-OECD world is exceptionally difficult, not least because of lack of data. Thus we could find no valid, reliable and comparative measures of: privately provided pensions and services (except for health purchases); community and NGO-provided welfare; the role of households and wider kin groups, except for overseas remittances; and little on the role and influence of transnational actors, except aid donors. Given this unfortunate fact, we are reduced to *inferring* the nature of informal and insecurity regimes from the data that is available, to which we now turn.

To capture the extent of governmental and public responsibility for critical social resources, we use two pairs of variables covering expenditure/revenues and service delivery. This reflects the concern of Esping-Andersen (1990) that public expenditure is a poor indicator of welfare regimes. We must perforce rely on this given data inadequacies in developing countries, but we are able to complement it with information on public service *outputs* (to be distinguished from welfare *outcomes* below). The first pair are:

- public spending on education and health as a share of GDP
- social security contributions as a share of total government revenues (as a proxy for provision of social insurance benefits).

The second pair are:

- immunization against measles: a fairly restricted social policy target
- secondary school enrolment of females: a higher, more extensive output target.

To represent international aspects of the welfare mix we have measures of two external transfer flows:

- official aid
- remittances from overseas migrants.

To measure welfare *outcomes* we wanted to use the classic human development indicators of life expectancy, literacy and poverty. However, because of doubts about the reliability of poverty estimates we relied on the first two indices:

- life expectancy at birth
- the illiteracy rate of young people aged 15-24 years.

2.3 Welfare Regimes: Cluster Results

Table 1 shows the clusters generated using the above variables and k-means clustering with k=10. In 2000, we find eight clusters with four or more country members. These clusters are ordered in this and the following tables by comparing the *distances between final cluster centres*, starting with the cluster that most resembles OECD welfare states: the cluster with the highest scores for public expenditure, public provision and welfare outcomes labelled A. Most remote from this cluster are clusters H, G and F. The upper part of the table shows the mean values for each variable by cluster.

Table 1

Cluster means and country membership, 2000

Cluster identifier	***A***	***B***	***C***	***D***	***E***	***F***	***G***	***H***
No of countries	**14**	**16**	**7**	**5**	**5**	**7**	**5**	**4**
Aid per capita/ GNI	0,81	2,08	2,98	2,59	6,22	3,96	12,05	27,19
Workers' remittances/ GNI	0,64	0,66	9,20	0,03	0,34	1,54	2,30	0,99
Public expenditure on health + education/ GDP	9,35	6,77	5,77	8,63	4,35	4,80	5,44	5,17
Social contributions/ total revenue	29,46	7,06	6,78	1,05	1,72	1,19	1,29	0,43
School enrollment, secondary, fem. (% gross)	91,99	76,05	63,64	59,70	29,70	28,27	12,39	14,00
Immunization, measles (% of children < 12 mo.)	90,50	89,19	92,86	76,40	62,80	65,14	58,40	78,75
Life expectancy at birth, total (years)	72,32	69,57	70,30	44,17	53,74	56,90	46,32	41,30
Illiteracy rate, youth total (% aged 15-24)	1,28	2,20	13,39	7,29	6,65	35,57	48,21	27,42
	Argentina	Bolivia	Dominican Rep	Botswana	Cameroon	Bangladesh	Benin	Mozambique
	Belarus	Chile	Ecuador	Kenya	Congo, Rep.	Cote d'Ivoire	Burundi	Guinea-Bissau
	Brazil	China	El Salvador	Namibia	Ghana	India	Ethiopia	Rwanda
	Bulgaria	Colombia	Jamaica	South Africa	Indonesia	Nepal	Mali	Zambia
	Costa Rica	Iran	Morocco	Zimbabwe	Tanzania	Pakistan	Senegal	
	Croatia	Kazakhstan	Nicaragua			Papua N.G.		
	Estonia	Korea, Rep.	Sri Lanka			Togo		
	Israel	Malaysia						
	Lithuania	Mexico						
	Poland	Moldova						
	Romania	Paraguay						
	Tunisia	Peru						
	Ukraine	Philippines						
	Uruguay	Tajikistan						
		Thailand						
		Turkey						

Source: Data from the World Bank World Development Indicators (WDI) database.

The main findings are as follows.

Countries in *cluster A* exhibit some characteristics of Western welfare states and may be labelled *proto-welfare states*. These countries share in common relatively extensive state commitments to welfare provision and relatively effective delivery of services plus moderately extensive social security programmes and superior welfare outcomes (by, it must be stressed, the standards of the non-OECD world). Apart from Israel and Costa Rica, this cluster comprises two distinct geographical zones and historical antecedents: the countries of the former Soviet Union and its bloc members and the relatively industrialized countries of southern South America. Both developed European-style forms of social protection policies in the middle of the 20c, and both suffered degradation of these in the late 20c through the external imposition of neo-liberal programmes.

Cluster B exhibits the second-best level of welfare outcomes and social service outputs with low levels of state social spending (and low reliance on external flows of aid and remittances). This interesting combination suggests that security and illfare are mitigated by fast-growing average incomes and/or by other domestic, non-state, informal institutions. This combination is found in three major world regions: i) China and most countries in East Asia from Korea through Thailand to Sri Lanka (except Indonesia, which dropped out of this group in 2000 having suffered most from the 1997 crisis); ii) the remaining countries of South and Central America not in cluster A; and iii) some countries in Western Asia (Iran, Turkey and Tajikistan).

Countries in this group are mainly but not always low-middle income, with high growth rates, but are relatively undemocratic and unequal. They include some countries that have achieved historic reductions in poverty levels. One notable finding is that this cluster includes most countries of externally-induced, reactive modernization (Therborn's fourth route to modernity), where states have been forced over longer periods to adjust to outside developmental pressures. This may indicate the presence of 'developmental states' with considerable infrastructure capacity but which have not prioritised traditional social policies. Here one might expect to see new forms of collective management of risk emerge.

Cluster C is mainly distinguished by great reliance on remittances from abroad which account for 9% of gross national income on average and which constitute an informal functional alternative to public transfers. It comprises small countries in the Caribbean and Central America, plus Ecuador, Morocco and Sri Lanka.

In southern and east Africa (South Africa, Namibia, Botswana, Zimbabwe and Kenya) a distinct *cluster D* exhibited in 2000 relatively extensive public social policy (in both expenditures and outreach and literacy levels), but with poor health outcomes, due in large part to the HIV-AIDS pandemic.

Cluster F, with at its core the countries of the Indian sub-continent - India, Pakistan, Bangladesh and Nepal - exhibits high levels of illiteracy and low numbers of females in secondary education. These are by no means 'failed states': India is proclaimed as a future economic giant. Moreover, they boast a plethora of targeted social programmes and informal security mechanisms. However, the absence of effective schooling, health and social protection policies coupled with highly gendered outcomes, according to such indicators as the population sex ratio, betokens high levels of insecurity among the mass of the population.

Clusters G and H, mainly countries in sub-Saharan Africa, exhibit low and in some cases falling life expectancy alongside relatively weak states with low levels of public responsibility, indicated both by spending levels and social outputs, and higher dependence on overseas aid. The prevalence of poverty is also high and persistent.

2.4 Revenue Structures: A Cluster Analysis

The relative size of total government revenue as a share of GDP has changed very little over the past decade and a half. Our focus here however is on cross-national variation at one point in time – around the year 2000. Its starting point is the tremendous heterogeneity of tax and revenue levels *within* the usual categories of countries, such as region or income level

or dependence on oil and minerals (Hinojosa et al 2008). Again, to grasp this heterogeneity we use cluster analysis.

We distinguish the following major categories of government revenues:

Total government revenue = taxes + social security contributions + other government revenues + grants from IGOs and foreign governments.

To begin with we undertake a hierarchical cluster analysis of the four government revenues in the identity above. Using this, we then run a KCA with k=6, the results of which are presented in *Table 2*. The full outputs for this clustering are shown in the Appendix table, to indicate the information and the judgements involved. It identifies four clusters of countries where one form of revenue is dominant, and a fifth where this is not the case.

Table 2. Revenue clusters: Tax, social security, other revenues and aid

High taxation/ gdp	High social security/ gdp	High other revenue/ gdp	High aid/ gdp	No dominant revenue source: all shares below average
Kenya	Moldova	Yemen, Rep.	Ethiopia	Nepal
Israel	Belarus	Botswana*	Burundi	Argentina
Jamaica	Brazil	Congo, Rep.	Ghana	Bangladesh
Jordan	Bulgaria	Iran, Islamic Rep.	Nicaragua	Bolivia
Morocco	Costa Rica		Rwanda	Cameroon
Namibia	Croatia		Senegal	Chile
Papua NG	Estonia		Tajikistan	China
South Africa	Lithuania		Zambia	Colombia
Tunisia	Poland			Cote d'Ivoire
Turkey	Romania			Dominican Republic
Zimbabwe	Ukraine			Ecuador
	Uruguay			El Salvador
				India
				Indonesia
				Kazakhstan
				Korea, Rep.
				Malaysia
				Mexico
				Pakistan
				Paraguay
				Peru
				Philippines
				Sri Lanka
				Thailand

59 countries, k-means cluster, k=6
* originally a separate single-country cluster

These clusters reveal the following:

- Countries with relatively high levels of *social security* contributions are geographically clustered among the ex-communist countries in Eastern Europe and the ex-Soviet Union: all are in this cluster except for Tajikistan and Kazakhstan. In addition there are three countries in Latin America - Uruguay, Brazil and Costa Rica - with relatively extensive social security contributions, which stand apart from the rest of the continent.
- The cluster with substantial *tax* revenues is unexpectedly limited to just two world regions: the Middle East and North Africa (MENA) and southern and eastern Africa. Of the countries for which we have data every MENA country is in this group except for Yemen and Iran, and every country in southern and eastern Africa except Botswana. (In all these three other cases 'other revenues' dominate).
- A greater relative reliance on overseas *aid* is mainly a feature of central and western sub-Saharan Africa: six of the nine countries in this region for which we have data fall into this cluster.

- However, the largest cluster comprises countries with no dominant source of government revenue. This includes all countries in East Asia and South Asia and the bulk of countries in Latin America. This is clearly a very heterogeneous group of countries, requiring further disaggregation (see below).[3]

Three of the four countries in the small country cluster defined by high reliance on 'other revenues' appear in the list of mineral rich countries of Hinojosa et al (2008): their export dependence ratios are Yemen (94%), Botswana (87%) and Iran (83%). However, none of the other countries in their list are so identified by our cluster analysis. They identify 74 countries whose level of export-dependence on minerals (fuels and metals) exceeded 10% in the period 1995-2005. Of these, 7 appear in our tax-dependent cluster, 5 in our aid-dependent cluster, 2 in our social security cluster, and 10 in the final cluster with no dominant source of revenue (for the remainder we do not have adequate data). Thus mineral-dependent economies appear more heterogeneous when other revenue sources are included in the analysis. However, it is notable that mineral-dependency is scarce among countries with higher levels of social security. This lends some support to the argument that external revenues act as barriers to the 'revenue bargaining' characteristic of social insurance.

2.5 Welfare Regimes and Revenue Structures

How do the welfare regime clusters map onto the new data on revenue structures presented above? To answer this we first present the mean level of tax and revenue shares for each country grouped according to our welfare regime clusters in *Table 3*.

[3] When remittances are included in the cluster analysis the results are very similar – except for a separate cluster of countries highly dependent on remittances, already identified earlier.

Table 3. Shares of state revenue in GDP, by welfare regime

		Total revenue	Non-tax revenue	Tax revenue	*Of which:* Income tax	*Of which:* Social security contributions
A	Argentina*	14	4.2	9.8	1.8	2.8
	Belarus*	28.7	12.1	16.6	3.2	10.2
	Brazil	24.3	12.1	12.2	5.1	8.5
	Bulgaria	33.7	15.4	18.3	3.8	9.0
	Costa Rica	20.9	8.8	12.1	2.7	7.0
	Croatia	41.7	15.5	26.2	3.8	13.5
	Estonia	28.3	12.3	16	3.5	9.6
	Israel	42.8	11.8	31	14.3	6.6
	Lithuania*	26	11.4	14.6	2.9	9.4
	Poland	32.3	15.9	16.4	4.8	9.8
	Romania	25.7	14	11.7	2.4	9.6
	Tunisia	29.2	7.9	21.3	6.0	5.0
	Ukraine	26.8	12.7	14.1	3.3	8.2
	Uruguay	28	11.3	16.7	4.2	8.1
	Cluster mean	*28.7*	*11.8*	*16.9*	*4.4*	*8.4*
	S.D.	*7.5*	*3.2*	*5.8*	*3.1*	*2.5*
B	Bolivia**	18.4	5.2	13.2	1.2	1.6
	Chile**	21.8	5.2	16.6	4.3	1.5
	China	7.1	0.3	6.8	0.6	0.0
	Colombia**	18.2	4.9	13.3	5.1	0.0
	Iran, Islamic Rep**	23.5	17.1	6.4	3.2	2.7
	Kazakhstan**	11.3	1.1	10.2	2.7	0.0
	Korea, Rep.	23.3	7.2	16.1	6.1	3.1
	Malaysia	19.2	4.9	14.3	7.9	0.2
	Mexico*	14.8	3.1	11.7	5.0	1.5
	Moldova	24.5	9.8	14.7	0.8	5.6
	Paraguay	15.6	5.7	9.9	1.8	1.1
	Peru**	17.2	4.9	12.3	3.3	1.2
	Philippines	15.2	1.5	13.7	6.0	0.0
	Tajikistan**	10.6	2.9	7.7	0.3	2.1
	Thailand	19.5	4.1	15.4	5.6	0.8
	Turkey	23.7	3.5	20.2	9.5	0.0
	Cluster mean	*17.7*	*5.1*	*12.7*	*4.0*	*1.3*
	S.D.	*5.1*	*4.0*	*3.8*	*2.7*	*1.5*
C	Dominican Rep.	16.8	2	14.8	3.0	0.8
	Ecuador**	14.1	1.7	12.4		0.0
	El Salvador	16	5.3	10.7		2.4
	Jamaica**	33.2	8.5	24.7	10.3	1.3
	Morocco	29.7	6.2	23.5	7.1	2.6
	Nicaragua	18.4	4.6	13.8	2.0	2.5
	Sri Lanka	16.8	2.3	14.5	2.1	0.3
	Cluster mean	*20.7*	*4.4*	*16.3*	*4.9*	*1.4*
	S.D.	*7.5*	*2.5*	*5.5*	*3.7*	*1.1*
D	Botswana**	45.3	30.2	15.1		0.0
	Kenya*	20.1	1.3	18.8	5.1	0.0
	Namibia*	32.7	2.7	30	10.4	0.2

	South Africa*	26.4	2.4	24	13.6	0.5
	Zimbabwe*	29.5	3.1	26.4	12.5	0.8
	Cluster mean	*30.8*	*7.9*	*22.9*	*10.4*	*0.3*
	S.D.	*9.3*	*12.5*	*5.9*	*3.8*	*0.3*
E	Cameroon**	11.2	2.7	8.5		0.4
	Congo, Rep.**	32.3	23.1	9.2		1.0
	Ghana**	18	1.3	16.7		0.0
	Indonesia*	18.2	4.4	13.8		0.4
	Tanzania	0				0.0
	Cluster mean	*19.9*	*7.9*	*12.1*		*0.4*
	S.D.	*8.9*	*10.2*	*3.9*		*0.4*
F	Bangladesh	9.8	2.2	7.6	1.1	0.0
	Cote d'Ivoire	16.6	2	14.6	3.8	1.4
	India	12	3	9	3.2	0.0
	Nepal	10.6	1.9	8.7	1.6	0.0
	Pakistan	14	3.8	10.2	2.7	0.0
	Papua New Guinea**	24.8	5.4	19.4	7.7	0.0
	Togo					0.0
	Cluster mean	*14.6*	*3.1*	*11.6*	*3.4*	*0.2*
	S.D.	*5.6*	*1.4*	*4.5*	*2.4*	*0.6*
G	Benin					0.0
	Burundi	17.9	2.5	15.4		1.2
	Ethiopia	18.5	5.3	13.2		0.0
	Mali					0.0
	Senegal*	18.1	0.8	17.3		0.0
	Cluster mean	*18.2*	*2.9*	*15.3*		*0.3*
	S.D.	*0.3*	*2.3*	*2.1*		*0.6*
H	Mozambique**					
	Guinea-Bissau**					
	Rwanda*	10.6	1.5	9.1		0.2
	Zambia**	19.1	0.7	18.4		0.0
	Cluster mean	14.9	1.1	13.75		0.1

Sources:
All except last column: IMF Government Finance Statistics CD-ROM 1990-2007.
Last column and all data for Poland, Korea, Mexico and Turkey: World Bank WDI Indicators 2008.
This combination of data sources results in some anomalies; e.g. the sum of income tax and social security contributions slightly exceeds the figure for total tax revenues in the case of Brazil.

Notes:
Where data for 2000 not available, figures are taken from nearest available years:
1994: Ecuador
1996: Botswana
1997: Zimbabwe
1998: Brazil, Cameroon
1999: Burundi, Zambia
2001: Bangladesh, Chile, Congo Rep., Ghana, Indonesia
2002: Argentina, Bolivia, El Salvador, Estonia, Ethiopia, Morocco, Romania
2003: Colombia, Thailand
2004: Togo
2005: Benin, Paraguay

Country** = over 30% dependence of exports on either minerals/ores, or fuels, or both.
Country* = 10-29% dependence of exports on either minerals/ores, or fuels, or both.
Source Hinojosa et al 2008, Tables 1a, 1b, 1c.

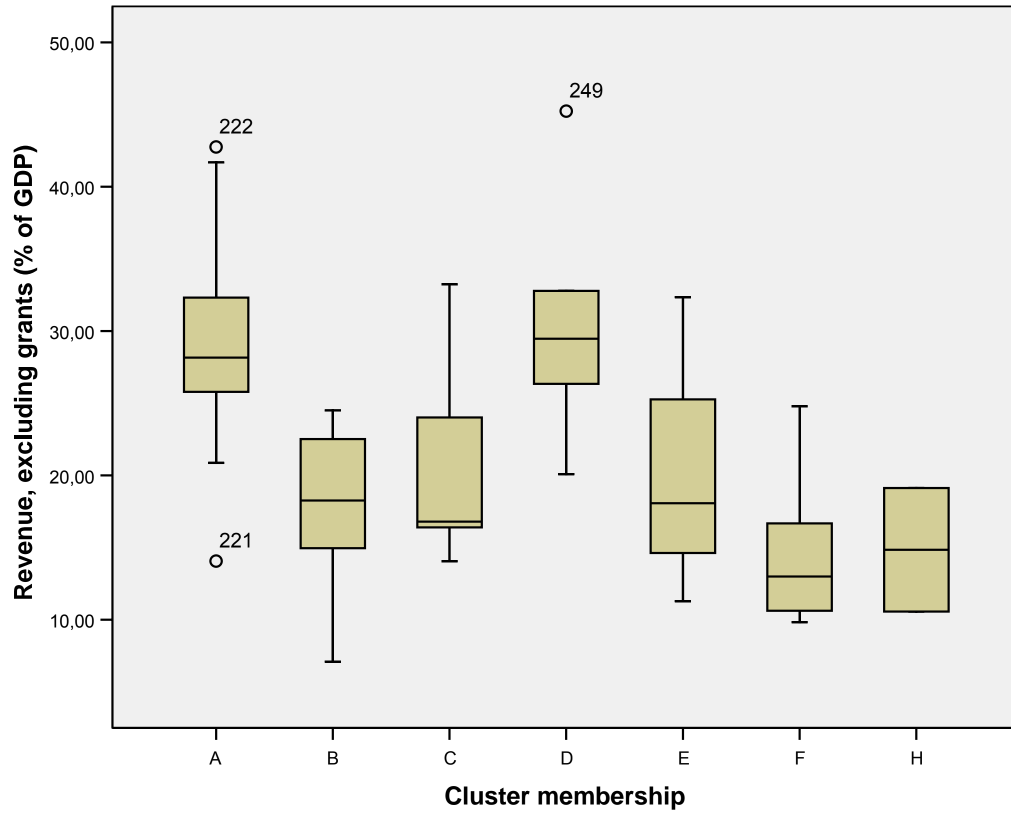
Table 4 summarises the mean values for the clusters together with their standard deviations (s.d.). Since there is considerable variation within some clusters, the results are also shown as box plots in *Figure 3* for both total revenues (excluding overseas grants) – 3A - and tax revenues – 3B. The box-plots show the inter-quartile range as a box, and also enable us to identify outlying countries.

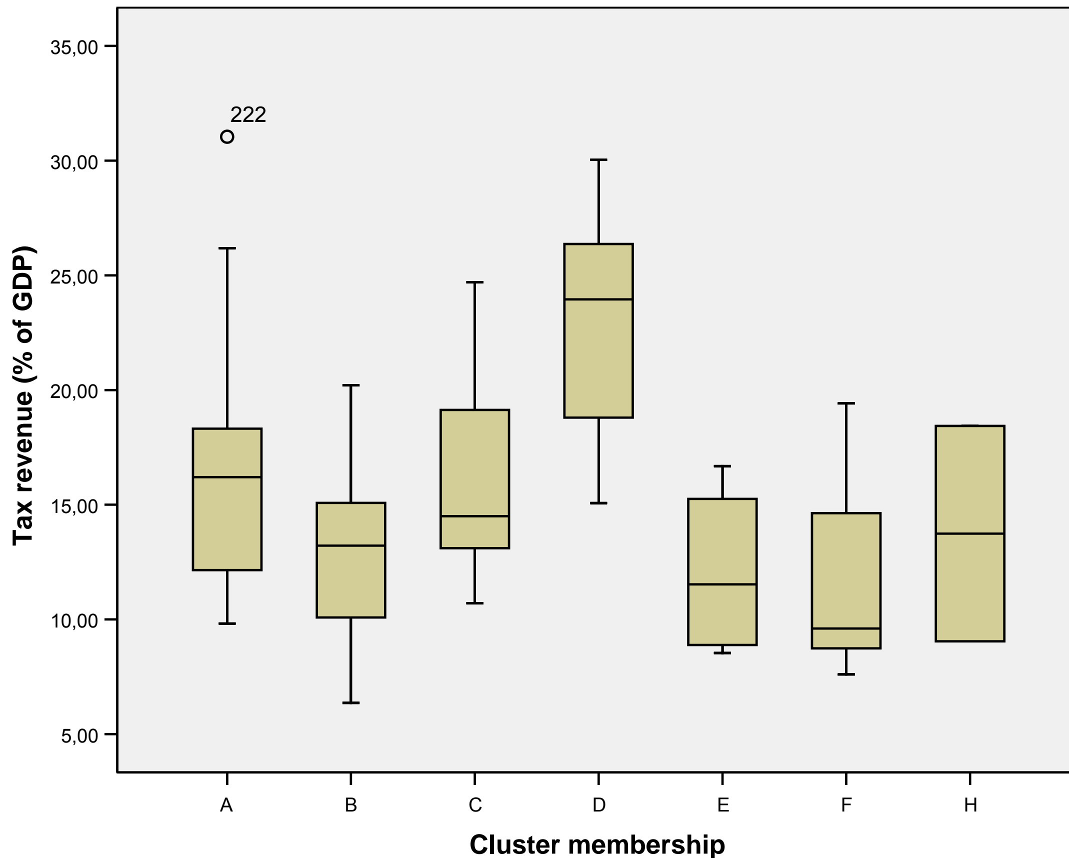
Table 4. Welfare regimes: mean revenue sources

Cluster identifier	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**
No of countries	14	16	7	5	5	7	5	4
Tax/ GDP	16.9	12.7	16.3	22.9	12.1	11.6	15.3	
Non-tax rev/ GDP	11.8	5.1	4.4	7.9	7.9	3.1	2.9	
Total rev/ GDP	28.7	17.8	20.7	30.8	20.0	14.7	18.2	
Income tax	4.4	4.0	4.9	10.4		3.4		
Social contributions	8.4	1.3	1.4	0.3	0.4	0.2	0.3	
Income tax + social contributions	12.8	5.3	6.3	10.7		3.6		
Tax/ GDP s.d.	*5.8*	*3.8*	*5.5*	*5.9*	*3.9*	*4.5*	*2.1*	
Non-tax rev/ GDP s.d.	*3.2*	*4.0*	*2.5*	*12.5*	*10.2*	*1.4*	*2.3*	
Total rev/ GDP s.d.	*7.5*	*5.1*	*7.5*	*9.3*	*8.9*	*5.6*	*0.3*	

Source: Table 3. Mean values for cluster H are not provided because data on revenue sources is missing for half the countries.

Figure 3a. Box plots of total government revenues by welfare regime
Figure 3b. Box plots of tax revenues by welfare regime


Revenue, excluding grants (% of GDP)
50,00
40,00
30,00
20,00
10,00
222
249
221
A
B
C
D
E
F
H
Cluster membership



We interpret these findings in the following stages.

Total state revenues:
There is a clear distinction between welfare regimes A and D and all others; for example, the revenues of the lower quartile of countries in A and D exceed the revenues of the upper quartile countries in all other clusters.

- The proto-welfare states of cluster A are associated with greater government revenues, between 25-35% of GDP, as would be expected. Israel and Croatia are outliers with revenues over 40% of GDP, and Argentina is an outlier with 14% GDP.
- But the anomalous high-spending/ low-security regime D in southern Africa also record high revenues, with Botswana showing revenues equal to 45 % GDP.
- Regime B records considerably lower revenue shares, averaging 18% GDP (with China a notable outlier with 7% GDP). The average is similar to that of regime E, comprising Indonesia and four countries in central Africa.
- Only in regime F centred on the Indian sub-continent do we find distinctly lower revenue shares – but the 3 percentage point difference between it and regime B is small compared with the wide differences in welfare outcomes.

Government tax revenues:
Focussing solely on governments' abilities to raise *tax* revenues if anything diminishes the distinctiveness of our welfare regime clusters, with one exception:

- Regime D now records by far the highest mean tax share, exceeding the tax take of regime A countries by six percentage points. (Interestingly Botswana now moves from upper outlier to lower outlier, though still recording a tax take of 15% of GDP).

- The proto-welfare states in cluster A record the second highest mean tax share of 17% GDP, with Israel and Croatia again featuring as high tax outliers.
- However, there is a considerable overlap in tax takes between cluster A and clusters B and C.
- In Cluster B, there is considerable variation, with Turkey (20% GDP), Chile (17%) and Korea (16%) recording tax revenues higher than many in cluster A: the Gough-Wood label of 'informal security regime' does not do full justice to such countries. At the other extreme, China records a remarkably low tax take of 7% GDP.
- Regimes E, F and H exhibit tax levels lower or equal to those in B, with considerable overlap. Thus whatever it is that explains the superior welfare outcomes in cluster B, it is not their tax shares (though of course the absolute levels of tax raised are higher).

Income tax revenues:
When we narrow our focus further to revenues from *income tax* the mean levels of all the welfare regime clusters from A to F reveal remarkably few differences (ranging between 3 and 5% GDP), apart from cluster D, where income taxation amounts to 10% of GDP on average. However, the standard deviations are everywhere high, suggesting that factors other than government income tax capacity are critical in discriminating between our welfare regimes (as we would expect).

Social security contributions:
It is only when we turn to revenues from social security contributions that the proto-welfare states of cluster A stand out with the average share exceeding 8% of GDP. In all other regimes their share is trivial.[4] Here there is a clear link between welfare regime characteristics and one particular revenue source, as theories of welfare state financing would predict.

State mineral revenues:
Finally, Table 3 also picks out those countries dependent on oil and mineral revenues. Simply eye-balling the table reveals little pattern: countries with high mineral revenues are scattered across every welfare regime except for cluster A. The fact that none of the proto-welfare states are heavily mineral-dependent is worthy of further investigation. But outside this cluster there is no clear evidence of either a 'resource curse' or a resource bonanza effect.

2.6. Conclusion

The hypothesis that higher tax levels would be associated with greater state effectiveness in meeting welfare/security needs is not clearly borne out by this cluster analysis. It is only the scope of *social security contributions* that appears to correlate with proto-welfare states in the developing world. Here there is evidence of a link between a specific revenue source and proto-welfare state regimes. Moreover this cluster relies very little on revenues from minerals and oil. Apart from Israel and Costa Rica, this cluster comprises two distinct geographical zones and historical antecedents: the countries of the former Soviet Union and its bloc members and the relatively industrialized countries of southern South America.

The fast-developing countries of East Asia and some other middle income countries in Latin America and MENA present an interesting anomalous picture in 2000. They exhibit relatively low shares of government revenue, taxes, income taxes and social security contributions, yet record relatively good social outputs and welfare outcomes. This suggests that security and illfare are mitigated by fast-growing average incomes and/or by other domestic, non-state, informal institutions. One notable finding is that this cluster includes most countries of externally-induced, reactive modernization (Therborn's fourth route to

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[4] However, this is partly the result of including social contributions as share of revenue as one of the eight indicators used to identify the original welfare regime clusters. We address this issue below.

modernity), where states have been forced over longer periods to adjust to outside developmental pressures. This may indicate the presence of ‘developmental states’ with considerable infrastructure and steering capacity - but which have not prioritised traditional social policies. Here one might expect to see new forms of collective management of risk emerge. Indeed this can already be seen in some of the outliers in this group, such as Korea and Chile (and China).

In contrast to this pattern, we observe a small group of countries in southern-eastern Africa with high spending and high tax revenues, but with poor welfare outcomes. This combination partly reflects the damaging effects of AIDS over the previous decade, but not entirely. It remains to be seen how effectively the government revenues have been deployed since 2000.

Other world regions display low tax and expenditure levels, poor or ineffective social outputs and low welfare outcomes. In the case of much of sub-Saharan Africa this partly reflects the impact of the HIV-AIDS pandemic; further analysis of poverty outcomes is required to assess whether this is the major explanation. In the case of India and South Asia, wide gender differences and poor literacy rates are coupled with ineffective social programmes, notwithstanding high rates of economic growth.

III. CONCLUSIONS AND CAUTIONS

The literature review suggested that the “5 I’s” explanatory model of welfare states in the West also applies to the development of Western tax states and fiscal systems. However, it has less purchase in understanding welfare and revenue systems in the developing world. In the global South, the pattern of industrialisation, interest formation and representation, institutional development, ideational influences and the entire international environment are very different: more complex, variegated and heterogenous. Consequently, their ability to explain welfare and revenue systems is more indeterminate.

This report recognises this heterogeneity by using cluster analysis to identify patterns in welfare regimes and revenue systems across the developing world. It analyses data for 65 non-OECD countries (excluding micro-states) for the year 2000, covering welfare regimes, revenue structures, and the relationship between the two.

The results suggest that the links between welfare and tax/revenue systems are indeed less robust across the developing world. It is only the scope of *social security contributions* that appears to correlate with proto-welfare states in the developing world. Here there is evidence of a link between a specific revenue source and proto-welfare state regimes.

However, in interpreting these findings several caveats and limitations should be borne in mind.

First, data available for a large number of countries are rarely capable of catching the detail we require to map either welfare regimes or state revenue systems. Thus we could find no valid, reliable and comparative measures of: privately provided pensions and services (except for health purchases); community and NGO-provided welfare; the role of households and wider kin groups, except for overseas remittances; and little on the role and influence of transnational actors, except aid donors. Given this unfortunate fact, we are reduced to *inferring* the nature of informal and insecurity regimes from the data that is available, to which we now turn.

Second, our expenditure, output and outcome measures all centre around health and education: there are as yet no decent, regularly collected data on social protection expenditures across the developing world, let alone more subtle measures of mandation and tax expenditures. For example, social protection systems need not entail heavy state expenditures or revenues; they can be mandated by governments but administered privately, and the mandated contributions of employers and employees may not figure as government

revenues. Countries like Chile and Korea with such programmes are not picked up and therefore appear in the low spending cluster B. Nor will social protection necessarily be picked up by social insurance contributions - there has been a trend in recent years to expand social assistance and conditional cash transfers (CCTs). Again, we cannot even monitor regularised market provision across the world, enabling us to distinguish non-mandatory private insurance and out-of-pocket payments. The paucity of international data on social protection and welfare programmes is remarkable.

Finally, the data we have used all refer to the year 2000: many new and expanded social programmes have emerged since then which do not figure here.

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