# 1. Introduction: towards a political economy of the small welfare state

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## INTRODUCTION

Most industrialized democracies are called welfare states because they play a key role in providing economic and social protections to their citizens. Among these countries, the American welfare state has often been singled out as a puzzling example of 'exceptionalism' in the world of modern welfare states, as Quadagno (1999: 2) asked in her 1998 presidential address to the American Sociological Association. "Why, compared to other Western capitalist democracies, was the United States slow to develop national social benefits; why did it fail to offer programs provided elsewhere … why were US benefits less generous than those in other Western countries?" The US is not the only country that has puzzled welfare state scholars. Japan and South Korea (hereafter referred to as Korea) have also drawn scholarly attention because of their underdeveloped welfare states. Esping-Andersen once expressed his surprise, pointing out that "Mainstream Western observers who study Japan are typically struck by the gap between economic development and the surprisingly low levels of social expenditure, the comparatively modest social benefits, and the rather rudimentary social safety net" (Esping-Andersen, 1997: 180) and that "Korea is an extreme case of social welfare under-spending … Korea's social security effort has fallen far behind its degree of modernization" (Esping-Andersen, 1992: 91).

This book seeks to explain this welfare state exceptionalism. Since observations made by Quadagno and Esping-Andersen in the 1990s, there have been many insightful studies conducted on welfare states in the US (Hacker, 2002; Howard, 1997; Klein, 2003; Faricy, 2015; Steinmo, 2010), Japan (Estévez-Abe, 2008; Kasza, 2006; Steinmo, 2010), and Korea (Yang, 2017; Kwon, 1999; Shin, 2003). These are mostly single case studies that make implicit comparisons with big European welfare states. Some highlight a high reliance on private insurance and tax expenditure for social welfare purposes, while others focus on job security, corporate welfare, and other functional equivalents such as public works and agricultural subsidies. All of these studies also point out the low level of public social expenditure, low taxes, and growing poverty and inequality in these three countries.

Studies on the US, Japan, and Korea have revealed that the countries share as many similarities as differences from European welfare states. Yet there have been no serious attempts to systematically analyze and explain all three cases in a single publication. This book critically reviews the existing literature on the three countries and lays the foundation for a new theory. We identify common features and causes of welfare state exceptionalism through comparisons between the US, Japan, and Korea. We analyze the effects of economic unionism, big firms, plurality electoral rules and the early development of functional equivalents such as private welfare on welfare state development.[1]

In order to distinguish the US, Japan, and Korea from the 'big' welfare states in Europe, we will refer to these countries as 'small' welfare states. The small welfare state has a similar connotation to small government, referring to a nation where, among others, 'standard' public social security programs are relatively underdeveloped and social benefits are modest.

Aware of the limitations of Euro-centric approaches to the small welfare states, this book takes a look at not only standard public social security programs, but also functional equivalents, and seeks to shed light on the underlying logic and mechanisms that led to the formation of small welfare states. Although theories on big welfare states can be useful in understanding small welfare states, such theories are not sufficient by themselves. We cannot attribute the emergence of small welfare states simply to deficiencies in certain attributes that exist in big welfare states. For example, studies using the power-resources model, one of the most influential theories on the welfare state, correlate underdevelopment of welfare states with weak leftist power, which is demonstrated by low levels of unionization rate and a smaller share of the cabinet occupied by the left (Hicks, 1999; Huber and Stephens, 2001; Korpi, 1989; Ko, 2003; Ma, 2002). However, we argue that weak leftist political power is not the sole reason behind small welfare states.

The power-resources model overlooks how particular forms of labor movement (i.e. enterprise or craft unionism) and electoral rules (i.e. plurality systems) in the three small welfare states have hindered and placed a damper on pro-welfare politics. This stems from the fact that the basic assumptions of the power-resources model draw on the experience of European countries: labor movements led by national or industrial unions are solidarity-enhancing, and competition between political parties takes place at the national level under the proportional representation (PR) electoral system. However, it is not just the weakness of unions that brought about small welfare states, but also the inward-looking nature of narrowly-organized labor. Enterprise unions in the US, Japan, and Korea strive for club goods such as high wages, corporate welfare, and job security, and have few immediate incentives to demand broader social welfare beyond their corporate boundaries. Plurality electoral rules in the three countries such as the single-member-district system (SMD) and single non-transferable vote system (SNTV) keep politicians more attentive to local issues and pork barrel politics. Such rules also make politicians very sensitive to unpopular tax increases, because a small percentage of swing votes can be decisive under the winner-takes-all system. Frequent elections in the three countries further discourage politicians from increasing taxes to provide greater social welfare. In addition to this, Eurocentric theories fail to take into account the consequences of firm-level collective bargaining asserted by affluent big companies and how the early development of employer-provided welfare in small welfare states contributed to a lack of progress in the evolution of public welfare.

In short, this book seeks to examine aspects of welfare states that have been ignored by mainstream welfare state studies to date, and elucidate how unique institutional configurations shared by the US, Japan, and Korea have cultivated distinctive welfare politics and shaped the developmental paths of these nations toward becoming small welfare states. A deeper understanding of small welfare states will in turn advance our understanding of both big welfare states in Europe and welfare state laggards in the developing world.

## THE SMALL WELFARE STATE IN THE US, JAPAN, AND KOREA

The US, Japan, and Korea are industrialized democracies, a *sine qua non* of the welfare state. As of 2018, per capita income in these countries was similar or higher than most European countries, with the US standing at \$62,606, Japan at \$44,227, and Korea at \$41,351.[2] The US and Japan are no doubt equally democratic as the European welfare state. Although Korea was a latecomer to democracy, the country is now a fully functioning democracy to the extent that it outranked the US and France in *The Economist's* Democracy Index in 2017.[3] However, as shown in Table 1.1, being an industrial democracy does not necessarily imply the development of a similar welfare state.

Table 1.1 illustrates broad similarities among the three countries by ranking them on a number of key characteristics along with other 17 welfare states from Northern Europe (Sweden, Norway, Denmark, and Finland), Continental Europe (France, Germany, the Netherlands, Austria, and Belgium), Southern Europe (Italy, Spain, Greece, and Portugal) and Anglo-Saxon liberal countries (the UK, Canada, Australia, and New Zealand). We chose 1990 and 2016 as benchmark years to look at changes which took place across a generation. If no data was available for comparison, the closest years were selected (refer to Appendix 1.1 for absolute value and sources).

*Table 1.1* *Country rankings on key dimensions of the welfare state*

| Country Ranking | Tax | | | | | | Social Security | | | | | | Private Insurance | | Redistribution | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Tax Revenue | | Average Tax Wedge | | Public Social Expenditure | | Old-age Bias | | Family | | ALMPs | | Premium | | P90/P10 Disposable Income | | Poverty Rate | |
| | 1990 | 2015 | 2000 | 2015 | 1990 | 2013 | 1990 | 2013 | 1990 | 2013 | 1990 | 2013 | 2000 | 2016 | 2005 | 2013 | 2005 | 2013 |
| 1 | SWE | DEN | BEL | BEL | BEL | FRA | **JPN** | **USA** | SWE | GBR | SWE | DEN | GBR | **KOR** | **USA** | **USA** | **USA** | **USA** |
| 2 | DEN | FRA | SWE | FRA | FRA | FIN | **KOR** | **JPN** | DEN | DEN | NED | SWE | **KOR** | **USA** | PRT | ESP | **JPN** | **JPN** |
| 3 | FIN | BEL | GER | GER | NED | BEL | ITA | PRT | FIN | SWE | BEL | FIN | **USA** | FRA | GRC | GRC | **KOR** | ESP |
| 4 | BEL | FIN | ITA | AUT | FIN | DEN | SWE | GRC | NOR | FIN | NOR | FRA | NED | DEN | **JPN** | **JPN** | ESP | GRC |
| 5 | FRA | AUT | FRA | ITA | AUT | ITA | **USA** | CAN | NZL | NOR | GER | NED | FRA | GBR | ESP | PRT | AUS | **KOR** |
| 6 | NOR | ITA | FIN | SWE | DEN | AUT | PRT | FRA | AUT | FRA | FIN | AUT | AUS | ITA | **KOR** | **KOR** | GRC | PRT |
| 7 | NED | SWE | GRC | FIN | NOR | SWE | NZL | NZL | FRA | BEL | ESP | BEL | SWE | **JPN** | GBR | ITA | PRT | ITA |
| 8 | AUT | NOR | AUT | GRC | GER | ESP | FRA | ITA | BEL | NZL | DEN | GER | BEL | SWE | ITA | CAN | ITA | CAN |
| 9 | ITA | NED | NED | ESP | GRC | GRC | ESP | GER | GER | AUS | FRA | ESP | **JPN** | BEL | NZL | NZL | CAN | AUS |
| 10 | NZL | GER | DEN | PRT | ITA | PRT | CAN | **KOR** | GRC | AUT | GBR | NOR | CAN | GER | CAN | AUS | GBR | NZL |

| Country Ranking | Tax | | | | | | Social Security | | | | | | Private Insurance | | Redistribution | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Tax Revenue | | Average Tax Wedge | | Public Social Expenditure | | Old-age Bias | | Family | | ALMPs | | Premium | | P90/P10 Disposable Income | | Poverty Rate | |
| 11 | CAN | GRC | ESP | NOR | NZL | GER | GER | AUT | GBR | GER | CAN | PRT | GER | PRT | AUS | GBR | NZL | GBR |
| 12 | GER | PRT | NOR | DEN | SWE | **JPN** | AUS | NED | NED | GRC | PRT | **KOR** | ESP | ESP | AUT | GER | AUT | BEL |
| 13 | GBR | ESP | PRT | NED | ESP | NED | AUT | AUS | AUS | ITA | NZL | ITA | DEN | NOR | FRA | FRA | BEL | GER |
| 14 | ESP | NZL | CAN | **JPN** | CAN | GBR | GBR | GBR | ITA | NED | **JPN** | GRC | PRT | AUS | NED | AUT | GER | AUT |
| 15 | **JPN** | GBR | GBR | **USA** | GBR | NOR | FIN | BEL | PRT | ESP | AUT | NZL | ITA | NED | GER | BEL | NED | SWE |
| 16 | AUS | CAN | **JPN** | AUS | **USA** | NZL | BEL | ESP | CAN | **JPN** | ITA | CAN | AUT | AUT | BEL | NED | FRA | NED |
| 17 | PRT | **JPN** | **USA** | GBR | AUS | **USA** | DEN | FIN | **USA** | CAN | AUS | AUS | FIN | CAN | FIN | FIN | NOR | FRA |
| 18 | **USA** | AUS | AUS | CAN | PRT | AUS | GRC | DEN | **JPN** | PRT | **USA** | GBR | NOR | FIN | SWE | SWE | FIN | NOR |
| 19 | GRC | **USA** | NZL | **KOR** | **JPN** | CAN | NED | NOR | ESP | **KOR** | GRC | **JPN** | NZL | NZL | NOR | NOR | SWE | FIN |
| 20 | **KOR** | **KOR** | **KOR** | NZL | **KOR** | **KOR** | NOR | SWE | **KOR** | **USA** | **KOR** | **USA** | GRC | GRC | DEN | DEN | DEN | DEN |

*Note:* See Appendix 1.1 for detailed data and sources.

The three countries share similar characteristics with each other and partly with liberal welfare states, but are by and large distinct from most European welfare states. The US, Japan, and Korea stand out for their low levels of tax revenue and public social expenditure. Total tax revenue as a share of GDP is the lowest in Korea and the US, followed by Japan and other liberal welfare states. Capacity to raise taxes in these countries did not improve between the two benchmark years. In terms of the average tax wedge on wages, or effective tax rate, the three countries are among the lowest. Low tax revenues may have been a contributing factor to low public social expenditure as measured by share of GDP. In 1990, Korea and Japan were the lowest spenders on social welfare, followed by Portugal, Australia, and the US. Recently Japan's social expenditure has outgrown some low spending European welfare states, and Korea's social spending has also grown significantly. Nevertheless, the level of public social expenditure still remains low in Korea, the US, and Japan when compared to most European welfare states. In contrast, the three countries have some of the largest private insurance markets. In 2016, the ratio of direct gross premiums to GDP was the highest in Korea, followed by the US. Japan also ranked 7th in the same year.

The three countries are also similar in terms of the structure of social welfare spending. Most social expenditure is related to aging and thus concentrated on pensions and healthcare, which mostly benefit the elderly. In 1990, Japan and Korea were the two countries with the greatest age bias, while the US and Japan took the lead in 2013.[4] This age-based spending contrasts with a lower commitment to family and active labor market policies (ALMPs) which mostly benefit the working-age population.

Low levels of public social welfare accompanied by a high reliance on private insurance seem to have resulted in high levels of income inequality and poverty. The US, Japan, and Korea were at the top of inequality rankings in 2005, and there has been no noticeable improvement since then. As of 2013, income inequality measured as by the P90/P10 disposable income decile ratio was the highest in the US, followed by Japan (4th) and Korea (6th). When it comes to poverty rate after taxes and transfers, the US and Japan are the two worst countries, and the situation in Korea is not much better.

Of course, the US, Japan, and Korea do not have identical welfare states, and we have recently seen divergent trajectories emerging among the three countries. For example, Japan's public social expenditure has grown to exceed the OECD average, reflecting its super-aged population. The proportion of people aged over 65 in Japan reached 27 percent in 2017, when the OECD average was 16.8 percent. Overall, however, greater differences can be seen between the three small welfare states and big European big welfare states in Northern and Continental Europe. The US, Japan, and Korea are low taxation countries with low public social expenditure that is biased in favor of the elderly. Compared to their European counterparts, citizens rely more on private insurance. In a similar vein, functional equivalents to standard social security programs are also widely used,[5] and inequality and poverty are higher than big welfare states in Europe.

Why have European levels of social security failed to develop in the US, Japan, and Korea? Is it because of Confucianism in Japan and Korea, and liberalism the US? Is it simply because labor unions and leftist parties are politically weak? This book will show that the story is not that simple.

## EXISTING EXPLANATIONS AND REMAINING QUESTIONS

### Cultural Explanations

The first attempt to explain the 'differences' between big European welfare states and small welfare states focused on region-specific culture. In East Asia, Confucianism was singled out, while strong liberalism and racism were highlighted in the US. The Confucian cultural influence included (1) children imbued with a strong sense of responsibility for supporting their parents under the ethics of filial piety, and (2) a patriarchal corporate culture and company-based welfare as an extension of mutual help among family members (Jones, 1993; Lew and Wang, 2007; Shin and Shaw, 2003; Rose and Shiratori, 1986; Hong, 1999). Because this belief is prevalent both at home and in the workplace due to the influence of Confucian culture, the state was not under pressure to provide a comprehensive social security system. This is why public social welfare programs were belatedly introduced in East Asia even though countries had gone through industrialization, democratization, and labor movements.

Similarly, a strong liberal tradition and racism were cited to explain the small welfare state in the US. The US is portrayed by Tocqueville in *Democracy in America* as a nation of Protestant immigrants. They fled from the persecution of autocrats and Catholics, which had an organic view of society, to a land with no history of collectivist feudalism. The American people, imbued with the spirit of self-help and independence of the Western pioneers, built an equal and free country. Therefore, there has been strong resistance to state intervention in the economy and the lives of citizens. The dominant belief is equality of opportunity rather than equality of outcome. Paradoxically, however, it is also a society where racism in the form of discrimination against people of color is deeply rooted (Smith, 1993). Because universal social security programs based on social rights could threaten the racial class order, such programs have been rejected by mainstream white society (Weir, Orloff, and Skocpol, 1988; Lieberman, 2001). Some scholars even argue that welfare expansion under the

*Great Society*, a pro-welfare government initiative in the 1960s when President Johnson was in office, can be understood as a period of 'politics of racial inequality' because low-income blacks were segregated and selective welfare benefits were provided. This combination of liberalism and racism ultimately prevented the federal government from creating a universal social security system in the US (Quadagno, 1994: 188).

As such, cultural factors cannot be ruled out in explaining social phenomena in East Asia and the US. However, as Esping-Andersen has pointed out, the effect of culture should not be overrated. The practice of children supporting their parents, which is used as evidence of Confucian influence in Japan and Korea, used to be a common phenomenon only one or two generations ago in Western societies. In the 1950s, 40 percent of elderly people in the UK lived together with their children. This figure was also high in the Scandinavian welfare states, reaching 44 percent in Norway and 55 percent in Finland (Esping-Andersen, 1997: 185–186). It would be more realistic to say that children had to support their parents not just because of the strong cultural tendency toward mutual help among family members, but also because of the lack of pensions and long-term elderly care that would free children from the duty of supporting their parents.

In a sense, mutual help may not be a cause of the small welfare state, but a consequence. Similarly, company-based private welfare, which culturalists view as something offered to employees by a patriarchal corporate owner under the influence of Confucianism, may not be a function of culture. In fact, employer-sponsored welfare such as health insurance and 401k pension plan is more prevalent in the liberal US than in Japan and Korea. In this context, how can we explain the underdevelopment of public welfare, and the early development and prevalence of private welfare in these three small welfare states? Rather than relying on cultural explanations, this book pays more attention to the role played by narrowly-organized labor and big business (see Chapters 2 and 3).

Liberalism is useful in understanding the American small welfare state. Nevertheless, it should not be presumed to be an independent variable because liberalism can coexist alongside a big welfare state. In fact, some European welfare states such as the Netherlands, Sweden, and Denmark are the most socio-politically liberal democracies in the world, where social democracy was built upon the foundation of liberalism (Brandal, Bratberg, and Thorsen, 2013). Why did the American liberal democracy fail to build a big welfare state in the same way that liberal countries in Europe did? Rather than simply turning to cultural explanations, this book sheds light on the effect of different political systems on the policy preferences of politicians and on the ability of states to levy taxes to fund the welfare state (refer to Chapters 5 and 6).[6]

## Productivism and Production Regime Theory

Outside of cultural explanations, there have been attempts to explain the small welfare states from the view of materialism. First, the logic of productivism classifies the four Asian dragons (Japan, Korea, Taiwan, and Singapore) as examples of productivist welfare capitalism (Holliday, 2000; Kwon and Holliday, 2007; Gough, 2004). Productivism seeks to analyze social security systems in the context of government-led economic development. A defining characteristic is the subordinating of social policies to economic objectives. Accordingly, income security policies are underdeveloped out of fear of work disincentive, while education and healthcare policies that help develop the workforce are more advanced. Workfare, weak social rights and financial conservatism are the keywords that describe Asian welfare states.

The logic of productivism appears to accurately characterize the small Asian welfare states. However, it is by nature a functionalist argument that simply reduces the characteristics of everything unique in the small Asian welfare states to the functional requirements for economic development. This means that it cannot adequately explain why Japan and Korea have not opted for Swedish-style productivism, which would have brought about a big welfare state. Through the concept of 'productivist social justice,' Sweden heavily invests in people through childcare, education, and training to enable them to better adapt to the ever changing demands of the labor market (Esping-Andersen, 1994: 722). In addition to generous unemployment benefits, high quality job training, and extensive employment services are provided to workers who fall victim to the vagaries of a market economy. Sweden also boasts the highest female employment rate among OECD countries by helping women to reconcile work and family through generous paid leave and high quality childcare services (Yumoto and Sato, 2011).

In short, Sweden is no less productivist than Japan and Korea. Swedish social policies are designed to ensure more work by more people, but this productivism resulted in a big welfare state. Why is it that productivist concerns led to different paths of welfare state development in East Asia and Northern Europe? Moreover, the Asian productivist elements, such as workfare and weak social rights, are by and large liberal elements that are also present in the US (Choi, 2013), which poses the question of why Asian countries and the US have built similar welfare states even though the latter has never pursued state-led economic development? In order to avoid functionalist explanations, our study seeks to identify relevant actors (organized labor, employers, and politicians) and institutions (union structure, electoral rules) that induce and constrain the preferences, and choices of the actors. We interpret the development of the welfare state as the cumulative outcome of interactions among actors over time.

Second, production regime theory helps to explain the diversity in welfare state development (Estévez-Abe, Iversen, and Soskice, 2001; Ebbinghaus and Manow, 2001). This theory asserts that firms' product market strategies are constrained by the availability of necessary skills and that the availability of the specific skills, in turn, requires appropriate forms and levels of social protection. In the US, large corporations rely on the stock market to raise capital, and thus should be very responsive to fluctuations in stock prices. This is why they tend to depend more on swift quantitative flexibility, including mass layoffs, to maximize short-term profits. Under these circumstances, American firms seek to compete through Fordist mass production that does not require a highly skilled workforce for specific products. Accordingly, there is less of a need to create internal labor markets for skilled workers, and unemployment insurance schemes and training systems to help protect and train skilled workers remain underdeveloped.

On the other hand, thanks to the injection of patient capital under the main bank system, large Japanese corporations can afford to maintain an excess of skilled workers during recessions, creating a pool of skilled workers. They can produce high-quality goods based on firm-specific skills. Japanese workers are willing to learn firm-specific skills at the risk of low portability because they are guaranteed lifetime employment. The seniority pay system and corporate welfare are integral parts of the firm-specific skill formation system. This production–employment–welfare nexus does not require the generous unemployment insurance at the national or industrial level that is seen in many European countries. (Estévez-Abe, 2008: Chapter 6).[7] Korea is often grouped with Japan in this regard because the country's economy is reliant on large exporting firms that adopt key elements of Japanese management, such as the seniority pay system and generous corporate welfare (Kwon, 2005; Chung, 2006).

In short, according to production regime theory, a firm-specific, high-skill equilibrium was shaped through a seniority pay system and corporate welfare in Japan and Korea where large companies are dominant, while in the US, Fordist mass production systems were more prevalent and companies stayed competitive through swift restructuring. As a result, there was no need for generous income security systems.

Production regime theory does not focus on the role of culture, ideology, nor the state's industrialization strategy. This is a different perspective from mainstream welfare state theories, most notably the power-resources model that are based on an assumption of 'politics against markets' (Esping-Andersen, 1985). Production regime theory is a logic of 'politics with markets.' It reveals that social protection is not solely determined by the relative power of labor and capital. Instead, it sheds lights on the preferences and role of employers who have been neglected by welfare state studies or simply assumed to be against social welfare. Production regime theory points to the possibility that capital can forge class alliances with labor at an industry or company level, depending on firm size and dominant production strategy (Swenson, 2002; Mares, 2001).

This book embraces this revisionist view of the role of employers and the possibility of class compromises at a firm level. However, skill formation and the strategy of employers are not the sole concern. We assume that the main actors are workers and employers on the demand side and politicians on the supply side. The maximization of loosely defined material interests in the form of skill formation, wages, job protection, social compensation, and reelection is assumed to be the impetus for welfare politics, and the way in which these material interests manifest is regarded as dependent on the institutional context the main actors face. This loosening of assumptions will allow us to understand many aspects of the small welfare state that go beyond the limitations of the production regime theory. For instance, we can explain why the US, where the production regime does not require firm-specific skills, has advanced employer-sponsored welfare, why big business in Korea developed internal labor markets at the firm level without cultivating skilled workers, and why private welfare and functional equivalents to 'standard' social welfare programs are more pronounced in small welfare states.

## UNDERSTANDING THE SMALL WELFARE STATE: ACTORS, INSTITUTIONS, AND SEQUENCES

As examined above, existing theories are helpful but only partly successful in understanding the underdevelopment of public welfare in the small welfare states. How can a theoretical framework be constructed to understand the small welfare state? We need to identify the relevant actors in welfare politics and the common institutional settings that affect their preferences and behaviors.

### Labor: Union Structure, Welfare Politics, and Social Policies

Economic unionism is one of the salient characteristics of the small welfare states in the US, Japan, and Korea. Roughly speaking, economic unionism is akin to a self-interested group movement. It does not coincide with the underlying assumption of the power-resources model that labor movements aim to achieve solidarity and thus support public welfare. The power-resources model would argue that the underdevelopment of public welfare is attributable to weak organized power of the working class. In fact, the unionization rate in the US, Japan, and Korea is no higher than around 10 percent, and the legal extension of collective bargaining agreements is not institutionalized. In short, organized labor's structural power is surely weaker in the three countries than in many European countries.

Nevertheless, this does not mean that organized labor in the small welfare states is nothing but a paper tiger because unions are organized in the public sector and large corporations that are the strategic core of the economy. If organized labor had sought to build a big welfare state, better public welfare would have been provided. However, their presence is barely visible in welfare movements in these three countries. Unlike in Europe, where labor movements and collective bargaining take place at the national or industry level, labor movements and collective bargaining predominantly take place at the corporate level in the US, Japan, and Korea. The US also has a strong tradition of segmented craft unionism.

Therefore, union leaders in the US, Japan, and Korea usually raise internal issues such as wage hikes or corporate welfare at the negotiating table rather than the labor market and other social agendas that go beyond corporate boundaries. Steinmo (2010: 98) witnessed in Japan that "[B]ecause workers are organized *within* particular companies, they have been more likely to fight for very specific company based benefits rather than more generalized collective goods, such as unemployment insurance or public pensions." His observation holds perfectly true for Korea and the US as well.

Since the advent of democracy in Korea in 1987, newly established 'democratic' enterprise unions have led the labor movement. They were very militant, but their demands focused on wage increases and greater corporate welfare for union members. Wages and corporate welfare have continued to rise in large enterprises. But in SMEs, where the unionization rate is low and employers have less financial capacity to pay, wage and corporate benefits are relatively stagnant. In the US, interwar period economic fluctuations and labor unrest gave rise to the 'welfare capitalism' movement led by large corporations such as AT&T, GM, Westinghouse, Kodak, Du Pont, GE, and GM, which were concerned about state intervention. Organized labor was cajoled by employers to cooperate in creating corporate pensions and employer-sponsored medical insurance in return for industrial peace (Brandes 1976; Jacoby 1998; Klein, 2003). Since then, American unions have achieved social welfare benefits through economic struggle at the local level. But their very success divided American workers between the relatively privileged who work in big businesses and the relatively underprivileged who work outside these corporate boundaries (refer to Chapters 2 and 3). Generous corporate welfare eliminates the practical incentive for narrowly-organized labor to fight for a welfare state that protects the entire working class (Mosley, 1981: 152).

Organized labor in the US, Japan, and Korea is one of the most powerful social forces, and has great potential to drive the development of a welfare state. However, organized labor has not actively demanded or led social movements for public welfare, nor forged a firm political alliance with leftist parties and pro-welfare social forces. This defies the conventional wisdom in most welfare state literature which assumes the existence of a solidarity-enhancing labor movement. This book will show how narrowly-organized labor behaves differently from the encompassing union movement in Europe, and how it led labor and capital to make class compromises at the firm level in the small welfare states (refer to Chapter 2).

Small welfare states have developed their own social security systems, although not on the same level as European nations. One of the substitutes that filled the pro-welfare movement void left by organized labor was progressive civic movement groups. Chapter 4 examines the developmental path in Korea, highlighting the role played by progressive civic movement groups that were borne out of the democratization movement in the 1980s and forged ad hoc pro-welfare policy coalitions with ruling politicians once progressive presidents were in office.

### Capital: Large Enterprises, Welfare Politics, and Social Policy Implications

Another commonality shared by the US, Japan, and Korea is the existence of big business. Table 1.2 shows the global rankings in the Forbes Global 2000, a comprehensive ranking of the world's largest companies that takes into account sales, stock value, and market share. It shows that the US, Japan, and Korea have higher numbers of large enterprises than European nations. Given the enormous economic power and associated political influence of these big corporations, their social policy preferences should be one of the key research questions, particularly because labor unions are heavily concentrated in large companies.

As mentioned in the previous section, in contrast to the assumptions in the standard power-resources model, companies do not always oppose social welfare. In particular, big companies, which need to attract skilled workers and have the ability to pay, are relatively acceptive of social welfare (Paster, 2013; Mares, 2001; Swenson, 2002). However, this does not mean that such companies embrace all kinds of social welfare as they are sensitive to cost and benefit. Large corporations prefer corporate welfare that meets corporate interests, but are less supportive of universal tax-based programs where cost bearers and beneficiaries are not aligned (Yang, 2011). Corporate welfare boasts the best alignment between cost bearers and beneficiaries. In return for provision of corporate welfare, employers can expect greater cooperation from unions, employee loyalty, and commitment to firm-specific skill formation. On the other hand, universal tax-based social welfare programs have the worst alignment between costs and benefits. Due to progressive taxation, most corporate and income taxes are born by large corporations and their employees while universal tax-based social programs benefit all citizens, including low-income

*Table 1.2 Number of Global 2000 companies by country, according to Forbes (2018)*

| Ranking | Country | No. of Global 2000 | Ranking | Country | No. of Global 2000 |
|---|---|---|---|---|---|
| **1** | **US** | **560** | 11 | Taiwan | 47 |
| 2 | China | 233 | 12 | Switzerland | 42 |
| **3** | **Japan** | **229** | 13 | Australia | 39 |
| 4 | UK | 88 | 14 | Sweden | 27 |
| **5** | **South Korea** | **67** | 15 | Italy | 26 |
| 6 | Hong Kong | 58 | 16 | Russia | 25 |
| 6 | India | 58 | 16 | Spain | 25 |
| 8 | France | 57 | 18 | Netherlands | 22 |
| 9 | Germany | 54 | 19 | Brazil | 19 |
| 10 | Canada | 51 | 20 | Ireland | 18 |

*Source:* http://www.forbes.com/global2000 (accessed on August 9, 2019).

earners who barely contribute to the cost. Accordingly, large enterprises can only expect indirect benefits from social integration.

Contributory social insurance stands in the middle between corporate welfare and universal tax-based programs. When the introduction of a social security program is inevitable, big companies are expected to prefer 'light' social insurance with strict eligibility rules, which means that benefits are only paid out to contributors.[8] Therefore, unless national/industrial unions and leftist parties are strong, it is likely that a social security system characterized by generous corporate welfare on top of light social insurance will emerge in economies dominated by big business. This theoretical expectation is supported by history. Desmond King examined the 1930s, which marked a watershed in the birth of the welfare state in the US (King, 1995: 10), and came to the following conclusion:

> Large American corporations were prepared to negotiate plant-level or sector-wide agreements with trade unions, which included welfare components but were much less willing to support comparable initiatives for the whole workforce when these were to be achieved with federal legislation. Roosevelt's New Deal social programs marked a break in federal policy, but they did not amount to the creation of a universalist welfare system. Rather, they were conceived of and administered in a framework distinguishing between contributory (insurance-based) and non-contributory (means-tested) programs. This actuarial and contributory framework minimized the costs to employers and placed limits on the growth of public welfare.

Japan and Korea do not greatly differ in this respect. They introduced 'light' social insurance-based social security systems in the early period of industrialization along with developed corporate welfare. Later, tax-based universal programs were introduced. But the benefits are modest.

In Japan, large corporations were able to buy industrial peace at the firm level. Militant labor movements erupted from 1945 to the early 1950s under the implicit approval of the Supreme Commander of the Allied Powers in Japan. In response, large corporations broke away from the authoritarian labor management of the imperial period and embarked on new labor-management relations by employing what is now called the 'Japanese-style management strategy.' Along with this, moderate enterprise unions began to replace the leftist militant labor movement. Japanese-style cooperative industrial relations took root in conjunction with the development of lifetime employment and corporate welfare in big companies (Cho, 2006).

Similarly, in response to the militant labor movement that arose after Korea became a democracy in 1987, large Korean companies reformed labor-management relations by adopting the Japanese-style management strategy from 1989. Job security, high wage, and provision of corporate welfare were the core means to buy class compromises within company boundaries. Since the early 1990s, stable industrial relations have been maintained in most large corporations.[9]

This book testifies to the importance of the initial framework and sequencing in the development of welfare states. During the critical junctures of the interwar period in the US, post-Pacific War democratization in Japan, and the 1987 democratization in Korea, all three countries witnessed labor unrests and proactive co-optation by big business. Satisfied by the employer-sponsored benefits they had won, organized labor lost the practical incentive to demand public welfare, and became indifferent to redistributive social programs. The early development of private welfare and the insurance market impeded the growth of statutory social insurance programs. Although many possibilities existed during the critical juncture period, this initial framework had large and enduring consequences for welfare state development (Pierson, 2000). Once the journey down the path towards a small welfare state had begun, it was very hard to change the course (refer to Chapter 3).

### Politicians: The Plurality Electoral System, Policy Preferences, and Tax Politics

The plurality electoral system is another key commonality between the US, Korea, and Japan. While most big European countries chose the PR system, all of the three small welfare states adopted plurality SMD electoral systems. The single-non-transferable-vote (SNTV) adopted by Japan from 1945 to 1993 is also a plurality electoral system. In addition to this, unlike in Europe where a parliamentary system is the norm, the US and Korea have the presidential system in which presidents are elected through a simple plurality popular vote. Japan is a parliamentary country. But Japan, like the US and Korea, has a single party government. The US, Japan, and Korea are all democratic countries, but the different electoral systems have different implications for the policy preferences and behavior of politicians regarding welfare politics (Alesina, Glaeser, and Sacerdote, 2001; Estévez-Abe, 2008; Yang, 2017; Manow, 2009; Persson and Tabellini, 2002; Stratmann and Baur, 2002; Crepaz, 1998).[10]

For PR systems, where electoral districts are large and the approval rate for political parties determines the share of seats in the legislature, parties have electoral incentives to improve their party reputation through public policies to mobilize nationwide support. However, in the SMD and SNTV systems, where the individual approval rate for each candidate determines the winners in smaller districts, it is more likely for politicians to compete for geographically targeted benefits in order to gain support within their districts. This does not mean that national issues and party reputation are meaningless. But electoral pledges that are related to district development or constituency services are much more critical in winning district votes because social policies on the national agenda will not necessarily be rewarded by a greater share of district votes. It is inevitable that national social welfare programs are of secondary importance to district representatives. In this context, it is likely that agricultural subsidies will be overprovided if there are more electoral districts in rural areas. The same logic can be applied to excessive protection for the self-employed who run local businesses and to overprovision of construction projects that benefit the local economy.[11]

On the other hand, political leaders at the national level have different payoffs. Presidents elected in a nationwide single constituency have strong electoral incentives to address national issues that affect the entire electorate. Therefore, presidential candidates tend to make campaign pledges related to security, economic growth, and public social welfare, and put these issues on the government agenda when elected. Social welfare will be near the top of this list if presidents are ideologically progressive. This is why welfare state development in the US and Korea is marked by progressive presidents: Roosevelt and Johnson in the US, and Kim Dae-jung and Roh Moo-hyun in Korea. Even ideologically conservative presidential candidates cannot neglect social welfare issues, unlike politicians at the small district. Prime ministers have similar payoffs in the Japanese single party government, especially under the Westminster-style parliamentary system after the previous SNTV system was replaced with a SMD system through electoral reforms in 1993 (Estévez-Abe, 2008).

However, presidents and prime ministers under plurality electoral rules cannot fully commit themselves to welfare state building unless history opens a new window of opportunity such as the Great Depression or the Human

Rights Movement in the US, or the 1997 Financial Crisis in Korea. This is because unpopular tax increases, a requisite condition for welfare state building, becomes a very risky political project in a single-party government under the plurality electoral system due to high accountability and high party identifiability (Estévez-Abe, 2008: 60–62).

First, presidential candidates and party leaders are very sensitive to tax issues due to the high vote-seat elasticity of the simple plurality electoral rules. If even a small percentage of middle class voters, who usually oppose tax increases, withdraw their support for a presidential candidate, that candidate would not win the election. The same holds true to a lesser degree for individual candidates in the general election under the plurality electoral system. In contrast, under the PR system, political parties initiating tax increases would lose seats only in proportion to the reduction in their approval rate. Tax hikes are a risky political project in any countries. Nevertheless, if such policies can be endured by politicians under PR, it is akin to political suicide for those under plurality electoral rules.

Second, the president and his/her ruling party alone have to take all the political responsibility for an unpopular tax hike, unlike in coalition governments where the blame can be shared. Under the presidential system, voters can clearly identify who is responsible for unpopular tax increases and easily vote out the ruling party under the SMD system with even a slight change in support, which can result in a big swing in the number of seats in the legislature. Since the president and ruling party take all the political blame, it is not easy for even a progressive president to raise taxes to expand the welfare state. The same logic can be applied to the single party majority government in Japan. Moreover, if national elections come frequently due to separate elections for the president and the legislature, unpopular tax increases are even more likely to be avoided because voters have more opportunities to punish the incumbent party.

In summary, different electoral rules can explain why not only public social expenditure but also tax revenue are low in the US, Japan, and Korea. This book expects that there is a low possibility of regime change in small welfare states where necessary resources are hard to secure for electoral reasons (refer to Chapters 5 and 6).

However, party politics are not solely influenced by electoral rules. Political divisions also matter. Usually welfare state literature assumes the existence of divisions between classes creating pro-welfare parties on the left and conservative parties on the right. This left–right ideological spectrum is significant in small welfare states as well. However, what divides people into the political left and right is not limited to socioeconomic issues. It is also influenced by security issues, including attitudes toward communist North Korea in South Korea and the Pacifist Constitution in Japan (Otake, 1990; Yoon, 2013).[12]

Accordingly, this book deals with why socioeconomic cleavage was subdued in Japan and Korea during the Cold War and the implications of this for welfare state building (Chapter 7).

**The Importance of Sequencing and Substitution of Public Welfare by Functional Equivalents**

The final but equally important commonality among the three small welfare states is the significant role played by functional equivalent programs. Functional equivalent programs include (1) private welfare such as private insurance, savings, and corporate welfare, (2) tax expenditure for social welfare purpose, (3) employment protection, direct job creation through public works, and employment subsidies for firms and producers rather than unemployment allowances and training that directly benefit individual workers, (4) de facto income transfer programs to non-wage workers such as farmers, and (5) regulatory policies that protect jobs and incomes by curtailing market competition. The concept of functional equivalents can also be applied to financing of the welfare state, such as the use of postal savings in Japan (Estévez-Abe, 2008: 30–45).

Before the growth of public welfare, private welfare was introduced and expanded in a variety of forms through mandatory or voluntary corporate welfare. As public social security and private welfare are substitutes for one another, temporal sequence has a large impact on the development of the welfare state (Pierson, 1993; 2000). In Europe, social insurance was introduced and expanded as early as in the 1880s following Bismarck's social insurance legislation in Germany, which preceded the private insurance market (Flora and Alber, 1981). The European welfare states embraced the middle class by expanding earning-related income security programs and universal healthcare in the post-war 'Golden Age' of capitalist development (Pierson, 1991).[13] Private pension and healthcare therefore had little room to develop. Since the 1980s, European countries under fiscal pressure have recalibrated their social security systems which led to an expansion in the role of private welfare. Nevertheless, growth in private welfare was limited, and its role remains supplementary rather than substitutive (Ebbinghaus, 2015; Hemerijck, 2013).

In contrast, the small welfare states in the US, Korea, and Japan share a different story. Private welfare schemes had covered the middle class before public social security systems were established, constraining the growth of public programs. In the 1930s, large American corporations started to provide corporate pensions and medical insurance to appease and eventually weaken the labor movement under the banner of welfare capitalism. In addition to this, as life insurance companies like Metropolitan Life developed group insurance and sold it to companies, a large private insurance market started to grow in the US prior to the development of statutory social insurance. These institutions have become an insurmountable stumbling block to the expansion of the American welfare state (Klein, 2003).

The American government provided tax incentives to encourage employers and individuals to purchase goods and services like healthcare, pensions, housing, and childcare. As a result, large enterprises, organized labor, the financial industry, and the middle class have become a large constituency for private welfare. They tend to be indifferent or even opposed to the introduction and expansion of new public welfare programs, notably public health insurance (Howard, 1997; Mosley, 1981; Hacker, 2002).

To a lesser degree, the development of the welfare state in Korea mirrors the US. When public pensions and unemployment insurance were introduced, contributions were to be increased by gradually replacing the mandatory retirement allowance that was an earning-related lump sum benefit paid by employers for severance or retirement. However, this did not come to fruition because of vehement opposition from labor unions to the loss of what was perceived as a deferred wage. Instead, the Korean government converted retirement allowance into a corporate pension scheme with a contribution rate of 8.33 percent paid solely by employers, similar to the 401K pension plan in the US. As a result, a huge private pension market has been created. Growing private pensions put a lid on the growth of social insurances, as seen in the US. The contribution rate for the national pension remains low at 9 percent, which in turn places pressure on pension cuts as the elderly population grows. The contribution rate for unemployment insurance is also capped at as low as 1.3 percent of wages so that the maximum unemployment benefit is similar to the minimum wage. This weak level of income security is sustained by functional equivalents such as employment protection in unionized big firms, subsidized employment in SMEs, protective regulations for the self-employed, and public works for the elderly. This book outlines the importance of the temporal order in which institutions were developed, highlighting the substitution effects of functional equivalents in the creation of the small welfare states (see Chapters 3, 8, and 9).

## METHODOLOGY AND LOOKING AHEAD

Researchers of the power-resources model, the dominant welfare state theory, rarely conduct serious analysis on small welfare states. They simply point to the weak political power of the left without delving into the causal mechanisms. Those who tried to understand the welfare states in the US, Japan, and Korea highlighted the effect of Confucian culture, liberalism, racism, and country-specific skill formation and income maintenance programs within the labor market. These explanations have their merits, but fall short of serving as a general theory. How can we understand the similarities between the small welfare states that developed in East Asia and the US simultaneously?

Faced with a small-N problem that the number of potential explanatory variables and their complex interactions are vastly greater than the number of cases, this volume focuses on a few crucial common factors found in the two different worlds, the US and the two East Asian countries, according to the logic of the most different system design (Przeworski and Teune, 1970). We seek to identify the relationship between a similar phenomenon of the small welfare state (i.e. dependent variable) and crucial common factors (i.e. independent variables) in the two different worlds, which are rarely found in Europe: (1) narrowly-organized labor at large corporations that have no immediate interest in demanding social welfare for the whole working class, (2) the plurality electoral system that overwhelms politicians with local issues and makes presidents and party leaders sensitive to unpopular tax increases, and (3) the early development of functional equivalents as substitutes for public welfare. It is proposed that interaction between these factors led the US, Japan, and Korea to develop small welfare states. Of course, we cannot infer an outright causal relationship, as these factors might be necessary conditions at best. Therefore, we seek to identify the workings of the key variables in the context of each country through comparative analysis.

There is one caveat. Because we select explanatory factors by the logic of the most different system design, we do not ask whether particular country-specific factors have effect on the formation of the small welfare state, no matter how important they might be. Therefore, federalism and racial divide in the US, and Confucianism and familism in East Asian countries are not discussed. For the same methodological reason, we also do not take into account what the three small welfare states and the European big welfare states have in common, such as globalization. Globalization is no doubt one of the most important factors affecting welfare politics. But globalization put a similar pressure on the European big welfare states and the small welfare states simultaneously. Since we want to explain the different development paths of the small welfare states from the European big ones, such universal factors are not addressed. The possible effect of these omitted variables on welfare politics in the US, Japan, and South Korea are discussed in the review section of the concluding Chapter 10.

Some chapters adopt cross-national comparisons while others employ within-case analysis in implicit comparison with big European welfare states. All chapters are designed to identify contextual causalities, with each chapter concentrating on a specific aspect of the small welfare state. Through this, we hope to not only discover common peculiarities but also identify the causal mechanisms that pushed these countries toward a small welfare state.

The following chapters elaborate many of the themes raised in this introduction, providing evidence and clarifying the underlying causes. Chapters 2, 3, and 4 display the demand side of welfare politics in the small welfare states. Chapter 2 demonstrates how narrowly-organized unions comprised of privileged workers at company and industry level have undermined otherwise solidarity-enhancing labor movements that would have contributed to the creation of a European-style welfare state in the US and Korea. Chapter 3 further explores how American big business assertively responded to redistributive demands from workers, and the way in which the early development of employer-sponsored welfare crowded out the growth of public welfare, reinforcing the divided American welfare state. Chapter 4 examines an alternative route for welfare state development in small welfare states, with an emphasis on the role played by civic movement groups and progressive presidents in South Korea.

Chapters 5, 6, and 7 deal with the supply side of welfare politics in small welfare states. Presenting evidence from survey data, regression analysis, and case studies, Chapters 5 and 6 show the effect of different types of electoral systems on the policy preferences of politicians and their attitude toward social welfare and tax increases. Chapter 5 shows how the SMD plurality electoral rule distracts politicians from pro-welfare behavior compared to those under PR. Chapter 6 demonstrates how winner-takes-all systems and frequent national elections discourage politicians from increasing taxes while encouraging tax cuts for the middle class, thereby reinforcing the small tax state in the US, Japan, and Korea. From a different angle, Chapter 7 investigates how the unique leftist ideology shaped in the geopolitical context during and after the Second World War and the Korean War impeded pro-welfare movements in Japan and Korea.

Chapters 8 and 9 explore the issue of functional equivalents, providing details about policies and programs introduced during industrialization in Japan and Korea which substituted for 'standard' social security programs. Chapter 8 discusses the effect of the state's control and use of private savings instead of tax revenue, generous income tax exemptions in place of social benefits, and household savings as a substitute for income maintenance programs. Chapter 9 focuses on the way in which strong employment security through lifetime employment, public works, and protection of SMEs and the self-employed resulted in low demand for strong social security. Finally, concluding Chapter 10 revisits the concept of the 'small' welfare state and the core causal argument of the book, critically reviewing the path dependent mode of analysis and discussing the path of future change in these small welfare states.

# NOTES

1. Functional equivalent programs include: (i) private welfare such as private insurance, savings, and corporate welfare, (ii) regulatory policies that protect jobs and income by curtailing market competition, (iii) de facto income transfer programs to non-wage workers such as farmers, (iv) tax expenditure for social welfare purposes, and (v) direct job creation by the government, and employment subsidies for firms and producers rather than direct benefits for individual workers. The concept of functional equivalents can also be applied to welfare state financing. For a detailed discussion on the concept and types of functional equivalents, see Estévez-Abe (2008: 30–45).
2. World Economic Outlook Database, April 2019, International Monetary Fund. The GDP per capita figures are derived from PPP (purchasing power parity) calculations.
3. Korea was ranked 20th, while Italy and the US were ranked 21st, and France 29th among 168 countries in the world. (https://www.eiu.com/public/topical_report.aspx?campaignid=DemocracyIndex2017, accessed on July 10, 2018).
4. In 2013, Korea's age bias looked normal. However, Korea should be counted as age-biased when the country's relatively small elderly population is taken into account. As of 2013, people aged 65 and over accounted for 12.2% of the total population in Korea, compared to an average of 19.6% in big European welfare state such as Sweden (19.9%), Denmark (18.0%), Germany (21.3%), Italy (20.9%), and France (17.95%). https://data.oecd.org/pop/elderly-population.htm (accessed on December 1, 2018).
5. Korea and Japan still spend a greater amount of money on income security for farmers through agricultural subsidies (OECD, 2018). Tax expenditure is one of the prime social policy tools used in the US (Surrey and McDaniel, 1985; Howard, 1997). In addition to this, job creation through public works, low interest rate loan policies for small and medium-sized enterprises (SMEs) and the self-employed, and protective regulation through market entry barriers are as important a part of labor market policies in Japan and Korea as active labor market policies (ALMPs) are in Sweden, although they are atypical from a European welfare state point of view. Nevertheless, these atypical policies are undeniably a form of labor market policies (Estévez-Abe, 2008; Kim 2010; Campbell, 2002).
6. Due to space constraints, we do not discuss the interaction of racism with the American small welfare state in the following empirical chapters. But as Alston and Ferrie (1999) point out, the preventive effect of racism on the expansion of federal welfare programs should be understood in the context of economic interests such as the agricultural interests of Southern elites. The basic assumption of this book is that cultural factors have interplayed with political and economic variables to make it hard to build a European-style welfare state in the US, Japan, and Korea, and we emphasize these political and economic factors throughout the book.
7. In Germany, where bank-centric long-term investment capital is supplied like Japan but industrial unionism prevails unlike Japanese enterprise unionism, employers and unions pursue high-quality product, upscaling, and social protection at the industry level beyond individual companies. Industry-wide collective bargaining, training system and unemployment insurance help preserve a pool of skilled workforce at the industry-level.

8. On the contrary, SMEs may be reluctant to embrace contributory schemes due to their weak financial capacity. They tend to ask for government subsidies for premiums, relaxation of eligibility rules or built-in redistributive elements to reduce the cost burden and extend the benefits to their employees.
9. This does not necessarily mean that Korea's management–labor relations are always peaceful. Notably, the motor industry, where management adopted a labor-exclusive automatized module-based production system that differs from Japan's Toyota model of a highly diversified skilled workforce, has failed to establish cooperative relations. Repeated militant labor movements in the motor industry have led employers to adopt a labor-exclusive approach and heavily invest in automation and module production, which, in turn, has rapidly increased the productivity and competitiveness of the Korean motor industry (Jo, Jeong, and Kim, 2016). Although militant enterprise unions have managed to win job security, high wages, and corporate welfare by force, the workforce itself is shrinking.
10. Electoral systems affect the behavior of voters as well. First, citizens do not all vote despite having equal voting rights. Generally speaking, turnout is low in countries with the plurality electoral system because voter choice is effectively constrained to the front-runners to avoid wasted votes, as opposed to countries with the PR system where voters enjoy a larger number of choices (St-Vincent, 2013; Blais and Dobrzynska, 1998). Since the poor are less likely to vote than the rich, low turnout defies the Meltzer–Richard theorem that inequality will increase tax and redistribution (Larcinese, 2007). The small welfare states where turnout is low are a case in point. Second, the middle class (or median voters) have different voting patterns under different electoral rules. Under PR, the middle class has its own centrist party and tends to ally with the leftist party in the coalitional government to achieve moderate redistribution from high income groups. However, middle class voters in the two party system created by the SMD system have to choose between the left or right wing parties. They tend to support the conservative party out of fear that the leftist government may redistribute more to low income classes that is taken from middle-to-high income groups (Iversen and Soskice, 2006). Therefore, it is more likely for a small welfare state to emerge in countries with plurality electoral rules.
11. The SMD system, under which candidates must win the majority vote to become a representative, also makes it harder for candidates from newly established small parties to enter parliament. In contrast, under the PR system new leftist parties can gain and expand their share of seats in parliament in proportion to the total votes they receive (Friedman, 2002; Jaung, 2006).
12. In the US, racial divisions have blurred class divisions and often overridden socioeconomic issues as well (Manza, 2000).
13. For example, Sweden introduced a tax-based basic pension instead of a social insurance pension as early as the 1930s, which helped the Social Democratic Party and the Center Party (or Farmers' League) to forge a ruling coalition. In the 1950s, when white collar workers became the largest electorate, Sweden introduced a generous earning-related social insurance pension which helped the Social Democratic Party incorporate the middle class and form a firm 'red–white' coalition in the welfare state.

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# APPENDIX 1.1

*Table A1.1 Raw data for Table 1.1 (country rankings on key dimensions of the welfare state)*

*Notes:*
1. Tax revenue as % of GDP: OECD SOCX database, http://stats.oecd.org.
2. Average tax wedge = two earner married couple, one at100% of average earnings and the other at 67%, 2 children: OECD SOCX database, http://stats.oecd.org.
3. Public social expenditure: % of GDP: OECD SOCX database, http://stats.oecd.org.
4. Old-age bias = public social expenditure on pension and health/public social expenditure: OECD SOCX database, http://stats.oecd.org.
5. Family: public social expenditure on family as % of GDP: OECD SOCX database, http://stats.oecd.org.
6. ALMP: public social expenditure on ALMPs as % of GDP: OECD SOCX database, http://stats.oecd.org.
7. Premium: spending on private insurance as % of GDP: https://data.oecd.org/insurance/insurance-spending.htm#indicator-chart.
8. P90/P10 disposable income decile ratio: OECD SOCX database, http://stats.oecd.org
9. Poverty rate after tax and transfer, poverty line 50%: OECD SOCX database, http://stats.oecd.org.

| | Tax | | | | Social Security | | | | | | | | Priv. Insur. | | Redistribution | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Tax revenue | | Av. tax wedge | | Pub. Social Exp. | | Old-age bias | | Family | | ALMPs | | Premium | | P90/ P10 | | Pov. rate | |
| | 1990 | 2015 | 2000 | 2015 | 1990 | 2013 | 1990 | 2013 | 1990 | 2013 | 1990 | 2013 | 2000 | 2016 | 2005 | 2013 | 2005 | 2013 |
| Korea | 18.85 | 25.16 | 15.53 | 19.59 | 2.68 | 9.33 | 0.74 | 0.60 | 0.03 | 1.13 | 0.03 | 0.46 | 10.75 | 7.70 | 4.5 | 4.7 | 0.14 | 0.15 |
| Japan | 28.21 | 30.74 | 28.19 | 29.26 | 11.11 | 23.06 | 0.75 | 0.72 | 0.36 | 1.26 | 0.32 | 0.18 | 7.13 | 12.48 | 4.8 | 5.1 | 0.15 | 0.16 |
| US | 25.96 | 26.23 | 26.89 | 26.32 | 15.24 | 18.82 | 0.62 | 0.76 | 0.46 | 0.69 | 0.21 | 0.12 | 10.27 | 11.28 | 5.9 | 6.4 | 0.17 | 0.17 |
| NZL | 36.18 | 33.05 | 19.05 | 16.49 | 20.54 | 19.28 | 0.61 | 0.64 | 2.54 | 2.77 | 0.34 | 0.27 | 2.46 | 2.52 | 4.3 | 4.3 | 0.11 | 0.11 |
| Australia | 28.04 | 28.22 | 26.72 | 26.25 | 13.13 | 18.11 | 0.54 | 0.56 | 1.51 | 2.74 | 0.21 | 0.22 | 7.95 | 4.97 | 4.1 | 4.3 | 0.13 | 0.13 |
| Canada | 35.21 | 32.02 | 29.73 | 24.26 | 17.55 | 16.88 | 0.57 | 0.67 | 0.58 | 1.21 | 0.48 | 0.24 | 6.66 | 4.42 | 4.2 | 4.4 | 0.12 | 0.13 |
| UK | 32.88 | 32.53 | 28.36 | 26.17 | 15.24 | 21.87 | 0.52 | 0.56 | 1.75 | 3.80 | 0.51 | 0.21 | 14.78 | 9.21 | 4.4 | 4.2 | 0.12 | 0.10 |
| Portugal | 26.48 | 34.56 | 32.96 | 35.73 | 12.22 | 25.50 | 0.61 | 0.69 | 0.69 | 1.20 | 0.46 | 0.50 | 6.06 | 5.59 | 5.3 | 4.9 | 0.13 | 0.14 |
| Greece | 25.19 | 36.40 | 39.21 | 37.73 | 21.35 | 26.04 | 0.45 | 0.67 | 1.83 | 2.17 | 0.18 | 0.27 | 1.80 | 2.01 | 4.8 | 5.1 | 0.13 | 0.15 |
| Spain | 31.62 | 33.81 | 35.41 | 36.28 | 19.20 | 26.28 | 0.58 | 0.54 | 0.31 | 1.33 | 0.76 | 0.62 | 6.33 | 5.46 | 4.6 | 5.4 | 0.14 | 0.16 |
| Italy | 36.39 | 43.29 | 44.17 | 41.57 | 20.65 | 28.62 | 0.70 | 0.64 | 0.87 | 1.42 | 0.22 | 0.41 | 5.55 | 7.97 | 4.4 | 4.5 | 0.13 | 0.13 |
| Austria | 39.38 | 43.67 | 26.72 | 42.25 | 23.21 | 27.56 | 0.53 | 0.60 | 2.54 | 2.57 | 0.31 | 0.76 | 5.45 | 4.79 | 3.6 | 3.4 | 0.10 | 0.09 |
| Belgium | 41.17 | 44.81 | 50.93 | 48.06 | 24.42 | 29.32 | 0.50 | 0.55 | 2.21 | 2.86 | 1.07 | 0.72 | 7.54 | 6.32 | 3.4 | 3.4 | 0.09 | 0.10 |
| NED | 40.21 | 37.36 | 38.05 | 30.62 | 23.99 | 22.88 | 0.43 | 0.57 | 1.56 | 1.35 | 1.19 | 0.84 | 8.92 | 4.85 | 3.4 | 3.3 | 0.08 | 0.08 |
| France | 40.98 | 45.22 | 43.26 | 42.96 | 24.28 | 31.49 | 0.60 | 0.65 | 2.44 | 2.91 | 0.71 | 0.86 | 8.79 | 11.02 | 3.4 | 3.5 | 0.07 | 0.08 |
| Germany | 34.80 | 37.07 | 45.44 | 42.35 | 21.35 | 24.76 | 0.56 | 0.63 | 1.83 | 2.17 | 0.86 | 0.67 | 6.44 | 6.16 | 3.4 | 3.6 | 0.09 | 0.09 |
| Finland | 42.91 | 43.93 | 41.27 | 38.38 | 23.32 | 29.48 | 0.50 | 0.52 | 3.14 | 3.21 | 0.83 | 1.01 | 4.82 | 4.13 | 3.1 | 3.2 | 0.07 | 0.07 |
| Norway | 40.25 | 38.31 | 32.99 | 33.35 | 21.55 | 21.77 | 0.42 | 0.50 | 2.69 | 3.02 | 0.88 | 0.50 | 4.36 | 5.45 | 2.8 | 3 | 0.07 | 0.08 |
| Denmark | 44.40 | 45.90 | 36.50 | 31.80 | 21.97 | 29.02 | 0.45 | 0.50 | 3.20 | 3.66 | 0.73 | 1.81 | 6.16 | 10.60 | 2.7 | 2.9 | 0.05 | 0.05 |
| Sweden | 49.48 | 43.28 | 46.04 | 38.85 | 19.20 | 27.39 | 0.64 | 0.50 | 4.03 | 3.64 | 1.55 | 1.35 | 7.78 | 7.38 | 2.8 | 3.2 | 0.05 | 0.09 |