

*The McVickar Essay*

THE ORIGINS AND DEVELOPMENT OF  
THE WESTERN SOCIAL CONTRACT:  
REVIEW AND IMPLICATIONS

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One of the most marked differences between the Western and non-Western worlds is the nature of the social contract. The social contract is an explicit agreement between a government and its citizens—a state-held obligation to afford its citizens a basic level of welfare and some protection from the vicissitudes of an impersonal market economy. The Western social contract has grown to include spending on a range of social transfers, including healthcare, unemployment compensation, low-income housing subsidies, and pensions. The concept of a social contract also includes an understanding by citizens of some acceptable level of tax burden levied on them by the state for the purposes of funding these programs.

While the size and content of social transfer programs are, and will continue to be, fiercely debated in the political arena, the extent of today's social contract is easy to take for granted. A state role in providing unemployment, social security and old age benefits and healthcare has become ingrained in the national psyche, here in the U.S. and even more so in Europe. But from historical perspective, the social contract is a relatively new phenomenon. Ask a farmer outside Berlin or Detroit even fifty years ago about the proper and expected role of government in providing social services, and the answer would be very different from today. And the majority of the world's population still lives in this universe. With a few notable exceptions, the developing world is without a broad or explicit government sponsored social contract for its citizens.<sup>1</sup>

This article revisits the nature, origins and development of the Western social contract to better understand the circumstances under which this eco-

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nomic and social phenomenon developed. It first surveys the literature and empirical trends in spending on social contract programs. It highlights the inter-relationship between national income and social spending, and the caveats that have created disparities within this trend. Using data on social expenditure and national income, this paper roughly identifies an income threshold, above which the relationship between income and transfers is stronger. This threshold highlights the reality that the largest expansion in social expenditure in the West occurred when those countries were already wealthy in comparison to today's developing countries.

While social spending by governments was minimal in the pre-WWI period, some of the first modern welfare-state programs were pioneered during this time. In the inter-war period, the European governments were out in front of their Anglo-Saxon counterparts, but all countries began to adopt a more robust social contract. In the post-WWII period there was a large proliferation of spending-solidifying governments' commitments to this contract, and in cases extending it to a universal coverage regime. The article puts a particular emphasis on this most recent period of expansion in social expenditure (especially 1960-1980), both because of the size of the increases across countries and also because the factors that explain earlier spending increases (e.g. voting rights) are less relevant in this period. The article explores the hypothesis that a growing middle class played a role in providing the political impetus for the extension of the social contract during this period and presents empirical evidence on this point. Additionally, it examines the shift in economic ideology that accompanied this most recent increase in the size and role of government, and identifies the importance of a growing middle class in this transformation as well. The argument further incorporates a less-studied concept—that ideologically driven social affinities can be determinants of government spending choices.

The rest of this article is organized as follows: part one reviews the expansion of the social contract by examining government spending and explores the relationship between social transfers and national income; part two examines the philosophical origins of the Western social contract and the ideological developments that led to increases in spending, especially in the post-WWII era; part three analyzes the role of the middle class in the expansion of the social contract during the period 1960-1980.

*Part One: The Expansion of the Social Contract by Public Spending*

Government spending to support social transfers is a relatively new phenomena, originating in the last 150 years. During this period the Western state was transformed from the 19th century night watchman to the 20th century guardian, bearing a far larger responsibility for the welfare of its cit-

izens. Before the late 1800s, spending on what has become the modern social contract was limited to poor relief. Of the European countries, England instituted the largest poor relief effort, but even it was limited in both size and scope.<sup>2</sup> Governments had begun, within the night watchman state, spending money on primary education, recognized within the *laissez faire* mindset of the 19th century as an investment rather than a social transfer.'

In the period up until the first World War, the European continent began to experiment with social insurance programs, as Germany, and then the UK and then France, all instituted minimal schemes. Social spending grew more slowly in the U.S., Canada, Japan, Australia and New Zealand. The experience of the depression and the increasing influence of Keynesian economics had a profound impact on the role of government spending. Most countries developed some form of unemployment insurance, and in countries like the Netherlands, France, the UK and U.S. other structural relief programs were implemented. Maddison explains that development of these programs in the inter-war period was critical to the eventual institutionalization of the Western social contract both because it occurred during peacetime, and because the depression eased the unwillingness of government's to aid the 'undeserving' poor (1984).<sup>4</sup> But the extent to which these programs translated into increased spending varied greatly across countries. In some countries, e.g. the U.S. and Japan, social programs were designed and partially implemented, but they represented only a minimal spending increase in these countries.<sup>5</sup>

In the 1960s and 1970s, there was, according to Maddison, a "general move to universalize social benefits," and an across-the-board increase in social spending (1989). It was in this period that the ideological re-orientation beginning in the post-depression era was solidified through public spending increases.

Tanzi and Schuknecht undertake a comprehensive review of government spending since 1870, including public spending for social contract programs (2000). Over the past century, we observe an impressive increase in the share of GDP allocated to subsidies and transfers, from about 1% in the late 19th century to over 23% in 1995. Tanzi and Schuknecht argue that the most remarkable increase has occurred in the past 40 years, and especially between 1960-1980, where "earlier limited social policies were progressively transformed into what in many countries came to be called the welfare state." They attribute the unique increase in social spending by governments in this period to conscious political choices rather than demographic shifts. This period turned "limited social safety nets" in the West into a social contract of "universal social benefits" (Tanzi and Schuknecht 2000).

Tanzi and Schuknecht marvel at the "general phenomenon despite the considerable institutional differences and geographic and language barriers

that have existed among industrialized economies." They find that "political decisions to extend assistance programs to more and more people and to raise benefit levels were key to this (social expenditure) increase, whereas technical factors such as population aging were of limited importance in this period."<sup>11</sup> In the European Union, social expenditure as a share of GDP doubled in the period 1960-1980, from 10-20% and doubled as well in the U.S., from 6-12%.

Detailed explanations for the expansion of social contract spending abound, but an important first step is to highlight the relationship between a country's wealth and its ability to provide services for its populace. Lindert and Madison both show the relationship between national income and social spending for 17 Western countries from 1880-1990.<sup>7</sup>

Their analysis demonstrates two points. First, in general as countries get richer they do tend to expand their social contract spending. Second, the 'remarkable expansion' that Tanzi and Schuknecht speak of in the post-WWII period occurred in countries that were already 'rich' by today's developing country standards. Establishing a threshold from cross-country time-series data is an inexact science to be sure, but the available data suggest that above the mean of the sample (\$9,167 pcGNP in 1990 dollars) the relationship between national income and social transfers is stronger.

This suggests that countries are more likely to increase government spending for social transfer programs when their per capita income is between \$4,500 - \$15,000. In developing countries today, where poverty is far greater than in the West, governments are spending only a fraction of what Western governments spend on social transfers. Part of what Lindert calls the "Robinhood Paradox"—the countries most in need of social programs spending the least on a social contract—can be explained by the fact that only the richest of today's developing countries (e.g. the World Bank's Upper-Middle Income classification) are above an income of \$4000 (2000).<sup>8</sup>

Beneath this generalized explanation—which only tells part of the story—lie more nuanced analyses of the increases in social spending in the West over the past century.<sup>9</sup> Lindert develops a simultaneous-equation system to sort out the effect of different variables on the size of social budgets (2000). Not surprisingly, the relative importance of these variables varies over time. One of the most important explanatory variables in the pre-1930 period was the extension of the franchise. How extensively, and to whom the franchise was extended had a central impact on early developments of spending in the West. National income, population age, and decentralization of fiscal authority were also important variables. In the post-WWII period, Lindert finds that the franchise variable is far less important (almost universally extended at that point), and that two central determinants are population age and the social affinities felt by middle-income voters.<sup>10</sup>

Lindert's social affinity variable is proxied by ethnic homogeneity and distance of the middle class from the bottom income ranks in a society. He found evidence that ethnic homogeneity was related to a broader social contract, but little convincing results (partially due to lack of data) along the income based middle class measurement. Lindert relying on limited data, also tests the effect of income distribution and skewed-ness on social spending in the period 1960-1980 (2000). Using data from 14 Western countries, he creates an upper and lower income gap (top/middle quintile and middle/bottom quintile) and proxies income distribution by the sum of the log of these two, and income skewed-ness by the difference of their logs. He finds that initial income inequality significantly reduces government spending." We return to this point in part three.

It is very important here to note the differences in both level of government spending and development of the social contract within the Western world that occurred during this period. These distinctions have become even more important and contentious since 1980, as the debate over inflated governments and out-of-control public spending has intensified. Behind the across-the-board increases in public spending and changes in attitudes, there were clear and obvious distinctions developing during this period between European, Scandinavian, and Anglo-Saxon models of the social contract. Esping-Andersen details the three models—naming them "welfare-market dualism" as in the U.S., Canada, and Australia; "corporatist welfare statism" as in Western Europe; and "social democratic tradition" as in Scandinavian countries (2000).<sup>12</sup> By 1960, there was already considerable divergence in the size and scope of government involvement in social programs. European governments, most notably Germany and Austria, had already expanded the size of their government sponsored programs. In 1960, the three models (European, Scandinavian, and Anglo-Saxon) governments were spending 12.7%, 10.3%, and 8.2% of GDP respectively on social transfers. In the period, 1960-1980, the extent of the growth in government also varied across regions. While the increase in government social transfers was only 67% in European countries, the Scandinavian countries saw a 137% increase, and the Anglo-Saxon countries an 85% increase. In 1980, social transfers were 21.2, 24.4, and 15.1% of GDP respectively.

The varying levels of success of the different models of the Western social contract have led to a generally accepted belief in the welfare-retarding effects of excessive state spending on social transfers, although the determination of what is "excessive" is still the central debate of social policy in most Western nations. Yet in the period since 1980, which has been marked by a clear ideological about-face, spending on social transfers has not decreased, only grown more slowly.

*Part Two: Philosophical and Ideological Origins of the Social Contract*

The basic concept of the social contract—government provision of public goods to provide a universal minimum level of benefit to its citizens—is not a new one. Its origins can be traced back to early philosophical notions in both Plato's *Republic* and Hobbes' *Leviathan*, of a contract between individuals to create collective justice to supercede individual natural injustice.<sup>13</sup> Early notions of a 'contract' were distinct from, but nonetheless important precursors to, conceptions of political equality and later equality of opportunity that spawned the modern concept of a contract between individuals and their governments.

During the Protestant Reformation, social groups, most predominately the church, began to push principles of tolerance and justice on the state. Theologian Archdeacon Paley was one of the first to use rational analysis to conclude that there was no grounds for preferring the happiness of one individual, even one's self, over another (Paley 1985). Therefore, government, representing its citizens, should do everything in its power to promote equality. Philosophers of the time caught onto this idea. In 1762, Rousseau published *The Social Contract*, articulating that the fundamental societal agreement, "the pact," must reside on the pillars of equality and liberty. While Rousseau's 'equality' was political in nature, the outcome was similar to Paley's.<sup>14</sup> Locke addressed the social contract in the context of the Aristotelian notion of man's natural inequality, and advocated a 'social government' as a realistic modifier. Regardless of where these thinkers derived their ideas—from the state of nature, will of god, or rational choice—they all highlighted a government role on the issue of equality (an idea new to the realm of political philosophy).

Despite these early advocates who championed a contract to promote political and social equality, the concept of state responsibility for some basic economic equality—the provision of universal services—remained an idea on the fringes, trumped by the prevailing ideology of self reliance and individualism. *Laizzez faire* economic policy dominated, and the role of the state in the 17th and 18th century remained limited to the maintenance of a military (physical protection) and enforcement and protection of property rights. The English "Poor Laws," beginning in 1601, were one of the few examples of minimal state intervention on behalf of the poor.<sup>15</sup> Similar laws were adopted in the American colonies, Canada and Ireland.

The mainstream view supported by classical economic thinkers of the time (Smith, Ricardo and John Stuart Mill) was in favor of minimal state intervention, opting for the equilibrium of unfettered market forces. There was a widely held perception that state intervention to redistribute through

taxation was costly and inefficient, eroding work and savings incentives, and shrinking the total output of the economy (Lindert 2000). The Malthusian connection between charity, population growth and poverty reinforced this idea, and helped convince European governments to avoid the redistribution question altogether (Maddison 1984). Notions of a social contract were given a back seat to the dominance of this *laissez faire* economic policy.

As a result, by the mid-19th century, the governments of the U.S. and Europe did not have a social contract with their citizens - there was no expectation that the government *should be* providing social goods and protections. Thus, spending on social programs was minimal.

The advent of Marxian economic thought in the mid-to-late 19th century, as well as successive rounds of international recession, began to erode the *laissez faire* consensus. While Marx never advocated a capitalist social contract, his conception of a proletariat revolution had a profound impact on economic thinking of the time. As well, in 1883, Adolph Wagner introduced a theory of public spending that has come to be known as "Wagner's Law" that expenditure would increase in linear fashion with rising GDP. Maddison notes that at the time, Wagner's contention was not based on any rational historical evidence—there was no discernible increase in government spending in the 1800s despite economic growth in the West—but nonetheless had an important effect on economic thinking, especially in Germany (1985). Social democracy began to take shape across Europe, heralding moderate economic socialism, albeit through a parliamentary system, and rediscovering ideas of earlier thinkers on the efficacy of an enlarged role for the government in the provision of goods and the promotion of equality. The rationale, in this period, was that workers required the social resources of first education and health and later welfare and pensions, to be efficient and productive members of society."

The most influential factor in mainstreaming the social contract into accepted economic ideology came with the advent of Keynesianism. Writing in the 1920s, Keynes argued "we must aim to separate those services which are 'technically social' from those which are 'technically individual,'" and urged that "progress lies in the growth and the recognition of semi-autonomous bodies within the state—bodies whose criterion of action within their own field is solely the public good as they understand it, and from whose deliberations motives of private advantage are excluded" (Keynes 1926)." His General Theory provided a model for counter-cyclical deficit spending that allowed governments and economists to look at public goods in a new light (1936).<sup>15</sup> Keynes ideas coincided with a period where the public—after WWI and the depression—was losing faith in the 'ways of the market' championed by the *laissez faire* thinkers of the 19th century.

As a result of changing economic attitudes a number of countries,

notably the U.S., pioneered legislation to provide individuals protection from the vagaries of the market, and a common base from which to begin. FDR's New Deal legislation embodied this Keynesian style social contract.

The post-WWII period was marked by an ideological consensus on the role of government in the provision of a social contract. In a period of relative affluence, obsessions with balanced budgets went out the window. Economic theory was dominated by the study of growth theory and the business cycle." A number of economic concepts—of public goods, externalities, merit goods, natural monopolies, multipliers—were developed and solidified in a state-market framework and applied to the questions of government role and optimal government size (Tanzi 2001). This work was pioneered by American and European economists, and, although different in their character, support for both the American and European-style theories of the social contract blossomed. This transformation was led by works like Galbraith's *The Affluent Society*, where he argued that increases in private spending necessarily had to be complemented by increased provision of public goods. Extolling the externalities of public expenditure, Galbraith called for a broad social contract. "An affluent society," he stated, "that is both compassionate and rational, would, no doubt, secure to all who needed it the minimum income essential for decency and comfort...it would also help insure that poverty was not self-perpetuating" (Galbraith 1958). Bertrand Jouvenel, championing redistribution and social democracy had a broad influence on policy with his idea that, "the state, as one of its major functions should shift wealth from its richer to its poorer members" (Jouvenel 1952).

The social contract was not only embraced but enacted in the West, and governments grew to sizes previously deemed unwise or even impossible. Writing in 1960, Seymour Martin Lipset describes dismay after attending a conference with 150 western intellectuals from across the political spectrum only to find that there was little to no debate or quarrel—all had accepted the welfare state.<sup>20</sup> Maddison refers to a wide body of literature in 1960 claiming that the welfare state had created social harmony in the West seemingly antithetical to Marx's premonitions, and had produced a "middle-class continuum in which the ruling class had been dismantled and the working class had acquired bourgeois status and aspirations" (1984).

As the social contract expanded, the democratic class struggle and the working class were quieted. Aided by stable families and a dynamic economy, trade unions nurtured worker protection and previously privileged income security was enjoyed by a larger share of the population. America had become "middle class," Europe had become the "affluent" society. It was an era of pluralism, the "end of ideology" and a triumph for the middle class. In reality, class distinctions did not disappear, as nations still faced varying levels of inequality, yet class distinctions became blurred in part as a result of

the expanded social contract, and conflicts subsided.

The social and ideological harmony described during this period faded in the 1970s, as civil conflict and a failure to attack poverty became evident in a number of western countries. The turmoil in the international financial system beginning in 1973 and continuing through the 1970s increased skepticism of the expanded social contract's ability to cure society's ills. The period from 1980-present has been marked by realization that the welfare state is an imperfect institution that may, in fact, exacerbate the exact goals it hopes to remedy. Failure to effectively redistribute, and other tradeoff effects stemming from its existence have led policymakers to question its effectiveness. More recent policy debates have increasingly cast the social contract as a zero-sum game, and sought to find a balance between full employment and social insurance.

Yet as noted earlier, public spending has not decreased since 1980. In the democratic tradition, it seems that many policymakers have found that it is far more difficult to decrease than increase public spending.<sup>21</sup>

### *Part Three: The Role of the Middle Class*

*"The best political community is formed by citizens of the middle class, and those states are likely to be well administered, in which the middle class is large..."*

*Aristotle, Political Man*

The ideological transition described above helped to shape the growth of the Western social contract, but it was more than ideology that fundamentally altered the composition of public spending in the 20th century. The precipitous rise in public spending in every Western nation was the result of conscious political choices in each country to expand the role of the state to provide universal services and a safety net for its citizens. This part explores the hypothesis that income distribution and the social affinities of a growing 'middle class' are factors that help explain these political choices, especially in the period 1960-1980.

Both political voter models and income distribution theory suggest that the extension of the Western social contract may have been middle-class driven. More traditional mean/median voter theoretical models asserting that more unequal societies will tend to redistribute more have been largely put to rest in the face of historical evidence (Meltzer 1981; Alesina and Rodrik 1994). More recent models, offer a theoretical framework to explain how more unequal industrial democracies tend to redistribute less, not more (Benabou 2000; Lindert 1996). These newer models incorporate the well-documented direct relationship between income/education and political participation/influence. This relationship is substantiated by evidence on voting patterns and patterns of political participation in Western democracies after

the extension of the franchise.<sup>22</sup> The decision to vote or participate in the political process is a cost-benefit calculation that each individual must make (extension of the franchise alone does not give all citizens equal incentive to participate in the political process). Individuals with less income or education, or individuals that are discriminated against, have less incentive to participate.<sup>23</sup>

Measuring the size and political influence of the middle class is fraught with difficulty. Criteria for measurement vary from material well-being (income or wealth) to occupational status (profession or educational attainment) to political and social status (degree of participation or subjective assessments of one's lot in life).<sup>24</sup> The data presented here are meant to be suggestive, not exhaustive, and the analysis is explicitly simplistic and suggestive of potential additional work in this line of inquiry. I rely here on a trend to which others have pointed: that during the post-war period, the class structure of western societies changed, producing an enlarged middle class and a more affluent and secure working class (Lipset 1981). There was a shift in the sectoral and occupational make-up of the workforce in the West in the 1960s and 1970s, referred to by Esping-Andersen as an "era of unfolding post-industrial employment," characterized by a rise in services and a declining importance of traditional industrial employment (1993).

I ran a simple OLS regression where social transfers (percent of GNP) is estimated as a function of the size of the middle class, level of electoral participation, inequality, and national income. The data is a pooled set of 17 Western countries at three intervals 1960, 1970, and 1980 (51 observations). Because of data limitations, I do not use an income-based measure of the middle class, and instead use an educational attainment variable, measured as the share of the population that has completed "some secondary," "all secondary," or "some tertiary," education. This crude proxy for the "size" of the middle class over the period 1960-1980 captures the share of the adult (over 24) population that has achieved 10-14 years of schooling, leaving out those who have completed tertiary education, and those who have received less than partial secondary education. The 10-14 year segment is above the mean level of schooling in nearly every Western country, but it nonetheless captures the group traditionally referred to as "middle class" in an educational sense. Electoral participation is measured by the average voter turnout in the two elections preceding each social transfer benchmark (controlling for the presidential system in the U.S. and Switzerland).<sup>25</sup> Inequality is measured by the Gini coefficient (where data is available).

The results are presented in Table 1. The voter turnout variable is consistently significant and positive, accounting for a small portion of the increase in social spending during this period. A 5% increase in voter turnout (as was observed in the U.S. in the 1960s) is associated with a 1 to

1.5% increase in social transfers. The coefficient for the education-based middle class measurement is positive and initially significant, but the significance disappears when national income is added to the equation.<sup>26</sup> Inequality also seems to have a negative but not highly significant effect on social spending, a finding similar to that of Linden's (1996).

Table 3: Social Transfers as a % of GDP in 17 OECD Countries (1960-1980; 51 obs.)

Statistic	(1)	(2)	(3)	(4)
Const.	-2.3; (-.4)	3.1; (.33)	-7.7; (-.67)	-.85; (-6.0)
Average voter turnout (1 -lag)	.221; (3.2)	.29; (3.2)	.33; (3.6)	.35; (5.8)
Gini coefficient (35 obs.)		-.29*; (-1.9)		
Middle Education Strata			.09" (1.6)	
LPCGNP-			—	4.5; (6.5)

Note: t-statistics in parentheses; f significant at 0.05 confidence; \$ p-value = 0.07; tt p-value = 0.12

More work, and better data is needed to isolate the relationship, if any between the size and influence of the middle class on the unprecedented increase in social spending during this period. Nonetheless, anecdotal and non-scientific evidence does suggest that during this period of relative prosperity, the middle class was the pioneering force behind securing previously scarce income security for large masses of the population. Dahrendorf described this middle class during this period as follows: "The broad middle class has a mitigating position... they advocate universalistic equality in the educational and other aspects of the status-allocating mechanisms, and they often uphold the extension of the welfare state" (1964). Dahrendorf goes on to identify the "enormous expansion of the white collar 'service class'...and even more significantly the infusion of the values characteristic of this class into the behavior of all others, including even the ruling groups" (1964).

Just as the growing middle class had a profound impact on the broadening of the social contract, the broadening had important feedback effects on Western class structures. For the first time, the world was introduced to a welfare state client class, and a new production and reward system that was removed from markets forces. This period has been labeled a period of "democratic class struggle," and was also a reaction to changing notions of equality. In the early 20th century, equality was associated with Marxist notions of socialism, and dualism in society (Benjamin Disraeli's "two nations" and the French "la question sociale"). The post-War world began to embrace a new notion of equality that was individual-based. No longer focused on the collective notions of socialism, the equality of the Keynesian world embraced equality as a matter of individual mobility chances.

Voter participation reached all-time highs during this period, and since has been on the decline. Likewise union membership actually increased in a number of countries between 1960-1980 (notably not in the U.S.), before declining after 1980 (Lange 1997). Because participation elasticities are highest for the poor, this increased civic activity is likely to have meant more participation by lower income voters. Perhaps just as importantly, this period was also an exception in the U.S. and other Western countries, when public confidence in government was at an all-time high. Rosenstone and Hansen explain that in the U.S., the uniquely high voter turnout in the 1960s can be explained more than half by attitudes toward government efficacy (1993). Confidence in government peaked at previously unheard of levels in 1964. These positive attitudes, and high levels of participation, are likely to have positively influenced the extension of government financed social transfers.

### Conclusion

The appropriate nature and extent of the social contract in the West and in the developing world will continue to be a debated topic well into the future. But it is clear that over the past half-century, the Western social contract has provided citizens with some essential protections against business cycle shocks and the vicissitudes of an impersonal market economy that have not been available to those in developing countries.

This paper has highlighted a number of points that bear importance when thinking about the future of social protection both for Western countries and for developing countries that are now positioned at similar national income levels to those of the Western world in countries were almost a half-century ago. First, spending by governments on social contract programs increases non-linearly, in fits and starts concurrent with evolving ideological and political affinities. Second, one of the largest periods of expansion happened recently, in the period 1960-1980, and it was in this period that the modern social contract was universalized and firmly solidified. Third, there is a strong correlation between social spending and national income, but this correlation seems the most significant when countries have per capita national income between \$4,500 and \$15,000. It unlikely to assume that today's developing countries will institutionalize a universal social contract at income levels well below this threshold. Fourth, the most recent expansion in the Western social contract is ill-explained by traditional theories of income and suffrage, and it is likely that an ideologically oriented and politically participatory middle class was a significant factor affecting the political dynamic that induced governments to increase social spending. Once implemented, these social programs have proved extremely politically

resilient despite changing ideological preferences and increased skepticism surrounding the benefits of social welfare programs.

### Notes

1. As the Asian Crisis demonstrated, the absence of an effective social contract is an issue of immediate importance for the developing world. And it is becoming even more important. In the next twenty-five years, 99.5 per cent of the growth in the world's labor force will take place in the middle to low income countries. By 2025, 33 per cent of the world's workers will be in Southeast Asia, 21 per cent in south Asia, and 15 per cent in Sub-Saharan Africa. In these regions and in Latin America, citizens enjoy few benefits of government-provided health, unemployment, or retirement insurance that are provided under the Western social contract.
2. Lindert offers the most comprehensive assessment of the limited data on poor relief spending pre-1880 (1998). He highlights important differences across the European continent, and identifies ideological and franchise-related factors that seem to explain these differences. Still, the overall level of spending on these early programs did not exceed 2% of GNP for any European country at any point, and, with the exception of the Netherlands, the programs covered less than 5% of countries' populations.
3. For a breakdown of expenditure on education, see Tanzi and Schuknecht: Table II.5. Education was taken out of the political realm of social transfer programs in the 19th century, and is not included in the analysis of 'social transfers' in the paper (2000).
4. There were still disparities in attitudes about supporting the undeserving poor, and these disparities affected the development of the social contract in the U.S. vis-a-vis Europe (Graham 2001). These disparities have become more pronounced in the 1990s.
5. In the U.S., for example, the increase in total government spending from 10.1% of GDP in 1929 to 22.5% in 1950 was due to military and wartime spending, and social spending did not increase during this period (Maddison 65).
6. For example, in pensions, a category of public spending that is highly sensitive to demographic changes, they cite Holzmann (1988) to explain that in the period 1960-1985 expanded eligibility requirements and higher real benefits explain 75% of the increase in spending on pension programs while population aging explains less than 20%.
7. Lindert's data set is for social transfers, which includes spending on healthcare, unemployment compensation, housing subsidies, and pensions. Maddison for GNP per capita.
8. It is worth noting a few developing countries that have made substantial progress in establishing safety net programs and broadening them into the beginnings of a social contract at lower levels of GDP per capita. Among these outliers are Chile, Costa Rica, Sri Lanka, and the Indian state of Kerala. See Graham for an analysis of safety net programs in poor countries and information on the Chilean case (1996). See Fields for more on Sri Lanka and Kerala (2001).
9. Most of these analyses focus on the differences between Western countries. "Broad social policy differences between rich and poor nations" are well explained by the generalized income relationship identified above (Pieresson 148).
10. Population age here must be qualified, because it is not a demographic phenomenon affecting pension budgets, but that an older population seemed to prefer "higher social spending of all kinds."
11. For specific information on his income distribution tests, see his Table 2 (1996).
12. Despite these differences, Esping-Andersen identifies a common element across the West during the period 1960-1980: "the consolidation of the welfare states after WWII came to depend fundamentally on the political alliances of the new middle classes." (Esping-Andersen 31). More on this in part three.

- 13 The concept of a social contract between individuals is most notably embodied in modern times in the work of John Rawls and his theory of justice.
- 14 In *The Origin of Inequality*, Rousseau rejected inequality within a society as a natural state, and harshly criticized the social institutions in France that had handicapped and taxed the poor at the rich's benefit. His solution spoke to the idea of universalistic government intervention to ensure equality and support for the poor, "...This is enough to determine what we ought to think of the kind of inequality that prevails in all civilized nations, because it is obviously contrary to the law of nature...for a handful of people to wallow in luxury while the starving multitude lacks the necessities of life." (Rousseau, qtd. in Blair 201).
15. One of the oft-cited first examples of the extension of the social contract were the English "Poor Laws" to provide a minimal protection to the country's lower class. In 1601, the Elizabethan Poor Law was adopted, based on earlier legislation from the 16th century, making relief for the poor compulsory, through taxes administered at the parish level. This law dictated England's treatment of the poor for the next two centuries. The law obliged the parishes to provide assistance to unprotected children and the elderly, and provide employment for those fit to work but not skilled in a trade. The aim of the 1601 poor law was not, however, completely altruistic. Two of the central goals were suppressing begging and moving the poor and idle into work houses to put them to good use. These work houses became notorious for their hellacious working conditions and terrible treatment of workers.
16. Bismark's Germany was the first to act on this new trend, instituting a national health insurance plan in 1883. This was followed by an occupational injury provision in 1884 and a remedial pension system in 1889. In the period up until WWI other countries followed Germany's lead. In 1909, Lloyd George instituted the first progressive tax scheme, which marked an important step on the financing side.
17. The cause was also helped substantially by government's ability to sustain and continue to bring in the increased revenues necessitated by WWI.
18. Keynes also stressed, in his general theory, the importance of ideas as drivers of human economic behavior. His comments seemed to foretell the enormous impact that his and others' ideas would have on the economic behavior of states in the coming decades. This paper shares the belief in the importance of ideas in the evolution of economic phenomenon.
19. Gallatotti notes that this work was made possible by proliferation in the availability of macroeconomic statistics (2000).
20. Lipset describes this event in his personal postscript entitled "The End of Ideology?" (1960).
21. Pierson argues that the politics of welfare state retrenchment are fundamentally different from welfare state expansion, and offers a new model to explain retrenchment (or lack thereof) in Western countries over the past two decades (1996).
22. Wolfinger and Rosenstone, in a detailed analysis of the U.S. electorate in the 1970s, found that education level was the strongest determinant on likelihood to vote (1980). Their analysis led them to the conclusion that "[V]oters are not a microcosm of the entire body of citizens but a distorted sample that exaggerates the size of some groups and minimizes that of others" (108).
23. Piketty argues that individual incentive to participate in politics (especially involving redistribution) is closely connected with subjective assessments of social mobility (1995).
24. One recent attempt to measure a middle 'strata' in a cross-country analysis is that of Birdsall, Graham, and Pettinato (2000). They identify the middle strata as the size and income shares of the households around the median income (75-125%) for a set of developing countries in the 1990s. Their middle strata is by no means representative of a 'middle class' in the Western sense, as this middle group has low income and educational attain-

ment, but the technique has a number of advantages. Unfortunately, detailed household survey data is not available for the period under examination in this paper, and so I rely on a measure that attempts to use educational attainment to measure a more subjectively assumed measure of the middle class.

25. Voter turnout is lagged and averaged because there is a delay in electoral outcomes translating to political action which affects government spending. The peaking turnout levels in the mid-1960s, therefore are associated with increases in spending in the 1970s, despite an apparent shift in public sentiment during this period. The data comes from the International Institute for Democracy and Electoral Assistance project (Pintor 76).
26. There is a colinearity problem between these two variables which is not easily reconcilable due to data limitations.

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