31. The political economy of social protection adoption

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31.1 INTRODUCTION

Over the past two decades, social protection has become an integral part of antipoverty policy strategies in the Global South, signalling a major shift in development thinking, moving away from traditional food aid and fuel and commodity subsidies towards more reliable and predictable forms of targeted interventions. Growing evidence showing generally positive impacts of social protection programmes has supported the adoption and expansion of these policies (Baird et al. 2013; Barrientos and Niño-Zarazúa 2010; Bastagli et al. 2019; Hillier-Brown et al. 2019; Kabeer and Waddington 2015; Lagarde et al. 2007; Malerba and Niño-Zarazúa Forthcoming; Owusu-Addo and Cross 2014).

Social protection includes distinctive policy strategies within social insurance and social assistance, and labour market regulations.[1] In this chapter, we focus on social assistance (which we refer to hereafter as social transfers), as they represent the most important changes to social protection policies in recent times (see Chapter 2). Conditional cash transfers (CCTs) such as Brazil's Bolsa Familia and Mexico's Progresa-Oportunidades-Prospera; social pensions such as South Africa's Old-Age Pension and India's Indira Gandhi National Old-Age Pension Scheme; pure cash transfers such as China's (Urban and Rural) DiBao and South Africa's Child Support Grant; and public works such as Ethiopia's Productive Safety Net Program and India's National Rural Employment Guarantee Scheme are prominent examples of this wave of social protection in the Global South.[2]

Social transfers have expanded rapidly, from no more than 80 programmes in 2000 to about 180 programmes currently operating in 130 low- and middle-income countries (LICs and MICs), reaching over 800 million people (Niño-Zarazúa 2019). These programmes have emerged in contexts where social insurance schemes remain truncated (see Chapter 3) partly due to the persistence of informality (see Chapter 22) and the dominance of subsistence agriculture.[3] The pace by which social transfers have expanded, as well as the types of programmes that have been adopted, vary substantially across countries.

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[1] Social insurance includes contributory schemes designed to protect workers against life-course and work-related contingencies (see Chapter 3). Labour market regulations are legal frameworks aimed at ensuring minimum standards for employment and safeguarding workers' rights (see Chapter 4). Social transfer schemes include tax-financed, and also donor-funded, policy instruments designed to address poverty and vulnerability (see Chapter 2) (ILO 2001).

[2] For a typology of social transfers, see Barrientos and Niño-Zarazúa (2010); Niño-Zarazúa (2019); or Chapters 1 and 2 in this handbook.

[3] Informal employment represents about 80–90 per cent of total non-agriculture employment in low- and lower middle-income countries, and about 35–60 per cent in upper middle-income countries. Similarly, employment in agriculture, measured as a percentage of total employment, remains above

Prior to the recent expansion of social transfers, many countries in the Global South witnessed a process of gradual democratization – the third wave of democratization in Huntington's (1993) terminology – which began in the mid-1970s and 1980s in Latin America and was expanded to Sub-Saharan Africa in the 1990s, following the fall of the Iron Curtain and the subsequent end of the Cold War. In Latin America, for instance, several countries moved from military dictatorships (e.g. Bolivia, Chile, Argentina, Brazil, Paraguay, Uruguay) and authoritarian regimes (e.g. Mexico) towards more competitive electoral systems (Mainwaring and Pérez-Liñán 2013). In Sub-Saharan Africa, the number of electoral democracies has quadrupled since the 1990s, although the region remains dominated by electoral autocracies controlled by privileged elites (Carter 2016; Kroeger 2020).

The rise of democracy coincided with a series of market-oriented economic reforms, following the Washington Consensus, which aimed to open economies to international capital markets (Puig 2000). The failure of structural adjustment programmes (SAPs), and the financial crises that followed in many countries in Asia, Latin America and Africa, placed the issue of economic hardship at the centre of political debates (Teichman 2008). By the early 2000s, several countries had introduced poverty reduction strategies under the auspices of the World Bank and the International Monetary Fund, to address the debt crisis and the failure of SAPs (Stiglitz 2002).

While the fight against poverty has been a valid justification for the adoption of social protection (UNDP 2016), there may be other political economy factors underpinning its expansion. For one, under imperfect competitive electoral systems, incumbents may have strong incentives to expand social transfers because of the incumbency advantage that these policies can generate to them. The poverty focus of social transfers, many of which involve the distribution of cash, can also open the door for clientelistic tactics to which the poor are more likely to respond (Dixit and Londregan 1996). Given the scale and magnitude of poverty across LICs and MICs, social transfers could become a politically profitable form of redistribution, favoured by the elites with strong ties to governing parties.

The strength of democratic institutions and the socio-economic conditions that prevail in those countries, as well as regional policy diffusion effects from international organizations, can play a fundamental role in influencing the design features of social transfers and their level of adoption and institutionalization.

In this chapter, we provide a brief overview of the political economy literature of social protection adoption, paying attention to two interrelated questions: (1) why do governments engage in redistribution efforts in the first place? (2) What political, and socio-economic factors underpin the adoption of social protection programmes in LICs and MICs? In a second step, we address the second question empirically, by focusing on key determinants of social protection adoption in LICs and MICs.[4] To implement the empirical analysis, we take advantage of the longitudinal features of a new dataset, The Social Assistance, Politics and Institutions database, which provides a synthesis of longitudinal and comparable information on social transfer programmes covering the period 2000–15 (UNU-WIDER 2018).

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60 per cent in low-income countries and about 40 and 20 per cent in lower middle-income and upper middle-income countries, respectively (see Chapter 22 and World Bank 2019).

[4] To our knowledge, the study by Dodlova et al. (2017) is the only other analysis that examines the effect of democratization on the *probability* of social transfer adoption.

Overall, we find evidence indicating that past democratization has had a positive and significant effect on the current expansion of social transfers in LICs and MICs. Electoral democracies have favoured the expansion of CCTs and social pensions, whereas autocracies and infant electoral democracies seem to favour pure cash transfers and public works, which are, *on average*, smaller in scale and more prone to political clientelism. We also find that the size and level of economic development, demographic characteristics and state capabilities, both in terms of bureaucratic quality and revenue collection capacity, matter in the adoption of social transfers to scale.

The remainder of the chapter is organized as follows. Section 31.2 presents an overview of the political economy literature of social protection. Section 31.3 discusses the data and methods used in the empirical analysis, while Section 31.4 presents the results. Finally, Section 31.5 concludes with some reflections on the policy implications of our findings.

31.2 LITERATURE REVIEW

A considerably large literature has focused on the origins and drivers of welfare institutions both in high-income countries (Barr 1992; Esping-Andersen 1990) and in LICs and MICs (Besley and Persson 2011; Wood and Gough 2006). Analytically, scholarly work on the political economy of social protection can be divided into two general branches. The first branch focuses on the question of why governments engage in redistribution efforts in the first place. The second branch focuses on the determinants of social protection adoption.

The first branch of the literature emphasizes the role of the median voter in influencing redistribution, particularly in the context of high levels of inequality. The seminal paper by Meltzer and Richard (1981) argues that redistribution occurs when the median voter has an income level that is below the mean of the societal distribution. The size of the lump-sum tax and welfare benefits is such that it balances the disincentive to work and the benefit received for the median voter. Thus, politicians proposing higher taxes and greater redistribution in majoritarian electoral systems would have the support of the median voter. The greater the distance between the mean income and the income of the median voter, the greater inequality, the greater the tax rate. Additions to such view include the idea that preferences over taxation also depend on expected income mobility (Benabou and Ok 2001).

Within this strand of the literature, a competing interpretation emphasizes that in autocracies and imperfect competitive electoral systems dominated by elites, the effect of the median voter on redistribution would be contained by the power of politically cohesive elites with strong ties to incumbents, and systems of patronage and clientelism (Acemoglu et al. 2011).

Under the 'elite capture theory', the preferences of the median voter are overshadowed by those of privileged actors in society who shape policy processes (Bardhan and Mookherjee 2000). Thus, high inequality is expected to lead to less, not more redistribution. In these political economy models, the size of the poor population matters, as the disenfranchised poor could threaten the elites with revolution, leading to democratization and a subsequent redistribution. This transition would, however, evolve up to a limit, due to the structure of the economy and a constrained progressive taxation (Acemoglu and Robinson 2001; Mejía and Posada 2007). In collapsed dictatorships and post-conflict states, the elites could make way to democratization in order to secure control of power, and allow for a subsequent redistribution to the poor at a marginal cost to the rich (Acemoglu and Robinson 2000).

Some studies emphasize the salience of racial and religious identities in influencing redistributive decisions. For instance, Alesina et al. (2001) show that a key element for the thinness of the United States redistribution system, as compared to Europe, is racial tension. A related argument explains why more homogenous United States cities spend more on public goods than heterogenous ones (Alesina et al. 1999). The ethnic diversity hypothesis remains an open question, with recent studies in Africa challenging its validity on empirical grounds (Gisselquist et al. 2016). Recent work by Enke (2020) looks at the balance between voters' universalist versus communal values and explains preferences towards redistribution.

A group of studies has dealt specifically with the *shape* of social protection adoption. In general, this literature is grounded on historic institutionalism; namely, on tracing the specificities of institutions back to the processes that created them (Fioretos et al. 2016). The most salient example is the pioneering categorization of the welfare state, in which Esping-Andersen (1990) proposed three archetypes shaped by the structural social and economic features in a society. Thelen (2014) and Pierson (1996) point out that the power equilibria between political and social actors, like labour unions, have modelled the evolution, advancement and retrenchments of social protection systems in Western societies.

31.2.1 The Role of External Actors

In the context of Sub-Saharan Africa, Niño-Zarazúa et al. (2012) highlight two dominant models of social protection adoption: one that reflects historical determinants of welfare institutions in MICs of Southern Africa, and another more diverse and incipient model that is driven by poverty-related considerations among LICs and MICs in East, Central and West Africa, which has been influenced by external actors.

The role of international organizations in social protection adoption has been particularly emphasized in the literature. For instance, Allen and Flynn (2018) observe that liberal donor governments tend to prime multilateral aid assistance, aimed at reducing poverty, while conservatives prefer bilateral channels to secure geopolitical goals. These findings are aligned with Faye and Niehaus (2012) in that during political years, ideologically aligned recipient governments get more bilateral aid. Cruz and Keefer (2015) found that World Bank public-sector reform loans are more successful the less clientelist the ruling party.

Borges Sugiyama (2011) finds strong effects of international actors in explaining the diffusion of CCTs in Latin America. These findings are supported by Schmitt et al. (2015) who also find evidence of regional diffusion effects as well as positive impacts of membership in the International Labour Organization, when examining the role of social security legislation in the expansion of social transfers.

International policy transfer and policy diffusion have in fact been the subject of a growing number of studies. For example, Brooks (2007) emphasizes that while policy diffusion matters in the adoption of social transfers, it is the political and financial costs of adoption, together with the level of economic development of countries, that underpin the shape and adoption of these programmes.

Casey and McKinnon (2009) argue the power of ideas and actors should be weighed against the underlying socio-economic, demographic and political environments that prevail when assessing the expansion of social pensions in Southern Africa. In similar vein, but looking at policy diffusion effects of pension reforms in Latin America, Weyland (2005) finds that domestic policy makers have significant power in deciding policy reforms; these decisions are largely driven by utilitarian goals rather than normative concerns or desires to gain international respect.

Hickey et al. (2019) also argue that characteristics of the social protection enlargement in Eastern and Southern Africa are the result of negotiations between domestic political forces rather than external actors. In particular, electoral democracies by themselves seemed no better at aiding the expansion of the social transfers but competition and free press seem crucial. Similarly, Koehler and Chopra (2014) distinguish different models of developmental welfare state in South Asia and identify 'triggers' for social protection adoption, including competitive elections, peace processes and organized civil society movements.

31.2.2 Poverty Targeting

Poverty targeting has been a cross-cutting issue in the political economy literature of social protection adoption. Besides the welfare-enhancing effects that these programmes often seek to generate, there are concerns about the incumbency advantage that the programmes can generate to opportunistic incumbents (Acemoglu and Robinson 2012; Knutsen and Rasmussen 2017). Indeed, incumbents have strong incentives to target the poor, whose electoral preferences are likely to be more easily influenced by small economic incentives than the median voter, due to the diminishing marginal utility of clientelistic rewards (Dixit and Londregan 1996; Robinson and Verdier 2013).

The literature of clientelism has long emphasized the strong association between clientelistic regimes and poverty (Bardhan et al. 2010; Díaz-Cayeros and Magaloni 2009; Remmer 2007; Wantchekon 2003). In the particular case of social transfer schemes, a scarce literature highlights the presence of strategic choices that help incumbents maximize the electoral returns on transfer programmes, even under programmatic principles (Filipovich et al. 2018).

The level of state capacity and the tax structure are expected to influence the design of social transfers,[5] as well as demographic characteristics that shape the voting population and normative views on fairness (Hickey et al. 2019). In the context of Latin America, there is a growing literature addressing the emergence and adoption of social transfers, especially CCTs. De La O (2015), for example, has shown that the strength of the opposition affects the room for directionality in the design of CCTs, which further explains its efficiency in tackling poverty. Similarly, Garay (2016) identifies that electoral competition for the support of political outsiders, as well as their mobilizations, explain the expansion of different versions of social transfers adopted in Latin America. A common thread to these studies is the relevance of electoral competition and pressure for political leaders for programmatic policy.

Brooks (2015) notes that the probability of scaling up CCTs in Latin America increased with the presence of divided governments, regardless of the political orientation of the ruling coalition. Looking specifically at retirement schemes, Schmitt (2020) has observed that democratic consolidation in LICs and MICs enhances non-contributory programmes, which tend to be more inclusive. Leisering (2018) examined the level of entitlements of social transfer programmes and found that the level of benefits was limited in general, although with a significant variation across types of programmes and countries.

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[5] Natural resource rents can be critical here, as they can exacerbate the incumbency advantage, and consequently influence the way policy choices are designed (Addison et al. Forthcoming; Konrad 2002; Robinson et al. 2006).

Dodlova et al. (2017) look at the effect of political regimes on the *probability* of adopting conditional or unconditional cash transfer programmes. They find that unconditional cash transfers are more likely to be adopted in less democratic regimes while more democratic regimes are more prone to introduce CCTs.

The evidence base remains limited due to at least two important constraints. First, previous analyses rely on cross-sectional data, which limits the possibility of accounting for time trends in impact estimates. Second, all previous studies, with the exception of Dodlova et al.'s (2017), have failed to account for the endogeneity of democracy. Democratic institutions could support the expansion of social transfers as much as social transfers could influence democratization via, for example, social policy contestation or human capital formation in the longer term.[6] In the next section, we present the data and methods used in this study to address these constraints.

31.3 DATA AND METHODS

Since social transfers have expanded gradually over the past 15 years, we observe a left-censored normal distribution of social transfer coverage, measured in thousands of beneficiaries. Furthermore, we suspect the level of democratization to be endogenously correlated with the gradual expansion of social transfer coverage. The use of Ordinary Least Squares would under these conditions yield biased and inconsistent estimates. Therefore, we follow Newey (1987) and implement a Tobit model with a continuous endogenous regressor. This instrumental variable approach takes the following form:

$$C_{it}^{*} = \beta X_{it-1} + \delta D_{it-1} + \lambda_t + u_{it}, 1 = 1,...,n,\ t = 1,...,T \tag{1}$$

$$D_{it-1} = X_{it-1} + \gamma z_{it-1} + \lambda_t + \upsilon_{it}, \tag{2}$$

where C measures coverage (in thousands of beneficiaries) of social transfer programmes in country i and time t; D measures the endogenous level of democracy; X is a vector of covariates expected to influence the expansion of social transfers across our sample of countries, whereas λ is a vector of time dummies capturing universal time trends. We note that $C_{it} = C_{it}^{*}$ if $C_{it}^{*} > 0$ and $C_{it} = 0$ if $C_{it}^{*} <= 0.$, where the error terms, u_{it} and υ_{it}, follow a left-censored at zero distribution, $N(0, \sigma_{u|\upsilon}^{2})$. Finally, z is a vector of instrumental variables that are expected to be correlated with D but not with C.

Our variable of interest, D, as well as the controls in vector X, are lagged one period to take into account the fact that coverage decisions are influenced by previous political, economic and demographic conditions, as highlighted by political economy models of redistribution. The endogenous variable D is measured by the Electoral Democracy Index from Varieties of Democracy (V-Dem), which captures the extent to which the ideal of electoral democracy is

6 Since the seminal work by Lipset (1959), theories of democracy have highlighted the role of education in advancing democracy. For empirical analyses, see Barro (1999) and Przeworski et al. (2000).

achieved (V-Dem 2020). The controls in X include: (1) the gross domestic product (GDP) per capita adjusted by purchasing power parity at prices of 2017, both in linear and quadric form to capture the concavities in the relationship between economic development and expansion of social transfers; and (2) total population, the percentage of the urban population and the proportion of the population aged zero to four years and 65 years and older to capture demographic characteristics that are likely to influence the type of social transfer programmes adopted by political regimes.[7]

We also include in X the under-five child mortality rates to proxy for the effect of material deprivation that is expected to influence the expansion of social transfers.[8] We employ child mortality rates due to the significant informational gaps in our sample regarding poverty headcount rates, and because of the high correlations between child mortality and income poverty (Haile and Niño-Zarazúa 2018).[9]

As indicators for institutional quality, we use the bureaucratic quality index from the International Country Risk Guide, which ranges from 1 to 4 and which measures the soundness of institutions and the quality of the civil service. We also include information on direct taxes (taxes on income, profits and capital gains, payroll, property and social contributions) and indirect taxes (taxes on goods and services, on international trade and other taxes) from the Government Revenue Database (UNU-WIDER 2019) and total natural resource rents (the sum rents from oil, natural gas coal, minerals and forest), measured as a percentage of GDP, to measure the effect of redistributive fiscal capacity of countries on social transfer coverage.

Finally, we follow Persson and Tabellini (2009) and introduce two versions of foreign democratic capital as our instrumental variables for democracy. The first indicator measures the lagged average score of the V-Dem electoral democracy index in neighbouring countries. The second instrument measures the lagged proportion of neighbouring countries that are classified as electoral democracies following the method proposed by Lührmann et al. (2018). The identification is achieved upon the exclusion restriction that the strength of past democracies in neighbouring countries has no association with the contemporaneous expansion of social transfers in country i. We formally test the validity of this assumption by computing the Wald test of exogeneity. The results, which are presented at the bottom of Table 31.1, show that there is sufficient information in the model to reject the null of no endogeneity, confirming the consistency of our results. In the next section, we discuss the results in more detail.

31.4 RESULTS

We start the discussion by looking at the effect of our measure of interest, democracy, on the expansion of social transfers. Columns (1–2) in Table 31.1 present the results for the

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7 The indicators in (1) and (2) come from the World Development Indicators (World Bank 2019).

8 Child mortality rates are estimated by the United Nations Inter-Agency Group for Child Mortality Estimation, constituted by UNICEF, World Health Organization, World Bank and United Nations Department of Economic and Social Affairs Population Division, and were extracted from the World Development Indicators (World Bank 2019).

9 The Pearson correlation (r) coefficient, which measures a linear dependence between under-five child mortality rates and the poverty headcount ratio at USD 1.90 a day (2011 purchasing power parity) in the period 2009–15, was in the order of 0.99 for East Asia and the Pacific, 0.92 for Latin America, 0.96 for South Asia and 0.96 for Sub-Saharan Africa.

full sample of LICs and MICs using different definitions of foreign democratic capital as instrumental variable. Columns (3–5) present the results for Asia, Latin America and Africa, whereas columns (6–9) present the results by type of social transfer programme. Note that the dependent variable as well as all controls, including the index of electoral democracy, enter the equations in log form to facilitate the interpretation.

The results suggest that the level of past democratization has had a positive and significant effect on the current *expansion* social transfers across LICs and MICs. Since coverage is measured in logs of thousands of beneficiaries and the log of V-Dem's electoral democracy index runs from zero to 10, the size of the elasticities is large. One percentage increase in the electoral democracy index leads to a 13–14 percentage increase in coverage. The results remain statistically significant and of a greater scale when looking at the point estimates for world regions. The coefficient of electoral democracy for Asia is negative, although the results are largely driven by China which has some of the largest social transfer programmes in LICs and MICs despite being a close autocracy. Once we exclude China from the sample, the coefficient for democracy turned positive.

Interestingly, we observe a variation in the direction of the impact of democracy when we divide the sample by type of programme. Countries with stronger democratic institutions have, on average, expanded CCTs and social pensions more actively, whereas less democratic regimes have favoured pure cash transfers and public works. This is true even after controlling for the non-linear effects of economic development and the level of material deprivation, which are captured by the coefficients of GDP per capita and child mortality rates.

Our results are relevant as the level of formal institutionalization of CCTs and social pension – in terms of the legal frameworks under which these programmes operate, the formal budgetary arrangements and accountability measures – tend to be much stronger than in the case of pure cash transfers and public works, which are more prone to government discretion and depend more on foreign aid for their implementation and financing. Indeed, this is particularly true in the context of LICs in Africa, where family and orphan allowances and public works have been the most common type of programmes adopted by governments, although at a relatively low scale, with a few notable exceptions (Hickey et al. 2019).

The size of the population matters as well as the proportion of the urban population. Regimes in large and more urbanized populations have more actively engaged in the expansion of social transfer programmes across LICs and MICs: one percentage increase in total and urban population leads to an average increase of 2 to 3 per cent in social transfer coverage. While the direction of population effects seems consistent with our priors across world regions (with the exception of Asia, due to the presence of China), it is interesting to find that regimes that have favoured pure cash transfers are, on average, less urbanized and poorer. This could naturally reflect the less stringent administrative structures and systems that these programmes require for their implementation vis-à-vis CCTs and social pensions; however, the results hold even after controlling for the quality of government measured by the strength of the bureaucracy.

While weak institutionalization in the provision of social transfers can indeed facilitate clientelistic forms of pro-poor redistribution and offer a double-dividend to political elites because of the reasons discussed in Section 3, we cannot entirely rule out the possibility of opportunistic regimes in more competitive democratic systems enjoying an incumbency advantage via tactical redistribution, as has been reported from Latin America (De La O 2013; Filipovich et al. 2018; Lazar 2004; Luccisano and Macdonald 2012) and Asia (Curato 2017; Hadiz 2016; Jaffrelot and Tillin 2017; Thompson 2016; Wyatt 2013), where large social trans-

Table 31.1 *The impact of democratization on the expansion of social transfers in LICs and MICs*

	Global South		Asia	Latin America	Africa	Conditional cash transfers	Pure cash transfers	Social pensions	Public works
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Electoral democracy	12.524[(c)]	14.162[(c)]	–77.487[(b)]	36.905[(c)]	44.565[(b)]	37.584[(c)]	–26.861[(c)]	69.012[(c)]	–59.851[(b)]
	(2.713)	(2.241)	(30.367)	(8.255)	(22.134)	(5.760)	(4.524)	(19.918)	(26.720)
Child mortality rates	2.256[(c)]	2.025[(c)]	26.324[(c)]	–9.602[(c)]	–30.010[(a)]	–9.344[(c)]	14.583[(c)]	4.017	26.373[(c)]
	(0.740)	(0.726)	(8.128)	(2.686)	(16.480)	(1.489)	(2.082)	(2.989)	(5.435)
GDP per capita	5.440[(c)]	5.451[(c)]	3.872	–5.172[(a)]	–4.800	0.033	2.028	4.434	2.960
	(0.762)	(0.745)	(7.397)	(2.956)	(3.061)	(1.361)	(1.796)	(3.336)	(4.869)
GDP per capita^2	–2.728[(c)]	–2.876[(c)]	–1.203	0.218	2.024[(b)]	–3.468[(c)]	0.909	–6.740[(c)]	7.095[(c)]
	(0.297)	(0.291)	(1.962)	(1.041)	(0.825)	(0.534)	(0.660)	(1.673)	(2.611)
Population	2.221[(c)]	2.254[(c)]	–4.377[(b)]	3.519[(c)]	3.699[(c)]	2.960[(c)]	–0.080	2.085[(c)]	4.625[(c)]
	(0.174)	(0.174)	(1.882)	(0.587)	(1.019)	(0.370)	(0.416)	(0.677)	(1.305)
% urban population	2.582[(c)]	2.651[(c)]	–4.357	–12.893[(b)]	10.645[(a)]	6.246[(c)]	–4.539[(a)]	9.525[(b)]	0.552
	(0.984)	(0.968)	(13.230)	(5.336)	(5.826)	(1.863)	(2.374)	(4.338)	(6.874)
Dependency ratio	–6.674[(c)]	–7.865[(c)]	50.427	8.973[(c)]	4.533	–12.427[(c)]	2.562	–53.076[(c)]	14.584
(65 years+)	(1.929)	(1.741)	(34.117)	(2.889)	(9.646)	(3.788)	(4.818)	(18.037)	(21.788)
Dependency ratio	–10.508[(c)]	–12.027[(c)]	43.560	20.383[(c)]	27.672	–5.026	–9.308	–82.327[(c)]	26.341
(0–4 years)	(2.806)	(2.451)	(30.211)	(7.534)	(17.834)	(5.537)	(6.185)	(25.628)	(31.784)
Natural resource rents	0.268[(a)]	0.322[(a)]	0.304	16.053[(c)]	0.341[(a)]	5.800[(a)]	1.172[(c)]	2.269[(c)]	1.565[(a)]
	(0.207)	(0.187)	(0.186)	(5.144)	(0.446)	(3.041)	(0.413)	(0.474)	(0.824)
Quality of government	2.933[(c)]	2.996[(c)]	2.979[(c)]	60.826[(b)]	–9.810[(b)]	4.779[(a)]	–1.556	7.925[(c)]	2.014
	(0.985)	(0.987)	(0.985)	(25.341)	(3.868)	(2.663)	(1.789)	(2.662)	(3.818)
Indirect taxes	1.943[(b)]	1.511[(a)]	1.608[(a)]	–9.721	1.738[(a)]	4.357[(c)]	4.474(b)	6.843[(c)]	–2.358
	(0.932)	(0.876)	(0.872)	(8.447)	(2.092)	(1.578)	(1.766)	(1.776)	(3.326)
Direct taxes	–5.058[(c)]	–5.470[(c)]	–5.353[(c)]	–17.750[(a)]	0.458	–6.288	–8.023[(c)]	–4.431[(c)]	–18.173[(c)]
	(0.804)	(0.733)	(0.727)	(9.747)	(1.119)	(5.429)	(1.626)	(1.614)	(4.603)

	Global South		Asia	Latin America	Africa	Conditional cash transfers	Pure cash transfers	Social pensions	Public works
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Constant	42.365[b]	54.578[c]	–364.295[b]	–9.611	–33.176	100.452[c]	–46.003	478.836[c]	–339.322
	(19.210)	(16.594)	(177.835)	(31.014)	(36.257)	(37.988)	(38.282)	(163.695)	(210.986)
Observations	4,284	4,284	1,288	1,020	1,660	1,071	888	888	888
Wald test	6.26[b]	15.28[c]	9.65[c]	4.42[b]	5.48[b]	31.08[c]	49.98[c]	56.22[c]	11.29[c]

Notes: Dependent variable: coverage measured as the logarithm of number of beneficiaries in thousands of people. Equation in column (1) uses the average score of the electoral democracy index in neighbouring countries as instrument. Equation in column (2) uses the proportion of neighbouring countries that are classified as electoral democracies as the instrumental variable. Columns (3–4) and (8–9) use the proportion of neighbouring countries that are classified as electoral democracies as the instrumental variable for democracy, whereas in columns (5–7) the model uses the average score of the electoral democracy index in neighbouring countries as instrument. Standard errors in parentheses (c) <0.01, (b) <0.05, (a) $p<0.1$.
Source: Authors' investigations.

fer programmes are generally embedded into legislation and institutional programming. Yet, our results clearly indicate that the absence of checks and balances in less democratic systems – possibly together with normative views on welfare dependency and the 'deserving poor' – have influenced incumbents' preferences for certain types of social transfer redistribution.[10]

Clearly social transfer programmes have generated their own political constituency, but their survival can depend not only on the voting behaviour and size of the poor population, but also on the tax burden elites and the median voter are willing to take to finance these programmes. Indeed, political economy models of redistribution predict elites would favour 'light' taxation, whereby direct taxes are contained while indirect taxes and natural resource rents are prioritized to minimize the electoral cost of redistribution (Dalgaard and Hansen 2013; Robinson et al. 2006; Ross 1999).

The results in Table 31.1 seem to support our priors in this respect, as the coefficient of direct taxes is large and negative for all our specifications, indicating a negative elasticity of social transfer expansion, relative to taxes on income and wealth, which have proportionally a greater tax burden on elites and the median voter. In contrast, the coefficients of indirect taxes and natural resource rents are for most specifications positive and statistically significant. In fact, since the 2000s, LICs and MICs experienced increases in revenues from value-added tax and natural resource rents, driven by favourable macroeconomic conditions and high international commodity prices (Teichman 2008).[11] The fiscal space that was generated from these revenue sources was critical for the expansion of social transfer programmes from the early 2000s up to the aftermath of the 2008–2009 global financial crisis.

Resource taxes appear to have allowed incumbents to bypass the interdependent preference problem, insofar as levying taxes on the elite is not *sine qua non* for pro-poor redistribution (Currie and Gahvari 2008). Thus, while resource rents have contributed to the expansion of social transfers, as our results indicate, this has occurred at the cost of delaying more progressive tax reforms that are necessary for the long-term sustainability of social transfer schemes. In addition, value-added tax continues to be the preferred tax modality in LICs and MICs despite its regressive nature. This is not entirely surprising, as the elites often have control of large portions of the formal economy, which is the only sector eligible to claim tax credits, relative to the informal economy (Bird 2014). All these political economy considerations are critical to understand the future viability of social transfer schemes in LICs and MICs.

31.5 CONCLUSION

In this chapter, we have tested empirically the role of democracy in the recent expansion of social transfers in LICs and MICs. Political economy models of redistribution predict that elites have strong incentives to target the poor who are susceptible to respond to clientelistic

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[10] See for example Lavers (2019) for the case of Rwanda's Vision 2020 Umurenge Programme.

[11] It is worth noting that during the 1980s and early 1990s, LICs and MICs began to replace trade tariffs with consumption taxes – especially value-added tax – as part of the trade liberation process (Tanzi 1990). This is evident in the evolution and large contribution of indirect taxes across LICs and MICs, which ranges from an average of 13 per cent of GDP in East Asia and Latin America to about 10 per cent in South Asia and Sub-Saharan Africa. In contrast, direct taxes have remained low (about 10 per cent of GDP) relative to the levels observed in Europe (20 per cent) and North America (25 per cent).

economic incentives. Democratic institutions can in that respect prevent the exploitation of social transfers as a political tool, through legislation, programmatic rules and checks and balances.

Our results strongly indicate that past democratization has had a positive and significant effect on the current expansion of social transfers in LICs and MICs. Electoral democracies have favoured the expansion of CCTs and social pensions, whereas autocracies and infant electoral democracies seem to favour pure cash transfers and public works, which are smaller in scale and are more prone to political clientelism.[12] Our findings also show that consumption taxes, and natural resource rents in particular, have contributed to the expansion of social transfers over the past two decades, although at the cost of delaying tax reforms that are necessary to guarantee the survival of social transfer schemes. The current tax structure has also exposed net resource-exporting countries to the vagaries of commodity markets and reduced the fiscal space that these countries enjoyed just a decade ago.

The policy implications of our findings are threefold: first, a strong technical approach to the formulation of social transfers is clearly desirable to maximize the poverty-reducing and welfare-enhancing effects of these programmes. However, a narrow focus on technical considerations can miss out wider implications of certain policy choices, especially in contexts characterized by electoral autocratic regimes. Second, state capabilities matter for an effective distribution of welfare benefit schemes. However, without strong institutional settings and effective checks and balances, pro-poor redistribution can be subject to the capture of opportunistic clientelistic regimes. Third, any effort to expand social protection systems without parallel reforms to tax systems risks the long-term sustainability of transfer programmes. However, attempts to introduce more progressive forms of taxation would be destined to fail without a good understanding of the strength and upfront position of elites. More rigorous quantitative analyses are needed to better understand the specificities of relevant country cases.

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[12] Weak electoral democracy.

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