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Rediscovering Social Investment in Developmental Welfare State Policies: Back to the Future

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The recent stress on the productive potential of social policy provides a new economic rationale for social policy provision. However, it is a mistaken perception that the majority of social policies need to be radically adjusted to changes in the economic and social order. Rather, this paper argues that we need to better understand the ways in which long-standing policies have enabled and continue to facilitate adaptation to ongoing social and economic changes. To fail to do so risks severing or otherwise upsetting vital social policy synergies. The paper is based on a dissertation that developed a conceptual framework for thinking about social policies in the welfare state that may be both protective and productive; that is, that reduce posttax/transfer poverty without decreasing pretax/transfer (market) earnings. Observing that some countries with expensive social policies appear to be able to achieve high poverty reduction without adverse effects on economic performance, the study argued that theoretical explanations for this pattern are lacking. Applying social developmentalist ideas to the welfare state literature, it argued that the severity of the tradeoff between efficiency and equality may vary by the types and combinations of social policies that countries employ. The study offered a theoretical explanation for how and why different types of conventional social policy that occur across welfare states might be expected to produce outcomes that are simultaneously protective and productive. This paper describes the logic underlying the effects of what the author defines as developmental welfare state policies (DWSPs).

Key words: *Social investment, social development, social policy, welfare states, poverty.*

Background and Overview

Research has begun to examine the effect of a range of welfare state policies on alternative concepts of well-being and measures of poverty. However, a review of the literature suggests that there remains a need for a theoretically coherent framework to develop systematic expectations about how different aspects of welfare state effort interact and relate to various outcomes, including, *but not limited to* those associated with income distribution. The dissertation on which this paper is based aimed to make several conceptual contributions. First, it synthesized the relevant literature and argued for a new perspective and research direction. Second, it clarified a perspective that supported alternative hypotheses—about the *positive* economic implications of social policy—than those offered by mainstream economic theory, based on an older political economic tradition that is largely distinct from Keynesianism and that I believe informs developmentalist ideas.¹ Third, it identified broad characteristics associated with developmental welfare state policies (DWSPs) and developed predictions about the way they interact and impact both poverty and labor market activity. Fourth, it bridged the welfare state and developmentalist literatures with the intent of

¹ Keynesianism became the guiding theoretical framework for understanding the role and impact of social policy, and its association with passive, countercyclical, demand-side policies has obscured the simultaneous investment function of these same policies, a point raised long ago by Garrett (1998). See Johnson (2010), especially p. 27, footnote 24 and p. 72, footnote 63) for further discussion.

increasing the policy relevance of the former and refining the disparate nature of the latter. Finally, it aimed to support future research by developing a principle-based theoretical framework that is flexible enough to accommodate additional developmentalist policy dimensions beyond those that I associated with the social investment function of the welfare state in my analysis.²

While touching on several of these areas, my focus in this paper is primarily on summarizing the third conceptual contribution of the dissertation. This paper will attempt to demonstrate how it is possible to reconceptualize developmentalism, currently a loose collection of ideas, and apply it to thinking predictively about comparative social policy (CPS), and especially policy that is simultaneously protective and productive. Additionally, I will briefly summarize the tentative empirical findings from the dissertation, which were based on a relatively simplistic test of whether the policies that I believe reflect developmentalist principles are in fact associated with lower poverty posttax/transfer as well as market poverty.

The history of the welfare state, and its study, has been marked by a series of transitions from one phase to another. Regardless of the periodization one applies, this pattern of sequential or generational thinking is discernible. The most recent and ongoing stage arguably began with the EU slogan of social protection as a productive factor and marches on under the banner of social investment, among related labels (Morel, Palier, & Palme, 2012). Unlike developing world welfare states, the progress of whose social policy systems has oscillated—expanding and contracting with economic exigencies such as procyclical pressures in Latin America (Kim, 2010) or changing authoritarian political priorities as in the case of China (Lin, 2010)—the fate of welfare states in developed nations has been more evolutionary, continuous and cumulative, where path dependency tends to prevail. Study of the welfare state has been driven by the historical circumstances confronting it. The need to *justify* the welfare state marks a stark challenge to the slow moving theoretical world of regime typologies and path dependency. Much of this legacy of gradualism is owed to the fact that the welfare state emerged through complex and successive social and political processes rather than resulting from planning (Arts & Gelissen, 2002).

Amenta (2003) offers a compelling explanation for the historical progress and possible problem now confronting the field: “the literature on social policy has advanced as far as it has partly because there was relative agreement on what was to be explained, while there was disagreement over the possible explanations” (p. 114). In this context, the continued focus on normative issues of redistribution and inequality and reliance on measures of effort (that lack conceptual coherence), highlights the limitations of using old theoretical and empirical tools to address pressing new problems. The problems now confronting the welfare state are not addressed by the two major questions on which, according to Esping-Andersen (2004), welfare comparisons have focused: (1) What explains national differences in welfare effort and welfare state type? and (2) What are the distributional consequences of social policy variations? The central theoretical question is no longer about *why* welfare states emerged and persisted but rather *what* they produce; specifically, in terms of the productive consequences of distribution. The promise of recent scholarship is hampered by the absence of a coherent conceptual framework for developing predictions about social policies that are simultaneously protective and productive.

² The term *function* is used here in order to recognize that much of the investment impact of the welfare state may be implicit or unintended and therefore in need of discovery and explanation.

One possible consequence of not resolving the ambiguity surrounding the social investment function of welfare states is that we may see the social investment approach as a new and discontinuous paradigm where one mistakenly identifies specific or discrete social policies as singularly productive, fostering their instrumentalization as either active or passive. Such a disembedded approach overlooks the need to explain why the social policies of some countries *have worked* as successfully as they have for as long as they have. It is only by working out a political economic explanation for the social investment function of welfare states that social investment can be understood as fundamentally more than a new approach or pallid Third Way version of social policy (Esping-Andersen, 2002). There is a distinct need to move beyond acknowledging the *possibility* of market failures and vague calls for government intervention and return to affirmative engagement with both the productive possibilities of traditional social policy and the inherent limits of the market.³

Arguably there have been three generations of crossnational welfare state research but the progress of an emerging fourth generation (as I define it below) is constrained by a lack of theoretical guidance. Ongoing research continues to remain focused on the *protective* effects of social policy (in terms of outcomes related to poverty and inequality), which restrains the field's ability to explain the—often unintended—*productive* or social investment function of social policies. I will suggest below that much of this inability can be traced to the fact that little dialogue has historically occurred across the division of labor between poverty research and welfare state research (De Janvry & Kanbur, 2006).⁴ While the discourse pointing toward the *potentially* productive effects of social policy has been growing, it remains programmatically impressionistic and vague, offering little theoretical guidance for thinking predictively about social policies (not simply those that are new but especially those that are old).

This ambiguity in the social investment debate has been linked to “the welfare regime inspiration” and confusion about “ensuing policy choices” (Antonucci, 2010, pp. 2, 1). I argue both that scholars have to relinquish their dependence on the regime typology approach and that the largest share of social investment is already being undertaken by particular types of *traditional* (or old) social policies, which I define below as DWSPs.⁵ Regardless, Antonucci and others are correct to caution that until social investment is theoretically clarified as an empirical concept it is difficult (in addition to being unwise and risky) to use it as a basis for suggesting policy changes. Social investment remains plagued by theoretical ambiguity both in terms of what it means and how it translates into social

³ The prevailing, largely ambiguous economic position on the role of government can be thought of as the second-best position (Lipsey, 2007) that has subsumed older theoretical traditions that preceded much formal economic theory. This notion will be discussed briefly below. See Johnson (2010) for more detailed discussion.

⁴ As Cantillon, Van Mechelen, and Van den Bosch (2004) explain: “Less is known about the links between welfare state arrangements and outcomes than about each of these separately. An important reason for the relative lack of studies on this issue is that studies of welfare arrangements and of well-being outcomes employ different data, very much different analytical methods, and therefore tend to be carried out by persons with little contact with one another” (p. 6).

⁵ Typologies tend to achieve generalizability by, to some degree, neglecting policy details. Arts and Gelissen (2002, p. 139) write: “typologies are only fruitful to an empirical science that is still in its infancy.” They continue: “a better formulation of the theory on which it [the welfare state typology] is based deserves priority. Only then can predictions be logically—instead of impressionistically—deduced from theory (p. 155).” Regime modeling has focused on what welfare states are in the context of why they emerged, expanded and persisted. The why questions pursued by researchers (Baldwin, 1996) have arguably been based on a narrow theoretical foundation (Boje, 1996) suited to a particular historical context. Reliance on functional and sociopolitical theoretical frameworks (Van Voorhis, 1998, 2002) has resulted in a focus on explaining independence from the family or market, redistributive effects, citizen attitudes, and the like. I argue that something different is needed: a developmental rationale for social benefits.

policy. For instance, it does not explicitly tell us when universalism or in-kind benefits make sense (i.e., under what circumstances or conditions such social policies may be a precondition or prerequisite for economic growth). Morel et al. (2012, p. 17) correctly trace this ambiguity in part to pragmatic judgments about discourse:

In some ways, one could argue that just as the Myrdals had used some of the Conservatives' concerns with low fertility and slow growth to argue their case for an expansion of social policy in Sweden, so have social investment proponents framed their arguments in ways that can respond to neoliberals' critique of social spending as wasteful and a source of dependency in order to get their ideas across. However that might be, this may in fact be one of the social investment perspective's weakest points as it allows for much ambiguity and tensions in the goals actually assigned to the policies implemented in its name. (p. 17)

Tensions and ambiguities also stem from differing intellectual roots and political influences. Morel et al. note that "while the social investment perspective rests on a number of common themes both at the ideational level and in terms of the policy instruments put forward, different aspects are given different emphasis by different thinkers and policy makers" (p. 17). The result is that "the social investment perspective...covers under the same umbrella a 'social democratic' approach, inspired by the example of the Nordic welfare states, and a 'Third Way' approach which represents an 'Anglo-liberal' view of social policy" (p. 19) (see also Jenson, 2009, pp. 41–42, Liddle in the same volume). This paper reflects an effort to further delineate the policy logic of the former by more clearly distinguishing its political economic roots, fusing the insights of developmentalist and welfare state thinking in order to reach a broader understanding of the productive consequences of social policy. Situating social investment in a larger intellectual tradition makes it possible to begin to resolve this ambiguity and to derive a set of insights (and perhaps eventually, systematized rules) about when and why certain social policies should yield protective-productive outcomes, offering guidance on how we think about social policies as social investments. For instance, in contrast to the neoliberal view and given certain assumptions, I offer an explanation for why a small number of broad or encompassing policy instruments may be optimal for maximizing protection *and* production in the long term.

The possibility that a potentially wide range of social protection measures can have productive economic consequences compels scholars to revisit a political economic tradition that allows for decisions about distribution to have net positive effects on production. This possibility, in turn, implies the occurrence of market failures on a comparatively extensive scale, which supports the provision of *merit goods* on the basis of wide-ranging information failures. In the standard economic view, market failures remain limited and second-best policy prescriptions tightly circumscribed by information limitations and the likelihood of economic distortions. Arguments for intervention due to limited market failure do not clearly indicate which types of social policies are likely to function as social investments (Greve, 2007) but rather are limited to those selective interventions that justify a residual welfare state. While the standard framework offers suggestions for human capital-enhancing initiatives directly related to education and activation, it has little to say about classic social insurance or generous universal and in-kind benefits. Adopting a social investment approach based on the standard view—rather than *supplementing* existing policies—could in reality portend the erosion of traditional social provision and its replacement by more circumscribed and narrowly targeted Third Way-style social policies. Avoiding this eventuality requires us to recognize the role of distribution in

production and clarify the types of social policies that constitute social investments, the characteristics of these policies, and the ways in which they interact.

The paper begins with a brief summary of some of the key limitations and theoretical challenges in the literature. Following this preliminary background, the remainder of the paper is organized as follows. First, I describe how developmentalist principles are synthesized from several literatures, most notably the various strands of social development thinking, and how they can be applied to a welfare state literature that has not adequately conceptualized how productive social policies may work. Second, I relate these principles to existing and widely comparable social policy categories that are common across the welfare state literature in order to transcend the constraints of regime thinking. Third, I explain why, in a political economic sense, DWSPs should be expected to work as they do, explicitly identifying the assumptions that would have to apply for protective-productive outcomes to result. This approach draws on the notion of abduction (or inference to the best explanation), which allows one to speculate about the sorts of mechanisms that can explain observed outcomes, and is especially valuable in cases where theory is underdeveloped, there is a need for new ideas, and there are surprising facts or observations to be explained (Minnameier, 2010). Finally, I briefly discuss some tentative findings and the need for further exploration. The purpose of this project is to support future research by developing a conceptual principle-based framework that is flexible enough to accommodate evolving hypotheses about additional dimensions of DWSPs.

Introduction to the Central Problem

The social investment perspective partly rests on a neoliberal interpretation of social policy and partly on a much older Nordic legacy of investment thinking reflected in the productivist ideas of Gunnar Myrdal from the 1930s that never coalesced into a programmatically defined policy paradigm outside (or even inside) of Sweden. Hence, there is considerable ambiguity about what exactly is meant by social investment (Leung, 2005). As Morel et al. (2012) note, while different terms and labels have been used to describe the productive turn in social policy—such as social development, the developmental welfare state, social investment state, enabling state and inclusive liberalism—all these analyses point toward a similar policy logic based on what can be labeled social investment. The social investment state, said to be about *modernizing* the welfare state in response to new economic realities and social risks, has been widely translated into the need for *fundamentally new* social policies. There is a tendency to focus on the “productive *potential* of social policy” in having to respond to “a radically changed economic and social order,” and to assume that they are not productively oriented at present (Morel et al., 2012, p. 8).

What has been given short shrift is how traditional welfare state policies relate to these new conditions. This paper offers a conceptual explanation for the developmental or productive effects of more extensive social investments (based on a reappraisal of several traditional social policies), recognizing that the social investment approach is not an entirely new paradigm but rather that welfare states have served an investment function for some time. The neoliberal view of social policy as a cost fundamentally overestimates the successful operation of the free market. The challenge for the social investment perspective is to explicitly reconstruct the rationale for old forms of social policy (largely *preparing* in nature), as much as to offer rationales for new forms of social policy (largely *repairing* in nature). In short, using social development ideas to decipher and theoretically recover the developmental aspects of social policy in the Global North using the policy

language or lexicon that prevails in the welfare state literature.⁶ What follows is an abbreviated intellectual chronology that begins with the desire to explain the bumblebee anomaly, attempts to account for our failure to do so, and explicates the need for a new perspective.

Conventional economic logic suggests that there is a tradeoff between efficiency and equality (Okun, 1975). Consistent with this perspective, some countries achieve high efficiency along with high poverty, while others attain low poverty at high economic cost. Yet some countries do not fit this pattern and are able to achieve very low levels of poverty with relatively high levels of economic efficiency. Why are Northern European countries in particular, analogous to the bumble bee that is able to fly when by conventional economic logic, it should not (Persson, 2000)?⁷ Generally, evidence for the negative impact of welfare states on economic performance is mixed and any productive benefits of social policy remain relatively poorly understood (Goul Andersen, 2007). As Korpi (2005) notes, “the fact that theoretically predicted negative effects of taxes and welfare states are very difficult to verify in areas where they are most likely to turn up and in which we also have empirically useful data should generate discussion on the theoretical foundations of these hypotheses” (p. 207). The problem, as Hagen and Sitter (2006) note, is that “the empirical evidence is used to refute the neoliberal recipe of how economic efficiency is (or should be) produced, without, however, being able to identify what mechanisms explain better what is observed” (p. 3).⁸ The case of the bumblebee, in which a static object is governed by different stability laws than a dynamic object, poses a challenge to theoretical oversimplifications that sometimes occur in economics (Lindert, 2004b). Explanations for anomalous outcomes have yet to be developed.

An integrative assessment and synthesis of the relevant literature reveals that (1) welfare states face a variety of pressures and dilemmas, (2) there is a long legacy of conceptual ambiguity surrounding the

⁶ Nordic researchers such as Kangas and Palme (2005) have begun to focus on the developmental aspect of social policy. In particular, they study how to bridge the divide between development studies and study of the welfare state and explore how social policy may facilitate economic development. However, these efforts have not explicitly revisited the social development literature or attempted to define developmentalism in the context of comparative welfare state research. Kangas and Palme (2005) is part of the UNRISD series, *Social Policy in a Development Context*, which examines the ways that social policy can be instrumental to economic development while maintaining its goal of social protection and equity. In a recent report by the Institute for Futures Studies (Morel, Palier, & Palme, 2009), the social investment paradigm is identified as the defining feature of the *new* welfare state and it suggests the need for *new* strategies for achieving equality with growth. In contrast, developmentalism—as I redefine it here—is concerned with the types of policies that Myrdal historically saw as investments in the population and as a complement to the social rights perspective (Lindh, 2009).

⁷ In remarks before the Social Democratic Extra Party Congress in Stockholm, 10–12 March 2000, likening the Swedish welfare state to a bumblebee, former Swedish Prime Minister Göran Persson, suggested that “with his altogether too heavy body and thin wings he should not be able to fly,” but he noted that “all the same he does.” According to 20th century folklore, the laws of aerodynamics prove that the bumble bee should be incapable of flight, as it does not have the capacity (in terms of wing size or beat per second) to achieve flight with the degree of wing loading necessary, and yet, not being aware of scientists proving it cannot fly, the bumblebee succeeds. John McMasters (1989) recounted an anecdote about an unnamed Swiss aerodynamicist at a dinner party who performed some rough calculations and concluded, presumably in jest, that according to the equations, bumblebees cannot fly. In later years, McMasters backed away from this origin, suggesting that there could be multiple sources, and that the earliest he has found was a reference in the 1934 French book *Le vol des insectes* by M. Magnan. Magnan is reported to have written that he and a M. Saint-Lague had applied the equations of air resistance to insects and found that their flight was impossible, but that “One shouldn’t be surprised that the results of the calculations don’t square with reality.” It is believed that the calculations that purported to show that bumblebees cannot fly are based upon a simplified linear treatment of oscillating aerofoils. The method underestimates the additional lift generated by the bumblebee’s wings that allow it to fly.

⁸ See Johnson (2010) for a more extensive discussion of the mixed economic evidence.

welfare state, (3) welfare state research has evolved over time in terms of the approach to effort and outcomes and in response to changing historical circumstances, (4) there are select research findings that underlie the possibility of simultaneously protective and productive social policy, and (5) there remain several metatheoretical concerns that have inhibited conceptual progress on understanding the potentially productive effects of social policy. While it not necessary to discuss points 1 and 2 in this paper, I will briefly discuss points 3, 4, and 5.

While it is impossible in this paper to delve into the various pressures facing welfare states or the definitional ambiguity referred to as the *dependent variable problem* using the metaphor of *generations* (Esping-Andersen, 1989, 1990; Mäkinen, 1999), it is possible to briefly classify major studies in the comparative welfare state literature. Following Kvist and Torfing (1996), the first generation can be characterized as focused on the emergence and growth of the welfare state, the second as describing dissimilarities between welfare states, and the third as emphasizing the welfare mix and focusing more explicitly on the outcomes of welfare states (Table 1). Among the innovations has been a move away from using crude public expenditure measures to describe welfare states' efforts toward typologies of welfare regimes, and from examining income-based measures of poverty and inequality as the main effects of welfare states toward a focus on broader notions of deprivation. However, while we know much about the effects of the welfare state on poverty rates, social rights and income inequality, advances beyond the third generation have been slowed by failing to fully consider how potentially productive outcomes of the welfare state are related to the level and type of welfare effort.

Table 1. The Generations of Welfare State Research

Generation	Central research focus
First	Indicators of industrialism, role of the state, and political power used to predict welfare state expansion based on aggregate social expenditure
Second	Challenges the validity of aggregate-expenditure measures in favor of structural and institutional features such as the policy or benefit design and delivery system; largely continues focus on welfare state expansion (or retrenchment) but also begins to examine poverty and inequality
Third	Explicit shift toward examining the results that the different regimes have produced in terms of poverty rates, social rights and income equality using both expenditure levels and eligibility rules; focus is on outcomes not welfare effort per se ⁹
Fourth?	Studies focus on a wide range of well-being related outcomes beyond economic well-being and that may have productive implications beyond distribution; it is not at all clear how the theoretical possibility of productive outcomes relates to the way that one thinks about the extensive array of categories of welfare state effort

Advances in scholarship have been driven by several factors, among them the changing conditions confronting the welfare state. During the rapid expansion of welfare state programs, scholarly

⁹ Among the increasingly pluralistic focus of this generation, particular attention has been paid to questions of inequality among specific groups (e.g., women) and the impact of gender on welfare benefits, labor market participation, earnings, and the like.

interest was focused on predictors of welfare state development. Over time, with the diffusion and elaboration of welfare state programs, understanding of the welfare state became more nuanced and refined, reflected in part in the movement toward typologies. Similarly, as the welfare state came to be seen as having varied forms, this raised scholarly interest in the types of policies (or regimes) most successful in reducing poverty. While there has been gradual progress in delineating or disaggregating aspects of welfare state effort and effects, the gap between what we know about its harmful versus beneficial aspects has not substantially narrowed. Current socioeconomic circumstances have led to fresh questions about whether different types of welfare state policies can have positive effects with minimal costs. I argue that a potential fourth generation of research *should be* denoted by explicitly analyzing productive outcomes alongside distributive ones. As such, I would suggest that a fourth generation has not yet coalesced. There is no coherent theoretical framework for rethinking welfare state effort in terms of its impact on outcomes beyond but associated with income poverty and inequality. In other words, there is no theoretical framework, beyond those that have guided welfare state research for decades, which informs thinking about the implications of poverty for economic development, systematically considering social protection as a productive factor, and exploring the possible economically beneficial impact of welfare state effort.¹⁰

While each generation of research is examined in greater detail in Johnson (2010), we can clearly discern and briefly state some central research findings. What do we know? In the broadest terms we know that social policy appears to have a positive effect on reducing poverty above and beyond macroeconomic conditions. There are wide crosscountry differences in the level and mixture of public and private expenditure. Similarly, there remains a diversity of outcomes across countries in terms of both poverty rates and economic performance. Select crossnational research findings show substantial differences in levels of market poverty and also show, despite relatively similar levels in welfare state spending, posttax/transfer poverty rates vary considerably; as noted above, only mixed evidence supports the notion of a uniform efficiency-equality tradeoff. It appears that what happens within social expenditure matters as much for reducing poverty and inequality as overall government spending. However, we do not know much about which policy combinations or clusters are particularly beneficial in avoiding poverty with minimal economic costs, and whether this is true across countries and their varied institutional contexts. Recognizing the link between variations within expenditure and diversity in economic and social performance across countries can aid understanding of whether and how the welfare state contributes to economic performance.

While we are beginning to understand the variety of potential effects of the welfare state, and to see some connections between welfare state effort and the varied effects, what is missing is a conceptual framework for thinking systematically about how welfare state effort and effects are related. We need to clarify which types of efforts should have which effects. Arguably, what is most problematic about existing approaches to thinking about the welfare state and what it produces, and hence why there is a need for a new perspective, can be summarized in terms of three metatheoretical concerns: 1) limitations of ways that welfare state effort has been measured; 2) limitations in the welfare state outcomes that have been examined, e.g., narrowness of outcomes and weak measurement; and 3) the consequences of thinking about welfare state arrangements and outcomes separately.

¹⁰ Research remains confined to distributional outcomes and does not explicitly deal with the productive implications of distribution or how the possibility of social protection as a productive factor might lead to more theoretically coherent or predictive thinking about a disparate array of measures of welfare state effort.

There have been a variety of approaches to measuring effort, from simple expenditure methods to regime classifications. However, simple expenditure approaches neither differentiate nor relate important types of expenditure, and regime categorizations are likely to miss important policy differences within a regime and may ignore policy similarities across regimes. Regime typologies tend to treat institutions as discrete and focus on distributional outcomes. Rather, I advocate a more nuanced approach to thinking about variations in policy metrics that are shared across countries (similar to Bradshaw's [2007] policy packages) (see also Hauser, 1993). Nearly all countries use both universal and means-tested benefits, and have some programs that are targeted to those with particular status. Although the elements are similar, the welfare state policy mix is potentially diverse and consequential for household-level poverty and economic activity. For instance, an intermediate approach may be to examine overall expenditures, the extent to which expenditures are limited to low-income families (versus universal), focused on cash (versus in-kind), and related to other types of policies consistent with developmentalist thought. With regard to welfare state effects, research needs to move beyond a sole focus on distributive effects to incorporate some simultaneous measure of productive effects. The key task is to discern developmentalist policy principles and translate them into the types of policies that most closely express these principles.

The central challenge is to reconsider how we think about *both*, effort (more coherently) and outcomes (more broadly), in order to effectively relate them. Specifically, welfare state effort *has not* been systematically reconsidered in light of the potential productive effects increasingly ascribed to social policy. Thinking about a broader set of outcomes compels a different approach to thinking about effort. The traditional emphasis on treating welfare state effort and effects separately has inhibited thinking about the links between policy and poverty that may help account for anomalous cases. The possibility that welfare states may do more than reduce income poverty suggests that the links between effort and outcomes should be considered not simply in the context of distribution (protection) but also productive efficiency; hence the need to return to political economy. Now that the possibility of productive outcomes is being discussed we can no longer think about effort in the same way as when poverty or inequality reduction was the sole anticipated effect of the welfare state. This forces us to reconsider dichotomies and think about synergies. To better understand this dynamic, it is necessary to consider policy as interactive and cumulative, rather than confining our thinking about effort strictly to regimes or specific and isolated policies entailing either a productive investment or passive consumption.¹¹

¹¹ Rather than viewing a particular country's (or group of countries') institutional features and policy characteristics as unique or focusing on a specific policy (as being either active or passive or to involve either investment or consumption), it may be important to account for possible policy interactions or synergistic effects. Policies interact and may have synergistic effects (Delamonica & Mehrotra, 2006; Mehrotra & Delamonica, 2006) resulting from what Myrdal (1954) referred to as a process of *cumulative causation* that involves increasing returns (e.g., Berger, 2008; Dykema, 1986; Streeten, 1990, 1998). Poverty-reducing strategies may entail interactions among policies. The impact of appropriately designed combinations may be greater than the sum of the individual parts (Kanbur & Squire, 2001; Mkandawire, 2001). As Nelson (2004) argues, if we refrain from analyzing how separate social transfers and benefits interact in the distributive process and produce certain outcomes, "we are likely to end up with misleading results and mistaken conclusions about the linkages between certain social policy structures and outcomes" (p. 386). This argument in part violates Tinbergen's (1952, 1956, 1958) analytic rule, where except under rare circumstances, a separate tool or instrument is needed to achieve individual economic objectives (i.e., two goals cannot be achieved effectively with the same policy tool). It argues that unless there are indications that the issues are linked, improvements in one area are unlikely to lead to improvements in other areas (e.g., increased rates of economic growth are unlikely to lead to broader income distribution, improved literacy, or better health in the absence of programs targeting these concerns). In contrast, this is precisely the point of Myrdal (1974, p. 730), who suggests that knowledge of the "coefficients of interrelation between

A reconceptualized notion of developmentalism can help to guide thinking about how existing social policies may be related to each other and how they may yield protective-productive outcomes. As I argue in the following section, a developmentalist framework can help us think about social policy effort in a more conceptually coherent way by helping to clarify the link between social and economic processes (Midgley, 1995). Developmentalism can help fuse the insights of research about welfare states and research on poverty in order to derive expectations about the possible protective and productive (or investment) impact of welfare state policies. It is possible to devise a set of developmentalist principles that point toward several existing types of social policy that are likely to function as DWSPs. The potential contribution of developmentalism centers on its ability to illuminate both the types of social policies that are compatible as well as their effects. In order to do so, I reconceptualize social development around the notion of welfare developmentalism, devise policy-relevant developmentalist principles and link them to DWSPs. I believe that the framework outlined below has the potential to assist emerging research to overcome its inability to empirically investigate the claims underlying the notion of social protection as a productive factor.

Reconceptualizing Social Development

In this section, I attempt to formulate a coherent notion of welfare developmentalism and developmentalist principles from disparate streams of developmentalist thought and related ideas. I introduce the developmentalist perspective as a way to better conceptualize the impact of specific social policies and the link between effort and productive effects. This section conceptually identifies welfare state policies that reflect a developmentalist perspective and proposes hypotheses about their interaction and effects. Given the larger political economic tradition that is often associated with crossnational research, I begin by noting the absence of a detailed social democratic political economy that explicitly links social and economic policy. Developmentalism is located in an older classical political economic tradition that recognizes these links and theoretically grounds attempts to think about the productive benefits of social policy. Next, I address the conceptual ambiguity in developmentalist thought by devising a coherent notion of inclusive developmentalism from which several broad policy-related principles and characteristics are inferred. Finally, I link a policy-relevant set of developmentalist principles to existing welfare state policies about which predictions—pertaining to both protective and productive outcomes—can be derived. In short, I will address why social development? What does it offer? What is it missing? And how can it be synthesized with other insights?

Absence of detailed social democratic political economy

Before delving a bit more deeply into what we mean by developmentalism, we should ask whether there are good alternative theoretical explanations for countries that do not fit an efficiency-equality tradeoff pattern. While there have been efforts at understanding the benefits of various welfare state policies, there does not appear to be a particularly coherent theoretical basis for these arguments (Gough 2001a, 2001b). One potential theoretical basis is Keynesian economics, but this tends to argue for any types of policies that provide more income to those who will spend it, where increased

all the conditions in the social system” is imprecise. Developmentalism suggests that it may not simply be the case that more separate instruments are needed but instead fewer and more adequate (i.e., comprehensive or institutional) policy instruments preferable, depending upon the economic assumptions one accepts about the optimal operation of the market. If it is true that coefficients of interrelation are imprecise, market failures are extensive, and it is misleading to dichotomize policies as singularly passive or activating, we can ask which policies are most likely to circumvent the second-best concerns of information limitations and economic disincentives.

demand results in beneficial macroeconomic consequences. A weakness of this view is that all types of redistribution that lead to more spending are seen as comparable; a related issue is that redistribution itself is only a means to more spending. One can also revisit classic philosophical discussions such as those offered by T. H. Marshall for guidance but these too are left wanting in terms of specific programmatic guidance (see Johnson, 2010, pp. 28–31; Johnson, 2014a).

An alternative perspective has been called *productivist*—a term originally used by Swedish policy makers (see Andersson, 2008; Esping-Andersen, 1992; Kuhnle, 2002) to refer to policies that focus on material needs, investment in human capabilities, and that promote participation in the economy (Midgley & Tang, 2001). In contrast to the Keynesian view, productivist policy implicitly views different types of redistribution as having different effects and it views redistribution not merely as a means to an end of more spending but as a precondition of growth (note, though, this is not yet particularly well-formulated). Esping-Andersen (1994, p. 713) writes: “the unique contribution of Swedish socialism was its idea of productivist social policy. Its leading theoreticians stood liberalism on its head, arguing that social policy and equality were necessary preconditions for economic efficiency, which, in turn, was a prerequisite for the democratic socialist society.”¹²

The productivist, preventive, investment-oriented and developmental aspects of welfare state policies (Atkinson, 1995a; Esping-Andersen, 2000a, b, 2002; Gough, 2001a) remain insufficiently understood. This is not to say that a preventive approach cannot be contrasted with a curative one; the latter is based on the “reparation of damages caused by the realization of social and economic risks” (Fouarge, 2003, p. 36). However, as I will discuss below, while the characteristics of such a preventive approach have been impressionistically associated with the so-called Nordic model (Korpi, 1980; Ryner, 2007), and while there have been attempts to empirically investigate whether and why Nordic countries achieve low poverty, there has been little systematic exposition of the theory that underlies these empirical investigations (Milner, 1989, 1994). Specifically, there has been little development of predictive hypotheses about particular types of policies and their interaction that would lead to low poverty across countries.

One potential candidate for generating predictive hypotheses about the particular policies responsible for these seemingly anomalous outcomes is the Third Way (Giddens, 1998, 2000, 2001). However, this perspective is deficient. The Third Way in part reflects an attempt to promote particular types of policies, broadly, those that attempt to promote both equality and efficiency, but was also in part devised as an electoral strategy (Ryner, 2010).¹³ More specifically, its key policy

¹² *Productivism* is sometimes defined as promoting economic productivity and growth as the sole purpose of human organization. For instance, Anthony Giddens (1994, p. 175) arguably mischaracterizes productivism as “an ethos in which ‘work,’ as paid employment, has been separated out in a clear-cut way from other domains of life.” This is not necessarily the case as in Scandinavia, where women appear to have been successful in combining their dual role as mothers and workers (Kangas & Palme, 2005). There is a significant difference between saying that economic productivity and growth is the purpose of human organization and life itself (which is exclusionary of social concerns) and that a great many social concerns have economic implications (which is inclusionary of social concerns). The question hinges in part on how broadly utility is defined. Refer to Andersson (2005) for discussion of the various uses of the term productivism. For an excellent and thorough discussion of what has been framed as the difference between productivism and developmentalism, refer to Lee (2007). The relationship of productivism to developmentalism is discussed further in Johnson (2010).

¹³ There is an unresolved debate about whether the Third Way is associated with T. H. Marshall and his emphasis on rights and responsibilities (Giddens, 1998; Smith, 1998) or whether Marshall is associated with *old* social democracy (Dwyer, 2004; Kessler-Harris & Vaudagna, 2009). I believe this stems from the ambiguity associated with social citizenship rights and its vague implications for the type and level of benefits.

principles have been described by Giddens (2007b) as: (1) hold the political center ground (avoid a class-based appeal), (2) ensure the economy is strong (i.e., social justice depends on a robust economy, not the other way around), (3) invest in public services while reforming them to increase competition and choice, (4) create a new contract between state and citizens based upon responsibilities as well as rights, and (5) do not allow any issues to be monopolized by the political right.¹⁴

The Third Way idea emerged in the UK where the focus was on demand-side Keynesianism and not social planning (Ryner, 2002; see also Bonoli and Powell 2002). The Third Way focus on “reconstructing the welfare state” (Giddens, 1998, p. 113) implies that social policy is not currently productive.¹⁵ Additionally, the Third Way tends to assume that policy has pursued excessive rights to the neglect of responsibilities. Developmentalism, as I define it, is less concerned with the balance between rights and responsibilities than with the types of social policies that promote growth¹⁶; it views benefits not as entirely unconditional or passive but as having investment- and supply-side implications (Lister, 2004; Ryner, 2002). In the Third way the market mechanism is not modified *ex ante* but rather welfare state measures are employed *ex post* (i.e., as a compensatory corrective) when people cannot manage to make ends meet (Ryner, 2002). The Third Way focus is on making unproductive individuals more productive; it reflects a focus on the individual poor as opposed to structure (Walters, 2000). Developmentalism, in contrast, is focused on both individual and structural limitations, and sees social policy as less a cost than a preventive investment.¹⁷ In

¹⁴ Anthony Giddens’ Third Way embodies one popular expression of the mentality that a new knowledge-based economy requires a new welfare state and a new set of social policies that emphasize responsibilities and activity over rights and passivity (Nikolai, 2009). It has been characterized as a coherent set of ideas and supply side policies (Green-Pedersen, van Kersbergen, & Hemerijck, 2001) and particular Third Way policies have been linked to tax policy, macroeconomic policy, reform of welfare state schemes, ALMP, flexible labor, and labor market participation (Blair-Schröder, 1999). The perceived need to modernize social democracy is based on the Eurosclerosis thesis, which presumes that old social democracy is no longer sustainable (Andersson, 2005; Ryner, 2002). The Third Way has some roots in aspects of social democracy (Ryner, 2002) but drew selectively on it (e.g., Andersson, 2009a, 2009b; Føllesdal, 2002; Mjøset, 1992, Tuomioja, 1998, 2003).

¹⁵ There is an extensive literature on the Third Way and how it differs from traditional or old social democracy (see Andersson, 2005, 2007, 2008, 2009a; Ryner, 2002, Whyman, 2003, 2005), but developmentalism, as I define it, has not been part of the debate. In general, I see developmentalism as having more in common with traditional or old social democracy (than the Third Way), though they differ in that developmentalism explicitly seeks to identify the types of policies that should have productive outcomes. There is no clear conception of social democratic political economy or precise view on the role of social policy in social democracy.

¹⁶ The Third Way is based on a communitarian contractual approach “where productive participation is seen as the basis of citizenship” (Andersson, 2005, p. 14) and it is possible to minimize the harmful societal effects of redistribution. Developmentalism suggests that equality (by maximizing the productive potential of all citizens) is a precondition for efficiency so that entitlements and rights can lead to productive participation (Fink et al., 2001; Lister, 2003) rather than being *contingent on participation*.

¹⁷ The idea of more extensive intervention in the economy is related to the concepts of *socioeconomic rationalization* (e.g., Andersson, 2005; Eyerman, 1985; Ryner, 2002) and the *integral welfare state* (e.g., Donnison, 1962; Mishra, 1984). Both reflect the attempt to devise a new and better organized society through orderly production and distribution as opposed to the “inefficiency of private capital and traditional class structure” (Eyerman, 1985, p. 786). Implied in the view that economic production and social reproduction is unified (Myrdal, 1932a, b) is the notion that the economic and social are largely indistinguishable (i.e., there is no separate social dimension). Though these policies evolved pragmatically, a deeper coherence that is dependent on the interaction of encompassing policies is implied. In contrast, the Third Way entails a more narrow focus on human capital in terms of education and lifelong learning, implying that it is possible to clearly distinguish between policies that reflect an investment or cost (Andersson, 2005). From this perspective, it is possible to pick and choose from a menu of options and implement whichever combinations seem most desirable (Kenworthy, 2004). However, this rests uneasily with the notion of institutional complementarities and synergistic policy

theorizing about how to steer the results of production, emphasizing the full utilization of resources, developmentalism suggests that it should be possible to identify and explain policies that lead to productivity (not just solidarity or security), prevent inefficiencies associated with poverty and reduce the costs of insecurity and social risk.

I argue that policy-level heterogeneity can be understood using a developmentalist-inspired theoretical framework and that it makes sense to search for developmentalist policy clusters as opposed to a productivist world (Holliday, 2000; Lee & Ku, 2007; Room, 2002), social investment state (Giddens, 1998; Lister, 2004), or single policies that are exclusively productivist (Hudson & Kühner, 2009). Social development may aid welfare state research in identifying and understanding how different policy dimensions of the welfare state interact. These perspectives are mutually beneficial. Crossnational comparative research lacks a theoretically coherent productive rationale for the welfare state while social development theory has not been fully integrated into social policy thinking in the developed world.¹⁸ The latter is in need of focus, refinement, and application while the former is in need of theoretical guidance and policy relevance. A social development-inspired (i.e., *developmentalist*) framework can offer a set of policy-relevant principles with which to (1) analyze existing policies in terms of rethinking dichotomies and (2) make predictions about the productive effects of existing social policies.

I situate what I refer to broadly as developmentalist policy in an older, classical political economic tradition that is partly distinct from standard economics (see Johnson, 2010, pp. 84–88). This older political economic tradition emphasizes the implausibility of thinking about distribution and production separately. This tradition reminds us that the welfare state should not simply be seen as a compensatory response to the social costs of 19th century capitalism, but also as a contributor to sustainable economic development and growth. Unfortunately, little effort has been exerted to consider social policy from the perspective of the classical political economic tradition. The most extensive attempts to understand the relationship between economic and social policy in the developed world, and contest the efficiency-equality tradeoff, have occurred in the Nordic context (see Johnson, 2010, pp. 81–84 for discussion of the limitations of the Nordic or social democratic approach). The social development perspective can be redefined to inform a Nordic-inspired political economy that has largely reflected vague principles or values but not spoken to specific social policies or their economic consequences. Formulating developmentalist policy principles and identifying DWSPs requires that the insights of social development theory, political economic ideas of scholars like Myrdal and welfare state categorizations be synthesized. The following section translates developmentalist insights into the welfare state context in order to provide a framework for deriving expectations about potentially productive social policies.

effects that may be associated with large ongoing and preventive social investments. As Esping-Andersen (2002, p. 5) notes, “the Third Way may be criticized for its unduly selective appropriation of social democratic policy.” One example is its “tendency to believe that activation may substitute for conventional income maintenance guarantees.”

¹⁸ Owing to the distance between development studies and the study of welfare policies in the developed countries (Mkandawire, 2007), the application of social developmentalism has tended to be relegated to the poor and inactive; invoked almost exclusively on behalf of grassroots, nongovernmental, or private sector solutions. While it may acquire currency in minimalist welfare states or in the aid to third world context, it may remain negligible in its contribution to informing larger policy debates in the *developed* world. Indeed, it may owe its current rather marginal status to its distance from these larger welfare state social policy literatures and the population on which it is focused (i.e., poor welfare clients). This study attempts to translate some of its basic ideas (many of which are implicit in northern European welfare states) to these larger literatures.

Overcoming conceptual ambiguity in developmentalist thought

Social development, one aspect of the construct I am defining more broadly as developmentalism, arises from a variety of disparate perspectives (Midgley, 2003a, 2003b; Mkandawire, 2001) that have not coalesced into a cohesive, viable alternative to traditional economic logic.¹⁹ Social development is not a theory (Midgley, 1995) in that it is not composed of “a set of hypotheses or propositions, linked by logical arguments, and advanced to explain an area of empirical reality or type of phenomenon” (Jary & Jary, 1991, p. 519). The absence of a clear definition prevents its rigorous theoretical and practical application to understanding social policy. At present it offers “no clear theory of how social policy acts on development-enhancing social factors so as to induce growth, nor agreement on patterns of growth that are most appropriate to meeting the spectrum of social goals that are now on both national and international agendas” (Mkandawire, 2001, p. 22). However, I believe it can be redefined and combined with other perspectives to illuminate how “social policies can (and often do) produce the favorable initial conditions that support economic development” (Mkandawire, 2009, p. 3).

Below are several characteristics of social development, according to the classic work by James Midgley (1995, pp. 25–28):

- The process of social development is inextricably *linked to economic development*.
- Social development has an *interdisciplinary* focus that draws on the insights of the various social sciences, especially political economy.
- Social development invokes a sense of *process*; it is a dynamic concept in which the notion of growth and change is explicit.
- The process of change is *progressive* in nature and reflects faith in the prospects of human betterment and social improvement.
- Social development is *interventionist* in that rather than believing that social improvements occur naturally as a result of the economic market or inevitable historical forces, organized efforts will bring about improvements in social welfare.
- Social development goals are fostered through various *strategies* to link social interventions with economic development efforts; these strategies reflect different beliefs or ideologies and a pragmatic viewpoint is required to synthesize them.
- Social development is *inclusive or universalistic* in scope and not focused primarily on needy individuals.
- The goal of social development is the *promotion of social welfare*, where social problems are satisfactorily managed, social needs are met, and social opportunities are created.

Social development can be formally defined as “a process of planned social change designed to promote the well-being of the population as a whole in conjunction with a dynamic process of economic development” (Midgley, 1995, p. 25). The basic requirements for attaining a condition of social well-being are “the management of social problems, the meeting of needs, and the enhancement of opportunities” (Midgley, 1995, p. 13).²⁰ Midgley, perhaps its leading theorist,

¹⁹ See Johnson (2010) for more on the closely related terms of social development, developmental welfare, welfare developmentalism, and developmentalism.

²⁰ Midgley notes that there are several definitions of social development in current use, including in psychology, sociology, social work, and development studies. The definition used by Midgley originated with Hobhouse (1913, 1924), which unlike Marxist and Social Darwinist theories “stressed the role of human agency in bringing about progressive

differentiates it from three institutionalized approaches for promoting social welfare: social philanthropy, social work, and social administration (i.e., social service or social policy, which is inextricably linked to the contemporary welfare state).

In Midgley's (1995, p. 16) words, the key difference between the social development approach, which he suggests has not been widely adopted, and the other approaches, which have been widely adopted, is the attempt to "link social policies and programmes directly to a comprehensive process of economic development." However, social development, which traces its roots to a fragmented literature, remains theoretically underdeveloped and largely undefined in programmatic terms (Midgley, 1995, 2003a, 2006). Despite relatively widespread agreement on the interdependence of social and economic development efforts, social development is a viewpoint that arises from a variety of disparate perspectives that have not yet coalesced into a uniform outlook.

In light of these concerns, this section focuses on clarifying what is meant by social development and seeks to forge a more cohesive and critical vision of welfare developmentalism and productive social policy. I follow the social developmentalists in "challenging the neoliberal claim that social expenditures harm the economy" (Midgley & Tang, 2001, p. 244). However, I use social development not to formulate *new* approaches to harmonizing social and economic development, which has historically been its central focus, but rather to understand how *existing* social policies in developed welfare states may already do so. This approach marks a stark departure from the way in which social development has been used to date.

Social development scholars have noted the importance of systematically developing propositions about the conditions under which investments in human development have important returns (Beverly & Sherraden, 1997). Along these lines, other scholars have called for a comprehensive formulation of what critical social development practice involves in terms of social policy intervention (Midgley, 2001). I develop a *critical perspective* on social development that is somewhat distinct from social development theorists. I reconsider the relation between development studies and welfare state studies, synthesizing ideas from both and elaborating on what has been termed the inclusive strand of welfare developmentalism (UNDESA, 1971, Kwon, 2007). I redefine this perspective within the context of *developed* welfare states as the attempt to understand existing social policy interventions, the effects of which appear to be at odds with neoliberal explanations. Combining developmentalist ideas with policy-oriented insights from welfare state research yields a coherent explanatory framework for understanding the productive (reproductive) effects of social policy in industrial countries.²¹

social change" (Midgley, 2006, p. 1236). Social development ideas influenced both the expansion of government social provisions (and evolution of Western *welfare statism* following World War II) and the emergence of social development in the Global South.

²¹ The *critical perspective* in social development pertains to a vision of what an alternative, just society would consist of and implies a criticism of existing arrangements (Midgley, 2001, p. 47). However, it does not speak in programmatic terms to societies in which poverty and inequality is not (or rather is no longer) so pervasive, and therefore to the types of policies that may serve to *prevent* poverty. The sense in which the term critical was applied in my original dissertation on which this paper is based pertains to reframing the normative challenge that social development *implicitly* poses to mainstream economics as an *explicit* effort to develop alternative hypotheses to those of the mainstream and examine the productive potential of redistribution. The same economic orthodoxy that has led to distorted development in the Global South may eventually lead to retrenchment in the Global North if the connections between production and distribution are not better understood (Myrdal, 1974). An important part of this project involves revisiting, recovering, and reinfusing contemporary development thinking with old political economic insights. Arguing for *new* social policies that may be able

I can only very briefly summarize the history, evolution, and extensions of social development before discussing its limitations *vis-à-vis* existing social policy and the need for a theoretical synthesis (see Johnson, 2010, for detailed discussion). Social development emerged in the Global South around colonialism.²² Under Gunnar Myrdal, the UN Economic and Social Council articulated the first and only international statement of principles of social policy underlying what came to be known as the inclusive strand of welfare developmentalism in 1971. It reflected, for the first time, a unified socioeconomic approach to planning in *developing* countries, which transcended the narrow focus on economic growth in favor of integrating economic and social planning. Midgley suggests that this conception was explicitly based on a state-directed development process and was compatible with the ideals of modernization that prevailed in development thinking at the time. This criticism of the tendency in economics to draw a distinct line between economic and social phenomena, separating social development from economic development, was groundbreaking. Unfortunately, it failed to have a substantial impact on policy in developing countries because of adverse macroeconomic conditions and the ascendancy of neoliberalism.

While the renewed focus of UN activity in the social development area has been on translating lessons from developed countries to developing countries, the focus of social development writers (e.g., Midgley) has been on trying to develop it into a more comprehensive notion.²³ Specifically, Midgley (1995) attempts to synthesize a wide-ranging development-related literature into a universal model that can be applied at local, regional, and national levels in both industrialized and developing nations. Arguing that welfare state policies have generally foundered in the Global South (Midgley, 2003a) he advocates an approach that relies less on direct government services and transfer payments. Instead, Midgley argues for harmonizing individual enterprise, the market, community participation, and governmental activities, where the state would help guide the process through investments in education, health, job training, and infrastructure.

Importantly, the focus on pluralism and pragmatism reflected in Midgley's perspective contrasts with standard approaches in industrialized nations in which economic and social policy are largely bifurcated and is a response to the neoliberals who argue that nearly all types of state intervention will lead to economic failures. However, this perspective uncritically, if implicitly, accepts economists' characterization of *existing* social policy as largely unproductive. Both UN and academic contributions have focused on developing countries and the problems of underdevelopment and widespread poverty (Midgley, 1997) rather than understanding whether and how current social policies in Western nations serve to foster economic development.²⁴ In order to be useful in helping

reconcile the economic and social is not equivalent to contending that some existing policies reconcile the two because at some fundamental level they cannot be fully separated.

²² As Midgley and Tang (2001, p. 244) note, "events in Europe provided an intellectual framework for developmental welfare." However, "it was in the British colonial territories that social development ideas were first translated into practical programmes." While "its ideational roots in the west are well-known" (Midgley, 1995, p. 62), its applicability to the West is only now beginning to be reconstructed (see Mkandawire, 2006a for further discussion). Very little is known about its expression in western social policy, and developing this idea was a central task of the dissertation.

²³ The UN has renewed its focus on welfare developmentalism through the UN Development Programme's (UNDP) issuance of its first (1990) and subsequent Human Development Reports (1995, 1996), the Copenhagen World Summit on Social Development (1995), and the UN Research Institute for Social Development (UNRISD) project of Social Policy in a Development Context (2000, 2005). These initiatives have helped to reemphasize social development policies in developing nations and to reestablish the prominence of social development ideas among the developed nations.

²⁴ This has constrained its perceived relevance to the Third or developing world context and has impeded its application to understanding the role of social policy in promoting economic development in the developed world. I argue that the

identify developmentalist policies in the Western industrial nations, the social development approach must be augmented with insights from welfare state research. I suggest that a two-track approach to social development, rather than a singular global model, be used that emphasizes the same productive logic of social policy but that recognizes the different sociopolitical contexts in which it is expressed (e.g., Dahl et al., 2001).

Social development has begun to find currency with western welfare state researchers. This has been reflected in the increased application of conceptual tools—devised for the study of Western welfare states—to emerging welfare states (Gough & Wood, 2004; Holliday, 2000; Hort & Kuhnle, 2000; Kwon, 2005a). It also has been reflected to a lesser degree in the increased recognition of developmentalist elements within the industrialized welfare states, especially late industrializers (Dahl, Lødemel, & Drøpping, 2001; Kangas & Palme, 2005; Kurien, 2006; Vartiainen, 2002). Exploration of developmentalist ideas has been slowed by a major divide between the study of welfare states in developed countries and descriptive work on social policies in developing countries (Mkandawire, 2001, 2006b, 2009). A linear theory of development has contributed to a one-sided emphasis on economic growth as compared to social development in the Global South (Mkandawire, 2001, 2006a, 2006b, 2009). In the Global North, it has meant that the importance of social policy to economic development, in both the history and current context of developed nations, has not been systematically explored. The result has been neglect of the importance of social policy to economic development as an ongoing reproductive process.²⁵ The tendency to see the welfare state as an end state (Therborn, 1987) has contributed to obscuring its role in development.²⁶

The application of social development to social policy, especially as it is conceived of in the welfare state, has been quite limited, largely because the model originated in the Global South (Midgley,

inextricability of the economic and social is a condition shared by the Global South and North, even if their social policies and institutions differ greatly.

²⁵ Among other things, the linear approach implies that democratic demands for equity cannot be a part of the development process (Mkandawire, 2006a). There is a tendency to equate developmental ideas with authoritarian states. The popular notion of the *developmental state* implies that development occurs first, then politics arise, and the welfare state emerges later. This view tends to marginalize the role of politics and the state (and social policy in particular) in fostering development, limiting the extent to which developmentalist ideas are applied to thinking about policies that are not just productive but also protective. Most developmental states seem to be poorly developed welfare states where social policy serves developmental (economic) goals (Gu, 2006; Kwon & Holliday, 2007). The tendency to equate development with entire states (as opposed to policies) or to isolate it from politics (democracy) and the welfare state, greatly constrains its applicability for thinking about social policies across countries.

²⁶ As Mkandawire (2009, p. 9) notes, “the academic literature has misrepresented [welfare regimes] by making a conceptual choice that privileged protection and has missed something crucial in the ‘catch-up’ efforts and the sustainability of their welfare efforts—the augmentation of their productive capacity.” Developmentalist elements in developed countries have grown less visible owing in part to both the development of a special discipline of development economics and the growing importance of neoclassical economics (Mkandawire, 2006a). All of the commonly recognized characteristics associated with developmentalism were eventually off-loaded to the developing world context leaving the impression that developmentalism is associated mainly with developing nations (see Kwon 2005a). This trend was further aided by a view that in industrial countries, social policy is not intended to promote economic development but rather maintain income and provide support to those in need (e.g., Hall & Midgley, 2004). It is reasonable to assume that in addition to the perceived bifurcation of economic and social policy that is attributed to welfare statism by Midgley, the focus on “planned,” “purposeful,” and “deliberately” linked economic and social policies has led the developmental perspective to overlook policies that may implicitly have such effects (e.g., Midgley, 1995, pp. 51, 63, 151, 157, 170; Midgley & Tang, 2001, pp. 250–251). However, Kwon (2005a) notes that this is not the case if we look back on the history of industrialization. Indeed, welfare developmentalism has a long-standing history in Europe.

1997). Its extension to the Global North has largely occurred through the notion of welfare developmentalism. There are two major strands of thinking in welfare developmentalism, selective and inclusive (Kwon, 2005b; Riesco, 2002). The selective view focuses on social policy mainly as an instrument to achieving economic development; this vision predominates in developmental state analysis focusing on Asia (e.g., Gu, 2006; Haggard, 1990; Johnson, 1982; Stiglitz & Ury, 1996; Wade, 1990, 1992) where state-led growth and intervention was focused on correcting conventionally understood market failures. The inclusive view of welfare developmentalism, which places equal emphasis on social and economic objectives, has been more at odds with conventional economic theory (in that equality was pursued alongside efficiency) as in the case of Scandinavia (Esping-Andersen, 1992; Kuhnle & Hort, 2004; Vartiainen, 2002).

There have been several vague attempts to categorize the features associated with the inclusive strand of welfare developmentalism. From the neoinstitutionalist perspective, Midgley (2003a) has identified three key programmatic features: an organizational framework at the national level to harmonize economic and social policies, the promotion of well-being through economic development (i.e., macroeconomic policies), and the promotion of economic development through productivist and social investment programs. Broadening the productivist theme, others associate productive welfare with characteristics such as a stronger state commitment to welfare, the view that all citizens should be covered by government welfare schemes, the equalization of life chances, social integration, democratic participation, emphasis on public investment in education, health and institutions to promote labor market participation along with income and social safety nets for low income families, comprehensive social insurance schemes, and development of active labor market programs (Kuhnle, 2002). Still others have summarized the key principles of inclusive welfare developmentalism as including productivism, social investment, and universalism (Kwon, 2005a, 2007).²⁷

Critically however, inclusive developmentalist principles (i.e., productivism, social investment, and universalism) are programmatically vague and not clearly linked to social policies that could result in protective-productive outcomes. Alone, they are unable to identify the developmentalist roots of *existing* social policies in modern welfare states and lack sufficient specificity to analyze the effects of existing social policies. In other words, these broad programmatic themes, which imply the productive potential of social policy and the possibility of harmonizing social policy with economic development, remain generalities and contain several important ambiguities. However, it is possible to infuse abstract principles of inclusive developmentalism with a more coherent, cohesive, and policy-relevant set of principles to identify and explain the investment-oriented effects of *existing* social policies.

A more thorough exploration of Midgley's perspective illustrates the ambiguity of social development with respect to social policy. Specifically, Midgley's work serves both to clarify the

²⁷ Kwon (2007) identified the key principles of the selective strand of welfare developmentalism as productivism, selective social investment, and authoritarianism, as opposed to inclusive welfare developmentalism, which is based on productivism, universal social investment, and democratic governance. Productivism is used interchangeably in both strands of developmentalism in Kwon's definition. From the perspective of the dissertation, productivism—as applied in the selective version—implies the subordination of social policy to economic policy, whereas productivism—as applied in the inclusive version—suggests the integration (i.e., interdependence) of economic and social policies, where social policy and equality are necessary preconditions for economic efficiency. The notion of productivism—as applied in the inclusive developmental approach—shares roots with Myrdal's (1968) view of redistribution as a prerequisite for growth, as opposed to the treatments of productivism from the perspective of subordination (e.g., Fitzpatrick, 2004, 2005).

limits of social development and illuminate its explanatory potential when combined with broader developmentalist insights and ideas from comparative research. Midgley's neoinstitutionalism, which is firmly in the inclusive welfare developmentalism tradition, has been overly ambitious as a "third model of social welfare" (Midgley, 1995, p. 25) that transcends the residual-institutional approaches that have dominated social welfare thinking (i.e., welfare statism and social administration). While Midgley relates social development to aspects of institutionalism, he is generally critical of institutionalism insofar as he accepts that it rests on a tradition that bifurcates economic and social policy.²⁸ As a result of this tendency to throw out the baby with the bathwater and a general skepticism about the comparative approach to social policy in the Global North, there has been little interest in revisiting and reexamining existing institutionalist social policies in order to discern whether or not they have a developmentalist orientation (e.g., Midgley, 2004). The focus has been on advocating a variety of relatively new and innovative policies ranging from asset accumulation to developing microenterprises (Midgley, 1995, 1997, 1999) rather than creating a robust theoretical framework for thinking systematically about the types of social policies that may contribute to economic development across countries. A challenge for social development is to decipher and theoretically recover the developmental aspects of social policy in the Global North using the policy language that prevails in the welfare state literature.

Taking Midgley as a leading exponent of the social development approach (and inclusive strand of welfare developmentalism), one can identify three central limitations *vis-à-vis existing* social policy that have inhibited the application of developmentalist ideas to the welfare state. The first, related to productivism, deals with the way in which social and economic policy is integrated. The second, related to social investment, deals with the extent to which all social expenditures have potential benefits. The third, related to universalism, pertains to the way that policies interact. Drawing on central insights from the unified socioeconomic planning approach of Myrdal (i.e., how welfare systems provide reproductive factors) and the welfare statist perspective (i.e., offering a lexicon for classifying comparative social policy), we can address these limitations and clarify thinking on the types of social policy in the Global North that may be both productive and protective.

There is a desire in social development to integrate economic and social policy considerations or to promote the overall well-being of society in conjunction with an ongoing process of economic development (Midgley, 1995). However, this view implies that the economic and social *can* exist separately from one another, the social needs to be integrated within the economic, and economic development is possible without social policy. As Midgley and Tang (2001, p. 247) write, "developmental welfare requires a strong role for the state, not only in social welfare but in promoting economic development as well." This type of language reflects ambiguity regarding the precise relationship between social welfare and economic development, and suggests an inherent separation between the two. While social development seems to imply a more integral role for social policy, it only explicitly asserts that social development cannot take place without economic development and "that economic development is meaningless if it fails to bring about improvements

²⁸ Midgley (2003a) characterizes institutionalism as the dominant approach to social policy during the golden age of the welfare state based on national Keynesian economic policies, redistributive social policy, and moral and altruistic appeals for a just and caring society (Titmuss, 1958, 1968, 1971, 1974). Arguably, expressions of social development ideas have been present in developed countries throughout the institutional period. In other words, it is not so much that social welfare and economic development have not been linked (as emphasized in inclusive welfare developmentalism) but that their *implicit* link has not been recognized or understood. Moreover, it is unclear how the developmentalist "macro-perspective on social policy" (Midgley, 2003a, p. 8) would translate into actual existing welfare state policies.

in well-being” (Midgley & Tang, 2001, p. 246). It clearly suggests that “retrenchment in social welfare will impede economic development” (Midgley & Tang, 2001, p. 246), primarily because social welfare includes investments that make economic development possible. However, it does not explain in detail *which* social expenditure policies constitute social investments or are indispensable to economic performance. This view moves beyond bifurcation yet implies that it is possible to have strictly nonproductive maintenance-based social programs that have an unrecoverable depleting effect on finite resources (Midgley, 1997) in contrast to the possibility that *existing* policies may simultaneously have positive economic and social implications.

Social development supports the notion that social expenditures in the form of social investments contribute positively to economic development. However, there is an unclear, contradictory view of the value of social expenditures in general. While social expenditures on “social service policies and programmes that are investment oriented and promote economic development” are emphasized (Midgley & Tang, 2001, p. 246), social development is sometimes juxtaposed with the “provision of social services, the payment of social benefits, and the intervention of professional personnel” (Midgley & Tang, 2001, p. 246). Some argue that welfare policies have focused excessively on the provision of benefits and that “social development favors instead programs that are investment oriented and contribute to economic growth” (Midgley & Tang, p. 247). The ambiguous view of social benefits is confusing as it implies that social benefits are problematic in that they contradict the investment orientation of social development and simultaneously are helpful in that they contribute to economic growth. While reference is made to the need for remedial and maintenance oriented social services (Midgley & Tang, 2001), universalism is also invoked (Midgley, 1999). Thus, there is no systematic identification of appropriate social policies or attempt to apply *existing* benefit categories that correspond to the welfare state literature.

Finally, related to the preceding two points, social development tends to not see policies as cumulative and interactive, instead applying broad brush strokes when it comes to the institutional welfare model and terms such as *entitlement rights* (Midgley, 2000).²⁹ For instance, social development places little emphasis on entitlement rights and seems to associate them with altruism (Midgley, 2003a; Midgley & Tang, 2001) rather than distinguishing the possible productive importance of entitlements in certain areas and in combination with other types of benefits. Developmental policy effects may be the result of different policy interactions (or contingent upon these interactions) as opposed to being associated entirely with developmental state regimes or even individual policies.³⁰ Rather than identifying how productivism and social investment may be present in current welfare state policy, the social development approach seems to assume such policy does not exist but that it can be implemented through human capital, employment/self-employment programs, social capital, asset development, and removing barriers to economic participation.

Midgley’s notion of social development is limited in helping us understand the potentially productive effects of social policy in the Global North. It is difficult to move beyond the conclusion that

²⁹ This skeptical view of the income-based welfare state with its often large-scale, consumption-oriented spending (especially for the nonpoor) appears to be broadly shared in the various capital or asset-holdings approaches (Haveman, 1988; Sawhill, 1989; Sherraden, 1991) (see also Sherraden & Page-Adams, 1995).

³⁰ Midgley (1999, p. 9) notes that social development programs, while often discussed discretely, “can obviously be combined to create a comprehensive strategy for promoting social welfare.” However, there appears to be no accommodation in social development for the possibility that what would be considered merely consumption (when provided alone) would, when combined with other types of provisions, reflect an investment. This possibility is of course fundamental in Myrdal’s (1974) notion of cumulative causation.

consumption-based income transfers do not entail investments that can enhance capabilities (Midgley 2003a; Midgley & Tang, 2001b) or that “redistributive social welfare expends scarce resources on unproductive social services, maintains needy people in dependency, and stifles economic growth” (Midgley, 1999, p. 3). The principles of productivism, social investment, and universalism lack a clear theoretical exposition of (1) how economic and social policy are interconnected, (2) the efficacy of social benefits (and investment potential of consumption expenditures), and (3) the way in which social policies may be synergistically related. As a result, social development as currently conceptualized cannot identify the developmentalist roots of *existing* social policies in western welfare states.

Welfare developmentalism can make a more robust contribution to understanding protective-productive social policy if social development is thought of in less comprehensive terms. Rather than pursuing a global social policy approach that aspires to encompass both the developing and developed worlds, a two-track approach that recognizes the different sociopolitical contexts of the Global North and the Global South—while challenging neoliberal orthodoxy in both cases—is preferable. The comprehensive approach tends to implicate research in the Global North as neglecting the Global South and holds traditional welfare state policies at arm’s length. This overlooks important differences in the feasibility of state intervention and the value of not only *poverty reduction* but also *poverty prevention*. There is nothing inherent in social development that links it to improvement of welfare for the poor in contexts in which poverty prevention may be as important as poverty reduction (ESCWA, 2003; Kuhnle & Hort, 2004). Further, it overlooks the central developmentalist premise shared by both developing and developed countries. This is the view articulated by Myrdal (1974, p. 732) and on which I argue that the new *critical perspective* of social development should be built:

Well-planned redistributive reforms...can be productive by raising the quality of the labor force and/or by saving individuals and society from future costs. This holds true for even those rich countries which already have raised substantially the level of living of their least affluent strata.³¹

A two-track approach to social development, based on this fundamental premise, can be used not only to inform development from the bottom up (i.e., contesting the mainstream orthodoxy imposed on developing countries) but also to understand how social policy may contribute to development from the top down (i.e., where there is also a role for challenging mainstream orthodoxy). This approach recognizes that while the theory associated with welfare state regime or typological thinking may not be sufficient for informing practical policy in developing nations (Midgley, 1997), social development can nevertheless be useful for understanding how economic development and social policy is functionally harmonized in the Global North. In this sense, developmentalist ideas remain applicable to developed nations. This dualistic approach to thinking about social development opens the door to considering how the insights of welfare state research can inform welfare developmentalism and contribute to more systematic expectations about comparable types of social policy. Building on Myrdal’s premise, it is possible to combine the insights of social development with those of welfare state research. Their complimentary insights enable us to move beyond generic developmentalist principles that are programmatically vague to

³¹ While this premise recognizes differences between developing and developed countries, it strongly implies that development is an ongoing process that must be reproduced, as opposed to being an end state. This premise has roots in the classical economic tradition of Oskar Lange among others. Refer to Myrdal (1973, 1974) (see also Hort, 1993).

more specific policy-relevant principles for thinking about developmental welfare and social policies together.

Midgley (2003a) correctly asserts that Titmuss, Marshall, and other theorists using the representational approach separated the economic and social domains. However, Midgley's (1999, p. 9) critique of the "compartmentalization of social welfare and economic development" in welfare statism has led to the assumption that welfare state conceptualizations of effort are incapable of accounting for the productive effects of social policy. This mistakes the theoretical neglect of productive social policy with the absence of productive social policy. Discarding important aspects of the representational approach, it is mistakenly concluded that social expenditures in the form of consumption or maintenance are discrete from investment expenditures. Despite this limitation, the central contribution of developmentalism to welfare state thinking is the addition of productive outcomes to the traditional preoccupation with protective outcomes.

The welfare statist approach, while offering a lexicon for considering the types of policies that might constitute social investments, has not focused on productive outcomes. Consider Brigg's (1961) programmatic definition of the welfare state. He suggests that welfare states have three goals: (1) economic security (i.e., protecting citizens from common life risks by replacing lost income), (2) material sufficiency (i.e., providing a basic floor of social protection), and (3) basic services (ensuring access to critical goods and services). These goals correspond to three policy categories: (1) social security (i.e., insurance), (2) public assistance, and (3) services. In the traditional welfare state view focused on redistribution, it is not clear what is meant by the terms *sufficiency* or *critical goods and services*. What is the difference between *minimal* and *adequate*, and to what does the term *critical* refer? A similar point can be made with respect to Esping-Andersen (2000d, pp. 161, 163), who distinguishes "minimal needs" from a "luxurious second-tier, universally inclusive, earnings-related insurance scheme on top of the flat-rate egalitarian one" geared to the "discriminating tastes of the new middle classes." It is not clear why or how, in policy terms, principles such as universalism and decommodification extended to the new middle classes "minimize social problems and maximize revenue income" (Esping-Andersen, 2000d, p. 163).

Myrdal's version of welfare developmentalism emphasizes prevention and the internalization of externalized social costs in the economy (e.g., Pigou, 1929), where social organization or coordination is a prerequisite to economic efficiency (Stiglitz, 1996; Vartiainen, 2002). Social policy is a means of economic efficiency insofar as inequality, insecurity, and social risk entail costs (Esping-Andersen, 1985) and underutilized resources. Welfare systems are seen as preconditions for economic development and growth, providing economic systems with the productive factors that they require (Tomassi, 2005). Growth depends on and translates into human development, and human development depends on and translates into growth, *ad infinitum* (Ranis & Stewart, 2005). Implicit in this view is the idea that the individual citizen and household is not a self-contained source of development but that individual ability is developed with assistance from outside.³² The idea of human development relates to the notions of capability, endowments, opportunities, assets, and the like and implies that well-being is multidimensional. It also emphasizes building human capabilities, not simply income or expenditures. As such, it holds potentially extensive implications for policies and programs, suggesting that efforts to increase capabilities as well as efforts to improve opportunities are important.

³² Indeed, as Titmuss (1958, p. 44) observes, "as man becomes more individual and more specialized he becomes more socially dependent."

It supports a view that one cannot dichotomize social policies as either investments or costs in and of themselves. Policies may simultaneously have investment and consumption aspects (Esping-Andersen, 2002, 2003) whose effects may vary in combination (i.e., cumulatively or interdependently) with other policies. Developmentalism suggests a need to take into account the potentially synergistic nature of policies and recognize that policies must be considered in terms of the way they interact, not discretely. Economic performance and efficiency do not come exclusively from cutting costs but rather expanding investments (Andersson, 2005). For instance, if social risks entail associated costs and social investments are synergistic, perhaps this argues against selective assistance to those in need and in favor of preventing need. Further, rather than arguing against entitlements on the basis that they simply reflect passive consumption, it may be that this short-term consumption also reflects a long-term investment. A policy-relevant interpretation of welfare developmentalism suggests that the economic and social are often fundamentally related in the same policy, expenditures, and benefits of various sorts are not inherently at odds with social investment, and developmentalist policy is interactive and synergistic. What does this view of welfare developmentalism suggest about the nature and beneficiaries of developmentalist policies?

Midgley (1999) offers examples of what productive social development programs should focus on, including cost effectiveness, human capital investments, social capital formation, individual and community assets, economic participation through productive employment and self-employment, removal of barriers to economic participation, and the creation of a social climate conducive to development (e.g., Midgley, 2001; Midgley, 2003a; Midgley & Tang, 2001). Related work is suggestive of *when* and *for whom* social policies should be focused. It may be especially important to target benefits to key groups of people at critical periods of time. For example, Esping-Andersen (2002, 2005) identifies three vulnerable groups: (1) children and their families, (2) those in the midst of work life, who may experience tensions between family life and paid work, and (3) the elderly. Relatedly, new and stochastic risks complicate traditional actuarial insurance (Esping-Andersen, 2000b; Hacker, 2008; Newman, 2008; Taylor-Gooby, 2004; Vandecasteele, 2011).³³ Finally, with respect to how investments should be made, Gough (2000, 2001b) suggests that there are tradeoffs and constraints involved in welfare state effort and effects and contends, for example, that programs need to be directed at improving the supply of capital and/or labor rather than merely providing resources to some in need.

Based on the revised view of social development adapted from Midgley, the central premise of Myrdal's unified socioeconomic planning approach, and insights from the welfare statist/social administration approach, I propose several policy-relevant developmentalist principles that are suggestive of the type of social policies that are likely to yield both productive and protective outcomes. While these principles remain somewhat vague at this stage of theoretical development, their implications become more precise when applied to thinking about major social policy categories in developed welfare states. These principles include the following:

³³ In particular, intergenerational risks (i.e., risks transmitted from parents to children) are difficult to deal with. Esping-Andersen (2000b, p. 4) writes: "In conventional social policy thought, unpredictable and stochastic risks have been relegated to (often ad hoc) social assistance programmes. The sharp rise in social assistance caseloads almost everywhere in developed countries mirrors the declining efficacy of the conventional insurance approach." He adds that the risk view tends to individualize welfare issues, as opposed to recognizing welfare interplays. The Cross-National Research on the Intergenerational Transmission of Advantage (CRITA) project is one attempt being led by Tim Smeeding to explore the issue.

- Adequacy of provision to ensure high quality
- Prevention of future social costs as part of a long-term perspective
- Activation that reduces disincentives and maximizes the ability to earn and incentives to earn
- Access to goods and services
- Maximization of the utilization of resources
- Guaranteed consumption of developmentally beneficial goods and services
- Entitlement based on relationship to economic development (not solely need, contribution, or citizenship)
- Inclusiveness based on increasingly stochastic risk/instability

The remaining section draws on commonly shared policy metrics from crossnational welfare state research to speculate about the types of policies that most closely express these principles.

Transferring themes into welfare state policies and predictions

One way to translate social developmentalist ideas into the welfare state policy lexicon is to conceive of them in terms of their qualitative aspects, including mode of delivery (e.g., in-kind or cash), benefit eligibility requirements (i.e., whether a program is means-tested or universal), quantitative aspects (e.g., expenditure level, replacement rates), and focus (e.g., function and demographic constituency). I have focused on selected aspects, including the overall expenditures, type of expenditures, and policy areas. A full complement of DWSP dimensions might include not only overall level of social expenditure, type of expenditure, and policy area but also factors like tax, financing and contributory structure, eligibility, coverage and replacement rate, or other institutional characteristics (e.g., occupational, fiscal, and other regulatory issues) (Titmuss, 1958). I attempted a preliminary formulation of developmentalist expectations solely in the area of welfare state social policies and so do not attempt to integrate additional factors that may well bear on the impact of DWSPs. My formulation is concerned with the benefit and not tax side.³⁴ In any case, as Kanbur (2006) has suggested, attempts to distinguish social policy from economic policy objectives are not very successful nor is the effort to classify policy instruments into one or the other.

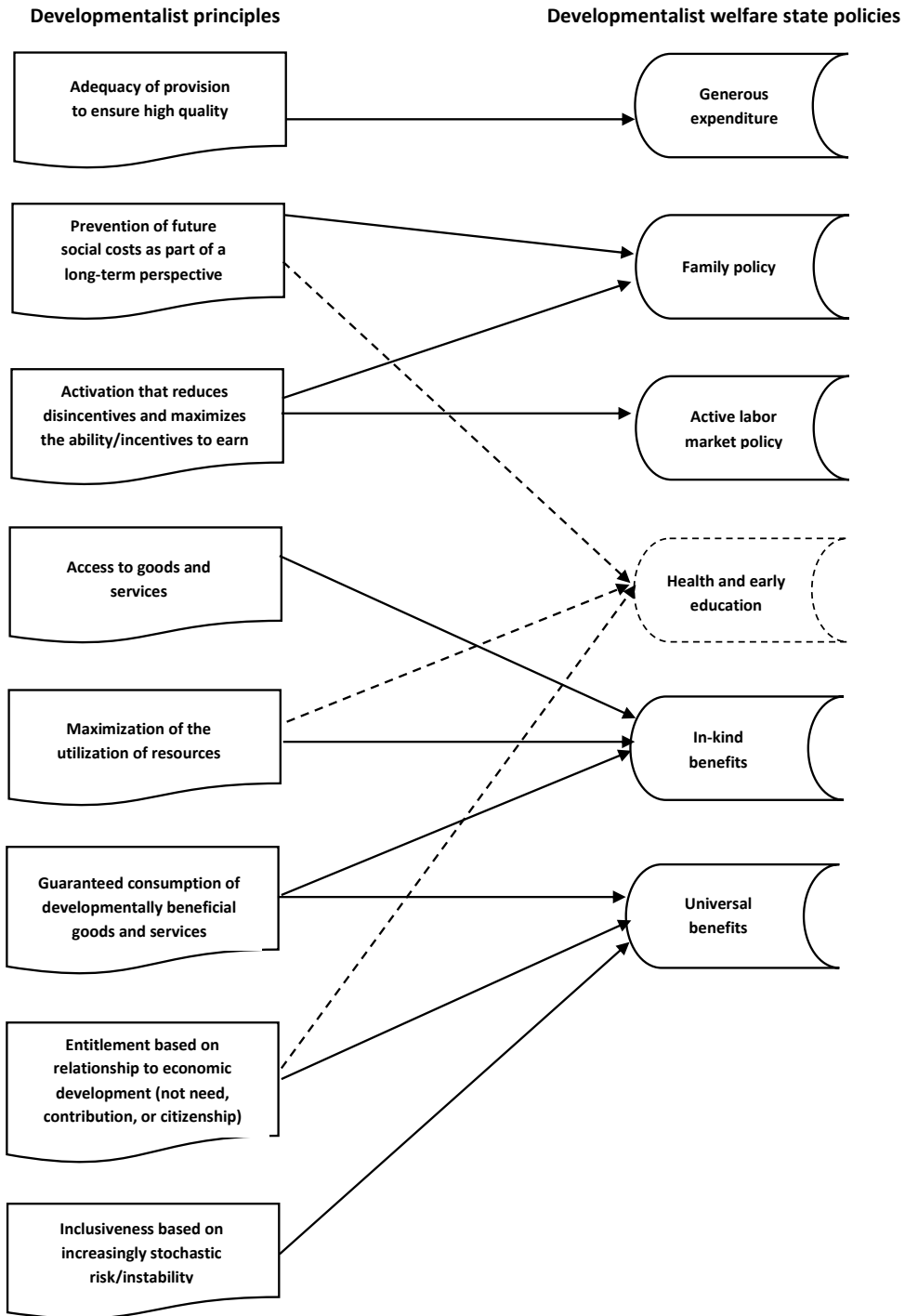
DWSP simply suggests that in terms of predicting developmentalist outcomes, factors such as level of expenditure, means of delivery, nature of targeting, and the like may be combined in ways that can be expected to be associated with low levels of development-inhibiting poverty and high levels of economic activity. Furthermore, it suggests that it should be possible to begin to assess the relative importance of various aspects of policy (i.e., the value-added impact of variations in these different policy combinations, their magnitude, and the way that they interact).

The notion that social policy does more than transfer or redistribute income suggests that there are different ways to think about what policy delivers and how it does so. The core principles of developmentalism (summarized on the left side of Figure 1 below) emphasize certain characteristics likely to be associated with outcomes that are both protective and productive. The figure demonstrates how these core developmentalist principles can be translated into features of

³⁴ While tax-based social welfare may interfere with incentives to work, which was not directly examined in my original dissertation, universal benefits may turn out to blunt any distortionary effects associated with tax-financed social transfers because of the way they impact incentives to work for those being taxed and those receiving benefits. Just as there may be positive synergistic effects to social policy, many distortions may cancel each other out. The dissertation was at best a very partial exploration of whether the efficiency grounds for social policies dominate the costs of market distortions (e.g., Hausman, 2008; van der Ploeg, 2005).

developmentalist policy. These policy-relevant principles can be translated into DWSPs. I define these as relatively high expenditures on in-kind, universal, family-focused, and active labor market benefits.

Figure 1. Characteristics of DWSPs



“Adequacy of provision to ensure high quality” suggests that DWSPs should be generous (i.e., that the proportion of GDP spent on social expenditures should be relatively high), because only with generous policies can there be an increased likelihood of both quality and coverage. “Prevention of future social costs as part of a long-term perspective” suggests that expenditures on family policy, especially policies that improve family functioning when children are young, are likely to yield greater returns over the long-term than policies directed at amelioration of problems after their onset. “Activation that reduces disincentives and maximizes the ability/incentives to earn” argues in favor of family policies that enable market participation (e.g., provision of child care or assistance with purchasing it) and a set of policies typically called active labor market policies (ALMPs), which relies on incentives as opposed to sanctions to encourage employment. “Access to goods and services,” especially those that guarantee future capability, suggests that in-kind benefits are more likely to ensure positive returns than cash benefits. “Maximization of the utilization of resources” also argues in favor of in-kind benefits. If in-kind benefits are seen as being of high quality, they are likely to result in high benefit uptake. Relatedly, “guaranteed consumption of developmentally beneficial goods and services” argues in favor of both in-kind and universal benefits. The universal concept should guarantee access, which should lead to increased consumption, while in-kind provision can ensure consumption of developmentally beneficial goods in a way that cash benefits cannot. “Entitlement based on relationship to economic development (not need, contribution, or citizenship)” argues in favor of universal benefits and suggests there are resources that bear such a strong relationship to economic development that they should not be based on income or status. Note that this principle does allow for benefits being available only for those who fit particular categories, if those categories are related to economic development.³⁵ “Inclusiveness based on increasingly stochastic risk/instability” also argues in favor of universal benefits on the grounds that in addition to the traditional risk factors for poverty, increased uncertainty or unpredictability across the life course relative to earlier historical periods (Bonoli, 2007; Hacker, 2008; Newman, 2008; Vandecasteele, 2011) makes insurance more cost-effective and suggests that in order to prevent problems, individuals should not have to already be low-income before being entitled to benefits.

All in all, the policies suggested by developmentalist principles include a greater emphasis on in-kind and universal transfers, high overall levels of social expenditures, and families, children, and active labor market policy. One would expect to see minimal means testing in developmentally essential areas, policies that are nonstigmatizing and ensure uptake and access and incentives and indicator targeting as opposed to sanctions and minimalist transfers, which may be harmful to others (e.g., dependents) in a developmentalist sense.³⁶

³⁵ Rather than being based on conventional social insurance programs, citizens should be entitled to a range of benefits not simply because they are citizens (again, see Johnson [2014a] for discussion of T. H. Marshall) but rather because many citizenship-based entitlements arguably have positive economic consequences by virtue of addressing nonactuarial and interrelated risks (interrelated in that prevention of costs and maximization of resources requires multiple investments). In other words, the provision of basic goods for all citizens is assumed to be effective because a wide range of social conditions may have economic consequences due to the coefficient of interrelation and the likelihood that many social conditions have economic consequences.

³⁶ The social development perspective would seem to imply an “indicator-targeting or back-to-Beveridge approach” (Barr, 1998, pp. 267–269). Whereas the neoclassical view would support income testing through negative income taxes (though limited as concerned with poverty trap), indicator targeting would suggest that making benefits conditional on other characteristics is less likely to entail efficiency costs and more likely to prevent poverty. Ideal indicators are highly correlated with poverty and exogenous to the individual (e.g., illness, old age, infancy, and—more controversially—unemployment) (see also Kahn and Kamerman [1987] for more on factors that put families at risk of poverty). In reality, as Barr suggests, some combination of these approaches (e.g., a small-scale negative income tax and categorical scheme)

In DWSPs, some benefits are conditional on work but also reflect an active state role in redistributing assets or endowments, equalizing opportunity and providing universal services across the life cycle. The empirical challenge lies in determining whether there is an optimal combination of these policies with regard to who should be targeted to receive what universal services and which opportunities should be equalized and endowments redistributed, for instance. My theoretical assertion is that there can be something about DWSPs that constitutes a productive investment and entails minimal direct economic costs, and that crossnational comparative studies may be a useful device in ascertaining unintended effects or the absence of effects of different social policies. In the final section of this paper, I briefly clarify the key economic underpinning observations that underlie DWSPs. In differentiating mainstream economics from developmental predictions, several fundamental limitations of the mainstream approach to understanding possible social policy effects are discussed. The economic logic of DWSPs rests on a number of assumptions that substantially differ from those of standard economic theory.

Welfare developmentalism suggests that policies are multifunctional (i.e., interactive and cumulative) and simultaneously investment and consumption oriented (i.e., *synergistic*) (Delamonica & Mehrotra, 2006, 2009; Mehrotra & Delamonica, 2006). For example, policies that improve nutrition also will improve learning, and improvements in learning may also improve nutrition. Similarly, policies that increase education also may contribute to the development of infrastructure that can improve on the investment climate, which may further encourage investments in education and other skills (Fouarge, 2003).³⁷ Social outlays can be productive social investments that yield dividends if it is recognized that a range of factors, such as family conditions, mediate the effects of these investments (Károlyi, 2000; Tham, 2001).³⁸ DWSPs are not necessarily active or passive and

are likely to be optimal because they are complementary (Atkinson, 1995b, c). The increasing prevalence of stochastic and uncertain (or less predictable) risks underlies the value of policies that focus on the conditions (beyond individuals' control) that affect an increasingly broad array of people (across the life course and intergenerationally) and ultimately undergirds the rationale for universal indicator-targeted policies. It may be harder to target insurance at narrowly defined high-risk groups when risks are less discrete and predictable.

³⁷ A fundamental assumption of synergy is that "in strategies where one type of intervention is absent, the effect of the interventions in the other spheres is less than it would have otherwise been" (Delamonica & Mehrotra, 2006, p. 7). Synergy resembles the notion of cumulative causation pioneered by early development economists (Hirschman, 1958; Kaldor, 1972; Myrdal, 1957; Rosenstein-Rodan, 1943; Young, 1928) (see also Toner, 1999) in which reinforcing mechanisms and feedback (e.g., interdependent investments) affect the dynamics of development of an economy. Models of circular and cumulative causation, such as that of economic surplus, differ significantly from the neoclassical tradition (Myrdal, 1974). One reason is that cumulative causation models identify positive/negative feedback mechanisms and emphasize the endogeneity of factors such as resource endowments considered exogenous in the neoclassical models. Out-of-equilibrium positions are the norm and involve increasing returns, capital complementarities, and coordinated investment (Mathews, 2005; Murphy et al., 1989; Roberts & Cohen, 2002).

³⁸ Consider the area of family support and the interaction of cash child benefits and public in-kind childcare benefits (Kangas & Palme, 2000). Developmentalism suggests that cash expenditure, absent access to adequate care, or in the absence of other related benefits, may yield less effective outcomes. Similarly, unemployment insurance (UI) may not be simply a wage paid by the state when a person is not working. When combined with other benefits, UI may have a preventive aspect beyond income maintenance. In addition to how costly it is for a head of household to remain unemployed, there are potential benefits of risk taking, allowing for a more effective job search and eventual fit, investments in training, and the protection of dependents. Studies have emphasized a variety of benefits of UI payments ranging from preventing housing delinquencies and foreclosures (e.g., Emsellem et al., 2008) to positively impacting well-being (Sjöberg, 2010). Such benefits may be viewed as a collective resource with important external benefits (above and beyond those to the unemployed who directly utilize such benefits). For an example of research that illustrates the potential effects of upstream factors (e.g., changes in social and economic policies) on previously unanticipated outcomes (e.g., health), see Herd et al. (2008).

investment- or maintenance-oriented on their own. Their effects are anticipated to occur as a result of the combination of social policies.

The central idea is that $1 + 1$ is not always equal to 2 but may in fact be something else greater than 2. Policies may have both a discrete impact on poverty and labor market outcomes and a combined nonadditive, nonlinear impact that is greater for both aspects together than each separately. For instance, cash transfers may be more likely to generate moral hazard when means tested or when overall expenditure is high, while moral hazard may be lessened if the program is universal or if expenditure levels are low. Alternatively, the total amount spent on in-kind benefits may not be as salient as the relative proportion of in-kind to universal benefits and where they are invested. Combining cash benefits with means-tested benefits may result in lower uptake in developmentally important areas. Reasons for low uptake include a lack of knowledge among potentially eligible people, reluctance to accept what may be perceived as charity, and the complex administrative procedures involved (Pestieau, 2006). If different benefits have different uptake or consumption characteristics, there may be costs associated with gaps in coverage or lost benefits attached to forgone future productivity. In this sense, certain populations may be more likely to benefit from in-kind benefits than others.

There are several interactive effects that may be particularly important from a developmental perspective. Just as the lowest rates of posttax/transfer poverty should be correlated with individual DWSPs, these policies are expected to positively interact. Of central interest is the interaction between in-kind and universal benefits. They are expected to have a stronger antipoverty effect together than either variable alone. The reason for suspecting this interaction is that they are believed to collectively have a stronger impact of guaranteeing consumption of resources that are inversely related to poverty (especially costly poverty) while minimizing distortions. Of course, there could also be three-way interactions among policy variables. For instance, the negative effect of social expenditure on market poverty might be higher when combined with universal and in-kind benefits than alone.

The assertion that distribution and production are interrelated and that the former may positively impact the latter suggests that policy should be concerned about distributing more than income (e.g., forms of capital such as health, adaptability through education and training, perceived mobility, opportunity via low inequality [e.g., Kaufmann, 2007], and the like). As suggested earlier, transfers involve not only income, resources, or commodities but also, if implicitly, wider capabilities, access, etc. in terms of the means by which they are delivered. It also suggests a focus on prevention. The conventional economic approach does not necessarily support these implications. Below, I briefly contrast assumptions of the standard economic approach with the social developmental approach and the types of policies each approach would support. I clarify the key economic underpinning observations that underlie DWSPs. (Refer to Johnson [2010] for a more extensive discussion of the economic logic of DWSPs.)

The Economic Logic and Predictions of DWSPs

I have argued that we need to explain the paradoxical occurrences of countries that achieve low poverty, relatively high economic performance, and relatively high levels of government expenditures. I concluded that we need a new theoretical framework for thinking about social policies that may be both protective and productive. I then proposed a notion of welfare developmentalism to explain the types of policies that may be responsible for these protective-productive outcomes. Based on a set of developmentalist principles these policies were referred to as

DWSPs, which emphasized in-kind and universal transfers, higher overall levels of expenditure than economic logic would suggest is beneficial, and a focus on family policy and ALMPs. The predicted effects of these types of policies are broadly at odds with mainstream economic theory. Here I briefly compare the logic and relevant assumptions of the mainstream economic view with the developmentalist view. While I cannot review mainstream economic perspectives on the welfare state or specific policies in detail in this paper, I briefly clarify the limitations of the second-best theory and market failure explanations, and propose several hypotheses about the consequences of DWSPs.

With respect to the political economic logic of DWSPs, a substantial contrast can be drawn between welfare developmentalism and the standard economic view. Recognizing diversity among economists, welfare developmentalism is contrasted with the standard view with respect to embedded values, central assumptions, and policy implications.³⁹ To more fully understand the economic logic of DWSPs, it is important to appreciate the economic observations or assertions that are associated with developmentalist principles and the ways in which these differ from the standard economic perspective.⁴⁰ This is valuable because it can help clarify the theoretical basis for the distinctive predictions offered by welfare developmentalism relative to the mainstream view, offering a plausible explanation for the empirical results and a basis for future research. Further, owing to the nascent character of this conceptual framework, identifying the economic concepts on which it is based can lend deeper theoretical coherence to welfare developmentalism by grounding it in established economic ideas and traditions and can pave the way for further theoretical development.

Table 2. Situating Welfare Developmentalism in Economic Thought: Summarizing Differences

	Standard economic view	Welfare developmentalism
Value approach		
Normative status	Rooted in the positive economic perspective. Little can be said about the fairness of allocation. Market-based allocation is generally seen as optimal.	Rooted in the normative economic tradition in that it is focused on how resources should be allocated. Market-based allocation is typically suboptimal and needs to be supplemented.

³⁹ I follow the contingency-based view of social protection and economic efficiency (Gough, 1996; Tomassi, 2005) (see also Karelis, 2007; Pasinetti, 2007; Pressman, 2005 on the limitations of economic laws) and more broadly the spirit of the heterodox economic tradition. The latter reflects the effort to restore realism and complexity in economics (e.g., Fullbrook, 2004, 2006, 2008; Harvey & Garnett, 2008; Keen, 2001; Lawson, 2006), which reflects a return to classical notions of political economy where the contingent nature of economic laws as well as people's preferences is recognized, and the constructedness (Polanyi, 1944) and self-fulfilling (Merton, 1949) or performative nature of economics (MacKenzie et al., 2007) is acknowledged. There are at least two main reasons that it is difficult to understand the economic implications of social policy and in particular to discover interdependencies and synergies across policies. The first is the piecemeal and pragmatic way in which public policy is made. The second is that microeconomic policy analysis is constrained by the tendency to focus on specific policies and problems. See Johnson (2010, pp. 70–71, footnote 61) for further discussion.

⁴⁰ It is important to recognize that in considering ongoing changes throughout economics, there is some dispute about whether there is still a mainstream and whether that can be described as neoclassical. Davis (2006) suggests that neoclassical perspectives no longer dominate and that there is no longer a unified mainstream view but an increasingly diverse set of perspectives. However, neoclassical perspectives still arguably dominate instruction and are the primary focus in public policy (Lefebvre & Victorisz, 2007).

Central assumptions		
Role of market failure	The private market typically delivers efficiency. Failures are typically seen as discrete, isolated, and limited (i.e., not interrelated). The scope for information failure is limited.	Market failures are seen as widespread and interrelated. A broad notion of information failure is possible.
Efficiency, distribution, and production	Markets are generally efficient and resources utilized. The focus is on exchange. There is a strong separation between production and consumption.	Market distributions are not necessarily efficient, and underutilization of resources occurs. The focus is on production. Production can be increased by reducing social costs (i.e., increasing social investments). In this way, production and later consumption are linked.
Policy implications		
Likely outcomes of government intervention	Not enough is known to justify large scale interventions. Only a residual welfare state is justified. The emphasis is on the risk of government failure in terms of information limitations and economic distortions.	Enough is known to justify large scale interventions. A universal or institutional welfare state is justified. The emphasis is on how government, through social policy, can contain information failures and economic distortions.
Redistribution and goals	Redistribution is problematic, interfering with market outcomes, which are typically optimal. Focus is on remediating severe poverty, to the extent that transfers are permitted.	Redistribution may increase efficiency, especially if it increases capacities. Focus is on preventing poverty.
Types of social policy supported	Emphasizes selective intervention based on cash and modest overall social expenditure. Preferred approach to means testing, ALMP, and family policy less clear.	Emphasizes systemic intervention based on in-kind, universal, and generous overall social expenditure. ALMP and family policy should be particularly beneficial.

With respect to the *value approach*, key differences center on the role of distribution beyond Pareto optimality, sympathy toward an objective basis of value, and belief that the high cost of poverty suggests an increase in net income may result from poverty prevention. In the mainstream view, economists are quite skeptical of their ability to make normative statements, especially about the distribution of resources. The focus is primarily on *describing* economic interactions, especially describing how resources would be allocated if underlying assumptions were realized. Goods and services generally are not seen as having value in and of themselves but only in exchange. So in the mainstream view, there is little room for identifying particular items as *good* and judging a society based on how that item is distributed. To the extent that the mainstream view discusses the distribution of income or goods, the key concept is Pareto optimality. Pareto efficiency says nothing about how good the income distribution is (Arkhiereiev & Schwodiauer, 2008; Koning & Jongeneel,

1997). The mainstream view focuses on economic efficiency and the size of the pie and generally ignores income distribution (i.e., dividing up the pie), seeing this as a more normative issue.

In contrast, the developmentalist view is built on an older economics tradition that is more willing to place value on certain goods and has more emphasis on how resources *should* be allocated. It is less hesitant about considering normative arguments. The tradition dates back to the work of Pigou (1920, 1952), which linked optimality conditions to the distribution of income and is connected to the Material Welfare School or “old welfare economics” (Gagnier, 2000, p. 49). Developmentalism could be interpreted as implying a critique of the subjective theory of value and as being sympathetic toward a more objective basis for determining value. Whereas subjective valuation tends to support individuals’ choice of the price they wish to pay for goods or services, developmentalism supports a notion that some goods and services have value to society beyond what individuals may be likely to pay.⁴¹

Developmentalism makes a strong critique of mainstream theory by raising the possibility that the way certain goods and services are distributed can affect the size of the pie in the future. For example, a distributional system that leads to extreme poverty may stunt children’s cognitive and emotional development with long-term harmful consequences for their education and acquisition of skills. Thus, this unequal distribution could result in a lack of economic competitiveness in the long term (Gough, 1994, 1996). Developmentalism suggests that social ills have significant costs. Specifically, it suggests that there are many costs associated with poverty and therefore benefits to its prevention (see Johnson, 2010, p. 133, footnote 120 for references). It adopts a broad view of the social prerequisites of the economic system. As such, meeting developmental needs can be useful both in terms of alleviating immediate costs of poverty and in promoting and sustaining longer term economic growth.⁴² The welfare economist need not be confined to mere Pareto optimality but can also consider any theory of the human good (e.g., the satisfaction of basic needs) (Ackerman, 1997; Sen, 1982, 1999).

In regard to *assumptions*, welfare developmentalism differs with respect to the nature of market failures and relations among efficiency, distribution and production. Specifically, market failures are assumed to be widespread and interrelated (drawing on a broad notion of informational failure, which justifies merit goods), and underutilization occurs naturally in markets and so efficiency and distribution cannot realistically be separated.

⁴¹ The central difference between subjective and objective notions of value is that they distinguish the property of an object desired by an individual from the property of an object that is beneficial to society (Screpanti & Zamagni, 2005; Stiglitz, 1988) (see also Black, 2008). Developmentalism emphasizes the comparability of physical needs in contrast to the incomparability of subjective desires (Cooter & Rappoport, 1984) and views these material needs as being common to almost all people (Ishikawa, 2001). It suggests that a broad range of social conditions may be factually related to productive outcomes (irrespective of individual beliefs) and that the manner in which resource transfers are made is important insofar as different goods and means of delivery may mediate the ability of individuals to effectively transform material goods into utility. Most types of social policy simultaneously involve the transfer of income (or goods/services with monetary value), entail consumption, and take a form that has implications for capability-related concerns such as access.

⁴² Focusing on the fulfillment of minimum needs can be traced to Pigou (1920, 1952) and utility. Pigou, the central economist in the Material Welfare School, had strong links to the classical economic tradition and political economy (see Hicks [1975] for discussion). Pigou emphasized, as does welfare developmentalism, the possibility that an increase in net total income could occur if poverty were prevented (i.e., efficiency is compatible with fairness).

The standard economic view asserts that under conditions of perfect competition, complete markets, and—most crucially—perfect information, markets will be efficient (Barr, 1998). Perfect competition requires that economic agents be price takers and have equal power. Complete markets provide all goods and services for which individuals are prepared to pay a price that covers their production costs (e.g., no public goods, no uninsurable risks). In the standard view, there are few *market failures*, a term used by economists to describe the condition in which the production or distribution of goods and services by a free market is not efficient. Note that in the traditional view, market failures have nothing to do with failures to achieve desired outcomes (e.g., equality).

Economists differ in their views as to the extent of market failures. The Chicago School most clearly approximates the first-best view in economics (Boadway & Bruce, 1984; Fisher, 2003; Just, Hueth, & Schmidt, 2004; Reder, 1982), a belief that the real world comes close to the ideal world. The first-best view tends to downplay the extent and significance of market imperfections and treat each market imperfection with its own first-best solution. In contrast, other economists assume that market failures are more widespread and interrelated (Greenwald & Stiglitz, 1986; Stiglitz, 2009). Like the second-best economic perspective that supports a larger welfare state, developmentalism does not assume that “perfectly competitive and perfectly clearing markets” (Atkinson, 1999, p. 8; Schettkat, 2003) are common.⁴³ However, developmentalism suggests that information failures have special relevance beyond traditional market failures (Bator, 1958).⁴⁴

Most economists think of information failure in terms of asymmetric information, where at least one party to a transaction has relevant information but the others do not.⁴⁵ Developmentalism suggests a somewhat broader notion that is related to what are termed merit goods. Merit goods, discussed

⁴³ It is important to clarify how market failures are related to the first theorem of welfare economics (i.e., a competitive economy is always Pareto efficient). Interpreting the conditions under which the first theorem is true and identifying policies by which Pareto efficiency can be restored provides the basis of what is called the market failure approach to modern welfare economics (Stiglitz, 1991). As Dufour (2008) notes, by construction, market failure does not involve any notion of a desirable distribution of welfare (or income). By its very definition, market failure analysis involves the identification of situations in which more wealth could be created while keeping its distribution constant. Thus market failure cannot on its own justify redistribution, in the sense that policies for correcting market failures do not necessarily aim at producing a desirable income distribution.

⁴⁴ Imperfect information justifies insurance and consumption smoothing, which have productive consequences over a long time horizon. “Institutions may arise that are insurance in the sense of protecting against risk, even if they are not insurance in a narrow actuarial sense” (Barr, 2001, p. 23). They both reduce costs associated with uncertainty and risk and increase benefits by reducing underutilization and guaranteeing returns to investment (through sufficient productive investment). Apart from paternalism, “the only argument for universal provision is if the ‘national efficiency’ externality is so strong that it justifies compulsory and/or subsidized consumption of a good by the entire population” (Barr, 1992, p. 749). The same can be said for in-kind benefits that entail overriding consumer sovereignty (Barr, 1998). For instance, rather than waiting for market or family structures to break down, these policies serve as “ex ante actuarial insurance with a long time horizon” as opposed to being “actuarial ex post” (Barr, 1992, p. 795). See Hoff (1996) for discussion of major channels through which the distribution of wealth may affect efficiency in situations of imperfect information.

⁴⁵ The main varieties of asymmetric information include adverse selection and moral hazard. While in the former the ignorant party lacks information while negotiating an agreed-upon understanding of or contract to the transaction, in the latter the ignorant party lacks information about performance of the agreed-upon transaction or lacks the ability to retaliate for a breach of the agreement. This notion of information failure is focused on discrete contracts or transactions between individual agents, whereas the notion of information failure I am using should be understood as being related to merit goods. It is both more social in nature (with respect to merit goods) and broader, not in the sense of being nonutilitarian but in terms of expanding what is thought of as having economic (and not simply social) implications. It is not restricted to information about quality or price. In this sense, lack of knowledge of externalities is in a sense a type of information failure, though not in the terms in which information failure is conventionally understood.

more fully below, imply a particular sort of information failure that suggest that social benefits exceed social costs (or generate positive externalities), but individuals generally only recognize the private value, not the full social value. In this sense, merit goods imply that individuals are not the best judge of their own welfare (Barr, 1992) and arise as a response to mistaken (or absent) preferences or unknown probabilities (Sandmo, 1983). Developmentalism sees policymakers as potentially better informed than citizens about product quality, price, and unpredictable probabilities (and nonactuarial risk) that may incur costs. Moreover, policymakers may have better information about the social benefits of the consumption of particular goods, especially if a broad range of social goods are important correlates of economic productivity (and lower poverty).

With respect to the way that we think about efficiency, distribution, and production, the mainstream perspective assumes no underutilization of resources. The first welfare theorem states that a market outcome is efficient, primarily because the invisible hand of the market aggregates individual decisions into a Pareto efficient allocation. The second welfare theorem states that any efficient allocation can be sustainable by a competitive equilibrium.⁴⁶ The first fundamental theorem is “probably the single most powerful result in the theory of market economies” (Just et al., 2004, pp. 27–28). One of the central consequences of the second fundamental welfare theorem was the ability to focus on efficiency issues and ignore distribution issues (Atkinson, 2003; Stiglitz, 1991) (see also Klasen, 2008).

The standard economic view assumes that wage rates are set equal to one’s marginal productivity, and the adequacy of wages is not considered. Competitive markets ensure that people are paid their contribution to production, and this explains income distribution (Palley, 2003). There is thus no economic concern about subsistence wages beyond physiological subsistence and reproduction (Lefebvre, 2000). The wage price corresponds to its competitively determined level, not basic needs. As described by Ishikawa (2001, p. 26):

In a state of equilibrium under the fully functioning market economy, the markets simultaneously determine all resource allocations to the various production processes and income distribution among individuals through pricing each of their resources. It is one of the most fundamental theorems in microeconomics that the resource allocation thus attained is efficient in the sense that there is no resource inefficiently employed in the production process and no room to raise individuals’ utilities from consumption.

Developmentalism has a very different view of efficiency, distribution, and production. It assumes that relatively widespread underutilization of resources occurs and focuses on increasing investment and reducing social costs that impede production to improve productive efficiency. Developmentalism suggests that market forces do not necessarily provide a distribution of income level that guarantees high productivity. Because underutilization occurs, various type of distribution

⁴⁶ The first welfare theorem supports a case for nonintervention in ideal conditions. The second welfare theorem states that every Pareto-optimal allocation can be achieved as a competitive equilibrium after a suitable (lump sum) redistribution of initial endowments (e.g., Pareto efficient allocation can be attained through the price system). Lump sum transfers, being based on characteristics exogenous to the taxpayer, can bring about any desired distribution of income or goods without efficiency loss, whereas taxes related to income cause inefficiency through their effect on individual labor supply. This is the theoretical basis for the separation of efficiency and equity (Furman & Stiglitz, 1998). It is unclear how any real-world government might enact such redistributions (see Blaug [2007] for a more extensive discussion).

can have productive consequences. By suggesting that distribution and efficiency are not just related but that distribution can theoretically *contribute* to efficiency, developmentalism seeks to broaden the informational basis on which efficiency is considered and promote a longer term view of efficiency.

Finally, with respect to *policy implications*, welfare developmentalism has consequences for likely outcomes of government intervention, redistribution, the goals of social policy, and the types of social policy supported. In the standard view, markets are generally efficient. Market failures could justify governmental intervention but—especially if market failures are discrete and rare—this perspective leads to only a residual welfare state (Barr, 1992). The standard economic view tends to argue that even if there is a need, the government is unlikely to get complicated interventions right, so simple solutions are preferable (Lipsey, 2007; Rodrik, 2007b).⁴⁷ Moreover, the prospects for policy from the mainstream perspective are limited because government actions are constrained by information limitations and are likely to lead to economic distortions. The standard economic view may support limited government intervention but does not justify more extensive social policy (Barr, 1998).

The likely outcomes of government intervention differ for those within the traditional perspective who hold to the first-best view and those who hold to a second-best perspective. Those in the first-best school tend to see markets as working quite well with few distortions. Thus, interventions almost always are detrimental to efficiency. Those who hold the second-best view argue that if there are market imperfections, market outcomes can be improved by well-designed interventions. However, there is no clear guidance for exactly how to think about policy interventions, how policies may interact, and which types of interventions will be most likely to lead to net benefits. Though equality and efficiency may be partially compatible from the second-best perspective, there is no clear explanation for how distributive policies could actually contribute to economic performance in a positive sum manner. In short, the second-best view does not tell us what kind is best.⁴⁸ For instance, as Bent Greve (2007, p. 45) notes with regard to the Nordic welfare states, “arguments for public sector intervention, for example due to market failure, which has been the historical reason for intervention, do not per se give any indication of which type of intervention is needed.”

⁴⁷ The reluctance of mainstream theory to deal with these details may have more to do with reservations about emphasizing second-best theory than denying that it more realistically describes the world we live in (Koning & Jongeneel, 1997). From this perspective, economic reality may be too complex to make the designing of second-best policies practicable (Lipsey, 2007; Lipsey & Lancaster, 1996; Mishan, 1962; Ng, 1979) and as a result, economists fear that arbitrary political interventions might follow. The theory of second-best does not imply a program of vigorous government intervention or indeed much of policy substance. Lipsey (2007, p. 356) writes with regard to the general theory of the second-best that, “achieving an economy-wide second-best optimum allocation looks even more difficult than achieving the first-best.” He cautions that “any policy may have unexpected and undesirable consequences in apparently unrelated parts of the economy.” See also Demsetz (1969).

⁴⁸ Based on second-best insights, one can conclude both that there is one economics (neoclassical) but many policy options and that the problem in economics lays in simplistic rules of thumb on policy (Rodrik, 2007a). The latter point is not a new insight but was explored many years ago by Gunnar Myrdal (1973) and Paul Streeten (1967) in the notions of illegitimate isolation and misplaced aggregation. *Illegitimate isolation* (of contributory causes) is the overestimation of the independence of a key variable as a sufficient and necessary condition of development, failing to place it correctly as one among several complementary variables, all of which are necessary to produce an overall developmental dynamic. *Misplaced aggregation* is the adding together of elements of a system to produce a single variable that cannot operate as a coherent single cause. Rather, it becomes a diffuse amalgam of many overlapping ingredients containing distinctly different component parts, not all of which will move together or in the same direction in their influence. See also Myrdal (1974).

Developmentalism explains the possibility of sustained substantial interference with the market with minimal adverse consequences. If market failures are widespread and interconnected, governmental actions to address these could very well have positive effects. Developmentalism suggests that a particular version of information failure broadens the scope for intervention based on the importance of merit goods. Specifically, information failures, in the context of dynamic efficiency (McCartney, 2004), open the door to merit goods (Musgrave, 1957, 1959). The notion of merit goods is controversial (e.g., Jansson, 2006; Head, 2007) but generally refers to goods that have positive externalities, where the social benefit exceeds the private benefit, and so would be underconsumed if individuals only consume as much as they prefer. Examples of merit goods are health care and education (see also Organization for Economic Cooperation and Development [OECD], 2002).⁴⁹ Although sometimes equated with public goods, merit goods are quite distinct.⁵⁰ Barr (1992, pp. 748–749) suggests that these goods are “a response to a conventional externality (e.g., clean water) or a consumption externality (e.g., where a rich person’s utility is dependent upon a poor person’s ‘good’ consumption as opposed to their income).” For developmentalists, lower consumption than is socially optimal could occur if policymakers are better informed than citizens: a problem of information failure. Underconsumption could also occur if individuals are myopic short-term utility maximizers, who may not choose optimal levels of these merit goods. Developmentalism suggests that the possibility of merit goods and their corresponding information failure result in market failure and justify larger scale governmental interventions.

Traditionally, the idea is that the government decides what goods and services are merit goods—which may be subsidized or provided free of charge (so that consumption does not depend primarily on the ability to pay)—based upon societal values and judgments. But these decisions may also be made based on consequentialist perspectives: if consumption of merit goods is encouraged, this may actually lead to increased output in the long run.⁵¹ It is less the knowability of the correlation of

⁴⁹ Merit goods are defined in the OECD Social Expenditure Database and contrasted with income maintenance programs. Often associated with the Nordic welfare model (Arter, 1999; Kiander, 2004), developmentalism suggests that while it may be possible to identify specific policies as related to merit goods, one should use caution when characterizing individual policies in singular, isolated or linear ways (e.g., consumption or production) as opposed to understanding how they interact.

⁵⁰ Public goods have long been a central concept of public economics (Wuyts, 1992). They are characterized by nonexcludability and nonrivalry in their consumption. They are typically seen as very rare. Public goods are goods that would not be provided in a free market system, because firms would not be able to adequately charge for them owing to nonexcludability and nonrivalry. Merit goods are goods that would be provided in a free market system, but would almost certainly be underprovided owing to the fact that the market only takes account of the *private costs and benefits* and not *external benefits* that may arise to society.

⁵¹ Compared with traditional market failures (Bator, 1958), market failures due to imperfect information and missing markets may be widespread in the economy. Problems of moral hazard and adverse selection may be endemic to all market situations. Given the possible theoretical pervasiveness of such failures, Stiglitz (reflecting the second-best position) notes that the costs of administration of corrective taxes might well exceed the benefits of a given policy. The confidence in the efficiency of market solutions reduces hand-in-hand with the confidence in the government to correct them. If information failures are as extensive as believed, piecemeal interventions become less effective as they are likely to give rise to distortions and overlook complementarities. When thinking about the implications of this for social policy, two of the major problems that hamper the actions of governments—limited information and distortions (incentives are also particularly important)—may be alleviated by DWSP. If a broad array of social factors have positive economic implications (e.g., factors highly correlated with poverty but exogenous to the individual), the need for specific information is reduced as a wide array of factors contribute to economic performance. The possibility of distortions, recognized in Abba Lerner’s (1944) diminishing marginal utility, are minimized to the extent that benefits minimize moral hazard that results from relying heavily on income-based eligibility. Lipsey (2007) has noted that piecemeal changes are more feasible in a parochial, specific policy context than when making judgments about an entire society’s

interrelation that is pertinent than the actuality that many social conditions may turn out to have economic implications, whether fully recognized or not.

Among the various schools of neoclassical economics, the Chicago School has offered the most strident criticism of redistribution and the welfare state. The microeconomic work of Stigler (1961, 1966, 1975) and macroeconomic work of Friedman (1953, 1956, 1960, 1968)—inspiring public choice theory (Buchanan & Tullock, 1962; Niskanen, 1971) and minimal government arguments (Canto et al., 1983)—form a generalized view of the welfare state. The welfare state is generally considered to have “distorting effects on the automatic clearing mechanism by affecting wages, labor supply, or labor costs” (Esping-Andersen, 1990, p. 144). In other words, it interferes with the clearance of surpluses and shortages by restricting the ability of prices to change and obstructing the ability of the economy to achieve equilibrium. If markets were generally efficient to begin with, distorting them is likely to produce inefficiencies. While research has dealt with issues such as savings rates, crowding out of capital investment, and the like, the literature has tended to focus on the negative-incentive effects of social benefits on labor supply and mobility at the micro level, along with attempts to argue their effects at the macro level (Danziger et al., 1981; Lindbeck, 1981). In this view, transfers are least likely to do harm when they remediate severe poverty.

In contrast, in the developmentalist view, markets are likely to leave some individuals with limited resources. A social policy that redistributes income may enable these individuals to gain capabilities that will then be productive in the long run. Moreover, redistribution may lead to low-income individuals having more access to goods, services, and opportunities, and this may also have productive consequences in the future. From a developmentalist perspective, long-term investments are important and can lead to growth. Moreover, transfers are most likely to have positive effects when they prevent poverty.

Beyond a generalized critique of the welfare state, neoclassical theory does address in some detail likely effects of various types of social policies. The neoclassical view prefers cash benefits to in-kind benefits, as I discuss below. It has a more nuanced perspective on means-tested versus universal benefits, seeing disadvantages of each. Neoclassical theory does not speak in as much detail to family policy and ALMP beyond suggesting that the earnings-related, contributory approach should be expanded, benefit duration and replacement rates kept low, and subsidies provided should take the form of cash. I briefly elaborate on each of these in turn.⁵²

From an economic efficiency perspective, cash transfers are generally deemed to be superior to in-kind transfers because they do not directly influence market prices. Economic efficiency is enhanced to the extent that the marginal benefit of goods and services sold in an economy is equivalent to their marginal social cost. Transfer programs that lower prices of target goods for the poor will cause individuals to consume more of these goods than they would in the absence of the program, which will result in resources that could be used more efficiently in producing other goods and

welfare. Mishan (1962) notes that it makes designing second-best policies for all situations impractical. However, one could argue that to the extent that the latter is a goal, broader more encompassing and uniform social policies are less likely to introduce undesirable and unexpected distortions. In other words, the adverse effects (and foregone benefits) of piecemeal policymaking undertaken on a grand scale are reduced with preventive institutional policies (Esping-Andersen & Korpi, 1987) that anticipate failures and distortions (i.e., universal and in-kind benefits may be best suited to overcoming the two main second-best critiques).

⁵² The following discussion provides a cursory overview of much more complex arguments regarding the possible antipoverty effectiveness and efficiency implications of various types of transfers. A thorough and authoritative exploration of these issues is available in Garfinkel (1982).

services being allocated to the production of these target goods for the poor. Services available without cost may lead to overconsumption and result in the loss of a certain amount of economic efficiency. Unlike in-kind subsidy programs, cash transfer programs are not normally affected by changes in product prices. Relatedly, cash transfers can help to stabilize the macroeconomy. Once the administrative infrastructure is in place, the cost of operating cash transfer programs is often less than the cost of providing assistance in-kind. Finally, providing essential goods and services via in-kind benefits can be seen as restricting freedom of choice and resulting in lower individual utility than cash (where actors can reallocate consumption between all goods according to their preferences).

The neoclassical perspective also speaks to the relative merits of means-tested versus universal benefits, but here the preferred approach is less clear. Advocates of means-tested benefits typically endorse target efficiency, preferring programs in which a high proportion of the benefits go to those most in need. Underlying the targeting argument is a notion of a tradeoff where the benefits distributed to the nonpoor are assumed to lower the amount available for redistribution to the poor (Howe, 1991). Relatedly, means-testing is associated with lower expenditures, whereas universal programs require higher funding—necessitating higher taxation and employer costs—and may damage economic performance (Eardley et al., 1996). Although some have been concerned with the costs of administering a means test, means testing can be quite efficient if everyone files an income tax return, there is adequate information to determine payment, and the administrative machinery can efficiently disburse payments (Atkinson, 1995b; Cornes, 1995; Sen, 1995).

On the other hand, traditional means-tested benefits, with relatively few exceptions, have relatively high benefit reduction rates (BRR) to ensure that benefits go only to those who are most needy. High BRR mean low work incentives and labor markets may be distorted as a result. High BRR can be seen as creating poverty traps in which individuals are economically better off receiving benefits than trying to combine them with low-wage work.

Mainstream theory is less specific regarding family policy, which encompasses family service expenditure, public child care coverage, and the like (OECD Social Expenditure Database). The decision to have children has historically been treated as a private choice, and the economic consequences for the household a private concern (Gornick & Meyers, 2003) in contrast to the view of children as public goods (Folbre, 1996, 2008).⁵³ Economic rationales for societal intervention in family time allocation decisions have been largely absent, and distributional concerns are typically intrahousehold rather than interhousehold.⁵⁴ Issues of efficiency seldom arise, and it is assumed that parents will not underinvest in children. Agnosticism prevails about whether subsidizing families with children can be rationalized as the correction of a market failure if investments in children generate positive social externalities. This framework takes the household (not the individual) as the

⁵³ Contrary to the view that the utility function of a typical economic agent is generally assumed to be independent of the consumption of others, what happens in one household may affect what happens in another (see Komlos and Salamon [2005] for discussion of interdependent utility functions).

⁵⁴ In the traditional economic view, definitions of productivity, which are based on the price mechanism and presuppose a market transaction, conventionally defined the productivity of social production or reproductive work (public sector social services or household production) as zero or close to zero (Andersson, 2005). More recent economic analyses are concerned not only with intrahousehold outcomes but also with the effects of family policies on social welfare (e.g., Bernal & Fruttero, 2008).

agent in family decisions.⁵⁵ Family members who work in the market will compensate those who specialize in household production during the childrearing phase and later in life, which postulates a permanent, unanimous family (Lundberg, 2002).

Economists typically approach the labor market from a simplified perspective that assumes perfect competitiveness, where in the absence of laws workers and employers have perfect information, transaction costs are absent, and workers—choosing to maximize their utility function (income or leisure)—earn their marginal product of labor. These assumptions are then relaxed, deviations from perfectly competitive labor markets are considered, including that there are costs associated with employment and switching jobs. ALMPs or measures to improve the functioning of the labor market that are directed towards the unemployed (Calmfors, 1994) come from a recognition of imperfections in the labor market. For example, workers have insufficient investment in skills because they are severely credit constrained. Firms are not willing to finance general qualifications (Becker, 1962, 1964) and will only in part pay the expenditures for developing firm-specific skills. Thus, the mainstream approach favors better loan markets over direct subsidies to training (Acemoglu & Pischke, 1999) and sees little role for ALMP. Heckman et al. (1999, p. 2080) conclude that “when effective, ALMPs make economically disadvantaged persons less poor and modestly increase employment among the unemployed, however, these gains (if present) are small and it is unlikely that a substantial increase in government funding will improve work force skills.” Economic theory provides little clear guidance to the effect of labor institutions on economic performance (Freeman, 2008).⁵⁶

The neoclassical view on social policy suggests that maximum economic efficiency should result from low overall social policy expenditures, as limitations on the budgets would serve to keep taxes and labor disincentives low. In this view, these policies combined with the economic efficiency that results should lead to low income poverty in the long term. Further, mainstream economists tend not to consider the multidimensionality and potentially complex interactions associated with how social policies are combined.

I argued earlier that developmentalist social policy focused on in-kind benefits, nonmeans-tested benefits, family expenditures and ALMP, and higher levels of expenditures. I briefly discuss these aspects again, highlighting the economic logic that leads to these policy directions. According to inclusive welfare developmentalism, in-kind benefits are advantageous because they guarantee consumption of developmentally-relevant goods and services, facilitate political support by the nonpoor (so are likely to be more adequate and accessible), are less likely than cash to be wasted by people, and are less likely to generate moral hazard. Economists see cash as important because parents prefer cash transfers over in-kind in that they can spend them as they see fit. In contrast,

⁵⁵ In the context of a unitary household, gender equality in command over resources need not require equality in market wages or earnings opportunities. In this view, if specialization in the household is efficient due to comparative advantage or sector-specific learning, it will also be socially desirable. Since childrearing takes up only a portion of the total lifespan but tends to coincide with a period when intense investments in market skills are optimal for workers, an efficient family solution will involve some intertemporal redistribution.

⁵⁶ Perhaps a central reason for this is the possibility that “institutions that work in one way in one country may work differently in another because the rest of the institutional structure differs” (Freeman, 1998, p. 6). Freeman notes that too little is known about how labor institutions fit together as systems. A system exists when the contribution of one institution to outcomes depends on the configuration of other institutions. Complementarity among labor and other practices is where policies may be productive whereas absent the other institutions, they may be less productive or even counterproductive.

developmentalism would suggest that services related to the reduction of disease, creation of wealth, and improved capabilities broadly are a source of development within and outside of individual households. This then justifies in-kind benefits even if there is some short-term efficiency cost.

The developmentalist perspective emphasizes universal benefits because they should result in higher uptake and lower moral hazard than means-tested benefits. While universal benefits entail a leakage of resources to the nonpoor, means-tested benefits are costly to administer, tend to stigmatize the recipient, and impose costs on the claimant. Foremost among the costs associated with means testing are moral hazard, lower uptake, probable inadequacy, and the costs associated with the occurrence of poverty. Esping-Andersen (2002, p. 25) suggests that “diminishing public health, pension, or social care expenditure is unlikely to produce any real cost savings since households will compensate with market purchase or with self-servicing.” In other words, meager means-tested benefits “will not result in lower net household money outlays” (Esping-Andersen, 2002, p. 25) but *may* result in unmet needs.

Putting aside both the debatable economic assumption that public services tend to be delivered inefficiently and the normative assumption about the inherent value of choice (e.g., Streeten, 1993), one can argue that because means-tested programs typically result in low levels of coverage and limited access, there may be substantial future and cumulative costs (and foregone productivity) associated with means testing. A related argument can be extended to family policy and ALMP as well. Developmentalism tends to see children primarily as public goods and production within the home not simply as consumption but also as an investment with positive social externalities (assuming that underinvestment is common).⁵⁷ Finally, where perfectly competitive labor markets do not exist, there are substantial costs for the individual worker and the family and benefits of innovation, making investments in ALMP justifiable.

The developmentalist view of DWSPs, including the way in which they are combined and interact, differs from the mainstream view and suggests effects that are not well-explained by mainstream economic theory. The developmentalist view of social policy suggests that maximum economic efficiency and poverty reduction should result from extensive universal benefits and in-kind benefits in combination with high overall expenditure. The benefits that are generated will outweigh any adverse effects of higher taxes or labor disincentives in the long term. In this view, these policies should offer future social benefits as well as prevent socially costly poverty.

The developmentalist principles proposed earlier are consistent with and built on several economic observations, which are different from the economic observations of the mainstream model (Table 3). In the traditional economic view, social policy typically harms efficiency, whereas the principles that inform developmentalism suggest that social policy can make a net contribution to economic performance. In the mainstream view, the general exception to the notion that redistribution through social policy is harmful is the case of market failures. However, there is little policy guidance

⁵⁷ As Thurow (1974, p. 194) notes, “economists deal with efficiency differences between firms by relying on the sacred right of the inefficient to fail, but this is clearly an inadequate response to inefficient families. One of the key reasons for our general interest in minimum standards of living ... is our desire to prevent ‘failing families.’” Treating inefficient families as economists treat inefficient firms would incur high social costs and foregone social benefits, which signals an important role for prevention. In other words, as Kahn (2009, p. 7) has noted, child and family policy is no longer simply about problems of “child saving” and “child welfare” but rather about “the limitless potential of each wondrously individual child.”

for anything but a residual welfare state. In contrast, developmentalism offers a rationale for redistribution and more specific guidance for policy.

In Table 3, the middle column lists the developmentalist principles that were identified as having important implications for social policy. Each of these principles is implied by observations and assertions about economic relationships that were discussed earlier and are listed in the first column of the table.

The table shows the chain of logic leading to DWSPs. Because there are basic needs that are not always met in the market, governmental provisions are needed. For these provisions to be of high quality, expenditures need to be fairly generous. Another example shown on the table is that not all goods and services are available in sufficient quantity and quality for all. This leads to a principle of ensuring access to goods and services, which implies a role for in-kind benefits.

Table 3. The Economic Underpinning of Developmentalist Principles

Key economic underpinning observations	Developmentalist principles	DWSPs
There are minimal or basic needs that may or may not be met for all people in the market.	Adequacy of provision to ensure high quality	Generous expenditure
It is cost-effective to avoid social problems before they occur.	Prevention of future social costs	Family policy ALMP
Certain types of governmental actions can encourage human capital investment and lead to efficiencies beyond what would occur in the market.	Activation that reduces disincentives and maximizes incentives/ability to earn	
Market allocations are not generally optimal, and there is a role for redistribution in improving productive efficiency. Not all goods and services are available in sufficient quantity and quality for all people, and these commodities are important to productivity.	Access to goods and services/Entitlements based on relationship to economic development (not exclusively need, contribution, or citizenship)	In-kind benefits Universal Benefits
There are information failures regarding merit goods (where current consumption enables future production).	Maximize the utilization of resources	
There are considerable costs associated with poverty both in terms of direct costs and foregone productivity.	Guaranteed consumption of developmentally beneficial goods and services	
	Inclusiveness based on increasingly stochastic risk/instability	

Developmentalism is based on economic observations and relationships that generally differ from the standard economic view. In the developmentalist view, competitive markets may not allocate resources between competing uses in an optimal fashion. Market failures are widespread, which leads to a variety of policy interventions. The developmentalist view sees social policy as yielding benefits, especially when the policies can be seen as investments. The economic logic of developmentalism places a special emphasis on distribution and its potential positive contribution to

productive efficiency, which implies that social policies have both protective and productive functions.

The notion that in-kind and universal benefits, as well as ALMP and expenditures on family policy, should not just decrease poverty in the short term but also build the factors that contribute to economic performance in the long term, is at odds with aspects of mainstream theory. Welfare developmentalism hypothesizes that different combinations of social policy may prevent social costs through minimizing poverty associated with children and families, containing direct economic costs by not inhibiting labor market participation, and bolstering future productivity through the reduction of underutilized resources by guaranteeing access to and adequate consumption of developmentally essential goods and services. These propositions are testable. Although a thorough test was beyond the scope of this paper, a straightforward preliminary empirical test of the key ideas was undertaken and is summarized below.⁵⁸

Key Findings from a Simple Empirical Test

Are policies that reflect developmentalist principles associated with lower poverty (market and posttax/transfer)? The analyses undertaken were based on a sample of 82,287 households from 18 OECD countries in the Luxembourg Income Study (LIS) around the year 2000 and included families with at least one dependent child (< 18 years of age) and at least one working age adult (25–54).⁵⁹ Policy variables were drawn from the OECD and European Social Statistics Social Protection Expenditure and Receipts (ESSPROS) database. Finally, demographic variables were from the LIS, and macroeconomic variables were from the OECD.

Several hypotheses were proposed. The first was that all six dimensions of DWSPs (i.e., high expenditures, in-kind, universal, family-focused, active labor market benefits, and the combination of in-kind benefits that are universal) will be negatively related to posttax/transfer poverty. The second was that DWSP variables together will have a stronger negative relationship with poverty than the simple sum of each individual DWSP variable. The third was that all six dimensions of DWSPs will show a small negative relationship with pretax/transfer (market) poverty. The fourth was that DWSP variables together will be associated with a greater decline in market poverty than either variable individually.⁶⁰

While I will not discuss model specification details here, the analysis consisted of two sets of models, focusing on posttax/transfer poverty and pretax/transfer poverty (both measured as < 50% of country-specific median income). Within each set, four models were examined. Two were designed to confirm prior research using dummy variables for countries and dummy variables for regimes. Two were designed to explore hypotheses using DWSP variables (i.e., total social expenditure, focus

⁵⁸ While I have argued that developmentalism conceptually suggests that certain types of social policy may make a net contribution to economic performance over time, the empirical measures employed in this paper are limited to detecting minimal efficiency losses and cannot attempt to detect efficiency gains. However, articulating the theoretical possibility of the latter is important to (1) highlighting key differences between the economic logic of developmentalism and the traditional economic view and (2) developing expectations about different types of social policy. Further, more rigorous research into the possible productive effects of social policy should be the focus of future fourth generation studies.

⁵⁹ A sample aged 25–64 was also analyzed with no discernible difference in results.

⁶⁰ The analysis included a combination variable that captured the extent to which in-kind benefits are universal. The reason for suspecting an interaction between universal and in-kind benefits is that they are believed to collectively (i.e., synergistically) have a stronger impact of guaranteeing consumption of resources that are inversely related to poverty (especially costly poverty) while minimizing economic distortions and information requirements.

on expenditures on in-kind, universal, family-focused policies, ALMP, and focus on in-kind universal expenditures) and a DWSP index (linear and quadratic). All models controlled for demographics and country-level GDP and unemployment rates.

The analyses yielded several key if tentative results. First, DWSPs, with the exception of a main effect for in-kind and universal expenditures, are associated with a decrease in posttax/transfer poverty. Second, expenditures on in-kind benefits that are universal corroborated the synergistic relationship between DWSPs and lower poverty. Third, with the exception of a main effect for universal and in-kind expenditures, DWSPs remained salient in reducing market poverty. Fourth, expenditures on in-kind benefits that are universal appeared to be associated with lower poverty. Fifth, the DWSP Index is associated with lower posttax/transfer and market poverty (though not as a quadratic function in the latter case). Broadly, confirmatory analyses support the continued importance of the regime categorization as well as the relevance of policy variation across countries.

In terms of future directions, the simple analysis based on the conceptual framework outlined in this paper suggests several more or less applied lessons. First, what happens within social expenditure matters for both posttax/transfer and market poverty. While generosity is important, it is the way that expenditures are combined that deserve central scrutiny. Second, DWSPs *may* both support earnings and reduce posttax/transfer poverty. Social policy analyses must make efforts to more seriously account for productive alongside redistributive effects, incorporating cutting edge knowledge on the costs of poverty and underutilization of human potential. Third, DWSPs *may* minimize economic distortions and provide a range of goods and services that support productive economic activity and minimize social costs. The tentative results presented here underscore that more rigorous research is needed.

Discussion and Conclusion

I suggested that reconsidering the disparate ideas of social development in the context of new issues facing the welfare state made it possible to distill developmentalist principles that are relevant to thinking about productive social policy. Among key arguments made in this paper, welfare developmentalism proposes that (1) distribution may make a positive contribution to production, (2) certain types of poverty entail social costs, (3) underutilization occurs and prevention is important and valuable, (4) the effects of limited information and distortions are minimized by DWSPs (where income-based eligibility is minimized and social factors are broadly correlated with economic outcomes), and (5) policy interactions and synergy are important to the productive effects of DWSPs. The conceptual framework in this paper has a range of general implications for how we think about and analyze social policy in an environment in which it must increasingly be justified on the grounds of being a productive investment. I will conclude by mentioning three ways in which the developmental perspective might impact our thinking. In particular, I will briefly note implications for policy, research, and practice.

First, clarifying social developmentalist ideas may increase opportunities for policy-relevant learning across societies that are comparatively quite diverse. This study set out to make a conceptual contribution to understanding whether the same types of social policies are related to poverty levels. I argue that this approach has more policy relevance than a study of welfare regimes, as a finding that a particular regime has low poverty provides little direction to a country outside that regime in that it suggests that a wholesale overturning of institutions as well as policies may be required to achieve lower poverty.

In contrast, the findings using this approach suggest that poverty reduction may be able to be achieved by focusing more resources on ALMP, family policies, or in-kind policies that are universal, a set of policy reforms that may be achievable. While these analyses are simple and limited and should be corroborated with additional studies, if they hold, these findings suggest that in addition to overall expenditure effort, what happens within expenditure and the way that different types of expenditures interact may be quite important. While straightforward policy inferences may still be difficult for some countries, this approach suggests some policies to consider.

More broadly, and perhaps importantly, the developmentalist approach has the potential to help policymakers think in a more nuanced way about policy approaches and their interaction. It suggests that social policy transfers are neither simply about consumption nor production but that transfers can entail both aspects simultaneously so that policy analyses and policy debates should not be carried out as if certain transfers are only about passive distribution and consumption while others are about active investments. To the extent that individual policies do both synergistically and cumulatively, social expenditures cannot easily be rechanneled from passive to active social policies. The political economy tradition reminds us that the economic and social are often fundamentally inextricable, especially insofar as a wide range of social conditions *may* have economic consequences.

The notion that most welfare states have components of all typologies in their system and that policy is neither solely protective nor productive (i.e., purely economic or social) suggests that it may be misleading to look for either an exclusively developmentalist regime or specific policies that are singularly developmentalist. Despite the difficulty of examining interaction effects, it is clear that policies should not be evaluated in isolation from one another. While regime thinking risks obscuring important policy details and limits the possibility of learning based on common metrics, very narrow cost-benefit analysis that attempts to hold all other policies constant could risk committing epistemological errors if there are in fact synergies associated with particular policy combinations.⁶¹ Moreover, there are likely to be significant economic benefits to preventing poverty that we do not yet fully understand. While this analysis suggests that certain social policies tend to simultaneously have both protective and productive effects, much more extensive and rigorous research will be necessary to confirm and expand on the tentative findings of this study.

Second, in the larger study on which this paper is based, I acknowledged that there remain considerable challenges to crossnational research. In addition to data limitations, I argued that an even more formidable barrier to progress has been the lack of consensus on a conceptual framework for thinking comparatively about productive social policies across countries. The theoretical

⁶¹ It is important to avoid committing errors, such as crediting a particular policy for working when it is in fact a combination of policies that are producing the desired result (type I), discrediting a particular policy because supplemental policies that might contribute to its effectiveness are not being considered (type II), or mismeasuring the effect of a program or intervention that has been incompletely implemented (type III). While Third Way-inspired research tends to emphasize a selective range of what it considers to be productive social policies, an increasingly important viewpoint, what is referred to as the *social investment perspective* (see contributions to Morel et al., 2012) has never achieved consensus (Jenson, 2009). Scholars working in this area should be careful not to assume that (1) individual policies can be considered as exclusively compensatory or investment-oriented or (2) policies can be considered absent their potential interactive effects. In other words, it is not straightforward to conclude that benefit generosity creates earnings disincentives or to recommend employment-conditional earnings subsidies similar to the EITC (e.g., Kenworthy, 2008). For instance, to the extent that policies such as the EITC are associated with low wage, service-oriented labor markets, the introduction of such policies may erode generous welfare state benefits if it contributes to the expansion of low-wage labor markets with jobs that cannot sustain extensive taxes and transfers. It is critical to understand the complex impacts of existing policies and their preconditions.

synthesis summarized in this paper suggests that it is possible to formulate theoretically informed empirical hypotheses. Several research implications follow from this analysis.

One important research implication related to the policy implications above is the capacity of developmentalist principles and DWSPs to be further revised and expanded to accommodate new hypotheses about additional social policies (e.g., education and healthcare) or other institutional features. A second implication of this research is that it points to the increasing feasibility of crossnational comparisons that are theory-driven and predictive, based on improved data. Finally, it may be especially important for future research to consider the effects of time and the depth and persistence of poverty, which were not considered in this analysis. While disincentive effects (i.e., costs may become apparent rather quickly), investment effects (i.e., benefits related to cognitive skills, health, and the like) may accrue over many years.⁶²

Third, in terms of practice, this research compels us to reconsider the focus on the needy and the preoccupation with social control that typically pervades the strengths-based view in social work (Gray, 2013). Developmentalist social policy encourages us to reemphasize how it is that social institutions structure the environment in which human behavior occurs. Many social service and community advocates tend to focus on the most needy (i.e., remediation as opposed to prevention) and preserving individual choice and autonomy through cash and vouchers. Developmentalism should reignite the debate about what constitutes social control and to what extent compulsory benefits and in-kind services guarantee wide-ranging social rights rather than merely circumscribing individual prerogatives.⁶³ Finally, it reminds us that social effort is never strictly about resource transfers that have no implication for capabilities (in Sen's terms).⁶⁴ All transfers have implications for participation, access, and the like, just as it is impossible to consider income poverty, consumption poverty, and social exclusion to be mutually exclusive well-being concepts. Practitioners should not dismiss or disparage transfers as disproportionately benefiting the middle class and or privilege participatory policies as uniquely well-suited to the poor.

There are a variety of demographic, fiscal, and social pressures facing modern welfare states. The old assumption of the obvious value of the welfare state is no longer as widely accepted as it once was. There is, as reflected in the social investment notion, an emerging discourse centered on *social protection as a productive factor*. The standard economic view (i.e., that there is an equality-efficiency tradeoff) prevails. There remains no clear conceptual framework for thinking about whether and how social policies may be both protective and productive. The purpose of this paper was to show how social development thought, a loose collection of ideas, can be refined and reinterpreted in the context of comparative welfare state ideas to help identify types of social policy that may have

⁶² DWSPs could not only minimize future social costs but also maximize future social benefits by making mobility (and future productivity) a realistic possibility and preventing the creation of tomorrow's precarious worker with lifetime low wages, poor quality jobs, frequent spells of unemployment, and assistance dependency, all of which impact their own future prospects. Social policy should be seen in the context of the potentially very negative effects of economic hardship on educational attainment and subsequent life chances. Eradication of child poverty yields very positive results, not only in terms of alleviating material hardship in childhood but also because economic security is a vital precondition for later achievement (Kangas & Palme, 2005).

⁶³ It is misleading to assume that certain types of benefits are inherently paternalistic or reflect expressions of social control. When they are considered interacting with other elements (e.g., when in-kind are combined with universal benefits), paternalism is less of an issue.

⁶⁴ See Johnson (2014b) for more on the compatibility of developmentalist policy with Amartya Sen's capability approach.

productive outcomes. I proposed criteria for helping define and identify what makes existing social policies an investment.

I have argued that theories that explain the welfare states' development are more advanced than those that explain its effects (at least its potentially broader effects). As a result, we do not know enough about the benefits relative to the widely perceived costs of the welfare state. I surmised that the promise of ongoing research has been hampered by viewing the welfare state as a response to developmental problems and not also in part a source of development and contributor to production. I concluded that there is a need to reorient research away from how countries cluster together into regimes or mutually exclusive worlds and toward disaggregating effort at the policy level based on theoretical expectations grounded on the possibility of productive (and not just protective) effects. I formulated a set of principles reflecting this possibility and categorized, as developmentalist, several mature welfare state social policy that I labeled DWSPs. This framework compelled a reappraisal of the political economic roots of welfare states and what classical ideas teach us about the limits of markets and role of the state. The analysis yielded limited evidence for the predicted effects of policies that most closely express these developmentalist principles.

As rapid economic and social changes have unfolded at the advent of the 21st century—accompanied by the internationalization of social policy ideas, opportunities for policy transfer, and a trend toward hybridity—there has been a temptation to succumb to linguistically popular discourses and pragmatic policy prescriptions. Policymakers should beware the enticing rhetoric and alluring fads that periodically sweep through the social protection world. They almost always entail simplifications that are too good to be true, promising returns that are premised on but rarely recognize a host of contributing socioeconomic, institutional, and other factors that enable these returns. The ongoing EU debate about the modernization of social protection and discourse associated with *the new social investment state* threatens to distract us from contemplating the value of traditional social protection policies and recognizing their developmental roots. I asked whether universal and in-kind benefits—old social democratic preferences that contradict economic commonsense—can be justified on the grounds of extensive market failures (especially information failure), underutilization of human potential, costs associated with not preventing poverty, and thereby a wide scope for merit goods.

This paper recognizes the potential in the notion of social investment but begs scholars to proceed cautiously in its use. Advocates of institutional welfare states need to fully understand the way that *longstanding* social policies have entailed and continue to constitute productive social investments. Doing so hinges on our ability to understand the market failures for which they implicitly compensate, lest what emerges from this most recent phase of welfare state thinking is an anemic version of the once robust welfare state. The prospects for a social democratic as opposed to neoliberal vision of social investment requires us to penetrate the opaque veil behind which vital synergies, cumulative effects, and functional equivalencies are obscured and may be rendered dormant or severed all together in the event that critical aspects of the welfare state are unwittingly rolled back. Resisting the lure of Occam's razor, theoreticians and empiricists must work hand-in-hand to better understand how the traditional core of the welfare state cultivates, albeit in part fortuitously, the productive soil of western societies.

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