The Growth and Development Effects of Public Education, Health, and Welfare Spending in ASEAN*

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Abstract

Most ASEAN economies allocate a relative large share of government spending to education, health, and welfare services. Education, health, and welfare spending as a percentage of total spending has been increasing over time in all major ASEAN economies. Despite this increase in the shares of education, health, and welfare spending, very little study has been geared toward an explanation of the growth and the development effects of the spending particularly in the context of the ASEAN economies. The objective of this paper is, first, to examine factors affecting the growth of public spending on education, health, and welfare in ASEAN countries. Second, the paper also explores the relationship between public spending on education, health and welfare, on the one hand, and indicators of access to education and health services and other social outcomes on the other. It is found that transition to democracy, greater openness to international trade and economic growth in most major ASEAN countries tended to give strong incentives to greater attention on social policy and issues. This expansion of the social commitments, in turn, tended to be an important tool for improving the quality of life and income of the population. Finally, the paper also explores policy implications of the findings.

Keywords: ASEAN, social policy, public spending on education, health, welfare

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การขยายตัวและผลกระทบทางการพัฒนาของรายจ่ายสาธารณะด้านการศึกษา การสาธารณสุข และสวัสดิการสังคมในอาเซียน

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บทคัดย่อ

ประเทศสมาชิกอาเซียนส่วนใหญ่ได้จัดสรรงบประมาณจำนวนมากไปสู่งานด้านการศึกษา การสาธารณสุข และสวัสดิการสังคม โดยรายจ่ายในด้านสังคมเหล่านี้ในประเทศสมาชิกอาเซียนหลัก ได้มีแนวโน้มเพิ่มสูงขึ้นอย่างต่อเนื่อง แต่ถึงกระนั้น งานวิจัยที่อธิบายถึงปัจจัยที่มีอิทธิพลต่อการขยายตัว และผลกระทบต่อการพัฒนาของรายจ่ายด้านสังคมดังกล่าวในบริบทของอาเซียนก็ยังมีอยู่น้อย ดังนั้น วัตถุประสงค์ของบทความชิ้นนี้ก็คือ หนึ่ง เพื่อศึกษาถึงปัจจัยที่มีอิทธิพลต่อการขยายตัวของรายจ่ายด้านการศึกษา การสาธารณสุข และสวัสดิการสังคมในประเทศสมาชิกอาเซียน ประการที่สอง บทความนี้ศึกษาถึงความสัมพันธ์ระหว่างรายจ่ายสาธารณะด้านสังคมกับตัวชี้วัดด้านการพัฒนาต่าง ๆ เช่น การเข้าถึงระบบการศึกษาและสาธารณสุขของประชาชน และการพัฒนาทางสังคมอื่น ๆ จากการศึกษาพบว่า การเปลี่ยนผ่านไปสู่การเมืองแบบประชาธิปไตย การเปิดเสรีทางการค้าระหว่างประเทศ และการเจริญเติบโตทางเศรษฐกิจของประเทศสมาชิกอาเซียนหลัก เป็นปัจจัยสำคัญที่ผลักดันให้ประเทศเหล่านี้หันมาให้ความสนใจต่อนโยบายรายจ่ายด้านสังคมมากขึ้น และการขยายตัวของนโยบายรายจ่ายด้านสังคมดังกล่าวก็มีแนวโน้มส่งผลดีต่อคุณภาพชีวิตและรายได้ของประชาชน และประการสุดท้าย บทความนี้ก็ได้ให้ข้อเสนอแนะเชิงนโยบายจากข้อค้นพบต่าง ๆ

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Objectives of the Study

The vast majority of the literature on social policy and spending tends to focus largely on OECD (Organization of Economic Cooperation and Development) countries. By contrast, study of social policy in developing countries (e.g. McGuire, 2001; Gough et al., 2004; Rudra, 2007; Haggard & Kaufman, 2008) is a recent phenomenon. Yet most middle-income developing economies, including ASEAN, have extensively expanded their social protection and service systems during the past three to four decades (Haggard & Kaufmann, 2008: 1). The questions posed by these systems are therefore the same as those raised in the literature on the advanced welfare state: Why do the governments in developing countries undertake the provision of social policy and services? And what are the development effects of these social services?

Social spending, including education, health, and welfare is often regarded as an important tool for improving income and quality of life of the population. Most ASEAN economies, including Indonesia, Malaysia, Singapore, the Philippines, and Thailand, allocate a relatively large share of government spending to education, health, and welfare services. Table 1 provides data on the overall size of the central government public spending on education, health, and welfare in ASEAN countries. Social spending is clearly the important area of expenditure, with almost half of total expenditure accounted for by education, health, and social welfare. From the table, it can also be seen that social spending (which includes education, health, and welfare expenditure) as a percentage of total spending has been increasing over time in all ASEAN economies. Despite this increase in the shares of education, health, and welfare spending, little research has been geared toward an explanation of the growth and the development effects of the spending.

This paper, therefore, makes two contributions to the study of social policy and social spending. First, it studies the factors affecting the expansion of public education, health, and welfare spending in the context of ASEAN. Second, the paper examines the relationship between public spending on education, health,

and welfare, on the one hand, and indicators of access to education, health services, and other social outcomes on the other. Finally, the paper explores the policy implications of the findings.

Table 1. Social Policy Expenditure in ASEAN 1975-2010 (percentage of total government expenditure)

Social spending	1975	1985	1995	2000	2010
Indonesia					
Education	18.2	19.0	19.5	19.4	20.0
Health	5.9	6.4	6.4	7.4	8.7
Welfare	5.2	5.4	5.3	5.4	7.3
Total	29.3	30.8	31.1	32.3	36.0
Malaysia					
Education	18.4	20.3	23.5	22.6	24.9
Health	8.6	8.5	10.7	12.0	12.9
Welfare	6.7	7.4	8.2	8.4	9.3
Total	33.7	36.2	42.4	43.0	47.1
Singapore					
Education	20.2	21.6	18.9	20.0	24.5
Health	7.1	4.2	8.1	10.7	12.1
Welfare	6.4	6.7	7.2	7.8	9.8
Total	33.7	32.5	34.2	38.5	46.4
Thailand					
Education	18.4	18.6	21.5	20.7	22.8
Health	5.7	5.9	7.5	7.6	9.8
Welfare	5.4	5.6	6.8	7.4	8.7
Total	29.5	30.1	35.8	35.7	41.3
The Philippines					
Education	18.9	18.4	20.2	20.4	20.7
Health	5.3	5.8	7.6	7.5	8.3
Welfare	5.1	5.5	5.6	6.7	7.4
Total	29.3	29.7	33.4	34.6	36.4

Table 1. Social Policy Expenditure in ASEAN 1975-2010 (percentage of total government expenditure) (continued)

Social spending	1975	1985	1995	2000	2010
Average East Asia*					
Education	-	-	-	17.5	20.0
Health	-	-	-	9.8	11.6
Welfare	-	-	-	6.7	8.8
Total	-	-	-	34.0	40.6
Average Latin America**					
Education	-	-	-	15.4	16.3
Health	-	-	-	10.2	11.2
Welfare	-	-	-	19.2	20.6
Total	-	-	-	44.8	48.1

*East Asia includes Hong Kong, S. Korea, Taiwan, Indonesia, Malaysia, Singapore, Thailand, and the Philippines.

**Latin America includes Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru, Uruguay, Venezuela.

Source: World Bank. (1999, 2002, 2010, and 2014). *World Development Indicators.*

Public Education, Health, and Welfare Spending in ASEAN

Public spending on education includes spending on education from primary to university education. Public spending on health consists of spending on hospital and healthcare center operations, disease prevention and control, and health promotion. Public welfare spending also covers spending on social security and other welfare services spending, including welfare spending on unemployment, housing, and social assistance to poor families and disabled persons (World Bank, 2014: 36). Most ASEAN governments have made a strong commitment to expanding the access of the population to education, health, and welfare services.

In the Philippines, the first period of significant expansion of social services occurred in the early 1950s, during the presidency of Ramon Magsaysay, and came in response to the spread of rural insurgency. Magsaysay had formulated a military-development strategy to counter the Huk rebellion. This strategy included improved provision of basic social services (e.g. rural development and the provision of basic healthcare services) in areas affected by the insurgency (Danguilian, 1999: 45). Magsaysay's main policy initiatives were rural. However, with the expansion of urban labor, and in order to win support from urban workers, the Magsaysay government had also legislated a defined-benefit pension system in 1954. Although the social security system coverage during this period was limited to government employees and to private-sector employees in firms with more than fifty employees, later on the benefits were extended to private-sector employees in firms with at least six employees, and then to all private firms with one employee (Doronila, 1992: 45). Transition to democratic rule after Macos dictatorship gave strong incentives to greater attention on social policy. After 1986 election, the Philippines government implemented a Medical Care Act that provided for national health insurance. The health insurance coverage was, however, limited mainly to formal-sector workers (Beringuela, 1995: 9). The Philippines constitution also committed the government to universal primary education, and the country has consistently had high primary enrollments. Under the Aquino government, the new constitution drafted by Aquino appointees and ratified in 1987, further stipulated that education should receive the largest share of the budget and made secondary education free. This requirement from the constitution, therefore, caused an increase in secondary enrollment and a dramatic increase in education spending (Manasan, 2000: 6-9). However, the Philippines underwent the transition to democracy in highly adverse economic circumstances. The recurrent economic downturn during 1986-1992 and during the Asian financial crisis in 1997-1998, deteriorated public revenue and made it very difficult to expand social policy and spending (see table 1).

Both Singapore and Malaysia experienced periods of competitive politics following independence. The left was initially a more powerful force in Singapore, and ethnic parties with redistributive objectives played an important role in Malaysia. Over time, however, politics in both countries became more restrictive. Singapore politics was initially among the most competitive in the region. After the independence, the more moderate People's Action Party (PAP) of Lee Kuan Yew won an election by competing for support with parties to its left. As with its rivals, the PAP aggressively adopted several redistributive policies.

Given crowded urban conditions, the PAP's early social policy placed particular focus on public housing through the Housing and Development Board (HDB). Housing served Lee Kuan Yew's both nation-building and political objectives by breaking down ethnic enclaves and building support for the PAP. Housing was also connected with the provision of basic social services through the inclusion of schools and clinics in government apartment complexes. The government also provided various kinds of assistance and subsidies so that the majority of the population became eligible for the HDB housing (Ramesh, 2004: 122-123). And in order to increase an access to education, the PAP also rapidly expanded the number of schools (Ramesh, 2004: 161). As democratic politics gave way to a dominant-party regime, social policy in Singapore took a different form. The redistributive component of social policy was diminishing as the left collapsed. Since 1967, Singapore government put limits on the capacity of labor to strike. The Employment Act and Industrial Relations Act of 1968 also placed strict ceilings on nonwage benefits to workers. This labor control was related to the growth strategy that relied on attracting export-oriented foreign investment (Rodan, 1989: 16). In 1984, Singapore government also introduced a public health insurance scheme to increase the access of the population to healthcare services by using the Central Provident Fund to establish a compulsory medical-saving scheme (Ramesh, 2004: 90). Education policy in Singapore, shaped strongly by the export-oriented industrialization strategy, was tightly linked with labor-market needs. The government revised the curriculum to place more emphasis on mathematics, scientific and technical subjects. The government also introduced several training initiatives designed to foster industry-specific skills and created

a number of specialized institutions with foreign partners, aimed at developing industry-specific skills (Tan, 1997: 32).

In Malaysia, political competition broke along ethnic lines. After independence in 1957, alliance governments dominated by the United Malays National Organization (UMNO) competed for support from the Malay base, which were overwhelmingly rural, through the introduction of agricultural development programs, rural infrastructure (including schools and rural health services), and land and credit schemes (Snodgrass, 1980: 125). The ascent of Mahathir in 1981 and the economic downturn of the mid-1980s, however, produced a change in Malaysia's development strategy and social policy. The first component of this new strategy was more direct support for the Malaysian private sector through deregulation, and privatization of state-owned enterprises (to favored firms). A second key component of the new strategy was greater openness to direct foreign investment, renewed attention to exports, and renewed concern about labor costs (Jomo, 1994: 121).

As in Singapore, the social security system in Malaysia has been supported by a central provident fund (the Employees Provident Fund- EPF). The EPF's coverage, however, was limited to employees in the formal economic sector, which covered only about half of the workforce. The self-employed, the informal sector, and farmers fall outside the system (Ramesh & Holliday, 2001: 11). In public healthcare sector, the UMNO initially pursued an equity approach to healthcare provision and financing to win support from rural Malay base. Clinics in rural areas provided services free of charge. The government also provided huge subsidies to public hospitals to reduce the cost of medical services to increase the access of the poor to medical services (Ramesh & Holliday, 2001: 15). Following the economic downturn of the mid-1980s, the government to some extent began to liberalize the public medical services to reduce government's financial burden. Hospitals were gradually corporatized and encouraged to compete with private providers. Since 1990s, the private share of total medical provision expanded rapidly (Ramesh & Holliday, 2001: 23). In education, the National Education Plan (1961) provided for universal free basic education for all Malays. The adoption of Malay as the

medium of instruction (extended to secondary schools in 1982) and the expansion of school building in rural areas had the effects of dramatically increasing in enrollments and narrowing inter-ethnic education attainment and favoring the poor (Pong, 1993: 250). In 1996, Mahathir government also launched educational reform to increase the quality of education. This reform was motivated by an effort to meet labor-market demands for skilled labors in line with the country's move toward a more export-oriented development strategy (Ritchie, 2005: 282-285).

In Thailand, before the political liberalization of the 1980s and 1990s, social insurance scheme was narrowly based. The scheme coverage was limited to government employees and employees in state-owned enterprise. However, social policy changed quite dramatically during democratic years. In 1988, under the popularly-elected prime minister, Chatchai Choonhavan, the social insurance scheme coverage was expanded to include private-sector employees in firms with twenty or more employees. The benefits were paid to those losing income resulting from illness, maternity leave, and for compensation for retirement (Buracom, 2011: 117). Later on the benefits were extended to private-sector employees in firms with more than five employees, and then to all private firms with one employee. Since 1975, the Thai government also introduced a voluntary health card program, a government-subsidized prepaid insurance program, to increase the access of low-income families to public medical services. This voluntary health card program, together with a free medical care program for the elderly, disadvantaged groups, low-income primary- and secondary-school students, infants, and the handicapped initially targeted at poor provinces and districts. However, prior to the financial crisis in 1997, about fifty-one percent of the Thai population was covered by one of these health insurance schemes. Following the general election in 2001, the popularly-elected government of Thaksin Shinawatra began a universal health insurance scheme that covered every Thai citizen (Buracom, 2011: 117; Pannarunothai et al., 2004: 20). Education policy in Thailand also changed dramatically following the return to democratic rule in 1991. Many programs were in place to increase the access of the Thai population to primary and secondary education. Before

the financial crisis in 1997, basic education was expanded from six to nine years. And after the financial crisis, basic education was expanded again from nine to twelve years as required by the constitution. The government also provided a huge subsidies to all public schools to increase the access of students from low-income families to basic education. And in 2009, the Thai government launched a fifteen-year free education program to reduce financial burdens of parents and to enable the students to have equal access to education (Buracom, 2011: 115).

Indonesia proclaimed independence from several centuries of colonial rule on 17 August 1945. Indonesia's founder president, Sukarno, was succeeded by President Suharto in 1966. A "new-order government" was established, oriented towards overall development. A period of uninterrupted economic growth was experienced from 1968 to 1996, as the national economy expanded at an annual average rate of more than five percent. This experience was reversed by the financial crisis that affected Southeast Asia in 1997. In 1997 and 1998, Indonesia went through its worst economic crisis. Economic growth reversed to a negative thirteen percent (Wie, 2012: 122). After more than three decades in power, President Suharto resigned in 1998. Social policy in Indonesia expanded quite dramatically during democratic years, after the down-fall of the new-order regime under President Suharto. Health and education received more attention, as reflected in the increasing national budgets for these sectors (Perdana & Maxwell, 2005: 79). In 2003, Indonesian government implemented an education reform which mandated that basic education shall be free from any charges to increase access of children regardless of their backgrounds to basic education. Furthermore, the reform also required that the portion of education budget should be at least twenty percent out of the national and local government budgets (World Bank 2014: 3). In 1999, a new health reform, the so-called "Healthy Indonesia 2010," was introduced. The focus of this reform was on the expansion of health promotion and prevention services as well as the expansion of curative services to increase the access of the population to equitable and affordable healthcare system. In order to reach this objective, social health insurance was further extended, including the implementation of a subsidized insurance program for the poor (World Health Organization, 2008: 4-6). A mandatory

employee social security system (Jamsostek) in Indonesia was initially introduced in 1977 as a protection system for employees against occupational sickness, death, and old-age risks. Initially Jamsostek's coverage was limited to employees working in large-scale company only. Later on the coverage was expanded to include employees in smaller company as well (Purwoko, 2000: 761-762).

From the above observation, it can be seen that all major ASEAN economies, including the Philippines, Singapore, Malaysia, Thailand, and Indonesia, have extensively expanded their social protection and services during the past three decades. The following topic, therefore, proposes a theoretical framework to explain the factors affecting the expansion of social policy and spending.

Theoretical Framework

Traditional studies on the factors affecting the expansion of social policy and spending tended to focus on socio-economic factors. It is argued, for example, that an increase in population, industrialization, and urbanization tended to give rise to a need for more provision of social services such as schools, hospitals, housing, and roads. Moreover, an increase in economic growth and income tended to stimulate the expansion of certain income-elastic demand for social services, such as demand for education (Wagner, 1985: 28; Dye, 1978: 283-87). In accordance with this argument, an increase in population, industrialization, urbanization, and economic growth are expected to have positive relationship with social spending.

In the past few years, the linkage between government institutions, economic growth, and globalization, on the one hand, and the expansion of social policy and spending, on the other, has been the main focus of much research in social policy and political economy (Haggard & Kaufman, 2008; Gough et al., 2004; Rudra, 2007; McGuire, 2001). According to power-resource theory (Korpi, 1978; Esping-Anderson, 1996; Garret, 1998), the expansion of welfare state and social spending in developed countries was mainly the result of partisan politics. When leftist or popularly-based parties (e.g. the social democrat party or labor party) came to power, there was

a tendency for these governments to pursue state intervention and support an increase in social spending to channel benefits to labor and low-income population that were the sources of their power. On the other hand, when non-popularly based party (e.g. parties with relatively no connection with labor or the popular sector) came to power, they tended to favor least government and limited social spending. Recent studies (e.g. Haggard & Kaufman, 2008: 21; Kaufman & Segura-Ubiergo, 2001; Brown & Hunter, 1999; Buracom, 2011:123) tried to apply the power-resource theory to explain the growth of social spending in developing countries. According to these studies, partisanship in terms of popularly-based versus non-popularly-based governments may not be applicable to developing countries, where most governments lack of broader-based popular support. In addition, the presence of democracy was only a recent phenomenon and varied broadly across developing countries. Thus to test the power-resource theory, regime type (democracy vs. authoritarian) was used as a main causal factor in explaining the growth of social policy and spending in developing countries. This is because democratic government should be more responsive to the demands of broader-based voters and be more willing to increase social programs to gain electoral support in the face of electoral competition. Additionally, according to new institutionalism theory (March & Olsen, 2006: 18) democratization alone cannot enhance successful social development. The successful implementation of social programs also requires effective government and efficient civil service that act in the interests of the common good. A study by Campos and Nugent (1999: 445) for example found that government effectiveness and quality of bureaucracy tended to have positive effect on social policy development and, thereby, tended to reduce infant mortality and illiteracy in East Asia and Latin America. In accordance with these arguments, government institutions, particularly democratic government and government effectiveness, are expected to have a positive relationship with public education, health, and welfare spending.

It is also noted by Gough, et al. (2004: 182) that in order to increase social spending, government needs to have an increasing revenue. An increase in economic growth, therefore, tends to make it possible for the government to collect more taxes and thereby increase the capability of the government to expand social programs and social spending. Economic growth, therefore, is expected to have a positive relationship with education, health, and welfare spending. That is, high-growth democracies should be associated with an expansion of social entitlements. On the other hand, economic crisis and recession tend to force the government to limit or retrench social policy commitments.

According to compensation theory (Kaufman & Segura-Ubiergo, 2001), globalization could have an influence on social spending. Higher integration of domestic markets with international trade and finance implies growing risks associated with international business cycle, which in turn causes domestic economic volatility and thereby increases economic insecurity and propels demands for compensation via more generous social programs. Countries with high openness to international trade, for example, tend to experience market and social dislocation. The fluctuation in the demand for export and import creates economic instability, unequal income distribution, and unemployment problems. This instability compels the government not only to increase welfare spending for social sectors that fall behind, but also to increase expenditure on education and labor training so that the labor can adjust themselves to changing demands from the world market. Further, it has been argued by Haggard and Kaufman (2008: 8-10) that export-oriented development strategies in developing countries, particularly in East and Southeast Asia, which relied heavily on the export of manufactured goods to the global market, strongly influenced the incentives facing the governments, firms, and workers with respect to social policy. On the one hand, strategies dependent on the export of labor-intensive manufactured goods strengthened the incentives to increase the skills of labor and expand access to education and to increase human capital development. On the other hand, export-oriented growth gave priority to labor-market flexibility and made governments and firms highly resistant to social welfare scheme

(e.g. social security program) that would increase labor costs. The governments thus maintained a limited system of social insurance. Export-oriented development strategies and more openness to international trade, therefore, tended to compel the governments to increase public spending on education, health, and to a lesser extent on social welfare. In accordance with this argument, trade openness is used for accessing differences between the relatively closed economies and the more open ones. Trade openness is expected to have a positive relationship with public education, health, and to a lesser extent with welfare spending.

It should be noted that some studies such as Haggard and Kaufman (2008: 41) and Kaufman and Segura-Ubiergo (2001: 553) included poverty and aging population as factors affecting the expansion of social policy and found positive relationship. Since higher poverty and aging population tended to increase demand for social services, poverty and population over sixty-five are also included as independent variables in this study.

Empirical Test

The aim of this section is to derive an empirically testable model of the determinants of public education, health, and welfare spending. Since public spending on education, health, and welfare is hypothesized as a function of years of democracy, government effectiveness, economic growth, trade openness, and other socio-economic factors, an empirical model specifying the relationship between dependent and independent variables can be developed, as shown in table 2.

Table 2. Dependent and Independent Variables Applied to Explaining Social Spending

Variables	Expected sign	Measurement	Data source
<u>Dependent variables</u>			
Education spending	-	Public spending on education from primary level to university as % of total government spending	IMF, *Government Finance Statistics*
Health spending	-	Public spending on medical services, disease prevention, and health promotion as % of total government spending	IMF, *Government Finance Statistics*
Welfare spending	-	Public spending on social security, and other welfare services as % of total government spending	IMF, *Government Finance Statistics*
<u>Independent variables</u>			
Λ GDP per capita	+	Annual growth rates of gross domestic product per capita	The World Bank, *World Development Indicators (WDI)*
Urbanization	+	Growth rates of total population living in urban areas (%)	The World Bank, *WDI*
Population	+	Population growth rates (%)	The World Bank, *WDI*
Population> 65	+	Percentage of population over 65	The World Bank, *WDI*
Industrialization	+	Growth rates of labor in industrial sector (%)	The World Bank, *WDI*
Poverty	+	Poverty headcount ratio (proportion of a population that lives below national poverty line)	The World bank, *WDI*

Table 2. Dependent and Independent Variables Applied to Explaining Social Spending (continued)

Variables	Expected sign	Measurement	Data source
Years of democracy	+	Percentage of years in which a country reaches a score of 5 or higher on democracy scale from Polity IV index (1970-2006)	Monty G. Marshall and Keith Jaggers. *Polity IV Project: Political Regime Characteristics,* 1800-2006 dataset.
Government effectiveness	+	This variable captures the perceptions of the quality of public services, the quality of the civil service, the quality of policy formulation and implementation. It is measured in units ranging from -2.5 to 2.5, with higher values corresponding to better governance outcomes.	The World Bank, *Worldwide Governance Indicators, 2012*
Trade openness	+	Exports plus imports as % of GDP	The World Bank, *WDI*

From Table 2, the regression equation can be formulated as follows:

$Y_{it} = a_1 + b_1 \Lambda GDP\ per\ capita_{it-1} + b_2 Urbanization_{it-1} + b_3 Population_{it-1} + b_4 Population{>}65_{it-1} + b_5 Industrialization_{it-1} + b_6 Poverty_{it-1} + b_7 Years\ of\ democracy_{it-1} + b_8 Government\ effectiveness_{it-1} + b_9 Trade\ openness_{it-1} + u_{it}$

where Y_{it} is the public spending on education, health, and welfare country *i* has at the end of year *t*, b_s are parameter estimates, and u_{it} random errors.

All independent variables are lagged to account for the period of adjustments because the independent variables take time to affect policy outcomes. The analysis is based on a pooled time-series cross-sectional design. However, pooled data often violate the assumtion of OLS regression. In order to deal with the problems associated with pooled data, panel-corrected standard errors is used to correct for panel heteroskedasticity and contemporaneous correlation.

Table 3 shows the empirical findings from a regression analysis of thirty-five developing countries, including all major ASEAN countries (see Appendix 1 for a country list) during the period between 1987-2010. This statistical analysis is intended to use as guideline for the analysis of social policy and spending in each ASEAN country in the following topics. As indicated by the table, five independent variables have a significant effect on social spending: years of democracy, trade openness, growth rates of GDP per capita, population growth rates, and industrialization.

Years of democracy has a significant positive effect on public education, health, and welfare spending. This finding lends support to the power-resource theory. The rise of democracy in developing countries tended to raise hopes that the governments would be more attentive to social issues. Democratic governments tended to be more responsive to the demands of broader voters and prefer to increase social spending to gain or maintain electoral support. Electoral competition, therefore, played a role in the expansion of social commitments. The growth rates of per capita GDP also has positive and significant impact on public education, health, and welfare spending. This is simply because an increase in economic growth and, thereby, the increase in tax revenue tended to increase the capability of the government to expand social programs. High-growth democracies, therefore, tended to expand social entitlements. Economic crisis and recession, on the other hand, tended to compel the government to limit social policy commitments.

Trade openness also has a significant positive effect on public education and health spending. However, no significant relationship was found between trade openness and welfare spending. Trade openness and the transition to export

-oriented development strategies in developing countries tended to compel the government to increase social spending. Countries with high openness to international trade tended to experience market and social dislocation. The fluctuation in the demand for export and import created economic volatility, inequality in income distribution, and unemployment problems. This instability forced the government not only to increase expenditure in education so that the labor could adjust themselves to changing demands from the world market, but also to expand social programs to increase safety-nets for the social sectors that fell behind.

Table 3. Determinants of Public Education, Health, and Welfare Spending in Thirty-Five Developing Countries.

Independent variables	(1) Education spending	(2) Public health spending	(3) Welfare spending
Constant	0.019	0.022	0.007
	(0.93)	(1.07)	(0.32)
Λ GDP per capita	0.090**	0.033*	0.027*
	(3.24)	(1.72)	(1.97)
Urbanization	-0.057	-0.007	-0.022
	(-1.05)	(-0.92)	(-0.99)
Population	0.007	0.081*	0.010
	(0.65)	(1.63)	(0.78)
Population>65		0.032	0.013
		(0.67)	(0.67)
Industrialization	0.065*	0.020	0.034*
	(1.99)	(0.57)	(1.82)
Poverty	-0.020	-0.006	-0.014
	(-0.76)	(-0.45)	(-0.36)
Years of democracy	0.087**	0.037*	0.054*
	(2.79)	(2.11)	(2.00)
Government effectiveness	0.013	0.012	0.009
	(0.23)	(0.43)	(0.33)
Trade openness	0.033*	0.019**	0.056
	(2.30)	(2.39)	(-0.49)
No. of observations	175	175	165
Adjusted R Square	0.656	0.861	0.891
F	26.667	33.361	46.239

Notes: T-statistics are in parenthesis

* indicates significance at 0.05 level

** indicates significance at 0.01 level

Finally, the growth rates of population and industrialization also have significant positive effect on social spending. The increase in population tended to increase demand for healthcare services. The growth rates of labor in industrial sector tended to give rise to a need for more provision of schools and welfare services.

Government Institutions and the Expansion of Social Commitments in ASEAN

In this section, a brief overview of the relationship between government regimes and the expansion of social policy commitments in ASEAN is provided. Although the presence of democracy was only a recent phenomenon and the duration of democracy was quite brief in most ASEAN countries, democratic openings were accompanied by shifts in government priorities and the expansion of social policy and services. Table 4 provides an overview of the incidence and types of social policy initiatives formulated during democratic, semi-democratic, soft-authoritarian, and hard-authoritarian periods in each major ASEAN country. Following Haggard and Kaufman (2008: 73-74), government regimes in major ASEAN countries were coded on the basis of four political dimensions: (1) the competitiveness of national elections; (2) the inclusiveness of the franchise; (3) respect for civil liberties; and (4) whether elected governments actually exercise control over policy. Regimes are coded as "democratic" if there are no significant violations on any of these four dimensions, "semi-democratic" if they have one or more "minor" violations. Regimes are also coded as "soft or competitive-authoritarian" if they have one or more "major" violations of the four criteria but permit electoral contests in which opposition parties are granted some leeway to mobilize voter support, and "hard-authoritarian" if they have one or more "major" violations of the four criteria and do not permit opposition parties to contest them.

As indicated by the table, ASEAN countries exhibit intraregional variation in terms of government institution. The Philippines had a sustained period of semi-democratic rule, with electoral competition from 1946 until the Marcos takeover in 1972, and turned to democratic rule after the down-fall of Macos dictatorship in 1986. Singapore and Malaysia experienced periods of competitive politics following independence and fell from democratic competition to semi-democratic and finally to soft-authoritarian rule, as democratic politics gave way to a dominant-party regime. Thailand and Indonesia had much greater incidence of authoritarian rule. Nevertheless, social policy in Thailand and Indonesia expanded quite dramatically during democratic years. From table 4, it can be seen that democratic openings in all major ASEAN countries tended to accompany by shifts in government priorities and the expansion of social welfare services. Electoral competition, therefore, did play a role in the expansion of social commitments in ASEAN countries.

Table 4. Democracy and the Expansion of Social Commitments in ASEAN.

Country	Social policy initiatives (1950-2006)
The Philippines	*Semi-democratic years* - Social security system legislated (1954). - Workman's compensation introduced (1955). - Expansion of social security to all private-sector workers (1958-60). *Hard-authoritarian years* - Reform of workman's compensation system (1975). - Maternity benefits extended to members of social security system (1978). - Extension of social security to self-employed (1980). *Democratic years* - National health insurance introduced (1986). - Constitution mandates education receive the largest share of the budget; secondary education made mandatory (1987). - Gradual expansion of universal health insurance (1995), with 15- year timetable to fully implement. - Expansion of targeted-antipoverty programs (1998-2005).
Singapore	*Democratic years* - Universal primary education (1959). - Major school-building and teacher-training initiatives (1959-63). - Major housing-development initiatives, coupled with extension of basic public health services (1959-63) *Semi-democratic years* - No major initiatives (1963-67) *Soft-authoritarian years* - Major educational reform, tightly linked with labor-market needs (1979). - Compulsory medical-insurance program through Central Provident Fund (1984). - Incremental changes in Central Provident Fund rules to allow wider use of funds and greater investment choice (1984-85).

Table 4. Democracy and the Expansion of Social Commitments in ASEAN (continued)

Country	Social policy initiatives (1950-2006)
	- Liberalizing reforms in public health. Measures to rationalize public hospitals and encourage private financing and provision (Medisave); means-tested assistance scheme (Medifund) (1987-2005). - Educational training initiatives designed to foster industry-specific skills (1997-2005).
Malaysia	*Democratic years* - Expansion of rural schools and rural health services (1957-60). - Universal free primary education for all Malays, followed by major school-building program (1961). - Employees Social Security Act introduced, establishing insurance for work-related injury (1969). *Semi-democratic years* - New social policy favoring Malays introduced, including ethnic quotas in higher education and other redistributive measures (1971-85). *Soft-authoritarian years* - New Economic Policy introduced, including more direct support for Malaysian private sector through deregulation, privatization of state-owned enterprises (to favored firms), greater openness to direct foreign investment, renewed attention to exports, and renewed concern about labor costs (1980-2005). - Liberalizing reforms. Measures to rationalize public hospitals and encourage private provision (1987). - Educational reform to increase the quality of education and to meet labor-market demands for skills labor in line with the country's move toward a more export-oriented development strategy (1996).
Thailand	*Soft-authoritarian years* - Workmen's compensation (employer liability model) introduced (1956). - Major education reform, including six years of compulsory primary education, elimination of entry exam for secondary schools, expansion of vocational education (1978).

Table 4. Democracy and the Expansion of Social Commitments in ASEAN (continued)

Country	Social policy initiatives (1950-2006)
	- Private provident-fund legislation (1983). - Variety of rural health and nutrition initiatives (1980-87). *Hard-authoritarian years* - Education reform, including the expansion of schools in remote rural areas (1958). - Workmen's Compensation Fund introduced (1972). *Semi-democratic years* - Educational initiatives, including the expansion of primary and secondary education to rural areas, and the promotion of private- sector to invest in primary and secondary education (1974). - Public healthcare initiatives, including the introduction of Low-income Health Card and Voluntary Health Card programs to increase access of low-income families to public medical services (1975). *Democratic years* - Expansion of social insurance scheme to include private-sector employees in firms with twenty or more employees (1988). Later on the coverage was extended to private-sector employees in firms with more than five employees, and then to all private firms with one employee. (1990-1997). - 1997 constitution makes 12 years of education mandatory. - Expansion of rural antipoverty programs initiatives, including village fund, social safety nets, and community-driven development schemes ((2002-2006). - Universal health insurance scheme introduced (2001). - Student loan program to increase access of students from low-income families to upper-secondary and tertiary education introduced (2002).
Indonesia	*Soft-authoritarian years* - Improvement and expansion of public infrastructure and community social services (1945-65). - Expansion of basic education and health facilities through an active construction of rural schools and community health centers (1960).

Table 4. Democracy and the Expansion of Social Commitments in ASEAN (continued)

Country	Social policy initiatives (1950-2006)
	Hard-authoritarian years - Expansion of roads, communication networks, a rural electrification program, and the provision of supplies of clean water (1966). -Mandatory employee social security system (Jamsostek) introduced. Jamsostek's coverage was limited to employees working in large-scale company (1977). -Significant improvement in school enrollments, literacy rates, nutrition and living standards were achieved largely through an uninterrupted economic growth during this time period (1968-1997). *Democratic years* - New health reform introduced, including the expansion of health promotion and prevention services, and the implementation of a subsidized health insurance program for the poor (1999) - Education reform mandates a free basic education and education budget should be at least 20 percent out of total government budget (2003). - Expansion of social security system's coverage to employees in small company (2003). - Expansion of poverty-targeting programs, including the provision of small-scale credit to poor households (1998), the provision of community fund program providing block grants for public works in the poor villages (1998-2000), rural employment-creation program (1998-2000), scholarships for primary and secondary level students (2002/3), and the expansion of medical and family planning services (2002/3).

Source: Haggard and Kaufman (2008: 118-9); Buracom (2011: 114-116); Perdana and Maxwell (2005: 94-95).

It should be noted that authoritarian rule did not necessary mean an inattention to social welfare policy. However, conservative nature (with no direct connection with the popular sectors) of the authoritarian regimes gave social policy in major ASEAN countries a distinctive characteristic. The social sector that benefited from the social welfare programs tended to be limited only to the military, civil servants, and the employees in state-owned enterprises. And in the absence of strong labor unions, the share of the working class enjoying social insurance was small. Soft-authoritarian regimes also showed interest in education, not so much for an equity reason, but more for a reason of economic strategy. Particularly in Singapore and to some extent Malaysia, education policy was linked strongly to the export-oriented development strategies and tightly linked with labor-market needs. These interests were visible from the emphasis on scientific and technical subjects and vocational tracks and tight limits on student choice.

Economic Growth and Fiscal Foundations of Social Policy in ASEAN

The turn to democracy in the middle-income countries of ASEAN began in early 1980s. In the Philippines, it began after the down-fall of Marcos in the early 1986. In Thailand, the military slowly yielded its power over elected politicians during the 1980s. Thereafter the country was continuously democratic, however, with a brief military intervention in 1991 and 2006. Indonesia also turned to democracy after the down-fall of Suharto in 1998. Malaysia and Singapore remained not fully democratic, but both countries had competitive opposition parties.

Democratic transitions in most major ASEAN countries occurred in period of economic expansion. All major ASEAN countries performed well in terms of economic growth. As can be seen from table 5, the economic growth in ASEAN was quite impressive when compared to other regions, which declined during 1991-2000 due to the Asian financial crisis in 1997, and then rebounded again during 2001 to 2010. Strong economic growth was also associated with favorable

fiscal circumstances which increased the capability of the government to finance the expansion of social policy. Table 6 shows the average fiscal balance/GDP ratio for ASEAN countries. From the table, it can be seen that most ASEAN countries tended to be able to maintain quite low fiscal deficits, with the exception of Singapore, which actually had fiscal surpluses. During the period of the Asian financial crisis, deficits increased, but fiscal balances improved after the crisis. All deficits were less than five percent which tended to be low by international standards. This combination of economic growth and favorable fiscal circumstances facilitated the expansion of social policy in most major ASEAN economies. However, in contrast to other ASEAN countries, the Philippines underwent the transition to democratic rule in highly adverse economic circumstances. The recurrent economic downturn, during 1986-1992 and during the Asian financial crisis in 1997-1998, tended to deteriorate public revenues and made it difficult to expand social-policy initiatives and spending (see table 1).

Table 5. GDP Growth Performance (%) of ASEAN and Selected Asian Countries

Country	1971-1980	1981-1990	1991-2000	2001-2010
Indonesia	7.9	6.3	2.4	5.9
Malaysia	7.9	6.1	4.2	4.8
The Philippines	6.0	1.8	2.9	4.3
Singapore	9.1	7.4	7.8	4.5
Thailand	6.9	7.9	4.6	5.1
S. Korea	7.8	8.7	6.3	4.6
China	5.4	9.3	10.2	9.3
Taiwan	9.0	8.0	6.4	3.4
India	3.1	5.9	5.3	7.0

Source: IMF*, World Economic Outlook Database.*

Table 6. Average Fiscal Balance/GDP Ratio for ASEAN and Selected Asian Countries

Country	1990-1999 (%)	2000-2006 (%)	2007-2010 (%)
Indonesia	-0.27	-1.45	-1.3
Malaysia	-0.42	-4.80	-2.8
The Philippines	-1.20	-3.67	-2.7
Singapore	11.01	5.69	12.2
Thailand	1.26	-0.72	-1.7
S. Korea	-0.90	1.21	-2.4
China	-2.59	-2.15	0.2
Taiwan	-	1.50	1.4
India	-5.91	-5.06	-5.5

Source: IMF. (1998-2012). *International Financial Statistics Database.*

Trade Openness and Social Policy in ASEAN

ASEAN countries, while not homogenous, share another common characteristic. Most of them are highly dependent on international trade due to export-led growth development strategies adopted by most ASEAN countries. Singapore had long been open to international trade and sought to attract export-oriented foreign direct investment in the second half of the 1960s, following its separation from Malaysia. Malaysia also had a relatively open economy and began to attract export-oriented manufacturing from the early 1970s, particularly in the island of Penang and the state proximate to Singapore. Thailand adopted similar strategies later in mid-1980s. The Philippines and Indonesia also turned to export-oriented growth strategies in late 1980s.

Table 7 shows major ASEAN countries' international trade data. As indicated by the table, the share of international trade to GDP in ASEAN tended to increase over time from 95.1 percent of GDP in 1996 to 114.2 percent, 125.4 percent, and 133.0 percent in 2003, 2008, and 2010 respectively. Before the Asian financial crisis in 1997, ASEAN exports to the GDP were about 49.4 percent. After the financial crisis, their GDP declined while exports continued to grow. Hence, the export to the

GDP increased to 65.6 percent, 62.7 percent, and 68.4 percent in 1998, 2003, and 2010 respectively. ASEAN countries' imports to the GDP tended also to increase over time. However, ASEAN continued to be in a trade surplus.

This greater openness of the ASEAN economies to international trade tended to compel ASEAN governments to be more responsive to the needs of those exposed to risks and sensitive to the need to increase the skills and education of labor to help them adjust to changing demands from the world market. The transition to a more outward-oriented strategy in ASEAN initially took place by utilizing cheap surplus labor from rural areas. However, the success of the export-oriented strategy led to the growth of manufacturing employment, the absorption of the labor surplus, and an increase in real wages (World Bank, 1993: 45). This process produced a recurring concern about the effects of rising labor costs on competitiveness. Moreover, the continuing entry of new countries (e.g. China and Vietnam) into export-oriented manufacturing meant that an outward-oriented strategy of major ASEAN countries (particularly Malaysia, Thailand, The Philippines, and Indonesia) was always being challenged from below by lower-wage countries. Over time, the pursuit of such a strategy in major ASEAN countries could not rely on the utilization of relatively unskilled labor coming from the countryside. Both government and firms, therefore, came to have an interest in upgrading labor quality. Most major ASEAN governments did this through the increase in access to education and the development of education and training strategies to upgrade the skills of the labor. More openness to international trade and vulnerability to international business cycle and competition, therefore, tended to compel the governments to increase public spending on education to improve the quality of the labor, and also health (see table 3) to increase social safety nets for those exposed to risks.

Table 7. Total International Trade, Exports and Imports of ASEAN*

Indicator	Unit/scale	1996	1997	1998	2003	2008	2010
Total trade	US$ million	706,480	716,441	576,108	824,539	1,897,127	2,045,731
Ratio to GDP	Share of Trade to GDP (%)	95.1	103.1	119.3	114.2	125.4	133.0
	Exports to GDP (%)	49.4	52.5	65.6	62.7	64.6	68.4
	Imports to GDP (%)	45.7	50.6	53.7	51.5	60.8	64.6
Trade balance	US$ million	45,570	14,678	57,194	80,575	57,946	96,152
	Share to exports (%)	11.9	8.9	18.1	17.8	5.9	9.0

*ASEAN includes Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand.
Source: ASEAN. (October 2011). *Trade Statistics Database.*

Development Effects of Public Spending on Education, Health, and Welfare

In this section, simple measures of association between public spending on education, health, and welfare, on the one hand, and indicators of access to education, health services, and other social outcomes, on the other, is provided. It should be noted that this section merely represents bivariate measures of association. The limitation of data did not allow for multivariate regression analyses in this section.

Table 8 shows the simple correlation coefficients between public spending on education, health, and welfare, on the one hand, and the selected development indicators, on the other, of thirty-five developing countries (see Appendix 1 for country list). The data are the average 1995-2010. Bivariate measures of association in table 8 suggest the following:

First, countries with high public spending on education tended to have high health and welfare spending as well. This finding suggests that social spending tends to go hand in hand. Education, health, and welfare spending may be complementary ways of transferring in-kind social services to the citizen.

Second, countries with higher public spending on education, health, and welfare tended to have better education and health outcomes and wider access to healthcare services. Illiteracy rate, for example, was significantly and negatively correlated with education, health, and welfare spending. Access to sanitation and safe water were significantly and positively correlated with education and health spending. Malnutrition and infant mortality rates were negatively associated with more education and health spending.

And finally, countries with higher public spending on education and health tended also to have lower incidence of poverty. Poverty headcount ratio (the proportion of a population that lives below the poverty line) was significantly and negatively associated with education and health spending.

Table 8. Correlation between Social Spending and Development Outcomes (average 1995-2010)

	Education Spending	Public Health Spending	Welfare Spending
	Correlation coefficient	Correlation coefficient	Correlation coefficient
Correlation between Education, Health, and Welfare			
- Education	1.00	0.62**	0.34*
- Health	0.62**	1.00	0.22**
- Welfare	0.34*	0.22**	1.00
Education Outcomes			
- Primary school enrollment (%)	0.37*	0.41*	0.13*
- Secondary school enrollment (%)	0.13	-0.05	0.01
- Illiteracy rate, adult total (% of people ages 15 and above)	-0.46**	-0.40**	-0.21**
Health Access			
- Access to healthcare (% of population)	0.32	0.44*	0.22*
- Access to sanitation (% of population)	0.45**	0.54**	0.21
- Access to safe water (% of population)	0.57**	0.59**	0.28
Health Outcomes			
- Malnutrition prevalence, weight for age (% of children under 5)	-0.48**	-0.49**	-0.33
- Infant mortality rate (per 1,000 live births)	-0.47**	-0.40**	0.21*
- Life expectancy at birth (years)	0.12	0.29	0.05
Social Outcomes	-0.38**	-0.29*	-0.21
- Poverty headcount ratio	0.29	0.34	0.22
- Gini coefficient			

*indicates significance at 0.05 level.

**indicates significance at 0.01level.

Source of data: World Bank. (1995-2012). *World Development Indicators.*

Conclusion and Policy Implications

Although ASEAN countries are not homogenous and exhibit intraregional variation in terms of government institution, most major ASEAN countries share common characteristics. First, the transition to democratic rule in most major ASEAN countries gave strong incentives to greater attention on social policy and issues. Although the presence and the duration of democracy was quite short and unstable in most ASEAN countries, democratic openings were accompanied by shifts in government priorities and the expansion of social policy and services. Political competition, therefore, did play a role in the expansion of social commitments. And the expansion of these social commitments, in turn, tended to be an important tool for improving the quality of life and income of the population. This finding lends support to the power-resource theory and the new institutionalism researches (North, 1993; Przeworski et al., 2000; Persson & Tabbelini 2003) which emphasizes the need for democratic governance and competitive checks on government as the mechanisms for development. Better democratic governance (greater accountability, more openness to public participation, rule of law, and transparency) tends to provide incentives for the government to be more responsive to the needs of ordinary citizens, the poor, and those most exposed to risks, and that promotes development. Strengthening democratic governance, therefore, should be an important development goal of ASEAN member countries. Improving democratic governance institutions in ASEAN member countries that are accountable, transparent, and open to participation, could also increase government effectiveness and political stability and create a more inclusive development outcomes, which are prerequisite for sustainable ASEAN integration.

Second, most ASEAN member countries are more open to international trade and foreign direct investment. Greater openness to international trade and foreign investment tended to compel major ASEAN governments to be more sensitive to the need to upgrade human capital and education of the labor to help them adjust to changing demands from the world market. The transition to

a more outward-oriented strategy of major ASEAN countries initially took place by utilizing cheap surplus labor from the countryside. However, the success of the export-oriented strategy led to the growth of manufacturing employment, the absorption of surplus labor, and the increase in wages. This process produced a concern about the effects on competitiveness of rising labor costs. This concern was reinforced by the continuing entry of new countries into export-oriented manufacturing which meant that an outward-oriented development strategy of the original ASEAN countries (particularly Malaysia, Thailand, Philippines, and Indonesia) was always being challenged from below by lower-wage countries (e.g. China and Vietnam). This concern, therefore, forced both governments and firms to have more interest in industrial upgrading and the upgrading of human capital and education of the labor. This investment in human capital, in turn, tended to have positive effects on development outcomes of ASEAN member countries. The dynamism of outward-oriented development strategy was highly conducive to ASEAN's economic growth and served as a continuing spur to human capital and industrial upgrading. The outward-oriented development strategy should, therefore, continue to be the major goal of ASEAN economic integration. Further openness to intraregional and interregional trade and investment could increase competition and pressure for human capital and industrial upgrading of the ASEAN member countries.

Finally, higher economic growth was also a permissive condition for an expansion of social entitlements in ASEAN. Higher economic growth directly weakened fiscal constraints and provided incentives for politicians to expand social entitlements. On the other hand, periods of low growth and crises placed a direct constraint on social spending and strengthening arguments for restraint or retrenchment. However, it should be noted that the expansion of social insurance and services was contingent not only on growth but also on the capability of the government to raise tax revenue, particularly through the expansion of tax bases. In most ASEAN countries, tax bases tend to be narrow (World Bank, 1993: 64). Thus, to meet the need for the expansion of social policy and the increasing

tax revenue, reforms in the tax system (e.g. by broadening income tax bases and reforms in land and property tax) should be an important development goal of ASEAN member countries. Tax reform, therefore, could provide the basis for an expansion of social commitments in ASEAN.

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Appendix:

Appendix 1. Country List (Table 3)

Argentina	Ghana	Philippines
Bahamas	Guatemala	Senegal
Bolivia	Honduras	Sri Lanka
Botswana	Hong Kong	Swaziland
Brazil	Indonesia	Thailand
Cameroon	Kenya	Taiwan
Cote d'Ivoire	Malaysia	Uruguay
Chile	Mexico	Venezuela
China	Mali	Vietnam
Colombia	Nicaragua	
Costa Rica	Panama	
Ecuador	Peru	
El Salvador	Paraguay	