

**Fachbereich 8: Sozialwissenschaften**

**Welfare Geography and the Changing World of  
Welfare Municipalities**

**Municipal social spending in Denmark and South Korea analyzed**

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**vorgelegt von**

**Dong-Ho Jang**

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**Gutachter**

**Prof. Dr. Steffen Mau, BIGSSS, Universität Bremen**

**Prof. Dr. Bernhard Kittel, MSW, Universität Oldenburg**

**Prof. Dr. Herbert Obinger, ZeS, Universität Bremen**



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## **List of Abbreviations**

FLPR	Female Labor Force Participation Rate
GDP	Gross Domestic Product
IGR	Intergovernmental Relations
LGDK (KL)	The Association of Danish Municipalities <i>(Kommunemes Landsforening)</i>
NGOs	Non-government Organizations
NPOs	Non-profit Organizations
NPM	New Public Management
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
TSCS	Time-series cross-section

## Acknowledgement

In this dissertation, I analyze how and why welfare municipalities change over time. There are, of course, many different causal forces for the change, and they emerge from different places and time periods. As will be argued later, it is evident that any single force cannot explain the welfare municipality change fully; to understand what is happening to the welfare municipality now, it is indispensable to know what happened to the welfare municipality before; to know what is happening to this welfare municipality, it is also important to identify what is happening to other welfare municipalities. A welfare municipality changes over time and does not work alone!

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# CHAPTER 1: INTRODUCTION

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## 1.1 Research questions and arguments

Over the last three decades, growing financial problems have resulted in large-scale public sector deficits in Europe. In the labor market, “employers have been increasingly incited to adopt labor-saving rationalization measures which exacerbate unemployment” (Alber 1998: 183). Mounting unemployment has not only enhanced the demand for transfers but also has lowered public revenues, hence obliging the state to rely more heavily on deficit spending. Thus, the ‘big government’ to solve social and economic problems has ultimately come into question (Pierson 1994). In many advanced Western countries, these changes have resulted in tremendous pressure on national governments, thereby rolling back the welfare state. Taking this transition as an important lesson learned from the West, governments in many Eastern countries have attempted to curtail possibilities for a more expensive welfare state (Lee 2004; Park 2008b; Peng 2002; Varies 2000).

In much of the literature, it has been argued that decentralization has considerably constrained the capacity of local authorities in providing social care services (Bahle 2003; Cochrane 1994; Kröger 1997a; Morel 2003; Page and Goldsmith 1987b; Park 2008a; Pickvance and Preteceille 1991; Pinch 1997; Szebehely 1998; Trydegård 2000).<sup>1</sup> Over the last three decades, in many advanced industrial countries the central government’s share of total local government revenue has substantially decreased. However, the policy guidelines of the central government as well as the political power of consumer groups have become more and more complex and demanded to be

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<sup>1</sup> In this dissertation, social care services are considered the major field of municipal welfare. They are, in principle, the public services that help people cope in their everyday lives and that people need for themselves or for their dependants. In quantitative terms, the two main types of social care services are children’s daycare and care for the elderly (Sipilä 1997: 1).

fulfilled by local governments (Bach 2000: 14; Sanderson 2001: 297). In response to this dilemma, local authorities have increasingly attempted to pass the service costs directly on to the individuals and families. But then, the national government often intervenes again to unburden families by implementing a maximum ceiling on parental fees (Morel 2003: 15). No doubt, not all municipalities face such a problem, especially if they are rich. Nor have they any serious difficulties in providing social care services if there is little public demand for or interest in social care services. Nonetheless, one should not overlook the deepening local polarization of contemporary social services in many industrial countries. What is more, this trend has emerged virtually irrespective of welfare state regime types (Curtis 1989; Hanssen 1997; Jang 2007b; Paddison 1983; Smith 1977; Szebehely 1998). Therefore, the role of local politics and institutions must be taken into consideration when welfare state changes are analyzed (Obinger et al. 2005; Pickvance and Preteceille 1991; Pinch 1997; Schridde 2002).

Despite the growing need for local investigation, comparative social policy research has focused exclusively on the development of and change in social transfers, which are, in principle, administered by the national government (Abrahamson 1997: 156; Alber 1995: 132; Burau and Kröger 2004: 793). Even if social care services are addressed in some literature, “as a rule, the final conclusions are always made based on social insurance schemes” (Kröger 1997b: 486) or the concept of welfare state regimes (Abrahamson 1999; Bahle 2003; Huber and Stephens 2000). There has been a common assumption in the cross-national approach that “the welfare state is inherently nationalized” (Kolberg 1991a: 123). The problem is that this national perspective then disguises the welfare state’s considerable reliance on sub-national governments for delivering and financing social care services.

In this regard, if until recently researchers had accounted for changes in the welfare state always at the national level, now the focus should be more on those at the local dimension. The local angle is particularly necessary when the provision of social care services is concerned. The important questions are therefore as follows: Has the municipal social care provision been significantly retrenched or not? If yes, what are the major determinants of the retrenchment? Would it be the decline in the local economy? Or would it be the losing strength of the left-wing party power at the local level? On the contrary, if the municipal social care provision has not retrenched at all,

what are the exact reasons for such a resilience or even development of the municipal welfare provision today? Are they socio-demographic changes such as an aging population and the increasing number of women in labor force, or some institutional resistance against welfare reform—such as new politics (Pierson 1994, 1996; Wildavsky 1964)?

In fact, these questions have been repeatedly raised by various studies over the last few decades. However, the answer has been far from obvious. One of the main obstacles behind this complexity above all is the remarkable ‘geographical variation’ in the local provision of public services (Curtis 1989; Paddison 1983; Pinch 1997; Smith 1977). According to Trydegård and Thorslund (2001: 179), across Swedish municipalities the coverage rate of home help service for the elderly (aged 80 years and above) varies from 5 to 52 percent and that for special housing ranges from 13 to 41 percent. Such variations are evident in other countries as well. For instance, in financial year 2000/2001, individual municipalities in England put profoundly different efforts into financing personal social services. More precisely, in that year social expenditure per beneficiary varied between £529 and £2,353 across local authorities (Revelli 2004). Similarly, in South Korea (hereafter Korea), the municipal social spending ratio differed from 3.43 to 33.47 in financial year 2003/2004 (Jang 2007b; Jin 2006; Kim and Lee 2000; Kim 1998). In a nutshell, it appears to be more adequate to talk of ‘hundreds of welfare municipalities’<sup>2</sup> rather than ‘one uniform

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<sup>2</sup> The term ‘welfare municipality’ has been used to describe the significant role of local governments in the making of social policy in Scandinavia (Trydegård and Thorslund 2001: 174). A similar term would be the ‘local welfare state’ (Laws 1998; Schridde 2002; Steinmetz 1990). In this dissertation, ‘welfare municipality’ in contrast to ‘welfare state’ is employed by emphasizing some advantages in using the term: First, the term suggests that welfare is also an important business of municipalities. This is very crucial because it allows us to see how the welfare municipality challenges the national government for its own interests. Second, the concept attracts our attention to the geographic variation in social programs and spending between municipalities. In the literature, the concept ‘welfare state’ has often neglected the fact that certain parts of a country are more vulnerable to the challenges (Laws 1998: 433). Third, the concept requires a differentiation in explaining the ‘local social policy development’ and the national social policy development,’ given that levels of policy development differ between the national and the local levels.

welfare municipality' if such welfare geography<sup>3</sup> proves to be permanent and universal (Szebehely 1998; Trydegård and Thorslund 2001).

This dissertation introduces the local dimension, which has typically been overlooked in the work on welfare state transformations, to comparative social policy analysis. With regard as to how to understand such local variations, Tonboe underlines the necessity of the comparative local studies as follows:

Local areas act and react in a locally specific way ... in no way simple. Variations in industrial structures for instance, whether of historical, political or geographical origin, cause variation in the local effect of an economic recession or a general cutback in public expenditure. Some sectors and branches are affected more strongly than others, and, consequently, some localities are affected more than others. Furthermore, political and union organizations, normally the basis of political action/reaction, also vary from one place to another. In some places the working class is numerous and strong. In other places, and at other times, capital, business or agriculture is dominant ... Even general rearrangements in political and trade organizations will affect local areas differently and thereby contribute to the locally specific character of local politics. An 'average' of local community and local politics is not a good starting point for analysis. It does not elucidate the mechanisms that produce a general local political contribution to 'national politics' out of locally specific processes, and vice versa. (Tonboe 1991: 19)

Building on this cross-local perspective, the overall aim of the dissertation is to account for changes in welfare municipalities mostly within the field of social care services. More specifically, the research project maps out local variations in municipal social spending<sup>4</sup> over time and explores the forces and mechanisms behind the

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<sup>3</sup> In the research field of public service delivery, welfare geography focuses on the connection between spatial variation of need and structures of provision in the creation of geographies of welfare (Smith 1973; Pinch 1997). Such work has been motivated by a set of moral questions about the fairness issue of distributions and allocations of public goods but also questions how best to strive for the kind of society we deserve (Stæheli and Brown 2003: 772).

<sup>4</sup> In the field of comparative public policy studies, social expenditure data, such as *Social Expenditure Database* (SOCX) of the OECD, has been probably the most widely used indicator of overall welfare effort. However, problems of using aggregate spending data for assessing welfare state dynamics have been consistently raised by many scholars (see Esping-Andersen 1990; De Deken and Kittel 2007). Apart from the issues of limited reliability of cross-sectional spending data and inconsistent time-series, the major problem with this type of data is that they are composed of various welfare programs, each of which has different policy aims and groups of political actors; thus, it reduces the reliability of comparison. If one still wants to use the data, it



variations in Denmark and Korea. The comparison between these two very different countries is indirect, but it is nonetheless aimed at understanding how welfare state regimes influence the dynamics of welfare municipality change. Especially, if one wants to generalize findings of comparative welfare municipality studies at the local level from one country to another, it is important to make sure whether or not an identical factor causes the same direction of change in local social policy under different welfare state regimes (Wiatr 1980).

In the dissertation, strong emphasis is given to both spatial and temporal variations in the welfare municipality development under the two following circumstances: First, today municipal authorities with poor-performing local economies often succeed in providing astonishingly expensive services to their citizens. In some countries, such spending behavior by the municipal authority can hardly be explained from the conventional political points of view that distinguish different ideologies of welfare. For example, in Korea, the Left or labor politics has not been influential for a long time in local social policy, yet relatively generous social benefits and programs are provided within some poor municipalities as well (Jang 2007b; Kang 2004; Kim and Lee 2000; Park 2008a). Similarly, Hanssen (1997: 120-122) identified that in Sweden the higher the shares of the votes for the Social Democratic Party or the Conservative Party, the higher the municipal daycare take-up ratios. Faced with such a puzzle, one might like to explore the role of the national-level institutions in the process of creating divergence of social policy development across municipalities (Alber 1995; Burau and Kröger 2004; Kröger 1997b). It is no wonder then that the national government aid or decentralization policy is one of the major crucial forces behind the odd behavior of local authorities in financing local social programs. Indeed, local authorities are by no means the states within the state. However, with such a central-local government distinction only, it nonetheless becomes difficult to explain the horizontal type of local discrepancies in the social policy. One should note that not all

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is therefore strongly suggested that they disaggregate the data as far as possible, so that the result of analysis can be more specific (Kaufman and Segura-Ubierno 2001: 576). In this dissertation, particularly related to the empirical part, I will use municipal social spending (and sometime aggregate social care spending) as the dependent variable. They are chosen because of its efficiency as an indicator—I analyzed hundreds of municipalities in Denmark and Korea. Furthermore, I believe that understanding of the result would be quite clear as the data used in the dissertation are disaggregated at the local level and contain few different social programs.

local policy changes are made in light of only the vertical dimension of the intergovernmental relations (IGR). Municipal authorities are often forced or sometimes willing to take economic or political risks by exceeding their financial capacities in the provision of social services. Various inter-local co-operation and competition can be regarded as one way of the IGR for the sake of the economic growth and social harmony of a municipality (Allard and Danziger 2000; Jang 2007b) or their mutual interest, such as the regional development (Evers et al. 2006). Thus, existing local discrepancies in the provision of social service must be acknowledged as a policy outcome of local or regional co-operation and competition in public policy (Abbott 2001; Local Government Denmark 1999: 20-22; Tiebout 1956). Of course, strong local interests and actions can be confronted with the policy aim of national authority (Kröger 1997a; Szebehely 1998), and tensions can often exist between the different levels of governments and influence local social policy. In short, the causal relationship between the IGR and social policy development appears to be, although complex, exerting powerful spatial forces on the local variation in municipal care services.

Second, paradigm shifts<sup>5</sup> matter not only to the welfare state but also to sub-national welfare states. Over the last few decades, it has been frequently argued that the cause of welfare state retrenchment in the post-industrial era significantly differs from that of welfare state development in the post-war era. To put it differently, the causal mechanism behind the welfare state change differs over time (Bonoli 2005; Esping-Andersen et al. 2002; Green-Pedersen 2002; Pierson 1994, 2001; Taylor-Gooby 2004). From this perspective of “welfare states in transition,” what should be noticed is that different kinds of social policy emerged at different points in time. In the literature of welfare states, it has been largely agreed that in the post-war era the states mostly devoted themselves to establishing nation-wide social insurance schemes such as old-age pensions, industrial accident insurance, and so on (Obinger et al. 2005). Over the last two decades, there has been an emergence of “new policies, such as child care or active labor market policies, which have little in common with the traditional protective and de-commodifying function of postwar welfare states” (Bonoli 2007: 24). Of course, these are not clearly indicative of a weakening position of the ‘national

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<sup>5</sup> A paradigm shift generally refers to a change in basic assumptions within the ruling theory of science (Kuhn 1970).

government' in 'national-wide social policy schemes,' but indicative of the emerging role of 'local governments' in 'local social policies' for the post-industrial era.<sup>6</sup>

In my opinion, the framework for the comparative research of welfare municipality change therefore must have both spatial and temporal dimensions. I argue that geographic and temporal variations in welfare municipality development should not be understood apart from each other. In other words, estimations of the welfare municipality change would be inaccurate if they are based on only a single temporal dimension (e.g., post-war or post-industrial setting of policy-making, etc.) or they ignore spatial contexts (e.g., local politics and economic conditions or inter-government relationships, etc.). In this dissertation, it is thus fundamentally premised that a specific social policy or causal condition for social policy that is significant in a certain point in time and space may not be significant to a large extent in other points. Accordingly, special attention is paid to distinguish temporal and spatial structures related to the determinants of welfare municipality change.

In the remainder of this chapter, I introduce the concepts of the 'social care services,' 'welfare geography,' and 'paradigm shifts in public welfare.' These introductions will, however, be brief because detailed contexts of each concept will be explored again to a large extent in the following chapters. At the end of this chapter, I will present the entire structure of the dissertation.

## **1.2 Social care services and welfare geography**

In most advanced industrial democracies, every municipal authority serves as the primary provider of public social services, albeit with a large variation in magnitude across regions and countries. In general, municipal social services refer to education,

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<sup>6</sup> However, in the literature scholars have put different weights on the "old" and the "new" policy paradigms. Some consider the post-industrial settings of the welfare state more relevant forces to the contemporary welfare state development (Bonoli 2005; Burrows and Loader 1994; Esping-Andersen et al. 2002; Pierson 1994, 2001; Taylor-Gooby 2004), while others put a fundamental stress on the old post-war paradigm of the welfare state (Clayton and Pontusson 1998; Korpi and Palme 2003).

health care, social care services, housing, active employment and social assistance (Alber 1995; Gallego et al. 2003; Sipilä 1997). For feminist or Scandinavian researchers who have a strong research interest in social care services, the role of municipalities in social care provision has been considered the “key” to understanding the large difference across different welfare state regimes (Alber 1995; Bahle 2003; Bambra 2005; Lewis 2007; Lewis 1998; Sipilä 1997). According to Bahle (2003: 7), there are four criteria that distinguish social [care] services from other types of public services: first, they are *personal* social services rather than services related to the production or distribution of goods; second, social services fulfill *personal* social rather than physical or intellectual needs, and the focus is on social roles rather than bodies, intellects, or minds, thus distinguishing social [care] services from health, education, and psychological assistance; third, social [care] services are performed by persons on persons in direct social interactions, implying relationships of trust and power between providers and clients; and fourth, the term ‘social’ also indicates social significance beyond purely private relationships.

Yet, one cannot say that social care services have been at the center in comparative social policy research at all (Alber 1995; Kröger 1997a). In effect, social care services have never been as highly institutionalized as social insurance, education, or health care systems, but have remained more local private in character (Bahle 2003: 6). In history, volunteer organizations, including the church, have played an important role in providing and controlling social care services. As a result, in any industrial countries, volunteer organizations represent only a marginal fraction of the total welfare state effort, especially in terms of national public social spending (Hong and Song 2006: 248). Due to the small scale, even if social care spending significantly increases, any change is almost invisible at the level of aggregate social spending (Esping-Andersen 1996: 72-73; Saltman et al. 2001: 94). It is always social transfer programs or a health insurance scheme that determines the overall trend of welfare state change. Furthermore, often different directions of change are found between social care spending and other expensive social policy spending (or total social spending) within a country.

Limited interest in the field of social care policies also originates from the political value of social care service itself. In general, researchers in the field of comparative

social policy tend to consider the inequality in social care services as an issue for people with medium or high income (Kröger 1997a: 486). As a consequence, the vast majority of researchers with more interest in the issue of 'inequality' have appeared to focus on the policy fields where they can find evidence of huge income inequality and institutional effect of large income redistribution between the poor and rich. In most cases, such policy fields refer to old-age pension, health, sickness, and unemployment insurance, which the central government nationally implements.

Despite its small magnitude, there have been, at least, two aspects making the welfare municipality become a more controversial subject in the field of comparative social policy research. First, the spatial disparity of local social care provision appears to be exceptionally drastic (Bergmark 1997; Bergmark et al. 2000; Craw 2006; Hanssen 1997; Jang 2007b; Toikka et al. 2004; Trydegård and Thorslund 2001; Valtonen and Laine 2003). An increasing number of scholars have considered such variation evidence of the strong autonomy of municipalities in regard to the national government intervening in local affairs. As suspected, researchers have sought to produce evidence that shows that local councils are more popular than the national government (Cochrane 1994: 117). No doubt, researchers object to the view that a municipality is an extended administrative part of the central government. Instead, it is insisted that more dynamics are found in welfare municipalities, not the welfare state (Morel 2003).

Second, welfare disparities across municipalities have been perceived as the side effect of fiscal decentralization in social care services and raised the issue of fairness in public service. The last decade witnessed the dilemma of municipalities: local self-government required local autonomy and at the same time needed to provide a uniformly equal service to all (Kröger 1997b; Park 2008a). This problem has been certainly debated even in Scandinavian countries, which are generally characterized by the universal welfare provision. Various welfare reforms emphasizing privatization and decentralization have forced welfare states to retreat from generous social care services (Bahle 2003: 6). Having focused primarily on state policy and the political economy of welfare services (Curtis 1989; Paddison 1983; Pinch 1997; Smith 1977) and on the labor and organization of care work or services (Lewis 1998; Sipilä 1997), studies of welfare municipalities have revealed the significance of territorial justice to

both legal and substantive aspects of citizenship as well as to moral philosophy. Implicit in their work has been a set of moral questions about the fairness of distributions and allocations of public goods in the light of class, gender, space, and so on. Thus, they raise profound critiques of the neo-liberal reforms that have accompanied state restructuring and the devolution of responsibilities for social welfare to municipalities (Jessop 2002). For these researchers, the rising geographic variation in the area of municipal welfare could be viewed as a growing injustice or unfair expense made by the national government influenced by neo-liberalists advocating welfare reform and a decentralization policy (Kröger 1997b; Szebehely 1998; Trydegård and Thorslund 2001). These researchers often implicitly question whether it is socially acceptable that “places of residence” largely determine to what extent the elderly, children, and their families benefit from municipal social services.

In short, welfare municipalities and welfare geography became popular because geographic variation in social care services gives the impression that local authorities are somehow much stronger than the national one, at least, in this field of social policy. In addition, welfare municipalities attracted considerable attention among those scholars who perceive local authorities as a branch of the national state; for these scholars, geographic variation is viewed as evidence of existing inequality within the same country and among people having the same citizenship. However, in spite of the important implications of the remarkable geographic variation in municipal welfare, I would argue that too much emphasis on the aspect of local autonomy should be discouraged. As will be shown later, in reality, the disparity in welfare municipalities is not being completely determined by either the local or national government. The one example might be the IGR, which also determines much local variation in social care services.<sup>7</sup> The point is that local governments’ own fiscal autonomy is only one out of many determinants of welfare municipality change.

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<sup>7</sup> Stoker also underpins that the changing position of the welfare municipality can be viewed on different levels, such as from the perspective of the relative autonomy model, the agency model, or in the context of the interactive model (Stoker 1991).

### 1.3 Paradigm shifts

The welfare municipality has changed over time just like the welfare state. Stoker argues “beneath the surface of seemingly stable welfare state, one can observe new institutional arrangements on the local level that are directed towards new social risks originated mostly from the ongoing process of de-industrialization.” (1991: 6) In the post-industrialization era, the standardized goals of central government programs are no longer adequate for the increasing differentiated social conditions of life and production (Schridde 2002). More precisely, the fundamental paradigm shift in the production and the consumption of welfare over time is described as follows:

At a simple level the application of the post-Fordist analysis to welfare suggests that changes in the organisation of both production and consumption in the wider economy have influenced and even been reproduced within the provision of welfare: mass production to flexible production; mass consumption to diverse patterns of consumption; production-led to consumer-led; from mass, universal needs met by monolithic, bureaucratic/professional-led provision to the diversity of individual needs met by welfare pluralism, quasi-markets, reorganised welfare work and consumer-sovereignty. (Williams 1994: 49)

However, it is questionable as to whether scholars in comparative welfare state research have actively reflected these paradigm shifts when investigating welfare state change. Bonoli (2007) argues that in the literature of comparative welfare state analysis ‘welfare states’ often refer only to traditional social policies providing cash benefits. What is problematic is that many scholars do not distinguish differences between the traditional and the new social policies, hence bringing about a profound confusion when the resulting analyses are interpreted.

This confusion has arguably always represented a problem for social policy research, but in the current postindustrial social and economic context, an unclear understanding of what we mean by ‘the welfare state’ is a major obstacle to insightful analysis. Over the last 20 years or so, we have witnessed the development of new policies, such as child care or active labour market policies, which have little in common with the traditional protective and de-commodifying function of postwar welfare states. These new policies do not aim to protect individuals from market forces; instead they have the objective of improving their chances to succeed in the market. They do not promote de-commodified workers. Are these new policies part of the welfare state? (Bonoli 2007: 24)

Despite such a warning against ignoring paradigm shifts in social policy, many researchers in comparative social policy research have often mapped out changes of welfare municipalities at just one point in time and generalized the results (Curtis 1989; Hanssen 1997; Trydegård and Thorslund 2001). This means that it is fundamentally questionable as to whether the variation found by those researchers remains constant or changes over time. This limit is to a large extent due to the lack of longitudinal data at the municipal level. Nonetheless, even if there are some data available, the range of indicator variables that can be used for empirical analysis is inherently narrow. Overall, existing cross-sectional analyses of welfare municipality development may produce considerable misunderstanding by overlooking the changing environments of local social policy development.

Apart from the paradigm shift, the interaction between different paradigms over time matters. One of the most debated issues is the temporal interaction between the increasing aging demographic and the growing female labor force participation. Certainly, one can say that both the increasing demand of care and decreasing capacity of supplying care work matter, respectively, to contemporary social policy development. Nonetheless, it can be also argued that the most demanding situation of public welfare may come into the case when both socio-demographic conditions are maximized—the increasing demand from the elderly population and the decreasing informal care work supply from female family members—because of the growing difficulty of combining work and family care (Bonoli 2005). For a more realistic understanding of the welfare municipality change, temporal interactions between different causal forces from which emerged different time contexts need to be investigated. If one did not focus on the paradigm shifts in welfare states, one is not able to understand how the temporal interactions between the old and new socio-demography matter to contemporary welfare municipalities.



## **1.4 The structure of the dissertation**

In this chapter, as the introduction of the dissertation, I have presented my research question: what determines the changes of the welfare municipality in the provision of social care services? Then I have argued that not only the significance of temporal dimension but also that of spatial (sub-national) dimension of social policy development are important because the scope and quantity of the social care services apparently differ over time and places.

Chapter 2 has three primary aims. The first aim is to introduce the empirical cases of analysis and justify the case selection. The second aim is from a comparative perspective to provide readers with basic information on the cases: the Danish and Korean welfare states and municipalities. The third aim is to understand the relationship between the welfare state regime and welfare geography. In fact, welfare geography would matter in any country, and the world of the welfare municipalities would change in any country, too. However, these local policy outcomes and settings would be subject to change if countries of different welfare state regimes are analyzed. Through the comparison of these two cases, we will understand the local impact of the welfare state regime.

Chapter 3 aims at finding adequate theoretical accounts for understanding welfare municipality change. The chapter is thus devoted to giving a review of the literature on welfare state development and change and relevant theoretical accounts. The literature review is undertaken in three sections, led by three different but related questions: How do economy and socio-demography matter, when and where? How does politics matter, when and where? How do the institutions matter, when and where? The last part provides a summary of the three previous sections, and the summary will serve as the theoretical framework for understanding the changing world of welfare municipalities. Furthermore, some theoretical implications will be presented together with the framework.

Chapter 4 puts forward important methodological issues, owing largely to the limit of feasible municipal data, and sets out the solutions for the issues. Then, the chapter

introduces the data for empirical analysis, and outlines variables and operational definition. These are followed by an analytical framework and some research hypotheses. It is worth emphasizing that the empirical analysis of this dissertation is based on the quantitative approach and uses social spending as the indicator of the dependent variable to deal with hundreds of municipalities in two countries.

Chapter 5 performs some empirical analyses with both countries in turn and identifies to what extent the statistical results support the hypotheses derived in chapter 4. More precisely, the empirical study is undertaken by using descriptive analysis, correlation analysis, and cross-sectional OLS regression analysis. The former statistical methods describe the pattern of welfare municipality change and identify both temporal and spatial relationships between various causal forces of welfare municipality change. The latter will reveal the determinants of change in welfare municipality change. It has to be noted that to overcome problems of short-term observation and limited range of indicators for the independent variables, this chapter describes the environmental condition of the welfare municipality development at the aggregate level by using some national-level indicators as well. Indeed, the role of welfare geography would be better understood in the comparison of both a disaggregate local-level description and an aggregate national-level description.

Finally, chapter 6 summarizes and generalizes some important findings of the dissertation. Then the limitations of the dissertation are pointed out, and directions for future studies of comparative welfare municipalities will be discussed. The chapter ends by highlighting several conceptual and methodological contributions of the dissertation.

# CHAPTER 2: THE DANISH AND KOREAN WELFARE STATES AND MUNICIPALITIES

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## 2.1 Introduction

As noted in chapter 1, Denmark and Korea are the cases chosen for empirical analysis in this dissertation. However, a detailed explanation regarding these cases has not been offered. The first aim of this chapter is to explain the case selection criteria. Then, readers will be offered the opportunity to understand the similarities and differences between the Danish and Korean welfare state regimes, and the similarities and differences between the Danish and Korean welfare municipalities. In the last section, the relationship between the welfare state regime and welfare municipality development will be examined from a cross-national perspective.

Why are Denmark and Korea being investigated in this dissertation to understand welfare municipality change? This question is quite crucial. Indeed, not to mention that these two countries, let alone any other Nordic European and any East Asian countries, have not been studied or compared even in an indirect way within the same research project, regardless of academic disciplines. These two regions are far apart geographically; direct contact between them has been quite rare. “There is thus a general expectation that the two regions should prove to be characterized by very different cultural traits, an expectation to which any observer taking an East-West comparative perspective can testify” (Helgesen 2006: 1). Not surprisingly, only a few studies have compared Nordic European countries with any East Asian countries, except most notably Japan. But, in my view, there are nonetheless several important reasons behind this case selection in this dissertation.

First of all, this different case study design is desirable as I want to explore and highlight in this dissertation a few but very important similarities of welfare municipality change across different countries in many aspects (Helgesen 2006). What I want to argue in this dissertation is that welfare geography and paradigm shifts in social policy matter to welfare municipality development and change in any countries if they are industrialized and post-industrialized enough (Bergmark et al. 2000; Craw 2006; Curtis 1989; Hanssen 1997; Jang 2007b; Jin 2006; Park 1997; Sipilä 1997; Trydegård and Thorslund 2001). The welfare geography determines the changing world of welfare municipalities while changes in welfare municipalities gradually alter the landscape of welfare geography over time (Pickvance and Preteceille 1991). This interaction would appear in any country irrespective of the welfare state regime. For example, even within Scandinavian countries, characterized by the welfare state regime of universalism/institutionalism, some municipalities have increased means-test programs and become stricter regarding social spending (Szebehely 1998). Moreover, among countries under the selective/residual welfare state regime such as the United States, the United Kingdom, and Korea, some municipalities appear to have very generous and institutionalized social care systems (Craw 2006; Jang 2007b; Jin 2006; Park 2008a; Revelli 2004).

In short, one can argue that there are residual welfare municipalities even in countries with institutional welfare states, and institutional welfare municipalities exist in countries with residual welfare states (Wilensky and Lebeaux 1965). Logically, these sub-national-level differences cannot be revealed from the perspective of a comparative welfare state regime that is always established at the national level. Nor does this dissertation need to investigate very different cases in terms of welfare state regime types. In fact, in most previous studies, a single case study (Bergmark et al. 2000; Craw 2006; Jang 2007b; Jin 2006; Park 1997; Sipilä 1997; Trydegård and Thorslund 2001) or a similar case design scheme (Hanssen 1997) was often used. However, with the former type of research design one would fail to distinguish the impact of the specific welfare state regime on municipal social policy, if there any, from the original effect of the local determinants. Concerning this issue, Wiatr clearly expressed his concern about a single-national study design nearly three decades ago. In my view, his concern remains valid as far as the current literature of comparative welfare municipalities is regarded.

In the past, the study of local politics had been confined by national boundaries. Even the most theoretically oriented studies did not aim at generalizations beyond the limits of a single national system. Local politics—unlikely political parties, voting behavior, political culture, or nation-building—was not considered a proper subject for cross-national comparisons. Even when the term “comparative” was used in local politics, it referred to within nation rather than to between-nations comparisons. The result of this orientation was narrowness of theoretical perspectives as well as a tendency to present local political phenomena as if they were totally specific for every nation. (Wiatr 1980: 143)

The second reason is that welfare state regimes might have a deterministic effect on local social policy development or change (Burau and Kröger 2004). Again, it has to be mentioned that welfare geography has been investigated in most previous studies by ‘within country or regime comparison.’ As a result, the causal mechanism behind welfare geography has been always explained to a large extent by the characteristics of a welfare state regime; accordingly, it has been difficult to differentiate the impact of the original local conditions and the impact of the welfare state regime type at the end. Yet the question remains not completely answered: why should we specifically focus on Denmark and Korea the most among many other countries? In my view, another important reason is that these countries have the most different welfare state regime types among the most advanced industrial economies.<sup>8</sup> More precisely, their welfare state regimes are most distinguished through the state, including local governments’ contributions in two major welfare state programs: income transfers and social care services (Bambra 2005, 2007; Hong and Song 2006; Kautto 2002). Thus, it would be more desirable that one can classify welfare state regimes through these two aspects of the welfare state. From this perspective, the two countries are the most idealistic in the sense that they are the most clearly distinguishable with regard to those two aspects (see figure 2-1). The point is that the fewer the similarities of welfare state regimes

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<sup>8</sup> Often the Korean welfare state has been characterized by the Liberal welfare state regime, represented by the American welfare state. Moreover, the American welfare state has been always contrasted with the Scandinavian welfare state. From a comparative perspective, which emphasizes the comparison of coherent system, the Korean welfare state, however, appears to be much more comparable to the Scandinavian welfare state than the American one might be. According to Kuhnle (2007), the Korean welfare state is a more interesting case in a comparison with the Scandinavian countries. He argues that “Korean welfare is institutionally both more universal and comprehensive than the American welfare state, making it more ‘European’ although it is – like all East Asian welfare states – a low-spending welfare state.”

and social policy across countries, the easier it is to suggest that commonalities in local social policy existing across these countries have not been made by the similarities in their welfare state regimes and social policies.

The third reason concerns the institutional feature of the funding local social program. More specifically, Denmark and Korea share a similar financial structure for municipal social care services. In this dissertation, the focal interest is municipal authorities' financial effort or burden on the provision of social care services. In many OECD countries such as Denmark and Sweden, municipalities are responsible and provide these social care services. However, in some countries such as Germany and Japan, the cost of long-term elderly-care services, which is generally the largest body of municipal care services, is covered by a long-term care insurance scheme (OECD 2005). Thus, focusing on the local autonomy, one must not compare the former and latter groups of countries. In Korea, long-term elderly-care services were financed by municipalities and the national government before July 2008, while this dissertation investigates municipal care service changes in the period 1995-2004. In brief, financial structures for municipal care services are quite similar between Denmark and Korea; hence, a high reliability of comparison is assured.

Last, but not the least, the form of government or constitutional structure matters when changes in local social policy are compared across countries (Obinger et al. 2005). Denmark and Korea are unitary states like France, Sweden, and Japan, for example. In general, regional and local governments do not possess autonomous power as strong as those in federal states. Therefore, a comparison of the dynamics of local social policy in these countries should not be directly compared with those in federal states such as Germany, Austria, the United States, Canada, Switzerland, and so on (Page and Goldsmith 1987b: 3).

In the following section, I will demonstrate to what extent the Danish welfare state is different and similar from the Korean welfare state.

## 2.2 The Danish and Korean welfare state regimes

According to Esping-Andersen (1990: 9), most debates on the welfare state are led by two questions. First, “what is the welfare state—how should we classify the welfare state?” Second, “what are the determinants of the welfare state?” In this chapter, the first question will be discussed with special attention to Denmark and Korea. The second question will be partly addressed in the next chapter.

Even with its popularity, the definition of welfare state itself has been always a subject of disagreement and quite limited. Generally, the welfare state is understood as the state involvement “for securing some basic level of welfare for its citizen” (Esping-Andersen 1990: 18-19). More specifically, the welfare state is often defined as “[g]overnment-protected minimum standards of income, nutrition, health, housing, and education, assured to ever citizen as a political right, not as charity” (Wilensky 1975: 1). Such a vague definition leads to fundamental confusion since the welfare state can be interpreted in many different ways. The point is that the notion of the welfare state is still blurred to what extent the state needs to be involved in individuals’ welfare, when a state aims to be a welfare state. From this perspective, Esping-Andersen argues:

Such a definition skirts the issue of whether social policies are emancipatory or not: whether they help system legitimation or not; whether they contradict or aid the market process; and what, indeed, is meant by ‘basic’? Would it not be more appropriate to require of a welfare state that it satisfies more than our basic or minimal welfare needs? (Esping-Andersen 1990: 19)

It is never surprising, therefore, that the welfare state is classified in multiple categories. For instance, in the seminal work *The Three Worlds of Welfare Capitalism* (1990: 27), Esping-Andersen argues that based on the international variations in social rights (i.e., de-commodification) and welfare-state stratification, the welfare state can be clustered into three regime types: Liberal, Corporatist, and Social Democratic. In the Liberal welfare regime, the state welfare is minimal. Benefits are modest and based on means-test principles; the state encourages the market as a provider of welfare. In the Corporatist regime, the state’s emphasis is on upholding status differences and traditional family-hood through welfare programs; this means that the redistributive

impact is negligible, and the state will interfere only when the family's capacity to service its members is exhausted. Last, in the Social Democratic welfare regime, welfare programs are universal and generous. They promote an equality of the highest standards; the ideal is not to maximize dependence on the market and the family but capacities for individual independence through the welfare state policy.

Although a number of scholars have been attracted by the intuitive simplicity of Esping-Andersen's typology, there have been diverse arguments as well in favor of different typologies of the welfare state. The major criticisms about *The Three Worlds of Welfare Capitalism* and other intentions behind the proposed new welfare state regimes are summarized by Leibfried and Mau as follows:

Critics of the typology note that most countries are composites of Esping-Andersen's regime types, that some countries fit these types rather poorly, or that such typecasting does not really exhaust the depth of the national experiences. Others have proposed additional types, 'other worlds', like the 'Latin Rim' ... the 'Antipodean' ... East Asian or Confucian regime types ... Eastern European countries ... Others have noted that this typology is too focused on social security and income transfers and hardly on the health and welfare services which are crucial features of the welfare state. (Leibfried and Mau 2008: xx-xxi)

Indeed, 'welfare services,' or more precisely, 'social care services,' the term used in much of the literature, have been especially of longstanding interest in feminist analyses of the welfare state. Feminist researchers have argued that the claims of men and women on the state for support have often been defined in different ways (Millar and Warman 1996: 14). Focusing on this dichotomy that implies that a man equals paid worker (i.e., breadwinner) and a woman equals an unpaid career (i.e., dependent family), feminist researchers have tried to reflect the gender division on the welfare state regime typology. 'De-familization' was developed by feminist researchers as a parallel concept of 'de-commodification.' De-familization describes conditions under which people engage in families, and the extent to which they can uphold an acceptable standard of living independently of the (patriarchal) family (MacLaughlin and Glendinning 1994: 65-66).

Social care services between welfare states are often supposed to vary according to the way of organizing the volume of social care services. Anttonen and Sipilä (1996)



distinguish three social care models: the Scandinavian model, the family care model, and the central European subsidy model. The Scandinavian model is characterized by its universal character and the wide availability of public social care services with the middle class among the users of public services. Local governments play a key role in organizing and funding the services. Anttonen and Sipilä compare this state responsibility model with the family care model, which is represented in Portugal, Spain, Greece, and Italy. In these countries, the family provides care. The state authorities play only a moderate role in the provision of social services. The informal and grey market produces most of the services. Wealthier people use privately paid and commercial services. Finally, Anttonen and Sipilä define the central European subsidiary model, which is represented by the Netherlands, Germany, Belgium, and France. In this model, the family takes on the primary responsibility for the care of the elderly. Religious and political organizations are the major producers of services and replace informal care when necessary.

Under feminist criticism, Esping-Andersen has recently integrated gender issues more centrally into his typology. In his later work (1999: 9), Esping-Andersen more emphatically states that the components of welfare regimes are not only labor markets and the state but also the family and that the sum total of societal welfare derives from how inputs from these are combined. Thus, welfare states are an inter-causal triad of the state, market, and family. He incorporates familialization, the degree to which citizens' welfare depends on family support, as a criterion for categorization in welfare regime typology. A familialistic system is one in which public policy reflects the expectation that households are the main provider of their members' welfare. A regime that promotes de-familialization is one in which the burden on direct family welfare provision can be lessened through market or state provision of care and support.

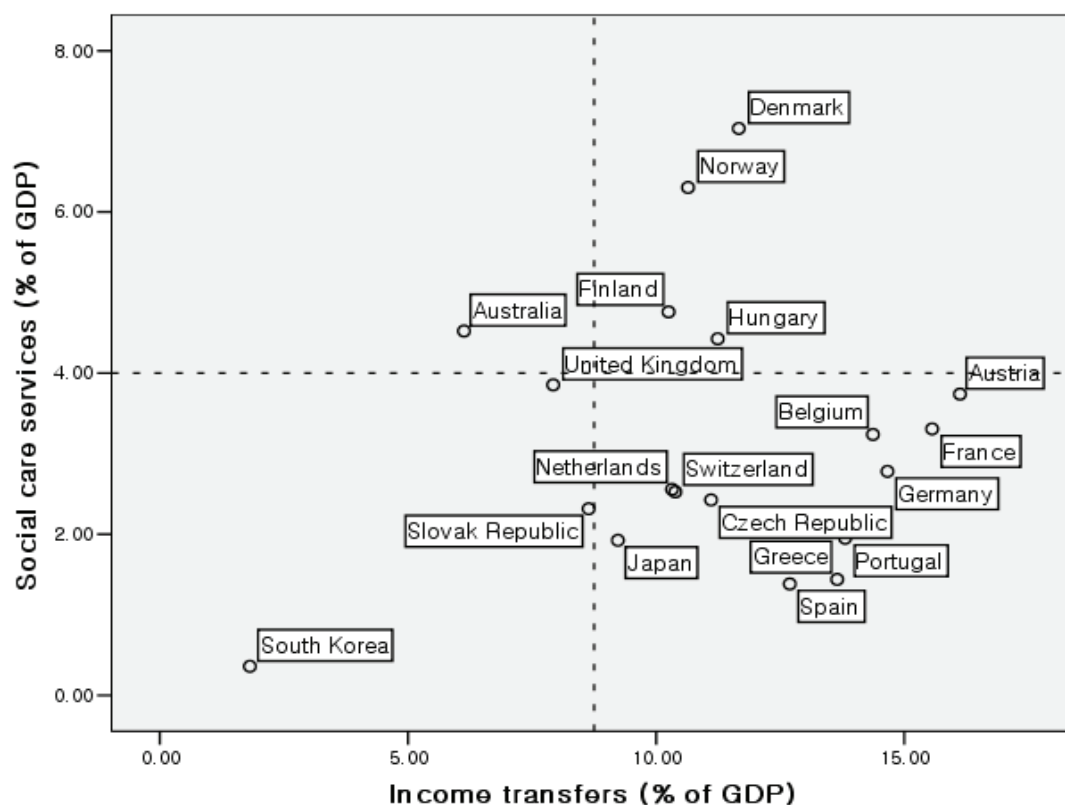
Similarly, Korpi (2000) suggests a two-dimensional classification in terms of the relative stress on unpaid versus paid work, building on Esping-Andersen's typology and including gender and the care issue in more detail. The first policy choice is whether to leave gender issues to families and markets or whether the state should take an active role. The second policy choice is whether to promote the dual-earner model or bread winner model. Using these criteria, he identifies four policy models—dual-

earner support, general family support divided into two sub-groups (i.e., the corporatist-conservative and the Latin Rime welfare state regime) and market-oriented. Each of these models has a different approach, sometimes articulated and sometimes not, to how the care of children should be shared among the state, market and family.

Through the various attempts at welfare state classification, what is noticeable although not very striking is that the income transfer-oriented typology and social care-oriented typology match each other well. More specifically, both result in similar memberships of countries across different welfare state modeling businesses (Abrahamson 1999). For example, the dual-earner support model in the typology of Korpi (2000) resembles the Social Democratic welfare state regime proposed in the model by Esping-Andersen. In the same way, the family support model looks very similar to the Corporatist Conservative and the Latin Rim welfare state regime; the market-oriented model looks just like the liberal welfare state regime. In this regard, one can argue that there are strong institutional complementarities between the development of social care services and that of income transfers across countries.

Coming back to our cases, it can be questioned how we should label the welfare state regimes of Denmark and Korea. Probably the important question is whether the distinction between income transfers and social care services matters at all (Abrahamson 1999) for understanding the differences in the Danish and Korean welfare state regimes. Regarding the question, figure 2-1 presents the answer. It shows that many nation states put incongruent efforts into their income transfer programs and social care services. More specifically, when comparing the ratio of income transfer expenditure among the countries, the gap in expenditure becomes marginal between the Nordic and continental European countries. This means that income transfers are not the key to distinguishing the Social Democratic welfare state regime and the Corporatist Conservative welfare state regime. In fact, it indicates that the cross-national variation of the development of social care services can ultimately distinguish these two types of regime. Instead, the cross-national variation in income transfers makes a clear distinction between these two European welfare state regimes and the other regime (i.e., the Liberal welfare state regime).

Figure 2-1 Welfare state classification with a distinction between income transfer and social care service development



Notes: Out of 30 OECD member countries in 2003, only 19 countries are shown. The rest of them were excluded because of the missing data. Income transfers refer to cash benefits paid to old-age people, survivors, incapacity related individuals and unemployed workers. Social care services refer to benefits in kind provided to old-age people, survivors, incapacity related individuals, and cash benefits and in-kind of family. Both transfers and services were measured by public social spending as a percentage of GDP.

Source: OECD (2007)

What is clear from figure 2-1 is that the role of the state in the welfare provision in Korea is very small (see also Holliday 2000) and that in Denmark is very large. This result is the same when the state is involved in income transfers or social care services. Thus, the distance in terms of the state's intervention in welfare between these two countries are the largest among any others in the figure. This suggests that the distinction between the role of family and that of the market in the private welfare sector and that between the development of income transfers and the development of social care services do not play an important role in making a distinction between the Danish and Korean welfare states. In this regard, what I suggest here is rather a simple

but nonetheless effective distinction of the welfare state regime, developed by Wilensky and Lebaux (1965):

Two conceptions of social welfare seem to be dominant in the United State today: the *residual* and the *institutional*. The first holds that social welfare institutions should come into play only when the normal structures of supply, the family and the market break down. The second, in contrast, sees the welfare services as normal, “first line” functions of modern industrial society ... In our view, neither ideology exists in a vacuum; each is a reflection of the broader cultural and societal conditions ... and with further industrialization the second is likely to prevail. (Wilensky and Lebeaux 1965: 138-140)

In fact, the conceptual distinction of *residual* and *institutional welfare* refers to different extents of responsibility or intervention of the state involved in individuals’ welfare. They particularly make sense in comparison of the role of other important institutions, such as the families and the market that have been the major welfare service providers in the past and present. Based on this distinction, it can be argued that the residual welfare state regime would prevail in “developing” or “just developed” countries similar to Korea. The institutional welfare state regime is found in advanced economies such as Denmark.

Indeed, the Danish economy has been growing and fairly robust for the past several decades, despite the subdued international economy. The Danish economy traditionally specialized in agriculture, similar to the economy of many small nations. An economic history of Denmark thus must take its point of departure in agricultural development. However, the population employed in agriculture declined from around 1840 and especially after 1870, while the share employed in industry and crafts rose from around 1840 until around 1970 (Jørgensen 2006: 3). Nonetheless, it was only the late 1950s when the size of workforce of the manufacturing industry overtook that of agriculture (Henriksen 2006). The textile industry was large already in 1840 but declined especially after 1945 while the engineering industry employed an increasing share of the employed in the entire period from 1870 to 1972 (Jørgensen 2006: 3). The largest employers are the manufacturers of metal products, machinery, and equipment; the food processing industry; the paper and graphic industries; and manufacturers of transport equipment. The production of footwear, clothing, wood, and wood products, furniture, and electronic equipment also provide substantial employment (Denmark

2008).

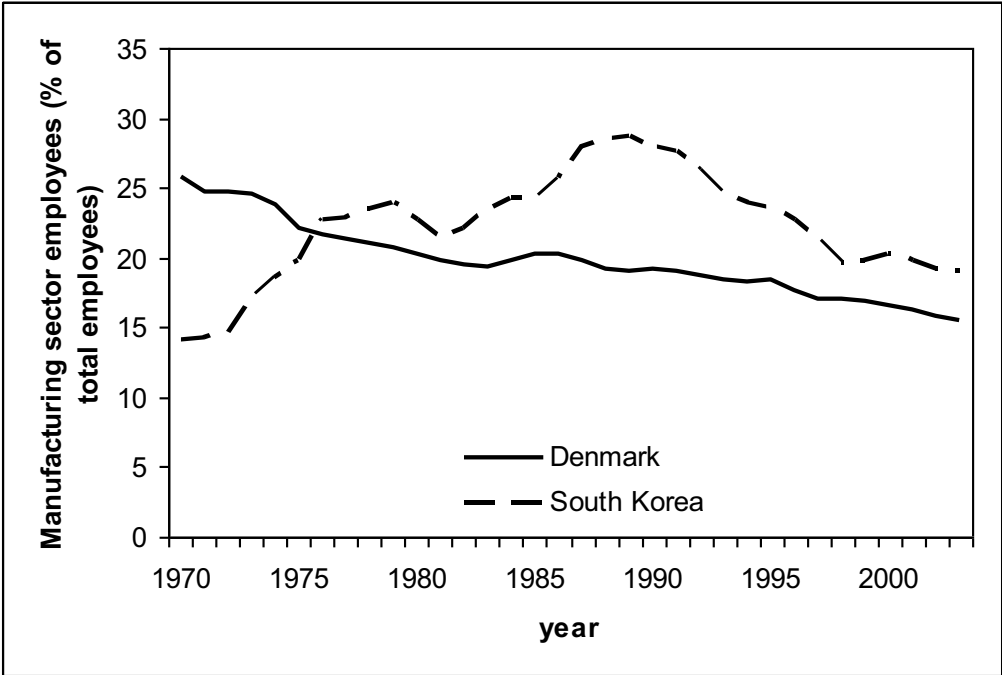
The Korean economy started to grow late but developed more rapidly during the last 30 years. The Korean economy focused on heavy industry and automotive industry during the 1970s and 1980s. Compared with the industrial and service sectors, agriculture remained the most sluggish sector of the economy. In 1988, the contribution of agriculture to the overall GDP was only about 10.8 percent. The overall growth of the agriculture, forestry, and fishing sector was only 0.6 percent in 1987 compared with the manufacturing sector, which grew 16.0 percent during 1986 and 1987. During the period 1965-1990, the average annual growth of the GDP per capita was 7.4 percent. The government made a bold move to expand Korea's heavy and chemical industries, investing in steel, machinery, shipbuilding, electronics, chemicals, and nonferrous metals. Korea's capability for steel production and oil refining increased most notably. Refineries for zinc and copper and modern shipbuilding facilities were constructed; automobiles began to be exported to a few markets (Wikipedia contributors 2008).

A downturn in the Korean economy in 1989 spurred by a sharp decrease in exports and foreign orders caused deep concern in the industrial sector. Poor export performance resulted from structural problems embedded in the nation's economy, including an overly strong value of the Korean currency (KRW), increased wages and high labor costs, frequent strikes, and high interest rates. The result was an increase in inventories and severe cutbacks in production at a number of electronics, automobile, and textile manufacturers, as well as at the smaller firms that supplied the parts. Factory automation systems were introduced to reduce dependence on labor, to boost productivity with a much smaller work force, and to improve competitiveness. It was estimated that more than two-thirds of Korea's manufacturers spent more than half of the funds available for facility investments on automation. In the mid-1980s, the largest employer of Korea's service sector was retail trade. A growing number of workers were employed by the department stores that were opening rapidly in the downtown areas of major urban centers (Wikipedia contributors 2008).

Figure 2-2 below clearly indicates that Korea experienced a very radical industrialization during the 1970s and 1980s while de-industrialization kept taking

place continuously during the same period in Denmark. Nonetheless, in Korea, drastic de-industrialization has also been taking place since the 1990s. According to Wilensky and Lebeaux (1965), the cross-national variation in terms of the state responsibility on the individuals' welfare between Denmark and Korea is largely due to their different timings of industrialization.

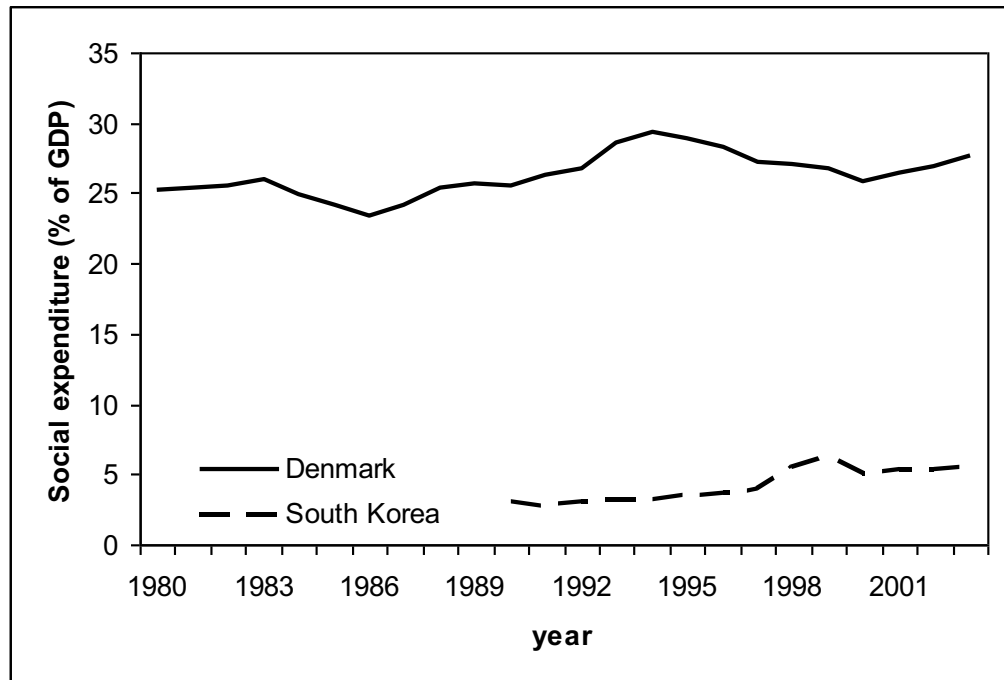
Figure 2-2 Trends of (de-)industrialization, 1970-2003



Source: OECD (2006)

Figure 2-3 shows that public social spending has increased steadily in Korea during the last 10 years, but Korea is still the country with the lowest social expenditure as a percentage of GDP. In 2003, the OECD average was 20.6 percent (OECD 2007), and Denmark spent 27.6 percent of its GDP on social expenditure while Korea spent 5.7 percent of its GDP. Particularly, with regard to social care services, average public spending across the OECD countries was just below 1.0 percent of GDP, while Denmark, at the top, spent more than 5.0 percent of GDP (see chapter 5). All these figures support the application of institutional and residual welfare regime typology to the Danish and Korean welfare states (Kim 2004).

Figure 2-3 Changes in gross public social expenditure over time



Source: OECD (2007)

### 2.3 The Danish and Korean welfare municipalities

In the previous section, the obvious difference in the extent of the state's involvement in individuals' care work was identified between Denmark and Korea. In this section, I shift my focus from the national to the local level, and attempt to provide an overview of the role of municipalities in welfare provisions. At the end of the section, it will be answered whether the municipal functions, including the function of welfare services, are comparable between these countries despite their difference in welfare state regimes.

Denmark's local government in its modern form stems from the beginning of the 19th century. In 1803, an Act of Parliament established a system of elected poor law commissioners (Bogason 1987: 4). In Denmark, local autonomy was introduced in 1837/40, which was even about one decade earlier than the National Constitutional Assembly was established. The constitution of 1849 guaranteed local authorities some independence. The major functions of the Danish local government were established at the turn of the 19<sup>th</sup> century when reforms aimed at social welfare for the poor and

primary education defined the parish district as the main local administrative entity. As the beginning of the 1960s, proposals were presented to increase local resources by reducing the number of local authorities (Bruun and Skovsgaard 1980: 229). Accordingly, a series of reforms was put through around 1970.

The present structure of the Danish local authorities dates back to the local government reform of 1970, the purpose of which was to establish more sustainable local authorities as regard economy and administration. The 1,300 local authorities (i.e., municipalities) were reduced to 275, and 14 counties (i.e., regional governments) replaced the previous 25 counties. The counties simply comprise a number of municipalities (Local Government Denmark 1999: 7-8). The principles of the local government reform were that all issues should be solved as close to the citizens as possible. Thus, the municipality is an important part of the Danish democracy. The municipality has its own functions and rights, including the direct election system and the right of independent income taxation as well as management of certain affairs (Tonboe 1991: 21). The local authorities are responsible for approximately 50 percent of the total public expenditure in Denmark (Local Government Denmark 1999: 7-8).

What is essential for understanding welfare municipality development is that every ministry and each local government have constitutionally secured room for autonomy. More precisely, Section 82 in the Danish constitutions (from 1849, last revised 1953) gives autonomy to local governments, while the law on ministerial responsibility makes the minister the leader and chief executive over his or her department (Ejersbo and Greve 2005: 2). Of course, there are government-wide initiatives and legislation that all ministries and regional and local governments must follow, but every central government initiative is likely to be challenged by individual ministries and regional and local governments that are protecting their autonomy.

Compared to the local autonomy system in Denmark, the local autonomy system in Korea has a very short period of history. The first Local Autonomy Act in Korea was enacted in 1948, the year when Korea became an independent country. Until 1961, autonomous local governments existed in Korea. However, the local autonomy system was abolished in 1961, the year President Park seized power and started central government-driven economic development plans. After 24 years of centralization,



Korea again initiated local autonomy in 1995 by electing the heads of local governments by popular vote (Kim 2002: 1). Thus, the functional base of Korean local government is substantially limited. A government study shows that in 2002 only 27 percent of state functions were classified as local (Park 2006: 12).

The local governments in Korea consist of prefectures and municipalities. Prefectures, which are upper-level local governments, consist of a special metropolitan city, six metropolitan cities, and nine provinces. The boundaries of the prefectures were determined heroically, and thus, populations and areas vary greatly from province to province. Provinces stand midway between the national government and the municipalities. The 16 provinces, which are categorized as upper-level governments, are by no means homogenous in their fiscal capacities and expenditure responsibilities. The difference between urban provinces and rural provinces is especially very large. Similar to the case of upper-level local governments, lower-level local governments are quite diversified. Lower-level local governments, which are municipalities, consist of cities (*Si*), counties (*Gun*), and wards (*Gu*). Cities have a population of 50,000 or more, and counties have a population of 50,000 and less. Wards are municipalities under big cities. The wards under the metropolis of Seoul and six metropolitan cities are autonomous bodies; the heads of the wards are elected by votes. Other cities whose populations are more than 500,000 can have non-autonomous wards as administrative arms of the cities (Kim 2002: 1).

Table 2-1 provides detailed information about the composition of local government expenditure in Denmark. The largest category is social and health care activities, referring to cash benefits, children's day care, and varied assistance to the elderly, including rest homes; these activities account for 47.4 percent of the total expenditure. The second major item of expenditure is hospital services and public health insurance, comprising 17.4 percent of the total local government expenditure; they are paid by counties and metropolitan cities while the social service and health care activities are paid by municipalities. The education and culture expenditure is ranked in the top third, accounting for 16.2 percent of the total expenditure. In Denmark, the municipalities are responsible for primary schools and local libraries, as well as most other cultural activities. Vocational schools and university education are organized by the state, while the secondary education for 16 to 19 year olds is provided by the counties

(Tonboe 1991: 51). Apart from administration costs, expenditure for these groups of services consist of the vast majority of the total municipal spending. Local roads are built and maintained by the municipalities, and services such as water, sewerage, and gas are often overseen by the municipalities, too, although the spending on these services accounts for a relatively small portion of the total municipal spending.

*Table 2-1 Functions and spending of local governments in Denmark, 2001*

Category	DKK million	Percentage (ranks)
Housing and community amenities	7,389	2.1 (7)
Public utilities etc.	19,820	5.6 (5)
Traffic and infrastructure etc	10,964	3.1 (6)
Education and culture	57,297	16.2 (3)
Hospital services and public health insurance (only by metropolitan cities and counties)	61,378	17.4 (2)
Social and health services	167,272	47.4 (1)
Administration etc.	28,707	8.1 (4)
Current items, total	352,827	100.0

*Note:* The table includes the data from metropolitan cities and counties.

*Source:* Statistics Denmark (2002)

In Korea, the basic rights and responsibilities of local governments are stipulated in the constitution. According to Article 9 of the Local Autonomy Act, the following are the local public services: local administration; public services that enhance residents’ welfare; local industrial development of agriculture and commerce; regional developments and local environmental facilities; public services that promote education, sports, culture, and art; environmental protection, including pollution prevention; and local civil defense and fire protection. These local government activities are referred to as the “inherent” functions of local governments.

Unlike Denmark, in Korea, the largest category of spending goes to economic development, including agriculture and fisheries, regional economic development, and transport (see table 2-2). These expenditures comprised 28.9 percent of the total local government expenditure in 2005. The next largest category of expenditure is administration cost, which accounts for 21.9 percent of the total local government expenditure. Primary health services and social security (i.e., social welfare consisting

of social services and assistance) are the third- (14.7 percent) and fourth- (14.5 percent) largest categories of expenditures, respectively. Housing and education and culture are municipal services that account for relatively small portions of total local government expenditure. The relatively small portion of social welfare expenditure among the Korean municipalities partly stems from the short history of the local autonomy, thereby less institutionalization of the municipal welfare. It is also related to the fact that industrialization took place late in Korea; thus, fewer individuals demand social services. All in all, as indicated in table 2-2, what must be noted from Korea is the substantial role of the municipality in the area of local economic development. About 30 percent of total local government expenditure, which is nearly double the social welfare expenditure, is spent on regional development, local economy, and industry development. It is also noticeable that local governments' spending on housing and development of local communities is much higher in Korea than in Denmark.

*Table 2-2 Functions and spending of local governments in Korea, 2005*

Category	KRW million	Percentage (ranks)
General administration (including civil defense and others)	27,576,325	21.9 (2)
Health and amenities	18,542,456	14.7 (3)
Housing and development of local community	14,457,015	11.5 (5)
Education and culture	10,778,052	8.5 (6)
Social security (i.e., social welfare)	18,351,396	14.5 (4)
Economic development (i.e., agriculture and fishery, regional economic development, transport)	36,467,883	28.9 (1)
Current items, total	126,173,127	100.0

*Note:* The table includes data from metropolitan cities and counties.

*Source:* Ministry of Government Administration and Home Affairs (2006)

Despite all the differences between Denmark and Korea, the question should be raised: Are local governments in Korea different from those in Denmark by nature? Although not completely identical, the detailed functions of municipalities in Denmark are quite similar to those in Korea. Regarding this aspect, O'Connor (1973) provides an effective conceptual framework for analysis of municipalities' function in general. He argues most importantly that the capitalist state (such as Denmark and Korea) needs to fulfill two different and often contradictory functions—ensuring the profitability of the

economy and maintaining social cohesion and legitimacy. These objects are met by different types of expenditure—social investment expenditures to ensure a propitious environment in which capital accumulation can prosper, social consumption expenditure aimed at the reproduction of the labor force, and social expenses expenditure directed at the means both of coercion and of legitimization. As O'Connor did in her work, here the state clearly refers to local governments. From this perspective, Paddison classifies functions of local governments as follows:

1. Functions necessary for supporting private production and capital accumulation (social investment' expenditures):
  - the provision of necessary infrastructure, e.g. roads and bridges particularly for new industry
  - re-organizing and restructuring space so as to meet the needs of private production, e.g. urban development
  - maintaining the stock of 'human capital' through education, e.g. vocational schools
2. Functions necessary for the reproduction of labor-power through collective consumption (social consumption' expenditures):
  - through the material conditions of existence, e.g. low-rent public housing, the child and family care services
  - through the cultural conditions of existence, e.g. libraries, museums, recreation
3. Functions necessary for the maintenance of order and social cohesion (social expenses' expenditures):
  - through the means of coercion, e.g. police
  - through the support of the 'surplus population,' e.g. the elderly care, social assistance
  - through the support of the agencies of legitimization, e.g. public schools and the non-governmental organizations (NGOs)

(Paddison 1983: 149)

From this perspective, it can be a misassumption if one assumes that local governments are less relevant to local economy. In general, they take a major role in development of the local economy. In addition, even the spending on municipal public social services can be considered essential to the local economy and industry because public social services provide and maintain much of the infrastructure necessary for the routine working of the local economy<sup>9</sup> (Vesterggard and Ærø 2006). Public

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<sup>9</sup> In the early 1960s, Korea ceased to depend on external assistance since the Korean War. Then, the Korean government, regardless of whether it is the national or local, has continuously pursued economic growth based on loan dependent and export-

services help to build and maintain police and fire services to protect shops, offices, and factories and educate the population and prepare them for life in the labor market. Even cultural policies are often aimed both at assisting the growth of ‘cultural industries’ and creating an urban environment attractive to hi-tech enterprises and their staffs (Pickvance and Preteceille 1991: 197).

Tables 2-3 and 2-4 summarize local government expenditures along with the three categories of their functions: social investment, social consumption, and social expenses.<sup>10</sup> From the structural Marxist point of view, the primary task for local governments in Denmark is enhancing social integration, rather than strengthening social capital (i.e., social investment and social consumption). In Korea, the emphasis is the opposite; an almost equally large percentage of local expenditure is used to create the conditions that assist the process of capital accumulation, instead of creating the conditions for social harmony. Such differences happen because of the different stages of capital market development between these countries. For Korea, where financial sustainability and growth are not assured, especially in rural areas, local governments tend to devote themselves to having a competitive economic environment.

*Table 2-3 Three functions of local governments in Denmark, 2001*

Category	DKK million	Percentage
Social investment:		
Public utilities etc.	30,784	11.7
Traffic and infrastructure etc.		
Social consumption:		
Housing and community amenities	64,686	24.6
Education and culture		
Social expenses:		
Social and health services	167,272	63.7
Total	262,742	100.0

*Source:* Statistics Denmark (2002)

led industrialization. The fundamental philosophy embedded in the Korean welfare system for several decades is described as “not to hamper the spirit of self-support of the people” and “gradually as provided for by law in light of economic circumstances of the state” (Kim 2004: 150).

<sup>10</sup> In tables 2-3 and 2-4, the expenditure of child and family care services is classified as social expenses, due to the data availability.

Table 2-4 Three functions of municipalities in Korea, 2005

Category	KRW million	Percentage
Social investment:		
Economic development	36,467,883	37.0
Social consumption:		
Health and amenities		
Housing and development of local community	43,777,523	44.4
Education and culture		
Social expenses:		
Social security	18,351,396	18.6
Total	98,596,802	100.0

Source: Ministry of Government Administration and Home Affairs (2005)

In short, within capitalist societies there are some basic similarities in terms of functions of local governments. Both the Danish and Korean local governments pursue local capital accumulation and social harmony. However, as figure 2-1 implies, social capital is still underdeveloped in Korea. This is mainly why more local governments' money goes to social investment and consumption.<sup>11</sup> Therefore, the extent of how local governments devote themselves to building social capital needs to be taken into account when explaining about why local governments spend only 47.3 percent in Denmark and 14.5 percent in Korea on social services (social welfare), out of the total local expenditure (see tables 2-1 and 2-2). However, this dissertation is more interested in the causal mechanism behind the local variation within the 47.3 percent and 14.5 percent of the local social spending. In effect, theoretical discussions and empirical analysis, which will be put forward in the next chapters, are all related to the causal mechanisms that determine geographic variation in local social welfare provision. It means that the question of how some municipalities serve as core economic agents while others do not is not the main focus of this dissertation. Nor is the absolute difference in local social spending levels between these countries a problem as the local variation in each country will not be directly compared in this dissertation.

<sup>11</sup> From the same perspective, Holliday (2000) argues that East Asian welfare regimes, including the Korean welfare state, should be called 'Productivist welfare regimes' since social policy in Korea is subordinate to economic policy. In this regime, social policy is either sacrificed to economic/industrial objectives or can directly contribute to economic development.

## 2.4 The relationship between the welfare state and municipalities

In this chapter, I have found that two concepts of welfare, the *residual* and the *institutional*, are most appropriate to distinguish the welfare state regimes of Korea and Denmark. The role of the state as a welfare provider appears to be quite weak in Korea rather than in Denmark, irrespective of income transfers or social care services. As Wilensky (1975) and Wilensky and Lebeaux (1965) argue, this national difference is due to the different extent to which the country has experienced industrialization. At the local level, the same difference can be captured. In Korea, public social welfare has played a residual role in the provision of social welfare; rather the market and the family have been encouraged by the state to serve as the primary institutions of social welfare. But in Denmark, the major role in social welfare has been taken by municipalities, rather than the market and the family.

Nonetheless, what I would like to stress is not that ‘welfare state modeling business’ (Abrahamson 1999) matters in understanding welfare municipalities, but that welfare geography and paradigm shifts in welfare in contemporary industrialized societies, regardless of welfare state regime types. In other words, there is a common phenomenon with regard to welfare municipality change in Denmark and Korea, whose welfare state are nonetheless quite apart from each other in a number of aspects. By focusing on these two very different countries, therefore this dissertation can suggest very similarities in the changing patterns of contemporary welfare municipalities and their determinants. Thus, this dissertation highlights cross-national commonalities in welfare municipality change.

In addition, these countries share further advantages for making the comparison more coherent, as mentioned before. First, Denmark and Korea are some of the most advanced industrial as well as de-industrialized countries. Second, they both have a unitary form of government. Third, municipal care services are primarily financed by municipal and state taxes, rather than long-term care insurances. Fourth, they have not experienced local government reform since the 1980s; of course, if local government reforms took place in either of the countries during the period, which is the period of

analysis in this dissertation, it does not make sense that one attempts to make any comparison with them.

This chapter concludes that different timing and strengths of industrialization result not only in different welfare state regimes but also in different welfare municipality regimes. It has also been obvious that the levels of welfare efforts are very similar across different levels of social policy implementation. Similar to the Korean national government, the Korean local governments encouraged the market and communities to serve their welfare function continuously, while the Danish local governments are distinctively involved in the provision of welfare services to their citizens, in the same manner of the Danish national government in managing nation-wide social policies. Therefore, it can be argued that in the residual welfare regime (i.e., Korea) municipal authorities are likely to have a residual role in the area of local social policy, while in the institutional welfare regime (i.e., Denmark), municipal authorities function as the primary welfare policy provider, replacing the equivalent role of the market and communities as well as family. But then, it is nonetheless even more interesting to question: What factors or conditions lead to an expansion of welfare municipalities in Korea, and what lead to a retreat of welfare municipalities in Denmark? Is there any similar trend in welfare municipality change across these countries? If there is, how has it happened despite the marked differences between them? These questions will be investigated theoretically in chapter 3 and empirically in chapter 5.



# CHAPTER 3: THEORIZING WELFARE MUNICIPALITY CHANGE

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## 3.1 Introduction

The welfare state differs from program to program because each program is influenced by different political factors (Kaufman and Segura-Ubiergo 2001: 554-555). Each welfare state program has “different objectives, use[s] different instruments, target[s] different groups of people and [has] developed in response to different social transformations” (Bonoli 2007: 38). However, this fact was frequently ignored not only when welfare “state” change is analyzed, but also when welfare “municipality” change is investigated. Such “mismatches” might bring about a fatal misreading, particularly in the latter case as the welfare municipality and its major programs (e.g., social care services) can hardly represent the welfare state and its major programs (e.g., social insurance schemes).

What causal forces have specifically led to the development or change of welfare municipalities? To put it differently, what are the determinants of local variation in welfare municipalities over time? As a necessary step to answering the question, I explore some social policy theories that have been certainly popular in the literature of comparative social policy. The following statement refers to these theories serving as an adequate starting point for my theoretical investigation in this chapter.

The 'logic of industrialism' approach emphasizes demographic variables and level of socioeconomic development as factors creating both the need for and the capacity for the establishment of welfare state programs. The 'state centric' approach focuses on the policymaking role of bureaucrats, the state apparatus to implement welfare state programs, and the influence of past policy on new social policy initiatives. Finally, the 'political class struggle' or the 'power resources' approach identifies the distribution of organizational power between labour and left-wing parties on the one hand, and centre and right-wing parties on the other hand. Previous quantitative analyses of welfare states in advanced industrial societies have established that variables emphasized by all three of these approaches, if properly theorized and operationalized, have an impact on welfare state development. (Huber and Stephens 2000: 325)

However, the necessary question is "what is 'the welfare state'?" As often acknowledged, in many cases it has referred mainly to income transfer programs, such as national pension schemes, occupational insurance, unemployment benefits, and so on (Alber 1995; Bambra 2005). Since these programs are nationally implemented, one can argue that those theoretical accounts above have been developed and supported mostly by the cross-national analysis. Nonetheless, even among the researchers with a cross-local perspective, there has been a common assumption that theories that can explain national differences in the welfare 'state' development can also account for local differences in the welfare 'municipality' development (see Hanssen 1997; Jin 2006; Newton and Karran 1985; Watt 2004). In other words, it has been widely assumed that both welfare states and welfare municipalities are facilitated or hindered by the same causal forces.

Recently, however, it has been argued that there is little reason to support the assumption. In general, income transfers and social care services represent welfare states and welfare municipalities, respectively, as seen in other literature (Bambra 2005; Bonoli 1997, 2007; Kautto 2002) as well as in chapter 1 previously. The point is that the former programs and latter ones develop incongruently. Logically thinking, one cannot therefore assume that there is an identical set of causal factors behind such an uneven development.

Furthermore, what has been obvious in the previous literature is that researchers tended to explain the determinants of the welfare state development by focusing on

three kinds of causal forces, regardless of levels of policy implementation. In spite of different policy-specific interests, data, and methods on which they are based, the major types of questions are threefold: Do economy and socio-demography matter? Do politics matter? Finally, do institutions matter? Of course, the main purpose of the literature was to know which causes or theories explain the variation in interest in a given policy relatively better than the others (Bergmark 1997; Bergmark et al. 2000; Craw 2006; Hanssen 1997; Jang 2007b; Jin 2006; Kang 2004; Kim and Lee 2000; Park 1997; Toikka et al. 2004; Trydegård and Thorslund 2001). For this purpose, in previous studies multiple theories and variables have been examined, and the results of analysis have been compared across different theoretical categories. The basic premise behind the examination is that individual theories and relevant variables are regarded as independent from each other. Accordingly, the most stressed part of the comparative studies has been to figure out which theory has the stronger explanatory power than others in explaining social policy development. In this way, the comparative work of the welfare municipality has been not only about a comparison of cases but also about a comparison and competition among various variables representing different theories.

Apparently, what I attempt to do in this chapter is not quite far from those approaches mentioned. More specifically, I aim to identify that some theories are better at accounting for the changes in welfare municipality development than others. As stated in chapter 1, two dimensions of social policy development should be taken at the center of this research project: time and space. Even if it is often implicit in many studies, the welfare municipality development or change has been always discussed within a “certain context” of social policy. For example, over the last couple of decades, the major issue for welfare municipality studies has been the growing ‘sub-national variation’ in ‘social care services.’ The temporal context of these studies has been exclusively concerned with recent years, which are so-called post-industrial era rather than the post-war years (Clarke and Newman 1997; Pickvance and Preteceille 1991; Schridde 2002). For most of those researchers, welfare municipality appears to have nothing to do with the ‘cross-national variation’ in the development of ‘post-war welfare states.’ In a similar vein, every theory has been constructed different points in time; each theory accounts for only certain economic, political, or institutional contexts, not for the general (Bonoli 2005; Green-Pedersen 2002; Pierson 1994, 1996;

Taylor-Gooby 2004). This is because certain theories are built on the investigation at the national level and better explain changes in national social policy; some are more local policy oriented (Alber 1995; Allard and Danziger 2000; Jang 2007b; Tiebout 1956).

All these imply that the “conventional” or “old” theories of social policy development should not be relied on to explain recent changes in social policy (Bonoli 2007). Likewise, some new theoretical arguments may not have any validity for explaining the post-war welfare state expansion. A contextual mismatch between theory and policy can result in fatal errors in interpreting the determinant of social policy evolution. Accordingly, one must understand “which theory matters at which point in time and in space” in detail, rather than to understand “which theory or variable matter overall, irrespective of the difference in policy settings.”

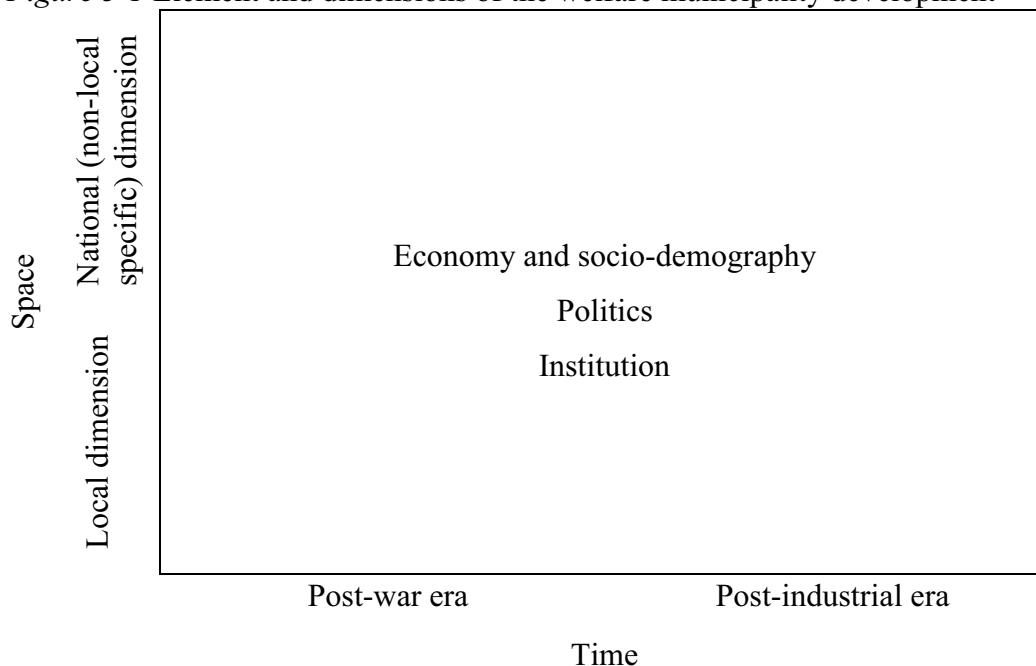
Underpinning these two analytical dimensions leads to a distinction among theories over different time and space. Many researchers have distinguished local-level specified theories from national-level specified theories by making distinctions between a cross-national variation and a cross-local variation in social policy development (Pickvance and Preteceille 1991; Steinmetz 1990; Tiebout 1956; Wollmann 2004). Similarly, emphasizing the paradigm shift in social welfare, theories of welfare state development are often divided into post-war and post-industrial ones (see Bonoli 2005; Burrows and Loader 1994; Esping-Andersen et al. 2002; Taylor-Gooby 2004). In this regard, I contrast the logic of industrialism, the power resource approach, and state-centered thesis, respectively, with the theoretical argument of new social risks, consumer politics, and IGR (including welfare margin thesis). Since the theoretical argument of new social risks, consumer politics, and IGR is largely developed with respect to the economy, socio-demographic pressure, and the political and institutional environment in the “post-industrial societies” and at the local-level, the theoretical limitations and implications of each theory could be more systematically understood with regard to the significance of time (from post-war to post-industrial society) and space (from the national to the local-level) for social policy change.

However, I should acknowledge that the “recent” and “local” dynamics of social policy are neither “purely recent” nor “purely local” matters. There are generally strong interactions among causal factors that emerge from, or matter at, different points in time and space. Even if a certain spatial or temporal condition itself does not have a direct effect on the policy, the relationship between the conditions with other causal context would matter overall.

In the following sections, various theoretical accounts of the welfare state and municipality development or change will be explored through the three categories of causal factors: economy and socio-demography, politics, and institution (see figure 3-1). While addressing each of these aspects, the impact of various causal factors on welfare municipality development and their changes over different times and spaces are discussed at the conceptual level. In doing so, I understand both “what matters” “where” and “when” for welfare municipality development and the relationship between the matters.

Responding to the relevant literature of welfare state change, the analytical dimension of time will be divided into the ‘post-war’ and ‘post-industrial’ eras. Likewise, the spatial dimension is divided into the category of the ‘national’ level and the ‘local’ level. Hereafter, I will call the theories that are more related to the cross-national variation in social policy development “national-level theories” because they historically developed in the literature based on cross-national analysis, and I want to make contrast them with some “local specific theories.” Nonetheless, these national-level theories must be understood as theories informing the most universal factors for social policy development in general (i.e., irrespective of levels or kinds of social policy). In other words, the national-level theories in the dissertation are simply “non-local level specific theories.” Figure 3-1 below shows the basic causal elements and the dimensions of welfare municipality development I just described. The figure stresses that over time there have been “qualitative” changes in the important elements of our society: economy and socio-demography, politics, and institutions. And when social policy change is discussed in the context of a post-industrial society, one must shift one’s focus from the national to the local settings of social policy development.

Figure 3-1 Element and dimensions of the welfare municipality development



### 3.2 How do economy and socio-demography matter?

In the comparative welfare state research, a number of scholars have theoretically stressed out the deterministic role of economic growth and socio-demographic change in the welfare state change. However, as argued just earlier, it does not mean that the stress has been made from only one perspective. The logic of industrialism thesis as well as new social risks approach has presented distinctively different arguments in emphasizing the significance of economy and socio-demography in the welfare state growth. As will be clearly presented, the former has been more closely associated to the economic and socio-demographic situations in the post-war context, while the latter has been much strongly connected to those for the post-industrial era. Although not entirely applicable, some of the core determinant of social policy development suggested by new social risks argument might have only valid theoretical implication at the local level. Poverty, for example, is often considered as a key element leading to the growth in local social policy and spending (Craw 2006; Jin 2006; Kim 1998), while this never makes sense at the national level. Despite such distinctions, it is nonetheless obvious that there is no absolute boundary for theoretical implication of each theory across time periods and levels of policy decision and implementation.

Only the purpose of presenting two theoretical approaches is to challenge a narrow and static application about the role of economy and socio-demography to any studies of social change and policy change.

### **3.2.1 The logic of industrialism**

According to the ‘logic of industrialism,’ the public welfare state has become both necessary and possible due to industrialization (Cutright 1965; Flora and Alber 1981; Wilensky 1975). In this account, the emergence of the welfare state is viewed as a outcome of “economic growth and the age of population its demographic and bureaucratic outcomes are the root causes of the general emergence of the welfare state” (Wilensky 1975: xiii). More precisely, “[t]hrough the prisms of functionalist and industrialization approach the welfare state is seen as a response to growing socio-economic pressures which all modernizing societies face as a result of urbanization, population growth, and economic development” (Leibfried and Mau 2008: xvi). Thus, only nations at a particular level of social and economic development can develop welfare programs (Cutright 1965). This logic emphasizes the fact that in industrializing economies, a growing number of people have to work for wages or salaries. Individuals rely more on market wages or salaries than ever before. Risks to market incomes grow substantially and need more public spending as the population ages, making older workers unnecessary and placing burdens on increasingly smaller families. On the one hand, the state welfare system has expanded more or less automatically because traditional societal institutions are unable to meet the needs of these vulnerable individuals. On the other hand, it has become feasible owing to the new wealth and expanded surplus created by industrialization. This theoretical account is often called ‘convergence theory’ because the core argument of this approach is that all industrializing nations, regardless of their historical and cultural traditions or present political and economic structures, “become similar through an evolutionary process resulting from the impact of economic and technological growth on the occupational system” (Quadagno 1987: 112).

Based on this theoretical perspective, many researchers have attempted to account for the development of welfare municipalities (Bergmark et al. 2000; Hanssen 1997; Jin 2006; Kröger 1997b; Toikka et al. 2004; Trydegård and Thorslund 2001). They argue

that the higher the elderly dependence or the local income, the larger the municipal welfare spending. The researchers' empirical evidence largely confirms that a positive relationship exists between levels of municipal fiscal capacity, the elderly population ratios, and the levels of municipal social spending. In a similar vein, Dye (1969) and Jennings (1980) find that the higher the taxpayer's income, the better able the state is to fund the social programs. Furthermore, they argue that the higher the poverty and other indicators of need, the more the state will spend on programs benefiting the poor. Mogull, also (1993), for example, finds that indicators of need, such as unemployment rates, are estimated to exert a significant effect on social spending, presumably by expanding the pool of eligible families.

Nevertheless, there are some evidence and arguments against the application of this theoretical account to the welfare municipality. First of all, it seems less realistic to assume that a municipality's fiscal capacity increases in proportion to its socio-demographic needs. Instead, it is more likely that the wealthier the municipality, the smaller the size of public welfare demand. Citizens in relatively rich urban cities are generally in favor of purchasing and enjoying private goods and services that are generally expensive. Therefore, it is presumable that a rich municipality has no strong desire for raising local tax rates to expand its public service provisions than other poor municipalities (Bruun and Skovsgaard 1981; Kim and Lee 2000). Furthermore, the relationship between the size of public spending and the given fiscal need across municipalities is not always proportional. For example, Tannenwald (1999) presents an empirical result from England that a number of local governments have high-capacity levels but pursue low levels of social spending and *vice versa*. In his work, the tax capacity and the real tax rates across municipalities (i.e., real efforts) are negative and insignificant (see table 3-1).



*Table 3-1* Local governments' ranks in taxable capacity and actual tax rates, 1973/4

Local governments	Tax capacity*	Tax rates*
København (Copenhagen)	1	7
Frederiksborg	2	8
Roskilde	3	8
Vestsjælland	5	1
Sorsrøms	6	1
Bornholm	14	9
Fyn	7	3
Sønderjylland	10	3
Ribe	9	10
Vejle	8	4
Ringkøbing	11	5
Århus	4	2
Viborg	13	5
Nordjylland	12	6

*Source:* Bruun and Skovsgaard (1981: 49)

*Note:* In the table, '1' refers to the highest level of tax per capita; '0' refers to the lowest level.

Such an imbalance between the municipal capacity and effort in terms of local financing is caused by the disproportional allocation between fiscal resources and socio-demographic needs across municipalities. For instance, in Korea, high additional value industries are almost always concentrated in urban areas, while a greater proportion of the elderly population, who have greater public welfare demand, reside in poor rural areas (Jin 2006; Kang 2004). In Denmark, where taxation from industry constitutes a significant proportion of locally derived income, there is likely to be a counterbalance effect. Municipalities in which a wide disparity exists between the public service demand and personal incomes are inclined to have a disproportionate amount of industry. According to Sharpe (1981: 16), that is because proximity to industry tends to lower house values, which is an important indicator for measuring the affluence of residents and local government.

The regional and local equalization grants are another element that make the logic of industrialism fail to explain geographic variations in welfare municipality change (Sharpe 1981). In many countries, a system of financial equalization balances the different economic circumstances of the local authorities against one another. The system generally aims to provide all local authorities with a more equal financial base, so that differences in local taxation levels are the result of decisions made by local

authorities on preferred levels of service. In Denmark, for example, individual local government incomes may differ substantially from the average figures depending on local rates of taxation, which may vary a great deal (Statistics Denmark 1999). In 1998, the lowest local government tax rate was 15.5 percent, while the highest was 22.8 percent. However, the equalization process can be founded on differences in taxation bases and objective expenditure requirements. In principle, the tax base is calculated per inhabitant with expenditure requirements based partly on demographic profiles and partly on social criteria such as unemployment and general standards of housing. The practical consequence is the transfer of large sums of money between local authorities. In general, local authorities derive more than half their revenue from income and property taxes (Statistics Denmark 1999). Thus, it is a huge misunderstanding if one considers any visible geographic inequalities of social provision as a pure outcome of local disparity in social needs or fiscal resources.

### **3.2.2 New social risks approach**

Over the last two decades, the role of welfare municipalities appears to have become more complex than ever before. Municipalities across advanced industrial countries are challenged by new types of economic and socio-demographic problems. In post-industrial societies, individuals have faced significant risks because of de-industrialization and economic decline (Bonoli 2005; Pierson 2001; Taylor-Gooby 2004). “Those thrown out of a job or threatened by the loss of employment from manufacturing sector may find that the skills they have acquired are not easily transferable to other parts of the economy, in particular the service sector, where employment increases” (Iversen and Cusack 2000: 314). Ultimately, the decline of manufacturing and the expansion of service employment have altered labor markets in a more fundamental way, especially at their lower end, consisting of low-skill, low value-added jobs.

Particularly, low-skilled individuals mostly experience fundamental difficulties (Taylor-Gooby 2004). During the post-war years, low-skilled workers were mostly employed in the manufacturing industry. They were able to benefit from productivity increases due to technological advances, so that their wages rose in line with those of the rest of the population. The strong mobilizing capacity of the trade unions further

sustained the workers' wages, which came to constitute the guarantee of a poverty-free existence. Low-skilled individuals are mostly employed in the low value-added service sector or unemployed. Low value-added services such as retail sales, cleaning, catering, and so forth are known for providing very little scope for productivity increases (Pierson 1998). In countries where wage determination is essentially based on market mechanisms, this means that low-skilled individuals are dangerously exposed to the risk of being paid a poverty wage. The situation is different in countries where wage determination, especially at the lower end of the distribution, is controlled by governments (through generous minimum wage legislation) or by social partners (through encompassing collective agreements). Under these circumstances, the wages of low-skilled workers are protected, but job creation in these sectors is limited, so that many low-skilled individuals are in fact unemployed. Overall, possessing low or obsolete skills today entails a major risk of welfare loss, considerably higher than in the post-war periods. The resulting new social risks are long-term, low-skilled unemployment and working poverty.

“Women's increased labor force participation is obviously not a source of social risk *per se*” (Bonoli 2005: 4). Rather, a new risk stems from the inability to combine motherhood and childrearing with paid employment. This has meant that the standard division of labor within couples has collapsed. The domestic and child care work that used to be performed on an unpaid basis by housewives now needs to be externalized, either to state-provided services or to markets. In many countries, parents (but most significantly women) experience severe difficulties in finding adequate child care provision. This is a major source of frustration and can result in important losses of welfare, for example, if a parent reduces his or her working hours because of the unavailability of adequate child care facilities. Nevertheless, the inability to reconcile work and family life can lead to more than just frustration. “To the extent that dual earner couples with children are considerably less likely to be in poverty than families that follow the male ‘breadwinner model’” (Esping-Andersen et al. 2002: 58). The inability to reconcile work and family life, can, especially for low-income parents, be associated with a poverty risk. The inability to reconcile work and family life concerns, above all, parents of young children but also workers who have a frail (elderly) relative requiring care.

“Since the early post-war years, indicators of family instability have soared in most countries” (Bonoli 2005: 4). Divorce rates, out-of-wedlock births, and the provision of single-parent households show that family bonds are today more uncertain than before. Just as women’s participation in the labor market, family instability is not a social risk per se, but its consequences are. “Lone parenthood, for instance, is associated with a higher incidence of poverty in all OECD countries. What is more, the incidence of poverty is particularly high for lone parents who are not in work” (Esping-Andersen et al. 2002: 37). For them, the ability to reconcile work and family life may be crucial if poverty is to be avoided. However, most social security systems assume stable family marriages, and divorce often results in entitlement losses for one or both partners. Divorced women, for instance, are often the people who are the least well covered by pension systems (Esping-Andersen et al. 2002: 26-49). In brief, “all these new social risks result in new needs that are quite diverged” (Bahle 2003: 5) and finally ask for new and complex welfare services from welfare municipalities.

### **3.2.3 When do economies and socio-demography matter?**

Figure 3-2 illustrates when economies and socio-demography matter based on the discussion above. According to the logic of industrialism, they are fiscal affluences and aging population, which lead to the expansion of public welfare in the temporal context of the post-war period characterized by a rapid industrialization. Of course, these could also be important for the welfare state development in the post-industrial era. However, contemporary societies are more influenced by the features of post-industrialization characterized by economic declines and new social risks followed by de-industrialization. In this regard, it is reasonable to argue that different conditions of economy and socio-demography have led to the development of welfare municipalities over time (Bonoli 2007).

No doubt, a single socio-demographic force from either the logic of industrialism or new social risks argument has its own effect on the social policy development. However, on the conceptual level it can be argued that the interactions between these old and new socio-demographic structures can accelerate welfare municipality development. For example, the demand for municipal welfare services becomes greater when elderly people lose the existing opportunity of informal care, owing to

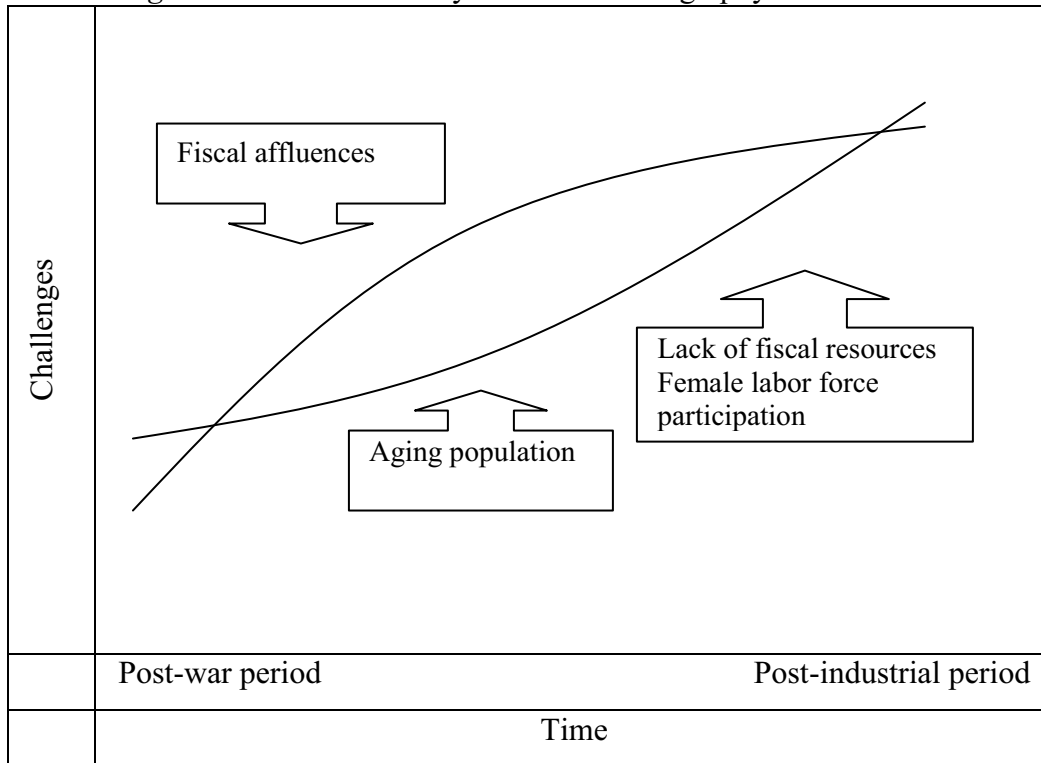
new social risks such as the growing female labor force participation than any other cases.

Apart from them, the growing role of formal private care service provider in private care service industries needs attention in welfare municipality change. Many researchers pursuing the welfare-mix approaches have emphasized that the expansion of social care services is very unlikely if there are strong private alternatives for individuals' welfare (Abrahamson 1995; Alber 1995; Ascoli and Ranci 2002). However, there has been mixed results that show the relationship between the public and private service sector expansion. In fact, as Austin (2003) argues, although the private sector may reduce the role of the public institutions in social services, the private may still demand or further demand public funds in the post-industrial era. Today, governments unavoidably increase the number of social service programs owing largely to the rising expectation on improving public service quality<sup>12</sup> and ever-individualized need of welfare, which are characterized by post-industrialism.

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<sup>12</sup> In the 'welfare mix' approaches, a considerable emphasis has been recently given to the role of 'for-profit organizations' in social care services. However, it is even argued by Burau and Kröger (2004: 800) that for-profit organizations do not have substantial impact on local social care. For-profit organizations can be considered to have weaker competition in terms of cost/production in comparison to non-profit organizations, based considerably on volunteers that save labor costs.

Figure 3-2 When economy and socio-demography matter?



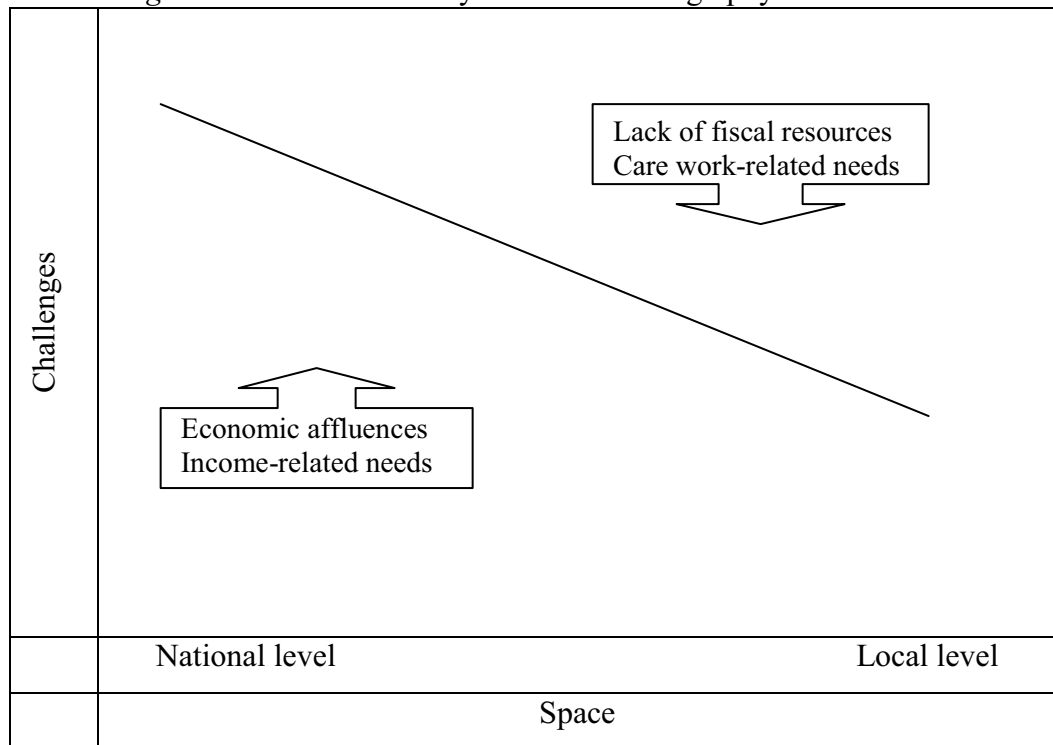
Note: The lines refer to the changing significance of each challenge over time

### 3.2.4 Where do economies and socio-demography matter?

Despite the emphasis on the local level, there is in fact no reason for assuming that economic resources matter only either at the national or local level or have different effects across them. Economic resources equally play a significant role at the supply side of welfare municipalities. Historically, a lack of or insufficient income for old age, sickness, and unemployment, as old social risks, may demand the development of welfare municipalities to some extent, particularly before “national” welfare states were established (Obinger et al. 2005; Steinmetz 1990). However, the major demands of contemporary welfare municipalities are mainly care work-related risks (Sipilä 1997). Municipalities have undertaken the most important role in delivering social care services in most countries. “Even if the national regulations within the field of the elderly and child care, legislation and state subsidies are of a general nature across countries” (Trydegård and Thorslund 2001: 179), the scope and quality of the services have been substantially different across municipalities (Szebehely 1998; Trydegård and Thorslund 2001).

One more important issue is that the need for care services is also related to individuals' income conditions because such services can be purchased from the private market using income. In this regard, it is reasonable to assume that welfare municipalities invest in social care programs when their citizens have less economic means for buying private services. In other words, the poorer the municipalities, the larger the difficulty of reconciling paid work and unpaid care work and the greater the expansion of welfare municipalities.

Figure 3-3 Where economy and socio-demography matter?



Note: The line refers to the changing significance of each challenge across levels

### 3.3 How does politics matter?

Although may not be completely agreeable among scholars, it is often contended that studies on welfare state retrenchment in a post-industrial context “have challenged and reversed the traditional politics matter argument” since the last few decades (Green-Pedersen 2007: 13). Most scholars would not deny that political class struggles or ideological composition of government had a significant role in an earlier stage of welfare state development. But, many of them also emphasize that a “new type”

politics emerges at a later stage of welfare state development. In this section, power resource approaches and consumer politics are put forward. According to Alber (1995), the former approach has focused exclusively on the labor politics and central politics; while the latter approach are more applicable to service-consumers and local politics which influences non-labor groups benefiting from local social programs.

### **3.3.1 Power resource approaches**

The ‘power resource approaches’ or ‘political class struggle thesis’ have criticized the logic of industrialism because class conflict is neglected in welfare state development (Korpi 1983; O'Connor 1973; Offe 1987; Shalev 1983). This line of argumentation holds that democratic political action influences social policy most after a certain level of economic development is reached. Premised on the notion that economic resources are distributed unequally among social classes, this perspective explains policy outcomes in terms of the relative strength of labor against the capital. According to Korpi (1980: 301), the important aspects in this context are “the stage of the distributional processes at which state interventions occur” and “capitalism requires a free labor market where labor can be bought and sold for a wage.” As a result, the labor force organizes in the marketplace to demand wages beyond those prevailing in a free market and then carries the struggle to the state. Furthermore, unionized workers can capture the state through electoral struggle and use it as a vehicle to modify distributional inequalities (Korpi 1983; Shalev 1983). Thus, a powerful, broad-based union movement gives rise to a strong reformist-socialist party, which, the argument goes, is able to achieve hegemonic status in the political arena and deliver a host of redistributive social policies. In this way, the welfare state is “a product of the growing strength of labor in civil society” (Stephens 1979: 89).

A substantial body of evidence supports the social democratic view. Quantitative cross-national studies have frequently verified the thesis that nations with high union mobilization and stable leftist governments have the highest levels of welfare (Castles and Mair 1984; Clayton and Pontusson 1998; Esping-Andersen 1990; Furniss and Tilton 1977; Huber et al. 1993; Huber and Stephens 2000; Korpi 1983; Korpi and Palme 2003; Stephens 1979). For example, a recent study supported this theoretical view based on the empirical findings of Nordic countries. By focusing on the content



of election programs over the last three decades, Nygård (2006) analyzes the development of welfare-ideological positions among Nordic parties. Based on the empirical findings, he captures “a relatively high degree of stability in partisan support for welfare state expansion, while market-type solutions to social problems have become more salient among parties, especially in the Right” (Nygård 2006: 356).

Several other studies have examined whether the growing political strength of labor at the local level influences the level of social spending or personal utilities of social programs. For example, Trydegård and Thorslund (2001) find a weak but significant relationship between the percentage of left-wing politicians in local councils and the coverage rate of home help for the elderly in Sweden. Hanssen (1997) also reveals the Social Democratic party to be more collectively oriented in the way that they pursued more expensive daycare policies than the conservative parties in most Nordic countries. More specifically, he verifies that the percentage of votes supporting the left-wing party of individual local governments is closely related to the proportion of children aged 0 to 6 enrolled in publicly controlled daycare institutions in Sweden (i.e.,  $r = 0.22$ ) and Finland (i.e.,  $r = 0.33$ ).

However, the power resource approach has been criticized for some reasons. For example, Baldwin (1990: 1-97) and de Swaan (1988: 218-257) argue that the working class or labor union is only one element of a broader logic of social interest behind welfare state development. They suggest a shift of attention to the decisive role of the middle class and the elite in the process of welfare state formation. In history, it is clear that the Left and the labor movement were unable to win more welfare programs against resistance from the Right, independents, and salaried employees. The middle class and elites do support the welfare state programs when they find profit from them. Self-interest is thus the key factor that determines their political behavior.

Universal welfare programs such as social care services in many countries are more resistible against welfare state retrenchment than selective ones, which are exclusively limited to low-income or working class. The important assumption is that the large electoral support of universal programs makes them politically stable, whereas selective programs are often the subject of cutbacks because of the limited political support largely only from the low-income class (Goodin and LeGrand 1987). However,

there are also some other views that object to this perspective. For example, Pierson (1994: 6) argues that selective welfare programs are more durable because of the ideological commitment of the Conservatives to the means-tested welfare programs. More specifically, the reasons are twofold:

An ideologically committed and consistent conservative government would object most strongly to governmental provisions for the middle class. It is universal programs rather than targeted programs that compete with viable private-sector alternatives. If conservatives could design their ideal welfare state, it would consist of nothing but means-tested programs. Furthermore, conservatives are very concerned with reducing spending, and it is hard to squeeze much spending out of marginal, means-tested programs. The largest potential targets are bound to be those that include the middle class; budget cutters will find their attention drawn to universal programs. (Pierson 1994: 101-102)

Moreover, the beneficiary structure of social care services would become its weakness when privatization is undertaken. This is because welfare state programs are more irresistible to cutbacks if it is possible to divide subgroups of the population of beneficiaries. According to Pierson (1994: 22-23), such divisions weaken the potential for 'organized opposition' in a particular policy area. Given more heterogeneous constituencies, social care services are seen more politically more vulnerable to cutbacks than social assistance. Overall, it is quite difficult to predict whether selective or universal programs are more durable against welfare state change. Largely mixed results are reported with regard to the structure of social care programs (see Goodin and LeGrand 1987; Mau 2003; Obler 1986; Pierson 1994). However, the overall implication remains the same; changes in a welfare program are easily made when political interests supporting the program become fragile.

Another important political aspect of social care services is the role of social care work providers, as a major political supporter of the public service program. Welfare municipalities have developed with social service experts (Bogensneider 1995). Unlike the other types of social policy, social care services need a large and well-localized organization and professionals in the service delivery system. Some might see that social service professions work for their clients: the poor, the elderly, the disabled, and the young children. However, just like any other occupational groups they work for themselves.

Doctors, social workers, lawyers, psychologists and their like are engaged in a continuous formative and informative practice. They provide their patients and clients with facts, explanation and advice... Patients and clients are the first to absorb professional notions and attitudes and to pass them on among their relatives and friends. In this process, the citizens of the welfare state are being taught the essentials of hygiene and a limited repertory of diseases, their symptomatology and cure. As a result, the science of medicine and medical profession has risen in esteem and the demand for medical services has increase accordingly. (De Swaan 1988: 244-245)

Therefore, one can say that social work professions' activities are to some extent, at least, involved in some work to maximize their political capacity to bring more power and benefits to them and their organizations (Kolberg 1991b). It is in fact often argued that professors in social work education and other leaders in service organizations like to participate in advisory committees for municipal welfare service programs and projects (Gibson et al. 2005).

The last but not least important political source for supporting social care services is the policy value that can be achieved by implementing the programs. Welfare state programs are differently designed; some have a redistributive element within the policy measure, and some do not (O'Connor 1973). This difference is largely concerned with different values such as egalitarianism and humanitarianism, and broadly speaking, social care services are based on the latter. Different political ideologies and aims behind different welfare programs are conceptually articulated by O'Connor (1973):

*State expenditures* have a twofold character corresponding to the capitalist state's two basic functions: social capital and social expenses. *Social capital* is expenditures required for profitable private accumulation... There are two kinds of social capital: social investment and social consumption... *Social investment* consists of projects and services that increase the productivity of a given amount of labor power and, other factors being equal, increase the rate of profit. A good example is state-financed industrial-development parks. *Social consumption* consists of projects and services that lower the reproduction costs of labor and, other factors being equal, increase the rate of profit. An example of this is social insurance, which expands the reproductive powers of the work force while simultaneously lowering labor costs. The second category, *social expenses*, consists of projects and services which are required to maintain social harmony-to fulfill the state's "legitimization" function. They are not even indirectly productive. The best example is the welfare system, which is designed chiefly to keep social peace among unemployed workers (O'Connor 1973: 6-7 with author's emphasis in Italic).

Based on O'Connor's classification, the reasons for the state support of social care services look different from those of social assistance. As implied in the above quotation, the main purpose of social assistance (e.g., income subsidies to the poor) is to pacify and control the surplus population. By contrast, the purpose of social care services would in part close to that of social insurance schemes. The point is that social care services lower the reproduction costs of labor. More specifically, the female labor force, often considered a cheap labor force, can be increased by benefiting from the increasing number of public care service facilities (Sipilä 1997). The public care services make it easier for reproducing the work force or the future generation. What is more, social care services are helpful for labor market as a giant employer (Kolberg 1991). In this regard, increasing expenditures on social care services could be considered an 'economically productive expense.'

Moreover, the ideological distinction between egalitarianism and humanitarianism is useful to highlight the political value of social care services. Egalitarianism wants to rectify existing inequalities in society, and this requires intervention with the market mechanisms that produce these inequalities. Thus, egalitarians want to see an economically active government that pursues a wide range of policies, including progressive taxation, income redistribution, guaranteed jobs, a minimum income, and business regulation (Feldman and Steenbergen 2001). The goals of a humanitarianism-oriented policy are much more modest. They are not necessarily concerned with how unequal the distribution of wealth is, but focus more on the disadvantaged. According

to this division, the changes in social care services can be difficult to understand from economic resources. In other words, moral resources also matter.

In sum, social care services are politically associated with not only the poor but also with the middle class. Therefore, the services can be supported by both classes. However, because of this heterogeneous identity of program beneficiaries, social care services can be nonetheless threatened by the market or privatization policy, targeting the middle class and encouraging them to rely more on private services than on public ones. Of course, this then reduces to a great extent the role of the state in welfare services. Furthermore, relevant professionals play an important role as service providers. In this process, social care services can be influenced by private organization culture. Particularly, if there is service competition among service delivery organizations the competition itself advances social care service. The significance of social care services can be also appealed by social service professionals who always stress the humanitarian goal of social care services to ensure their job positions, at least in part. If the professionals are successfully mobilized, social care services is expanded even without any further increase in economic or political power.

### **3.3.2 Consumer politics**

Over the last two decades, the conventional view on the political aspect of the welfare state development or change have been doubted by an increasing number of researchers (Green-Pedersen 2002; Jacobsen 2006; Korpi and Palme 2003; Nygård 2006): Do parties still matter under conditions of increasing new constraints? Are “old” conceptualizations of the Left and the Right still valid in these new settings of welfare states? In recent years, it has been increasingly argued that the shift towards a postmodern society has resulted in a change through the political structure of the welfare state. More specifically, it has “brought a shift from political cleavages based on social class conflict toward cleavages based on cultural issues and quality of life concerns” (Inglehart 1997: 237). In the post-industrial economies, it becomes evident that the political challenge of the welfare state has shifted from the issue of “how to produce more income” to the issue of “how to consume better services.” Although permanent austerity in the advanced post-industrial society has required a political

solution to it, the power of the earlier class-based actors—primarily political parties and trade unions—is now being largely replaced by new interest groups, mostly welfare-state beneficiaries (Pierson 1994). Particularly, the recent public sector deficits in many countries ultimately made people to question whether their big government is efficient to meet more consumption-related social needs, which is more diverse and higher quality of public services (Sanderson 2001: 297).

“The consumerism has been a central reference in the drive for public sector reform from the mid-1980s onwards in many Western European countries” (Clarke and Newman 1997: 107). Notions of transforming organizations around concepts of consumer-orientation were emerging from the private service sector. Since then, the ideas of consumer-orientation produce a critique of traditional bureaucratic forms of organization as lacking flexibility and dominated by ‘producer’ interests (Fortin and Hassel 2000). In this context, the dominant thrust of policy in many Western European states became reducing the size and scope of the public sector and increasing the efficiency of services and activities, which remained in the public sector (Sanderson 2001: 297-298). This involves a substantial program of privatization, the introduction of competition, and attempts to make public services more responsive to their users or ‘consumer.’ “Business-like” management techniques with a strong focus on measured performance become crucial in social programs, especially at the local level.

Customer orientation has been used by both the Left and Right to criticize the bureaucratic paternalism and professional self-interest operating in the old welfare state (Clarke and Newman 1997). The critiques have been taken different inflections, however. On the one hand, they have been articulated to neo-liberal concerns to open up state organization to market pressures. The state-welfare-identified monopoly provision by the public sector organizations has been accused of hindering customer choices and of inefficiency. On the other hand, the language and approaches of consumerism have been deployed by proponents of the ‘empowerment’ of users, the decentralization of power in the delivery of public services. “The ‘consumer movements’ have addressed a complex range of in the welfare services – not just issues of customer choices but also questions of rights, power, and accountability” (Clarke and Newman 1997: 109-110).

Under this circumstance, it is obvious that local administrators bring a better performance for achieving a more positive evaluation of their work. Local politicians may be in this case too. Indeed, there have been long debates on roles of local politicians with respect to local public expenditure (Mueller 1989; Niskannen 1971; Wright 1990). According to Wright (1990), partisan politics becomes less important today for the sub-national local policy where consumer rights play an important role. For instance, in many Danish local municipalities it is possible for the citizens to select whether they wish to receive a service from a public or private supplier. Moreover, it is also possible for the citizens to “exceed local government limits within several areas and select a nursing home or primary and lower secondary school for their children even through it is situated in the neighboring local authority, if so desired” (Local Government Denmark 1999: 9). Besides, as mentioned earlier, local social policies do not have a strong egalitarian policy aim that is directly related to the conflict relationship between the capital and labor. Thus, it is realistic to assume that local social services are supported by virtually all local politicians regardless of their position in political ideology. The low voter turnout for local elections across the world is an indicator of weakening partisan political at the local level (Gibson et al. 2005). Therefore, it seems to matter less and less which parties are in power in the field of municipal social care service.

Another interesting argument with respect to the role of local actor in social care service is given by Jacobsen (2006). He maintains that the policy sectors in which the local actors are involved are also or even more important than whether they are politicians or bureaucrats, or they are members of the left- or right-wing party. His empirical result (Jacobsen 2006) shows with the Norwegian case that a ‘budget-maximiser’ for one policy sector is the ‘budget-minimiser’ for the other policy sectors, regardless of politicians or administrators, and the Left or Right. In other words, local actors are likely to have similar preferences for higher spending if it is their specific sector. At this point, the political influence of female workers in the public service sector is important. According to Kolberg (1991a: 123-124), in 1985, approximately 90 percent of all Swedish jobs in health, education, and welfare (HEW) were municipal. At the same time, 90 percent of all local government female employment was in HEW jobs. He also argues, “The female welfare state employees exercise considerable autonomy and authority in their interaction with clients, due to the very

nature of the kind of work they perform.” This sector-specific preference seem to be fostered by a performance-oriented culture in the interaction with service clients (Sanderson 2001: 298). Today, both actors’ performances concerning their specific policy sector are scrutinized at different levels through a variety of means: in terms of outputs through systems of performance measures and indicators and in terms of managerial systems and processes through inspections and quality audits. The best example of this is the New Public Management (NPM) that has used in most Western European countries (Andrews et al. 2005; Wollmann 2004). For example, in the United Kingdom, the NPM initiative (i.e., the UK’s Best Value) by the central government to evaluate the performance of local authorities has been reinforced by the introduction of Local Public Service Agreements and the Comprehensive Performance Assessment (CPA). These two reforms have raised local governments by adding rewards and sanctions to the performance measurement regime. The CPA in particular has led to a more differentiated relationship between the central and local governments: those authorities categorized as excellent may win freedoms and flexibilities, but those identified as poor are subject to an increased level of central government interaction (Lowndes 2003). The features of the NPM are summarized by Dunleavy and Hood (1994: 9) as follows:

- Reworking budgets to be transparent in accounting terms, with costs attributed to outputs not inputs, and outputs measured by quantitative performance indicators.
- Viewing organizations as a chain of low cost principal/agent relationships (rather than fiduciary or trustee-beneficial ones), network of contracts linking incentives to performance.
- Disaggregating separable functions into quasi-contractual or quasi-market forms, particularly by introducing purchaser/provider distinctions, replacing previously unified functional planning-and-provider structures.
- Opening up provider roles to competition between agencies or between public agencies, firms, and non-profit-bodies.
- Deconcentrating provider roles to the minimum feasible sized agency, allowing users more scope to ‘exit’ from one provider to another, rather than relying on ‘voice’ options to influence how public service provision affect them.

In sum, consumerism and the NPM create a political mood for policy/program performance evaluations (Needham 2006). Furthermore, “this discipline effect of local performance evaluation would generate a sort of ‘yardstick competition’ among local authorities, with local actors mimicking the behavior of nearby governments” (Revelli



2004: 4). In brief, both politicians and administrators exert more effort to improve their performance in relation to their neighbors in a post-industrial society (Bogt 2004; Jacobsen 2006; Mortensen 2005).<sup>13</sup>

### **3.3.3 When do politics matter?**

When do politics matter? More specifically, what kinds of politics matter under which temporal circumstance? According to the discussion above, one can argue that class-based partisan politics that were established in the context of the post-war industrial era has faced fundamental challenges by the new politics characterized by the service efficiency and consumer satisfaction of the post-industrial era (Bonoli 2005, 2007). Therefore, where managerial and consumer orientation are general, partisan politics has little role in policy-making in welfare municipalities. The point is that strong competition among public service providers is largely adopted from the business culture in private organization and firms, which emphasize not “ideology” but “the efficiency of services.” An example is the rising organization culture of New Public Management (NPM), over the last decade, which underpins the significance of performance evaluation, contract, and competition in public service sector (Clarke and Newman 1997; Lane 2000; Sanderson 2001). What can be assumed, therefore, is that this private culture growing within the public sector may lead to the expansion of service quality or quantity of social care service even if no direct service demand is made by welfare beneficiaries, and even if right-wing parties attempt to cut back public social spending.

Under this circumstance, governments may rely on a practical shortcut in deciding on possible improvements to existing programs. Furthermore, according to Pierson (1994), to minimize the negative mobilization and political costs of the opposition on welfare cutbacks, a marginal change was considered to be an invisible but effective strategy for retrenchment advocates.

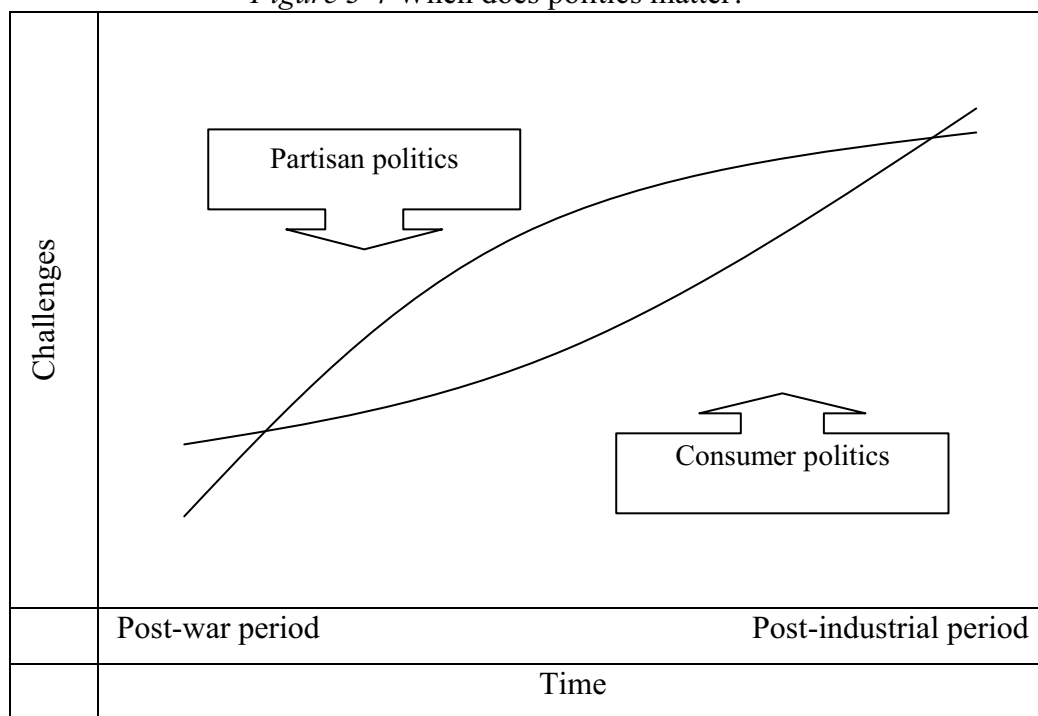
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<sup>13</sup> A remarkably influential institutionalized manifestation of the rationalistic approach to policy evaluation is of course also evident at the international level. For example, the OECD aims to foster good governance by monitoring and comparing economic development, deciphering emerging issues, and identifying “policies that work” (according to its own website at [www.oecd.org](http://www.oecd.org)). Its country reports have gained considerable authority over the years, and its standardized comparisons are used as verdicts on national performance (Bovens, Hart and Kuipers 2006: 326).

For example, a change in indexation rules may only reduce expenditures by 1 or 2 percent in the first year, but this ‘decremental’ cutback will gradually grow in scope. Benefit or eligibility restrictions may exempt current recipients, affecting only new beneficiaries. Cutbacks in housing-construction programs may have little impact on the availability of low-income housing for a decade. An analysis of current spending levels will completely miss some of the most important cuts in social programs (Pierson 1994: 14).

This budgetary strategy of ‘blame-avoidness’ seems to be especially convincing in the post-industrial society. This means that social spending changes are at best gradual, with increasing clientelism in public social service. From this perspective, one may hypothesize that the accumulated differences in levels of social spending across municipalities is nearly constant over several decades. In other words, these variations necessitate quite a long period of time to be dispersed.

Figure 3-4 When does politics matter?



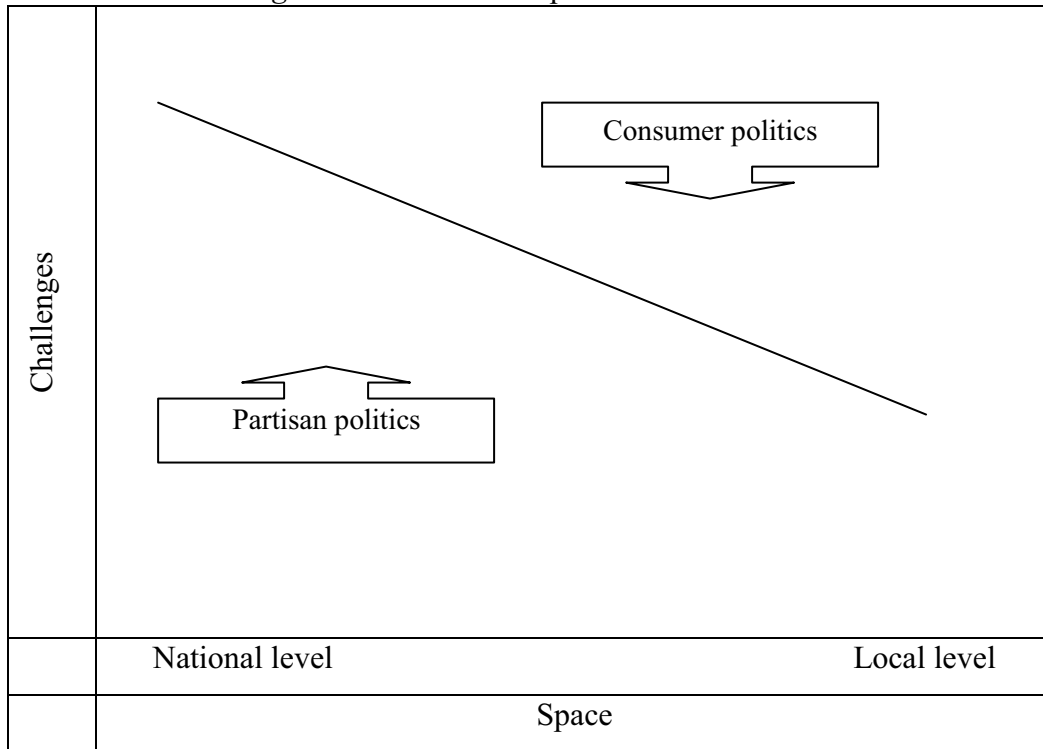
Note: The lines refer to the changing significance of each challenge over time

### **3.3.4 Where does politics matter?**

It is evident that the political interest of welfare municipalities may differ from that of welfare state. Different policies in terms of policy goals and thus different interests of beneficiaries are involved in the different levels of policy implementation (Alber 1995; Bahle 2003; Kaufman and Segura-Ubiergo 2001; Pierson 1994). Emphasizing the different function between national and local social policies, the former policies are generally more related to income redistributive ideologies across classes, while the latter are more concerned with maintaining family and daily lives. The latter also contribute to guaranteeing the minimum income for vulnerable social groups, such as the elderly and families and children in need of care services. Thus, it is more realistic to assume that class issues matter with national social policies such as the old-age and occupational pension scheme, while efficiency in service delivery and consumer satisfaction are likely to matter with municipal social policies.

On the other hand, it is difficult to talk about the relationship between class and consumer-oriented politics. Although it is often assumed that the former is replaced with the latter over time, it does not mean that there is a real causal relationship between them, but may mean that both respond to different economic and socio-demographic settings over time. Nevertheless, it is suspected that both politics compete to each other to maximize their political interest. For example, while right-wing party politicians really want to lower the level of municipal social spending, consumer groups such as the elderly and working mother supporters like to maintain or even increase spending levels. Thus, when both are equally strong, either one fails to prove a linear causal relationship between its level of power and the level of municipal social spending.

Figure 3-5 Where does politics matter?



Note: The line refers to the changing significance of each challenge across levels

### 3.4 How do institutions matter?

To understand how institutions matter in welfare state and municipality change the state-centered approach and intergovernmental relations will be theoretically investigated in this section. In the comparative literature, the former often focuses on the development or change in income transfer programs from a center-local (or vertical) perspective (Alber 1995; Rokkan 1999), while the latter concerns more on those in local social policy including social care services from the horizontal view of intergovernmental relations (Revelli 2004; Tiebout 1956). After the theoretical exploration, theoretical adequacy of each theory will be discussed with respect to the temporal and spatial dimension of social policy change.

#### 3.4.1 State-centered approach

The ‘state-centered approach’ argues that the state bureaucracy is an important element in the process of welfare state development. In a study of policy formation, Hecló (1974) finds that policy innovations came primarily from civil servants in

Britain and Sweden. Derthick undertakes an evaluation of some of the favorite nostrums of reformers—regional authorities, federal-state regional development commissions, and federal-regional coordinating councils; she argues, “[t]o win the fight for existence and a significant share of public functions, [regional organization] must have extraordinary constituency support or extraordinary means of self-support” (Derthick 1979: 226). Orloff and Skocpol (1984) and Skocpol (1992) note that state bureaucracies are potentially capable of independent action. In democratic and capitalist societies, states can be regarded as autonomous when they build strategies of action independently of capitalists and organized business groups, political parties, interest groups, movement organizations, and public opinion. Autonomy, in turn, depends on money, which states have gained through dependable modern taxes on sales, payrolls, and incomes (Steinmo 1993), and a civil service not captured by political or social groups through selection or prospective employment. In this line of argument, state autonomy in social spending and bureaucracies lead to the development of the modern welfare state. Organizational and intellectual capabilities in policy-making agencies are therefore at the center of scholars’ interests (Heclo 1974).

Inspired by the state-centered thesis, many studies have attempted to examine the effect of local autonomy on local social policy. Particularly, since local governments are believed to be imbedded in a hierarchical decision-making structure with a central government at the top, it is important to allow for the interdependence of the decision-making processes at the various government levels for the study of local government behavior. Particularly, emphasis is on the interaction between the decision-making processes at the different levels, and the consequences of this interaction on local government expenditure and taxation. In most cases, remarkable disparities in fiscal autonomy are found together with significant local variations in levels of welfare services across municipalities (Hanssen 1997; Jang 2007b; Kang 2004; Kim 1998; Toikka et al. 2004). Based on these findings, researchers unsurprisingly argue that the larger the local tax capacity and the larger the local autonomy, the higher the social spending. Here, the fundamental premise behind this argumentation is that all individual local governments make policy decisions in an autonomous context with no external pressure on themselves. This concept of local autonomy can be found in the following statement:

Like states, a city's sovereignty operates within a bounded territory. Cities usually have independent elections and are subject to the same potential pressures as the central state. Modern cities, like states, are often highly differentiated structures with professional bureaucracies (Steinmetz 1990: 892).

However, even if such a local autonomy is realized in any country, in practice there are evidently strong external and institutional constraints and supports on the welfare disparity. For example, although their own fiscal and professional resources are crucial, municipalities today can benefit substantially from the upper-level regional government's resources (Evers et al. 2006). In most countries, local governments have been supported by the central governments to achieve nationally defined policy goals such as national solidarity and territorial justice (Craw 2006; Gallego et al. 2003; Leibfried et al. 2005; Wilson and Game 2002). The best tool for the purpose is the equalization grant from the national government to the local government (Kim 1998; Sharpe 1981). Furthermore, even where local governments do have strong tax authority, the growing demand for services is likely to outrun the governments' capacities so that various modes of joint financing between separate levels of government develop (Alber 1995: 146). In this regard, welfare municipalities must be seen as parts of network governance despite their local discretion in social programs and tax autonomy.

### **3.4.2 Intergovernmental relationships**

Apart from the state-centered thesis, the theory of intergovernmental relationships sheds more light on the 'interdependence' among various types of government at different levels. Nowadays, both fiscal and administrative boundaries between local governments have become more and more blurred. Individual local governments are networked through the intergovernmental relationship. According to Craw (2006) and Park (1997), there are two critical hypotheses that center on vertical and horizontal dimensions of intergovernmental interaction: competition and co-operation. Regarding the vertical dimension, the competition hypothesis states that the interactions are positive or corresponding. More specifically, it assumes that local governments at one level spend more if those at another level spend more, and they spend less if those at another level spend less. In contrast, the co-operation hypothesis expects that the

interactions are negative or inverse. That is, it expects local governments at one level spend more if those at another level spend less and to spend less if those at another level spend more. If this is the case, the expenditure level of local governments will show a negative relationship to the expenditure level of other local governments. However, Park (1997) argues that this supplemental/substitutive relationship should be more conspicuous in the field of state-mandated policy, such as law enforcement and education, and in redistribution-oriented policies such as public welfare that are functionally mandated by the state. Overall, his empirical results present a positive relationship between cities and counties in the redistributive policy in the United States.

Nevertheless, it does not mean that this theoretical account makes all the important logics of state-centered approach (such as the 'independence' or 'autonomy' among governments) meaningless. What this thesis argues instead is that such logics could be considerably mediated by the relationship with other governments. Of course, this relationship is not always positive. As seen from the growing fiscal devolution in public social policy, severe tensions emerge between the central, regional, and local governments. This is particularly problematic for the economically vulnerable local governments rather than wealthy ones. The affluent sub-national-level governments rather enjoy the decentralization process as they become able to exercise home rule and to avoid monopolization of local power by other levels of governments (Banting 2005; Dye 1990).

Recently, many researchers have investigated intergovernmental relationships from a horizontal perspective (Allard and Danziger 2000; Donovan and Neiman 1992; Figlio et al. 1998; Shroder 1995). They have questioned if welfare reform or spending changes by a local government is prompted by a neighboring one. Tiebout (1956: 419) offers the basic theory for the research question as follows:

- Consumer-voters are fully mobile and will move to that community where their preference patterns, which are set, are best satisfied.
- Consumer-voters are assumed to have full knowledge of differences among revenue and expenditure patterns and to react to these differences.
- There are a larger number of communities in which the consumer-voters may choose to live.
- Restrictions due to employment opportunities are not considered. It may be assumed that all persons are living on dividend income.
- The public services supplied exhibit no external economies or diseconomies between communities.
- For every pattern of community services set by, say, a city manager who follows the preferences of the older residents of the community, there is an optimal community size. This optimum is defined in terms of the number of residents for which this bundle of services can be produced at the lowest average cost.
- The communities below the optimum size seek to attract new residents to lower average costs. Those above optimum size do just the opposite. Those at an optimum try to keep their populations constant.

In this account, local governments are in perfect market competition for mobile skilled labor and capital. Skilled labor and capital boost the local tax base, making it feasible for local officials to offer more services at lower tax rates. As a result, local governments have incentives to avoid redistributive policies because they offer few benefits and higher costs for those that cities wish to attract. Jurisdictions deviating from this advice are punished by immigration of lower-income households and emigration of higher-income households and businesses (Craw 2006: 361). At the same time, local policymakers are likely to lower welfare benefit levels to avoid becoming a ‘welfare magnet’ (Peterson and Rom 1990). Consequently, a benefit competition occurs and leads to a ‘race-to-the-bottom,’ where neighboring local governments continually reduce benefit levels in reaction to one another until benefits fall to some low common level (Allard and Danziger 2000: 351). More specifically, Revelli (2004: 2) asserts that a local authority would look to neighboring jurisdictions’ benefit levels before setting its own to avoid becoming a ‘welfare magnet,’ and would respond to the policies enacted by its neighbors, leading to a ‘race-to-the-bottom’ and a possible erosion of the welfare state.

However, a considerable number of empirical studies have found a weak or insignificant effect of a welfare magnet in terms of ‘welfare-induced migration.’



Instead, what they have found is that welfare dependents move to other cities mainly for family matters such as marriage, divorce, education, and so on. But, even if the finding is true, there is nonetheless a strong reason for exercising the welfare-magnet strategy at the local level. According to Schram, Nitz, and Krueger (1998), decision-makers in charge of the local social service provision tend to emphasize the welfare magnet theory to support their political proposals for lowering benefit levels. A recent example of this is the local reform in the Temporary Assistance for Needy Family (TANF) in the United States. An important element of the reform was that municipalities provide persons living in the state less than 12 months a TANF benefit set at the level of the prior state of residence (Allard and Danziger 2000: 351). In this regard, one should expect that local governments will devote few resources to redistribution and that jurisdictions will vary little in redistributive spending. Furthermore, the significant variation across municipalities in social services can be understood as a result of a municipal strategy to obtain either population or resources if there no other reasons involved. Indeed, a number of urban cities today use this welfare-magnet strategy or anti-welfare-magnet strategy to improve their economy.

However, there are some reasons for opposing the ‘race-to-the-bottom’ thesis. Today, cities are likely to invest social care services to attract more human and fiscal resources. For example, Copenhagen experienced a substantial decline in population and jobs due to de-industrialization. In 1993, however, the city succeeded in reclaiming a new economy and new jobs (Vesterggard and Ærø 2006) with an enormous investment in local services, including housing programs. In Korea, rural municipalities that are losing population tend to utilize welfare services to attract more household (Jang 2007b). Similarly, Craw also find a significant relationship in the level of local social welfare spending among a number of neighboring jurisdictions after controlling a long list of important socio-demographic, economic, and institutional characteristics of individual jurisdictions in the United States (Craw 2006). Although the higher-income households are preferred by municipalities, this preference does not lower the level of municipal welfare benefits due to the distribution principle of equalization grants. The larger the number of economically vulnerable individuals, the larger the equalization grants in the municipality. In conclusion, the actual incentives and burdens with generous welfare services may not be greater than one might expect. In addition, this local competition might be greater

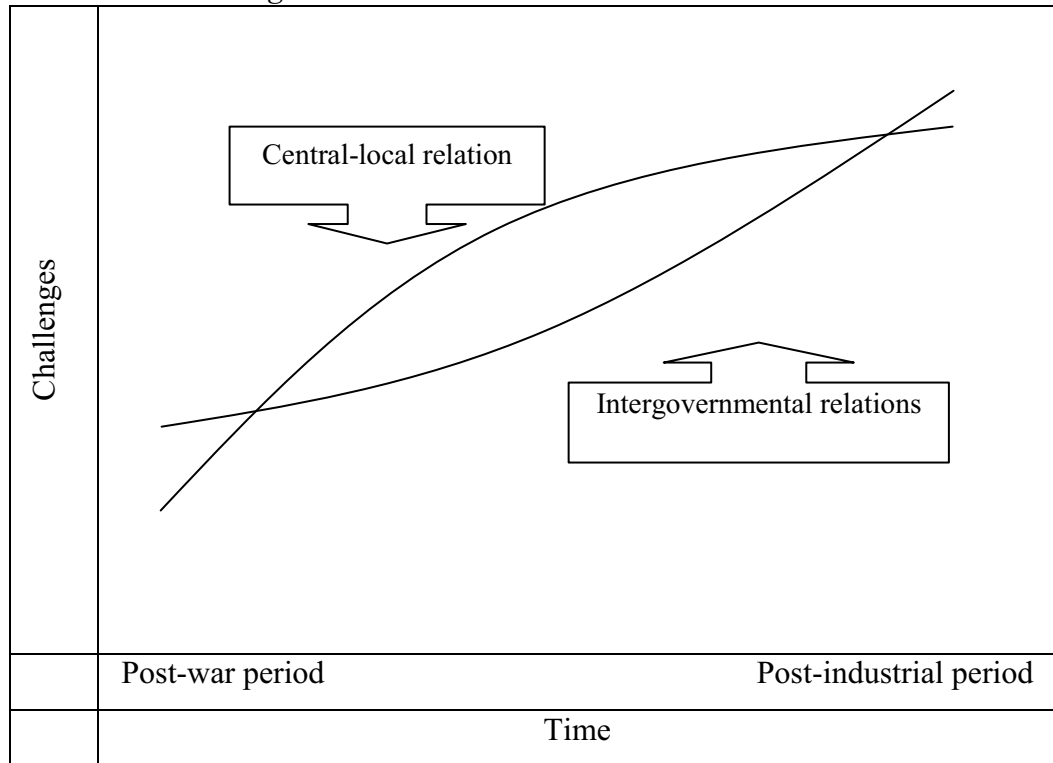
with the existence of a local ‘informational’ externality. For a local authority, information about the local public services and programs in their neighborhood is relevant—because neighboring jurisdictions face a similar socio-economic environmental and are likely to experience similar shocks—and easily available because it naturally tends to spill over into adjacent jurisdictions.

### **3.4.3 When do institutions matter?**

According to Obinger et al. (2005), state institutions matter for welfare state development and retrenchment. In brief, the centralization or decentralization of state structure or bureaucrat organizations not only hampers the building of a national welfare state but also prevent any nation-wide retrenchment in welfare states. In other words, the more autonomous the municipalities, the more the changes there are in the level of social welfare provision. Therefore, in theory it can be assumed that autonomous municipalities were the frontiers in “building” the welfare municipality in the past but are the opponents of “restructuring” the welfare municipality today. Local autonomy against the national government appears to be important in welfare state building in the post-war context, while the path dependence of welfare municipalities in the past may have a more crucial impact on the decision-making of contemporary welfare municipalities.

On the other hand, intergovernmental relationships emphasizing the horizontal dimension of governance seem to play a more important role in the post-industrial context. Over time, the public demand of welfare municipalities increases for individual municipalities so as not to avoid co-operating with their neighbors in the provision of social welfare (Evers et al. 2006). Growing consumerism and professionals in the post-modern public service sector exhort municipalities lacking a strong economy and political motivations to facilitate their welfare provision through the intergovernmental policy learning process (Wright 1990). Politics of program evaluation widely applied to the contemporary public sector eases each municipality into learning and practicing the welfare programs implemented in their neighboring municipalities (Palumbo 1987).

Figure 3-6 When do institutions matter?



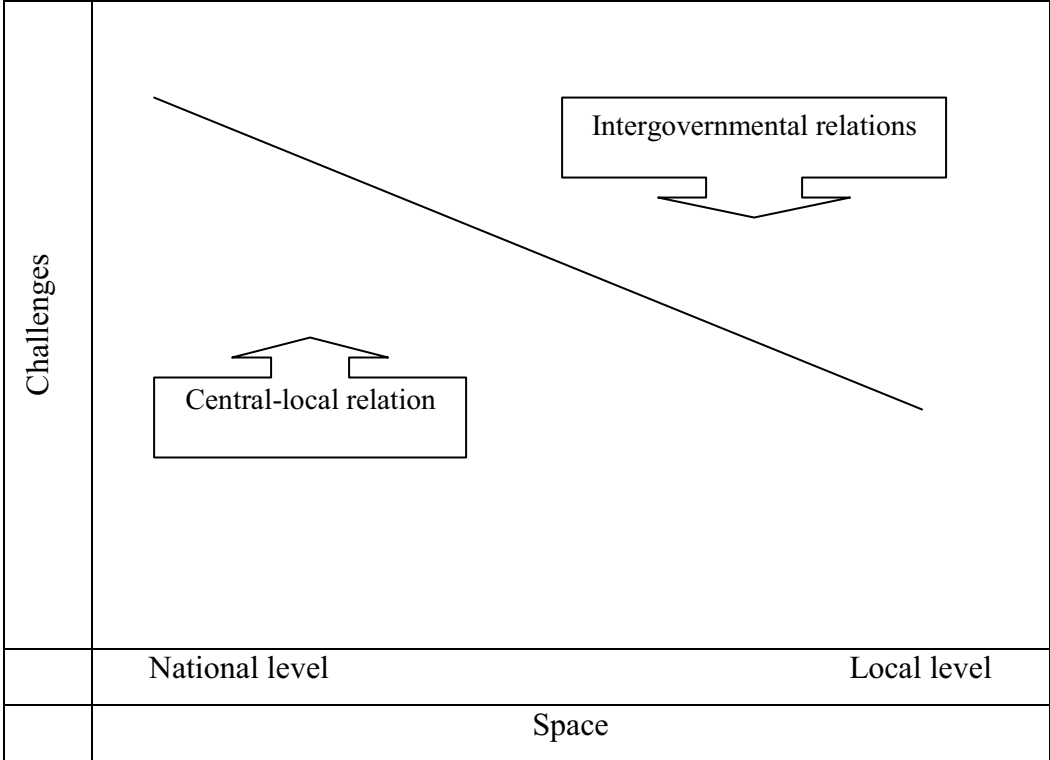
Note: The lines refer to the changing significance of each challenge over time

### 3.4.4 Where do institutions matter?

Where do institutions matter? To answer the question, it is important to know what kinds of welfare have been institutionalized by which levels of governance? In most countries, it has been generalized that the national government responds to individual needs that occur at least once through their life cycle, such as income loss due to old-age, sickness, incapability and unemployment. Because these needs happen to almost every person, the ideal way of providing welfare measures is to utilize the principle of ‘economies of scale’ based on social insurance logic. Of course, to maximize the effectiveness and efficiencies of these welfare programs, the relevant institutions need to be established and implemented by the national government. In contrast to them, some welfare needs are best met by individual local governments. For example, the same number of the same aged elderly care or children in different places desire to receive completely different welfare programs from governments due to their different local economies and cultures. In general, it is undoubtedly believed that local governments are to be more understanding of, and more responsive to, public opinion, with the result that the revolution of rising expectations has had a greater impact at the

local than at the national level (Burau and Kröger 2004: 793; Newton and Karran 1985: 77-80). In this regard, IGR that emphasize the development of institutional innovations through the horizontal dimension of government, rather than the center-local relations, can provide a more insight to the local level social policy.

Figure 3-7 Where do institutions matter?



Note: The line refers to the changing significance of each challenge across levels

**3.5 Summary: A Theoretical Framework**

The theoretical discussions in the previous sections lead to very important implications. Most of all, the implications and limitations of the “old” and “national-level” theories for comparative research of welfare municipality change can be summarized as follows: First, the logic of industrialism argues that economic growth and the growing old social risks such as aging of the population are straightforward factors of welfare development. However, at the local level, the aging population is often negatively related to economic development; for example, the elderly dependence ratio is higher in rural areas, which are generally economically more vulnerable. Another problem is that this theory focuses more on old social risks, and of course, these old social risks

are inclined to have a negative relationship with some new social risks; for instance, the elderly dependence ratio could be negatively related to the FLPR in a geographic sense. If it is the case, it is empirically impossible to prove that social care services or welfare municipalities become more important in the post-industrial society because of the increasing interaction between the aging population (i.e., old social risk) and the growing female labor force participation (i.e., new social risks). Second, the major targets of contemporary welfare municipalities are the elderly and young children as well as the poor, who mostly excluded from the labor market, rather than the labor group. Thus, the implication of the power resource approach is weakened since it emphasizes the role of the latter group. Third, welfare municipalities develop through the complex institutional interactions at both the vertical and horizontal dimensions; as a result, the implication of the state-centered thesis, which emphasizes the former dimension of IGR, is fundamentally limited when it explains welfare municipality change.

On the other hand, these limitations of the “old” and “national-level” theories above appear to be adequately complemented with some “new” and “local-level” theories. First, the new social risks perspective sheds light on the growing need for state intervention because of increasing unemployment and the decreasing capacities of informal care. Second, the new public management theory points out that increasing consumer rights and politics of policy/program evaluation in the public sector today can lead to the expansion of welfare municipalities, apart from partisan or labor politics. Third, the IGR shows that welfare municipality change can be made up of horizontal co-operation and competition among municipal authorities seeking institutional survival and development.

Therefore, with regard to the analytical dimension of space and time, the theoretical exploration in the previous sections results in two broad conclusions. First, the welfare municipality neither wholly develops with an increasing fiscal capacity or political interest of individual municipalities themselves (Jang 2007b) nor is completely determined by the policy and political changes of the national welfare institutions or the welfare state regimes (Burau and Kröger 2004; Pickvance and Preteceille 1991). Instead, they have largely evolved within the political and economic network, which are to a great extent dependent on various institutions (Alber 1995; Allard and

Danziger 2000; Page and Goldsmith 1987a; Tiebout 1956). Thus, it is important to see how local institutions function as political power and economic forces within national institutions. Second, the policy environment of welfare municipalities differs over time. Particularly, it distinctively differs from the post-war era to the post-industrial era (Cochrane 1994, 2004; Jang 2007a; Pickvance and Preteceille 1991; Williams 1994). Therefore, a framework must be able to capture different policy settings over different points in time.

Figure 3-8 shows the theoretical framework for comparative research of welfare municipality change, set out based on the theoretical implications in this chapter. Most noticeably, the framework is designed to overcome the limits of both time-invariant and space-indifferent approaches to welfare municipalities. Furthermore, it seeks to map out the theoretically distinctive forces influencing the social care services of contemporary welfare municipalities. But the framework is nonetheless also a collection of interrelated causal forces. Within the collection, one can see the theoretical relationship between them although they may not be perfectly captured by an empirical test because of different timings of change across the four kinds of causal forces: economy, socio-demography, politics, and institution. No doubt, some countries have experienced radical changes more in the economy than in politics, while others have done the opposite, for example.

Theoretically, the framework is largely based on six different theoretical approaches. Each of the theories emphasizes the significance of either a certain temporal or spatial context for social policy development. After reviewing a wide range of literature, eight causal forces have, seen in the figure 3-8, appeared to be the most important to explain the geographic variation in the development of welfare municipalities at the national and local levels. The causal forces are categorized into economic affluences *vis-à-vis* poverty, old (industrial) social risks *vis-à-vis* new (post-industrial) social risks, partisan politics *vis-à-vis* consumer politics, and the vertical IGR *vis-à-vis* horizontal intergovernmental relationships. As mentioned, they have been underlined by previous studies as the determinants of the development of local social care provision, but their relationships to each other have not been adequately situated in a systematic way with regard to welfare municipality change, as presented in figure 3-8.

Various causal economic, socio-demographic, political and institutional forces are significantly interrelated to each other within the context of either “industrial era/national social transfer policy” or “post-industrial era/local social care policy.” Furthermore, it is realistic to assume that one force of welfare municipality development has never completely replaced by another over time or across space. The impact of a causal force on local social care policy is likely to be mediated by another emerging at a different point in time and space for the long term. Particularly, old social risks such as the aging population continue its policy effect in the post-industrial era in conjunction with rising new social risks such as the increasing female labor force participation. This way of understanding is particularly valuable if the unit of analysis is influenced by national and local factors and old and new factors of social policy development.

Regarding the causality suggested by the framework, a critical question is whether the causality of welfare municipality becomes more complex over time or not. In my view, it appears that the need for welfare municipality development would become more and more diverse and too complex because the new social risks and their interactions with the old social risks. Although within the same country, political actors and institutions are based on fundamentally different interests and conditions; nonetheless, they are hardly isolated from each other. Thus, political decision making in each municipality does not reflect only its one policy preference and political position but also mirrors the behaviors among their neighboring municipalities. From this perspective, the theoretical framework that emphasizes the temporal and spatial dimensions as well as the relationship through the dimensions is not a matter of choice but a prerequisite for reliable estimation of the welfare municipality development and change.

Figure 3-8 Paradigm shifts in welfare municipalities

Causal forces	Industrial era/ national social transfer policy	Post-industrial era/ local social care policy
Economy	Economic affluence	⇒ Poverty
Socio-demography	Old (industrial) social risks	⇒ New (post-industrial) social risks
Politics	Partisan politics	⇒ Consumer politics
Institution	Local fiscal autonomy	⇒ Intergovernmental network

Building on the theoretical exploration and the framework above, the followings would be the theoretical implications:

1. **Economic affluence** has *a weak influence* on changes in welfare municipalities in a post-industrial society.
2. **Poverty** has *a strong positive influence* on changes in welfare municipalities in a post-industrial society.
3. The **interaction between old and new social risks** has *a strong positive influence* on changes in welfare municipalities in a post-industrial society.
4. **Partisan politics** has *a weak influence* on changes in welfare municipalities in a post-industrial society.
5. **Consumer politics** has *a strong positive influence* on changes in welfare municipalities in a post-industrial society.
6. **Local fiscal autonomy** has *a weak influence* on changes in welfare municipalities in a post-industrial society.
7. **Intergovernmental network** has *a strong positive influence* on changes in welfare municipalities in a post-industrial society.



## CHAPTER 4: RESEARCH STRATEGIES AND DESIGN

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### 4.1 Introduction

The aim of this chapter is to present the research strategy and research design of the dissertation. As will be explained in the next sections, the overall research strategy of this dissertation is two case studies based on quantitative data and methods. Since I already explained why I have chosen these two cases, which are Denmark and Korea, for this dissertation, this chapter begins by raising and discussing crucial methodological issues. Based on them, methodological strategies are suggested. The chapter then presents the definition and measurement of the dependent and independent variables. At the end of the chapter, analytical framework and research hypotheses are put forward for empirical analysis in chapter 5.

### 4.2 Methodological issues and strategies

The use of aggregate social expenditure data and pooled TSCS regression models appears to be “highly popular in quantitative cross-national comparative studies of the welfare state” (Kittel 2006: 647). The fundamental reason behind this popularity of the method is the increasing interest in welfare state changes over time, rather than cross-national variation in welfare state development (Huber and Stephens 2001; Kittel 2006; Siegel 2007). The theoretical debates about welfare state retrenchment, restructuring, and resilience have been the primary sources of such interest. Employing the pooled TSCS analyses, researchers have investigated levels or change in social spending (as a percentage of GDP) over time. Among them, social expenditure is considered to be an adequate indicator of “welfare state development.” As a result, much empirical evidence from such analyses has helped us understand to

what extent the welfare state has changed recently and the factors have determined the changes.

Likewise, over the last decade the use of local social spending data and the pooled TSCS analyses have become prevalent in the comparative studies of welfare municipalities. The research question behind this methodological approach was largely related to the effect of fiscal devolution of welfare states on the welfare municipalities. Since it is assumed that not all municipalities change at the same time or to the same extent, researchers want to or have to examine both cross-sectional and time-series variations. Furthermore, the large number of cases for welfare municipality analysis<sup>14</sup> also requires researchers to employ a highly advanced and sophisticated quantitative tool, such as the pooled TSCS analyses. In much of the literature, social spending levels (as a percentage of the total municipal spending) have been the dependent variable of welfare municipality change (Allard and Danziger 2000; Bergmark 1997; Craw 2006; Jang 2007b; Jin 2006; Kim and Lee 2000; Page and Goldsmith 1987a; Park 2008a; Park 1997; Revelli 2004; Toikka et al. 2004).

With regard to the use of pooled TSCS analyses, several methodological issues have been debated in the recent literature of comparative welfare state research. First, there are always strong correlations in changes of municipal social spending (i.e., the dependent variable of the dissertation) over time. This means that the assumption of independence of the observations is questionable, especially when dependent variables are measured as levels, since the levels of expenditure from one year to the next are inter-correlated (Huber and Stephens 2001: 59). Wildavsky (1964: 15) argues “changes in social spending are incremental because budget is almost never comprehensively reviewed as a whole every year in the sense of reconsidering the value of all existing programs as compared to all possible alternatives.” Therefore, the current year’s budget is largely based on last year’s budget with special attention given to a narrow range of increases or decreases. In addition, the budget-makers change to a marginal proportion of an existing budget base. Regarding empirical evidence, having attempted to reveal the determinants of social expenditure in advanced industries

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<sup>14</sup> Two hundred twenty-six Korean municipalities and 186 Danish municipalities are empirically investigated for the period from 1995 to 2004.

Kittel and Obinger, for example, find that the coefficient of the lagged dependent variable is closer to unity and the regression coefficient is 97.7 percent (2002: 22-23). It should be noted that if the independent variables are measured in a corresponding fashion (e.g., levels, cumulative indicators or averages) the consecutive measurements of the independent variables are also strongly correlated to one another. Such a serial correlation, which is the correlation of a series of data with its own lagged values, is a violation of the independence assumptions that usually occurs when data are taken over time. This means that observations are not independent, and accordingly, the residuals from the OLS regression will not be independent, either. This dependence is a violation of the assumptions of normality, independence, and identical distribution about residuals required by the OLS regression model.

To avoid such violations, researchers analyze short-term change (e.g., annual change of social spending levels) of social spending, not long-term development (e.g., social spending levels). Yet, several issues appear to be quite problematic. First, annual changes in social spending are too sensitive from short-term economic fluctuations (Huber and Stephens 2001: 58). This means that without any real increase in social spending in absolute term, changes might appear in an annual change in social spending levels. Second, annual changes greatly exaggerate the increase in social spending of developing welfare states, rather than developed welfare states. The welfare states in all advanced industrial democracies are highly matured today, thereby there are fewer increases in social spending, while those in less developed countries have low spending levels; hence, they have a more room to maneuver (Huber and Stephens 2001: 58; Kittel and Obinger 2002: 15-17). Especially, in comparative studies of municipal social spending, it can be hypothesized that even implementing large-scale new programs does not change the annual change in social spending if the municipal budget is large. But any small-scale new program may change, to a great extent, the annual change (Jang 2007b). Third, often research questions regarding the paradigm shift in welfare and the demographic effect on welfare state change cannot be analyzed based on the observations of short-term change. Although scholars strongly suggest the necessity of a distinction between the old and new paradigm of welfare states, one cannot expect to capture such a turning point or change between them through short-term changes, particularly if the observation period is limited. This is especially the case with some important independent variables such as the aged

structure and female fertility rate, the annual changes of which are extremely marginal.<sup>15</sup> Fourth, if having decided on the change as an appropriate solution to assure the independence assumption of OLS regression, it is unrealistic to assume that only the change in a causal condition one or two years before fully determines the change in social spending in the current year. It is more reasonable to argue that the cumulative change (i.e., levels) in a causal condition over a long period of time together with the short-term change the year before co-determine the spending change in the current year (Huber and Stephens 2001: 60-61).

Reflecting these issues above, I employ the cross-sectional OLS regression model to explain why municipal social spending changes over time, unlike many other studies. There are nonetheless several reasons supporting my methodological application. First and foremost, my research question about welfare paradigm shifts from the post-war society to the post-industrial society inherently requires me to look at the long-term change in municipal social spending, rather than the short-term. It cannot be assumed that one paradigm replaces another within several years. Thus, as Kittel and Obinger argue, current variations in levels of welfare development and also probably the average of some socio-demographic, political, and institutional determinants can be understood as “the result of small but cumulating differences in welfare provision for a long period of time” (2003: 29). Therefore, analyzing levels of municipal social spending in a given year can be translated into “an investigation of long-term changes in welfare municipality.” Second, having no interest in short-term dynamics, cross-sectional regression analysis with averages or levels of variables during the whole period provides more robust findings. In other words, this analysis effectively reduces “noise,” which is caused by economy circles. Especially, if the welfare state is highly matured, such as the Danish welfare state, and does not distinctively change over time, one can assume that the annual changes are simply due to economic fluctuations, as Huber and Stephens have argued. Thus, analyzing only the average levels of each variable with the aim of investigating long-term change of welfare municipalities is much safer and better than relying on short-term dynamics. This means in a sense that

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<sup>15</sup> But it is nonetheless interesting because these socio-demographic changes represent the kind of slow-moving (creeping) process with potentially huge cumulative effects over a longer period of time (e.g., the combined effect of higher life expectancy and lower fertility rates on matured welfare states (Siegel 2007: 58).

I prefer to have a ‘type I error’ to a ‘type II error’ if unavoidable.<sup>16</sup> Third, by taking the averages of each variable for the whole period, not the levels of each year, I can avoid facing the serial correlation problem that is often caused by using time-series data.

More specifically, the dependent variable is the social spending level (i.e., a percentage of the total municipal spending) in 2004. Here, the spending level in 2004 is taken as a cumulated annual change. The spending level thus indicates the changes that took place even many years before 2004. The independent variables are averages of many socio-demographic, economic, political, and institutional indicators during the period of 1995-2004. I take the average of municipal social spending levels rather than the level of any given year before 2004 because there are some variables included such as unemployment rates that often fluctuate greatly within a very short term.

Now I present another important issue needed to be tackled, apart from the issue of how to theoretically match research questions, data, and analytical tools, as well as how to measure the municipal social spending change. The issue is related to the ‘analytical unit’ of comparative study. As mentioned earlier, I consider the municipality the primary unit of analysis in the dissertation. No doubt, in some countries the national and regional governments have a greater role in financing and regulating the provision of local public services than municipalities (Page and Goldsmith 1987a; Wright 1990). Municipalities could, nonetheless, attract enormous attention within social sciences by generating considerable sub-national and sub-regional variation in the scope and the quality of social care services (Allard and Danziger 2000; Bergmark et al. 2000; Craw 2006; Curtis 1989; Figlio et al. 1998; Hanssen 1997; Jang 2007b; Jin 2006; Kang 2004; Kim and Lee 2000; Kim 1998; Mingione and Oberti 2003; Shroder 1995; Toikka et al. 2004; Trydegård and Thorslund 2001; Valtonen and Laine 2003). Many researchers have therefore attempted to cover as many as cases (i.e., municipalities) by their analysis, so that more local variations are obtained.<sup>17</sup>

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<sup>16</sup> There are two types of errors, depending on which of the hypotheses is actually true: A Type I error rejects the null hypothesis when it is true (with an annual change in this case); a Type II error fails to reject the null hypothesis when it is false (with an annual change in this case).

<sup>17</sup> There is another reason for having many cases in the comparative studies of welfare municipalities. A few cases section seems to be problematic because there are

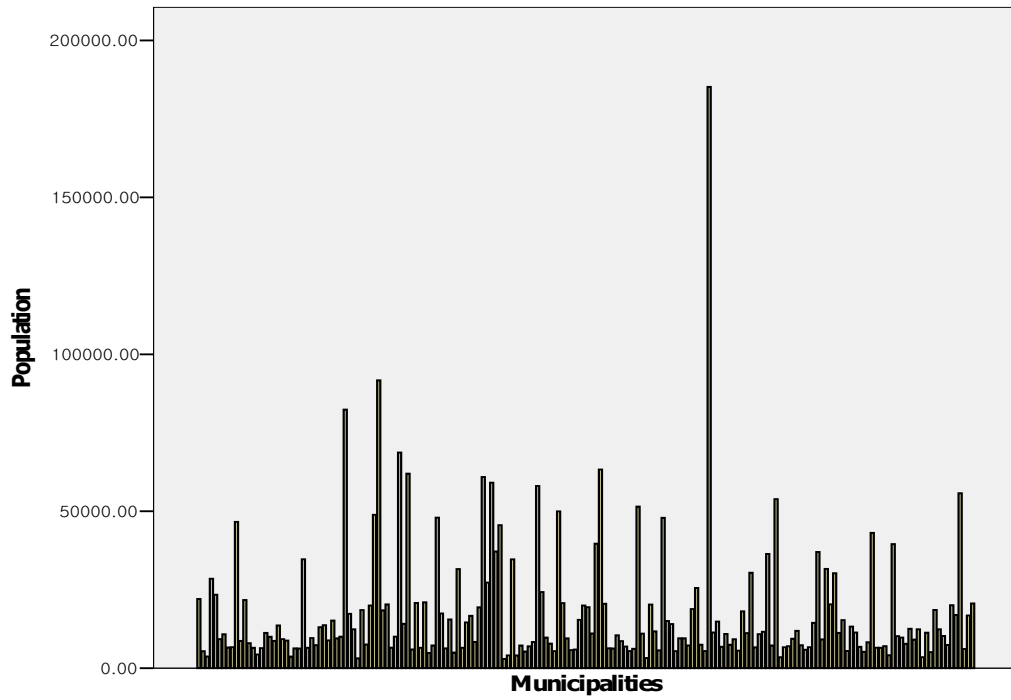
Even when covering all municipalities of countries, which is actually the case in this dissertation, a critical question arises: Should each municipality be treated equally in the comparison? One might argue that all municipalities that are geographically located in a country should be considered to have equal meaning as they are overseen by an identical government. In principle, there are of course no official barriers that prevent free movements of human and fiscal resources from one municipality to another. Some empirical evidence, however, suggests that these municipalities are hardly in an equal position for developing municipal welfare; the difference is rather extreme. Figures 4-1 and 4-2 provide some evidence; they present extremely wide ranges of variation in population among the Danish and the Korean municipalities, respectively. Believing that there is a strong relationship between the size of the municipality and the economic and demographic structure, one might consider this whole-population comparison to some extent a comparison of apples to oranges.

Figures 4-3 and 4-4 also present similar evidence in terms of the aging demographic. Evidently, these figures indicate that some municipalities provide an enormous effort for elderly care, while others almost do not. Furthermore, it is also assumed that one causal force may not work in the same way in every municipality since the structure of municipalities is fundamentally different from each other. For example, elderly people in a urban municipality and those in a rural municipality might have different policy preference, which is the case in Korea: the former are more interested in extending cultural and leisure programs; whereas the latter require additional income support, housing programs, and home-helper services (Jung et al. 2005: 530).

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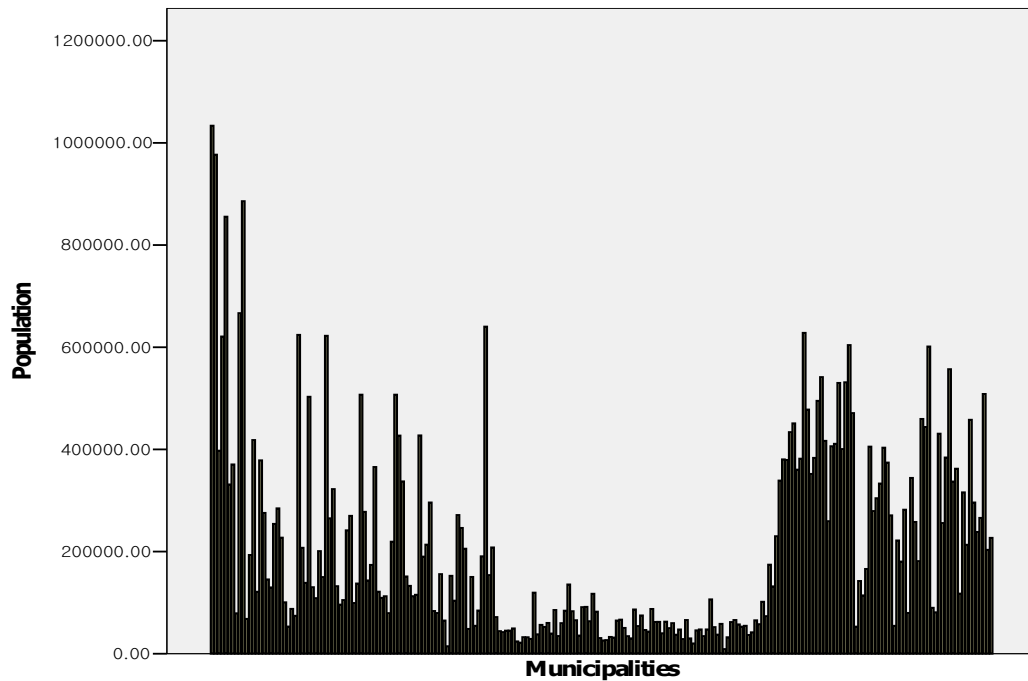
generally hundreds of municipalities in countries. Therefore, a handful of cases cannot represent well entire municipalities, hence, the higher possibility of having case-selection biases and little possibility of generalizing empirical findings.

Figure 4-1 Municipal populations across Denmark, 2004



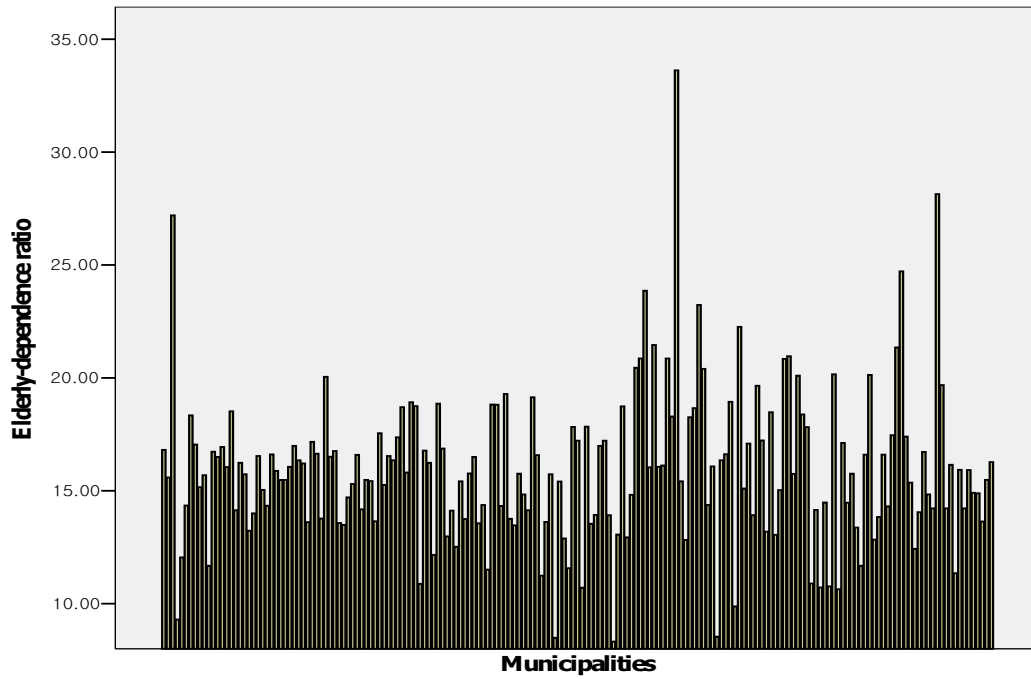
Source: Statistics Denmark (1995-2004)

Figure 4-2 Municipal populations across Korea, 2004



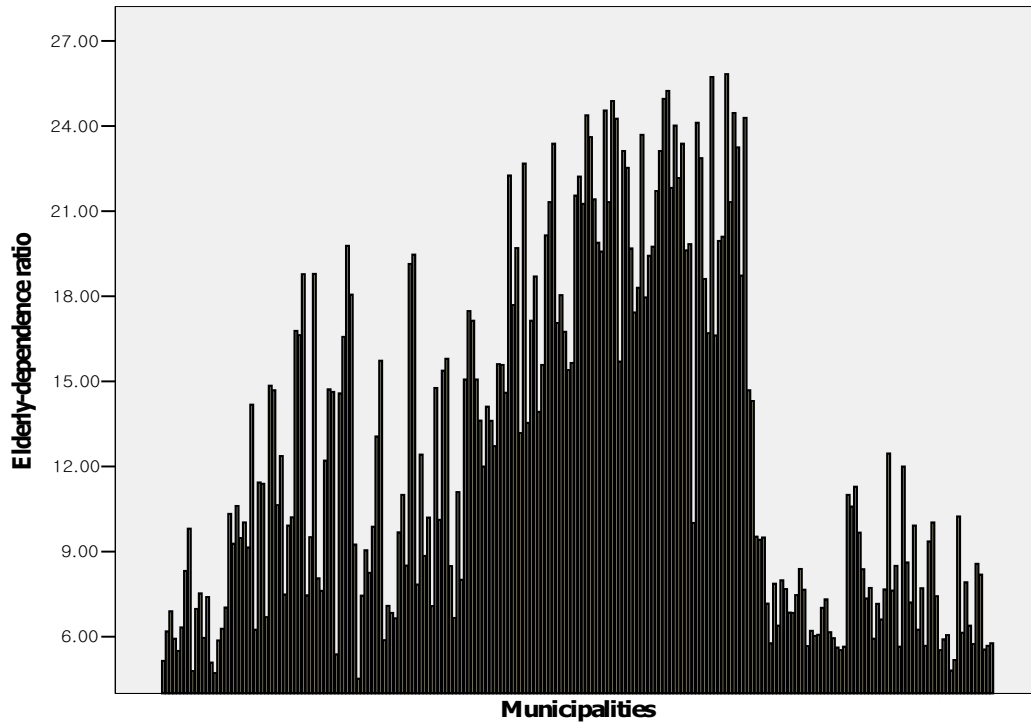
Source: Ministry of Government Administration and Home Affairs (2005)

Figure 4-3 Municipal elderly dependence ratios in Denmark (2004)



Source: Statistics Denmark (1995-2004)

Figure 4-4 Municipal elderly dependence ratios in Korea (2004)



Source: Ministry of Government Administration and Home Affairs (2005)



In brief, all these findings imply that the empirical results from the regression analyses that treat all individual municipalities in an equal manner could be far different from results based on aggregate-level analyses. Imagine that we have two municipalities in the same country. One of them is very rich, populated with one million inhabitants, and spends 30 percent of the total municipal expenditure on social care services while the other is very poor, populated with one thousand inhabitants, but spends 60 percent of the total spending on social care services. Can we simply conclude that the poverty and smaller population are the major determinants of municipal social spending growth in the country? What is clear is that the aggregate-level analyses or comparative cross-national studies are likely to mirror the situations of big municipalities, such as capitals or other highly populated cities, rather than those of small ones.

Faced with this dilemma, I decided to examine if equal treatment for both big and small municipalities leads to considerable differences in empirical findings. For this purpose, I conducted some descriptive and graphic analyses at the local and national levels using similar variables. If any differences appear between the findings from the respective analyses, they will guide us when the interpretation is made from the local-level comparison.

On the other hand, geographic heterogeneity of socio-demographic and economic structure matters greatly across municipalities. More specifically, geographic configurations of causal conditions may be able to constrain the effect of individual factors on the welfare municipality. For instance, economic capacity and the aging demographic are considered causal forces that facilitate the development of social policy in general. However, some countries have reported that the larger the elderly population, the weaker the fiscal capacity of municipalities geographically (Jang 2007b). Furthermore, it is also assumed that in a country based considerably on the agriculture industry, the FLPR is considerably higher in rural municipalities; however, it will be the urban area if the country is based on the service industry. Therefore, it can be ultimately assumed that in some municipalities (or countries) the elderly dependence has a strong positive relationship with the FLPR and in others the elderly population has a strong negative correlation with the FLPR. If this is the case, where the local social care spending has a strong positive correlation with the female labor

participation rate, there will be a strong negative correlation between the local social care spending and the elderly dependent ratio and *vice versa*. In this regard, I conducted correlation analyses with the municipal-level data to see how socio-demographic and economic conditions are geographically configured.

In conclusion, the proposed methodological strategies for the analyses in the following chapter are, in brief, threefold: First, I use some descriptive analysis at the national and local levels. Second, I conduct correlation analyses to capture the qualitative change in causal mechanism over time on the one hand and geographic configuration of socio-demographic and economic structure across municipalities on the other. Finally, I carry out some cross-sectional OLS regression analyses to reveal the long-term determinants of municipal social care spending.

### **4.3 Data and variables**

As discussed in the previous section, descriptive and correlation analyses will be conducted with both the national- and municipal-level data. Ideally, identical indicators variable should be used to test the same theory or hypothesis, regardless of whether it is concerned with a national- or a municipal-level analysis. However, there are difficulties to do so in this project as the scope of statistical indicators is considerably limited with disaggregate local-level data. This problem mostly happens with the data from Korea. In addition, for both countries there is no aggregate national-level indicator that can measure complex local dynamics at the horizontal level. Given such dissimilarity, two tables provide detailed information about the variables. Each gives information about the data for the national- and the local-level analysis, respectively. Some variables that appear in tables are not ideal indicators of theory, but nonetheless they could be considered the best choices given the data available. The data at the national and local levels are time-series data, which show annual changes in each indicator. The time span of the national-level data is slightly

longer than 20 years (starting from 1979 onwards) in most cases; that of the local level data is 10 years<sup>18</sup> (starting from 1995 onwards).

#### **4.3.1 Data and variables at the national-level**

Unlike the condition of local data collection, there are many sources for aggregate national-level data, at the least for the OECD member countries. The OECD itself provides a substantial cross-national and time-series dataset for comparative studies together with the International Labor Organization (ILO), the World Bank, and so on. Of course, the national statistic bureaus in each OECD member country supply various types of quantitative data. In this project, I use both internationally and domestically produced data for Denmark and Korea. The information about how to access the specific data resource is given in table 4-1 below.

As seen in table 4-1, eight independent variables are presented for five theoretical approaches. These approaches can be divided into two distinctive two-dimension perspectives: the ‘national/industrial society perspective’ and the ‘local/post-industrial perspective.’ Each of the eight independent variables can be summarized as follows:

First, *economic development* as an independent variable is measured by GDP per capita. In theory, the higher the GDP per capita, the higher the social care development.

Second, *elderly dependence* refers to the percentage of the population aged 65 and above of the total population. It is hypothesized the higher the elderly dependence, the higher the level of social care development.

Third, *trade union density* is used as an independent variable representing the power resource approach and is calculated by dividing the total employed labor forces enrolled in a trade union. The high trade union density refers to the great political power of the Left and the labor class, which generally supports the welfare state.

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<sup>18</sup> Nevertheless, because of some missing data and the time-lagged variables of the dependent variables used, the actual starting year of the pooled cross-section and time-series analysis is 1996 for Denmark and in 1997 for Korea.

Fourth and fifth, to test the state-centered thesis, *central government tax basis* and *local government tax basis* are analyzed as independent variables of the variation in social care spending over time. These variables are a percentage of the central tax revenue and the local tax revenue of the total national tax revenue. The high value of the former implies a high level of the centralization in social care policy, while the same of the latter indicates a high level of local government autonomy for social care.

Sixth and seventh, regarding the new social risks approach, *unemployment rate* and *FLPR* are chosen. The former more reflects the economic aspect and the latter more the socio-demographics. Both are theoretically supposed to support welfare state development as new social problems for new welfare programs in general and social care provision in particular. The former is measured by dividing the number of unemployed by the total population of the labor force; the latter is measured by dividing the number of female workers by the number of women age above 15 years old.

Finally, *service sector dependence* is chosen to measure the strength of consumer politics. The idea behind the variable is that the influence of consumer politics becomes greater when societies depend on the service sector further.

Table 4-1 Variables for the national-level analysis

	Theory	Variable	Operational Definition	Sources
Dependent Variable		Social Care Spending	Social care spending (benefits in kind for the elderly and the disabled as well as family benefits in cash and in kind) / GDP	OECD (2007)
	Industrialism Theory	Economic Development	GDP / total population	OECD (2003)
The Elderly Dependence		Population 65 + / total population × 100	OECD (2003)	
Independent Variables (1) from the National/Industrial Society Perspectives	Power Resources Approach	Trade Union Density	Employed labor forces enrolled in trade unions / total employment × 100	OECD (2003)
	State-centered Thesis	Central Government Tax Basis	Central tax revenue / total tax revenue × 100	Ministry of Finance & Economy (2005) for Korea; Statistics Denmark (2007) for Denmark
		Local Government Tax Basis	Local tax revenue / total tax revenue × 100	Ministry of Finance & Economy (2005) for Korea; Statistics Denmark (2007) for Denmark
	Independent Variables (2) from the Local/Post-industrial Society Perspectives	New Social Risks Approach	Unemployment	Unemployed population / total population in labor force × 100
Female Labor Participation			Female workers / total female population above 15 × 100	OECD (2003)
Managerial/Consumer Politics		Service Sector Dependence	Employment in the service industry sector/ total employment × 100	OECD (2003)

### 4.3.2 Data and variables at the local-level

The dependent variable for the local-level analysis is *local social spending*, as a percentage of total local spending. Unfortunately, the available indicator of municipal social care spending in both countries contains not only social care spending (i.e., benefit-in-kind spending for the elderly, the disabled, and families plus cash-benefit spending for families) but also the spending for social assistance benefits and health care activities. All these program expenditures are simply indexed with one indicator that cannot be disaggregated.

Of course, as I intend to measure local variations in the provision of “social care services,” using the indicator “total local social spending” needs to be legitimized. In brief, my arguments are twofold: First, the local variation in health care and that in social care activities are more or less identical because these programs target largely similar populations (e.g., the frail elderly, the disabled, and their families). Second, the spending level of social assistance is nationally controlled by the central government, and therefore, almost no local variation can be made by local autonomy. Social assistance reforms affect all municipalities.

The dataset both for the dependent and independent variables was established with the municipal statistical yearbook. They were mostly collected from the national statistics bureaus in Denmark (see Statistics Denmark 2007) and in Korea (Ministry of Government Administration and Home Affairs 2005). More precisely, the datasets excluded the cases that experience jurisdictional changes within the period of analysis. The final cases analyzed per year are 186 basic-level local governments (out of 271) in Denmark and 226 (out of 232) in Korea. These cases cover nearly 69 percent of the Danish municipalities and 98 percent of the Korean ones. Table 4-2 below shows names and the operational definitions of each independent variable plus the dependent variable I just explained.

The selection of independent variables has been based on a very limited range of municipal data. The main difficulty was to find variables that strongly represent all the theories discussed in chapter 3 and can test the validity of them under the less developed and feasible municipal statistics data. After putting vigorous efforts to

select adequate independent variables, 13 variables are selected. They reflect either socio-economic, political, and institutional aspects from old/national perspectives or those from a new/local perspective. The variables in the former perspective can be summarized as follows:

First, *population* is included as an independent variable to identify the impact of industrialization on local social spending. In addition, the issue of extreme disparity in municipality size is assumed to be controlled by this variable. Originally and ideally, I planned to use a direct indicator of economy rather than such a demographic indicator. However, the problem was that no reliable data are available for individual municipalities, particularly in Korea. Furthermore, I do not assume that the GDP by municipalities is an effective indicator of the fiscal capacity of municipalities due to the considerable mobility of local resources across municipal jurisdictions. Alternatively, I suggest a rather soft premise: the larger the population, the larger the economic capacity. In fact, people tend to move from a worse-off to a better-off area over time (Tiebout 1956). Thus, an increasing local population can refer to a growing local economy and resources. Moreover, this variable is to measure the effect of welfare geography (i.e., geographic configuration between different welfare needs and resources) on local social policy. As will be shown later, welfare resources are differently distributed and allocated across different spaces with a great variation in the population.

Second, I use *local budget per capita* as another independent variable. This variable is supposed to distinguish the extent of the budget demand and local issues, based on an assumption that the greater local problem the larger the budget per capita. With these two variables, therefore, we could better understand the geographic variation in both the demand and supply side of social welfare programs. However, this variable can also be used to examine or control the effect of the welfare state regime on the local social policy. In chapter 2, we identified the different directions of correlation between the local budget per capita and local social pending ratio across these two countries. It is further important to figure out whether the correlations revealed indicate a simple affiliation that is caused by a third factor or a real causal relationship between the welfare state regime and municipal social spending.

Third, *elderly dependence*, as an effect indicator, is chosen to measure the demographic pressures on municipal social policy. Just as any other study, higher elderly dependence is assumed to be a condition supporting the expansion of welfare programs.

Fourth, apart from the industrialization, *Left-wing Party Strength* is included in the analysis as an indicator the strength of the Left or labor organization. According to power resource approaches, in industrial societies, labor unions and their supporting parties (i.e., socialist or social democratic parties) attempt to use political power to improve their position in income and welfare against the capitalists.<sup>19</sup> This means that the higher the percentage of the Left's politicians in the local councils, the higher the social spending level of the municipality.

The fifth, sixth, and seventh variables are supposed to measure the relationships between the central and the local governments from slightly different aspects. For Korea, *local financial self-reliance index* is used. It shows the extent of how much municipalities are independent on the central government in the area of financing public services. The higher the index, the higher the municipal autonomy in social care provision is assumed to be. Due to the difficulty of obtaining the same data from Denmark, I propose to focus on other two variables: *central government aid* and *local income tax rates*. The former is the percentage of the total central government resources of the total local revenue in Denmark; the latter is the actual income tax rate levied by each municipal authority in Denmark. Theoretically, a high local income tax rate makes it easier to develop the welfare municipality in terms of financial autonomy. Nevertheless, there have been some mixed results with regard to the role of the central aid to local social policy. The high level of central aid on the local revenue may refer

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<sup>19</sup> The classification of the Danish political parties was made according to Armingeon (2006). The "Left" in Denmark denotes the Social Democratic Party (in Danish: *Socialdemokraterne*), the Danish Social Liberal Party (in Danish: *Det Radikale Venstre*), the Socialist People's Party (Danish: *Socialistisk Folkeparti*), and the Unity List or Red-Green Alliance (in Danish: *Enhedslisten*). The classification of Korean political parties was done by the author according to Jin (2006). The "Left" in Korea denotes the Millennium Democratic Party (in Korean: *Saecheonnyeon Minjudang*), which was previously the National Congress for New Politics (in Korean: *Saejeongchi Gungminhoeui*) and the Democratic Labor Party (in Korean: *Minjunodong-dang*).



to the central role of the national government in the field of social policy. However, as Alber (1995) argues, central aid can be simply considered an additional resource that makes it possible for municipalities, particularly those with poor economic performance, to develop welfare municipalities.

The rest of the seven independent variables in table 4-2 are supposed to capture the new/local socio-economic, political, and institutional influences. As the eighth variable, the *FLPR* indicates new types of social risk with respect to care work and child care, which are the primary subjects in local social policy.

Ninth, *unemployment rate* is used as another variable for new social risk argument. It is assumed with the variable that municipalities facing large unemployment tend to expand social care services, which particularly aids the labor integration of the unemployed low-skilled workers into the market. Furthermore, welfare municipalities could function as a big employer by increasing the size of public service sector (Kolberg 1991b).

Tenth and eleventh, with regard to the role of consumer politics in welfare municipalities, *female political power* and *path dependence effect* are chosen as independent variables. They are politically relevant variables and show aspects (e.g., gender politics and politics of comparison) of politics other than the class-conflict dimension. Ideally, it might be better to use some indicators that are closely related to managerial and consumer politics. Unfortunately, this wish could not be fully satisfied simply due to the lack of quantitative local data for comparison research. However, I would argue that the former variable shows the local variation in gender power, which is really a major influence on the municipal social care services. Particularly, in Scandinavia, women's political role has increased significantly, witnessed, for example, by their representation in democratic political institutions (Kolberg 1991a: 123). At the same time, women are in a large majority among the employees of the welfare state, especially at the municipal level. For instance, in Denmark during the period of 1976-86 74.6 percent of the total employees in the public service sector, including education, health and social services, were women (Hagen 1991: 68). In addition, the lagged dependent variable is used to examine the path dependence effect that is exerted by consumer politics on municipal social spending. The high coefficient

of the lagged dependent variable thus indicates the growing role of consumer politics in the public sector. In other words, the new interest groups of welfare services (i.e., welfare beneficiaries) do not allow local politicians to make radical changes in municipal social care services.

Finally, twelfth and thirteenth, the IGR, particularly at the horizontal levels, are analyzed. One is *competitive spatial dependence* and the other is *co-operative spatial dependence*. The former is the average local social spending of municipalities within the same regional jurisdiction within the past one year, and the latter is the average changes in local social spending of municipalities within the same regional jurisdiction. As discussed in other literature, there are very little data that show the real business of making IGR across municipalities. However, even with an indirect way, it is possible to see the extent to which municipalities compete with each other and co-operate with each other, focusing on municipal social spending levels and changes. I assume that the competitive spatial dependence might be strong as well as higher if there is some competition among administratively and geographically close municipalities. Based on the theory of welfare geography, I furthermore assume that the direction and the extent of change in the municipal social spending levels are similar within the same jurisdiction if there are some co-operative social care programs undertaken by municipal authorities than if there are not.

Table 4-2 Variables for the local-level analysis

	Theory	Variable	Operational Definition	
Dependent Variable		Local Social Spending	Social spending (health and social service, public assistance expenditure) / total municipal spending × 100	
	Independent Variables (1) from the National/Industrial Society Perspectives	Industrialism Theory	Population	Total population, average
Local Budget			Total budget / total population	
The Elderly Dependence			Population 66 + / total population × 100 for Denmark* Population 65 + / total population × 100 for Korea*	
Power Resources Approach		Left-wing Party Strength	The left-wing party member politicians / total politicians in local councils × 100	
		State-centered Thesis	Central Government Aid	Central government aid / total local revenue for Denmark*
Local Income Tax Rates			Local income tax rates for Denmark*	
Local Financial Self-Reliance			Local tax revenue / total revenue × 100 for Korea*	
Independent Variables (2) from the Local/Post-industrial Society Perspectives		New Social Risks	Female Labor Participation	Female workers / total female population above 15 × 100
			Unemployment	Unemployed population / total population in labor force × 100
		Managerial/Consumer Politics	Female Political Power	Female politicians / total politicians in local councils × 100
	Path Dependence		The lagged dependent variable	
	Intergovernmental Relations	Competitive Spatial Dependence	Average local social spending of municipalities within the same regional jurisdiction $t-1$	
		Co-operative Spatial Dependence	Average changes in local social spending of municipalities within the same regional jurisdiction	

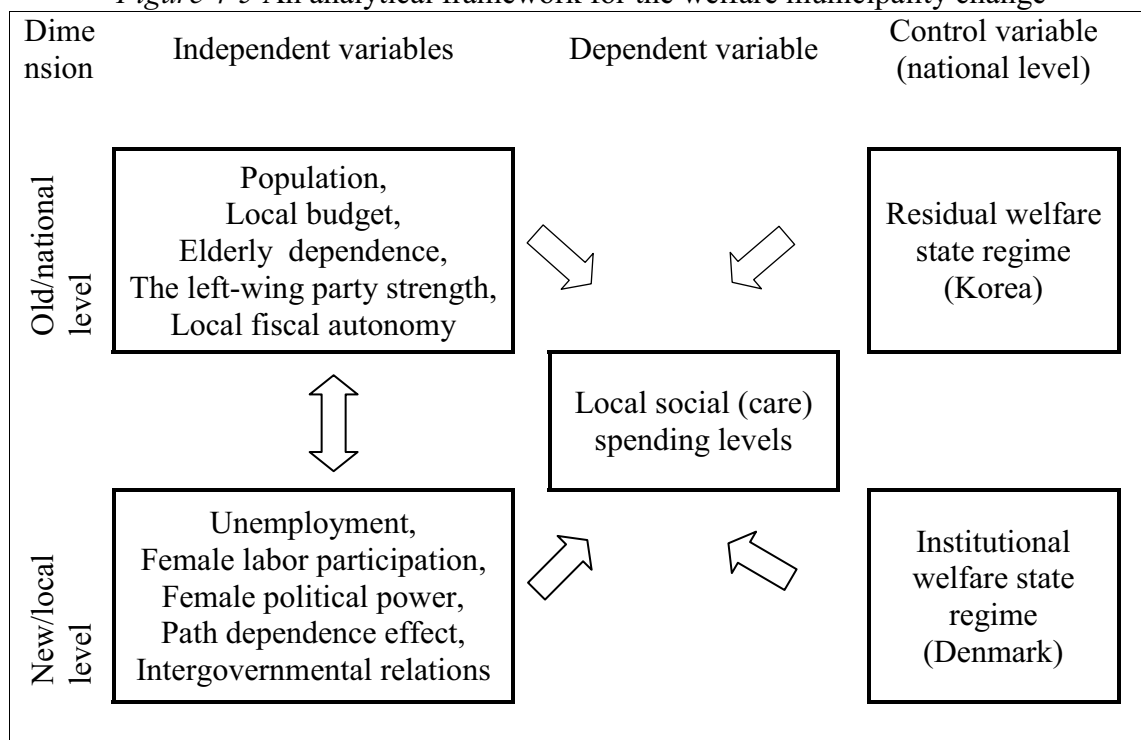
*Source:* All data for Denmark can be found in the ‘Statistical Yearbook’ provided by Statistics Denmark and the ‘Korea Statistical Yearbook’ provided by the Korea National Statistical Office.

*Note:* Due to the limit of data, slightly different indicators are used for an identical variable; these cases are denoted by ‘\*.’

#### **4.4 An analytical framework and hypotheses**

In chapter 1, I asked my research question: what are the causal forces or mechanism behind welfare municipality change in the post-industrial era characterized by welfare state decentralization? In chapter 2, I elaborate the similarity and differences between the Danish and Korean welfare state and municipalities. Based on that, I could hypothesize that welfare municipality change is fundamentally determined by welfare state regime types: welfare state regimes matter. In chapter 3, I explored previous studies and relevant theories of comparative social policy in general and welfare municipality in particular. Three findings are important. First, welfare municipalities have been further developed not in the post-war context but in the post-industrial context. Therefore, welfare state theories that focus exclusively on the former time context have weaker implications for the latter. Second, the determinants of welfare municipalities may quite differ from those of welfare states as the former and the latter are more involved in different social programs and politics. Third, there was or has been a paradigm shift in the economy, politics, and institutions and interactions in socio-demography over the last two or so. Accordingly, one should understand how the welfare paradigm has changed over time. Based on all these theoretical hypotheses, I set out the analytical framework for a comparative study of welfare municipalities as follows:

Figure 4-5 An analytical framework for the welfare municipality change



Before presenting each hypothesis, one point needs to be clear: I assume that some significant shifts or conflicts take place in economic, socio-demographic, political, and institutional areas over time. However, it does not necessarily mean that such shifts or conflicts appear in all these fields at the same time to the same extent. For example, a change may occur in the socio-demographic area, but may not happen in the economic field if the economic performance of the country or municipality has been constantly positive for years.

Furthermore, as discussed in the previous sections in this chapter, the geographic configuration of welfare resources and needs must be identified before examining the long-term determinants of municipal social spending. What is evidently important is identifying whether or not there are negative correlations between and within welfare resources and welfare needs. From a theoretical point of view, the negative correlations refer to theoretical conflicts in explaining and understanding the policy outcome. For example, although the logic of industrialism and new social risk argument emphasize that the aging population and female labor force market participation fundamentally contribute to the expansion of public social spending, it could be possible that they have a negative correlation in a geographic sense. From a methodological point, this correlation refers to the existence of multicollinearity,

which is a fatal problem with multiple regression results. Thus, I need to identify that such a possibility exists by conducting some correlation analyses.

Table 4-3 presents nine research hypotheses. The first hypothesis is about welfare geography. The next seven hypotheses are about the changing paradigm of welfare municipalities. The last one examines the effect of different welfare state regimes on municipal social spending.

Table 4-3 Research hypotheses

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Regarding welfare geography (i.e., a geographic configuration of welfare needs and resources), I hypothesize the following:

H1. There were some *negative correlations* between an **aging population, local budgets, and the FLPR and unemployment rates.**

in Denmark and Korea during the period 1995-2004.

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Regarding paradigm shifts and interaction in welfare municipalities, I hypothesize the following:

H2. **Population growth and local budget growth** has *a weak effect* on municipal social spending levels.

H3. **Unemployment rates** have *a strong positive effect* on municipal social spending levels.

H4. **The aging population and the FLPR** have *a strong positive effect* on municipal social spending levels.

H5. **The left-wing party strength** has *a weak effect* on municipal social spending levels.

H6. **Female political power and path dependence** in policy-making have *a strong positive effect* on municipal social spending levels.

H7. **Local financial autonomy** has *a weak effect* on municipal social spending levels.

H8. **The competitive and co-operative spatial dependence** in policy-making have *a strong positive effect* on municipal social spending levels.

in Denmark and Korea during the period 1995-2004.

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Regarding welfare state regime effects on welfare municipalities, I hypothesize the following:

H9. **Local budget growth in Denmark** has *a positive effect* on municipal social spending levels: but **local budget growth in Korea** has *a negative effect* on municipal social spending levels.

for the period 1995-2004

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# CHAPTER 5: THE LOGIC OF WELFARE MUNICIPALITY CHANGE

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## 5.1 Introduction

As argued in the previous chapters, contemporary changes in welfare municipalities might be determined by changing welfare paradigms as well as welfare state regimes. Furthermore, welfare geography is hypothesized as an important predetermining factor in welfare municipality change; here, welfare geography refers to the geographic configuration of welfare resources such as fiscal resources and needs such as the aging population and female labor force participation. Because the configuration could be negative, it is often observed at the local level that the larger the public welfare needs the less the fiscal capacity of the state (i.e., municipalities), although this can hardly be the case at the national level (Wilensky and Lebeaux 1965).

This chapter examines inter-municipal variations in social spending in Denmark and Korea. The indicators for the independent variables are chosen to measure the impacts of economy, socio-demography, politics, and institutions on municipal social spending change, on one hand, and the paradigm shift in these fields, on the other. In response to the issue of welfare geography, the chapter describes the municipal social spending change at the local and national levels. Such a distinction will make it possible to see how different findings can be made by the comparative studies at the local and national levels.

It must be noted that in the municipalities in Denmark and Korea are analyzed in different sub-sections. This separation is necessary because, as discussed in chapter 2, the welfare municipalities in each country are embedded in different welfare state regime types, implying that they belong to significantly different environments for



local social policy. In sections 5.2 and 5.3, the patterns of the welfare municipality change over time are illustrated by descriptive analysis at the both national and local levels. The chapter then presents some empirical results conducted by correlation analysis. At the national level, correlation coefficients are understood as indicators showing the temporal relationships among casual variables; while the results from correlation analysis at the local level will be considered evidence of geographic configurations of causal variables. Meanwhile, the rest of the hypotheses are examined by a cross-sectional OLS regression model. As discussed in chapter 4, this dissertation analyzes municipal differences in “levels” of social spending by aiming at understanding “long-term changes” in welfare municipalities.

## **5.2 The Danish welfare municipality change**

### **5.2.1 The Danish welfare municipality and its surroundings in change: descriptive analysis**

#### 5.2.1.1 National-level description

Even in 1980, the Danish social care spending at the national level reached almost 5.5 percent of the GDP and in 2003 was 7 percent of the GDP (see table 5-1 and figure 5-1). For some years between 1982 and 1986 and between 1997 and 2000, the spending level dropped slightly by around 0.5 percent. Nonetheless, an overall pattern of increase (i.e., 1.5 percent of GDP) in social care spending is apparent during this period. It is clear, therefore, that despite welfare state retrenchment in many other advanced industrial countries there was no backlash in the supply of public care services in Denmark (Sipilä et al. 1997). This “miracle” has been noticeably observed in the Scandinavian countries characterized by the universal provision of social services (Esping-Andersen 1996; Huber and Stephens 2000) as well as the large role of municipalities in financing and delivering these service provisions (Kröger 1997a; Sipilä 1997). Figure 5-1 confirms that the retrenchment has been hardly the case at least in the social care provision that is greatly associated with municipal social policy.

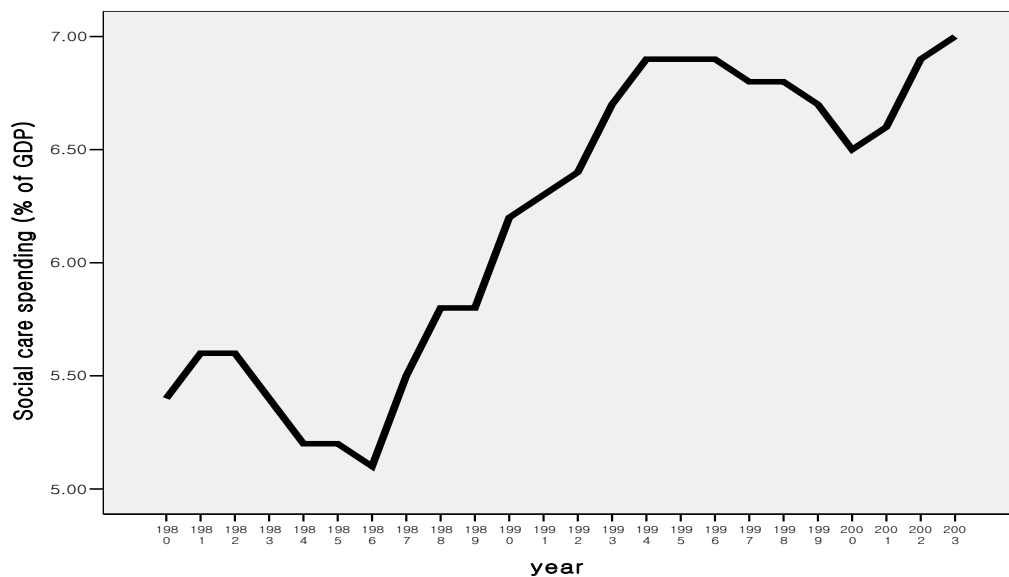
On the other hand, these figures support the argument that welfare state development differs from program to program (Kaufman and Segura-Ubiergo 2001; Pierson 1994). If different social spending in different social programs is compared, the implication of such an expansion of social care services appears to be quite obvious. According to the OECD (2004), for example, Danish aggregate social spending declined by 0.1 percent of the GDP during the period 1980-2000. It is implied therefore that some social programs were curtailed while others, including social care services, were expanded. More precisely, the OECD presents that social spending on incapability-related benefit, health insurance, and unemployment benefits has declined by 1.3 percent, 1.1 percent, and 1.9 percent, respectively, as a percentage of the GDP for the two decades (OECD 2004). Therefore, it is essential not to assume that more or less the same factors determine the development of or change in each individual social policy or program.

*Table 5-1 Social care spending and related variables in Denmark, 1980-2003*

	Mean	S.D.	Minimum	Maximum	N
Social Care Spending	6.18	.66	5.10	7.00	24
GDP	20069.35	6485.58	9865.10	30683.60	24
Unemployment Rates	8.65	2.17	5.20	12.40	24
The Elderly Dependency Ratio	14.43	.37	13.34	14.65	24
FLPR	75.64	1.99	71.75	78.99	23
Trade Union Density	76.89	2.00	73.83	80.77	22
Service Sector Dependence	69.35	3.01	63.94	74.21	24
Central Government Tax Burden	66.48	2.55	61.44	70.96	24
Local Government Tax Burden	31.44	2.05	27.40	35.66	24

*Sources:* OECD (2007) for *social care spending*; Statistics Denmark (2007); OECD (2003) for *the rest*.

Figure 5-1 Social care spending in Denmark, 1980-2003



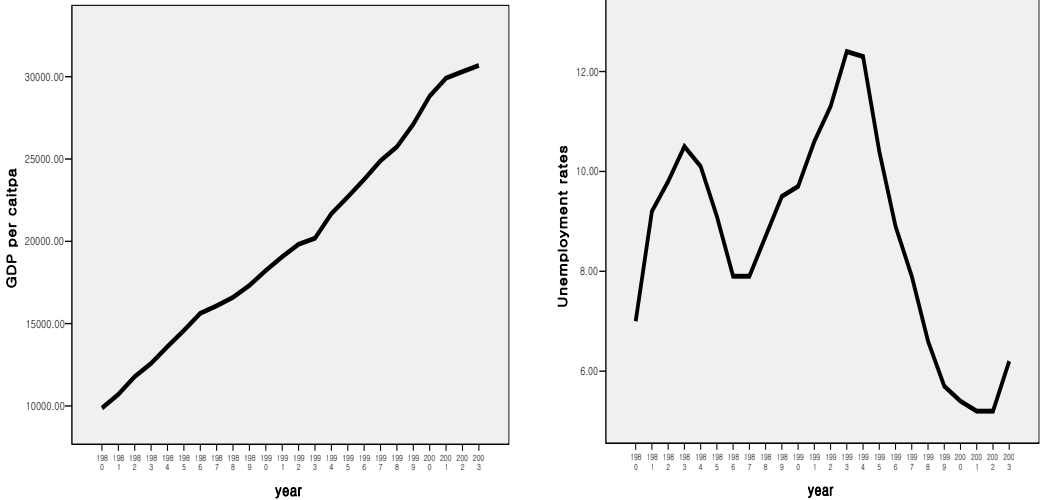
Source: OECD (2007)

From a national perspective, the overall increase in aggregate social care spending is well explained by the steady economic growth in Denmark. The Danish economy has grown by more than three times from 1980 to 2003, as seen in figure 5-2. Of course, it does not necessarily mean that every municipality experienced more or less the same level of economic development and boosted its social care services. Indeed, equal distribution of economic growth has been hardly the case in Denmark and that was always the major reason for local government reforms in 1970 and 2007 (Bruun and Skovsgaard 1980). From a cross-national perspective, one could, however, argue that the Danish welfare municipalities in social care provision have been hardly under much fiscal austerity, which was often the case in other European countries, notably the United Kingdom (Pierson 1994) and the Netherlands (Green-Pedersen 2001) during the period.

On the other hand, unemployment rates in Denmark continuously decreased from 12.4 percent in 1993 to 6.2 percent in 2003 (see figure 5-2). Because of this change, Denmark has been frequently referred to as a country where an employment “miracle” has taken place (Madsen 1999: 1). Such high unemployment rates benefit largely from the center-right government’s economic reforms starting from 1982 correcting accumulated economic imbalances, mainly inflation. It hence lowered hourly wages in

the manufacturing sectors and increased the share of employed persons in the adult population (Madsen 1999: 1). However, before 1993 unemployment rates seem to be higher. More precisely, unemployment rates radically increased since the first oil crisis reached Denmark in 1974. Furthermore, when the unemployment rates rose after 1974 the Danish welfare state was fully developed, and accordingly, a number of arrangements were introduced to diminish the unemployment (Kærgård 2006: 5). This might be why one can see radical expansions of both unemployment rates and social care spending in the early 1980s and 1990s. In addition, the trend of a decline in social care spending is highly matched by the pattern of unemployment rates after the mid-1990s and until the early 2000s. Overall, the changes in the Danish social care spending are adequately explained when the trend of economic growth is overlapped with the trend of the unemployment rate. More specifically, economic growth nicely accounts for the overall trend of social care spending, whereas unemployment rates better explain strong temporal fluctuations or turning points in social care spending.

Figure 5-2 GDP per capita and unemployment rates in Denmark, 1980-2003



Source: OECD (2003)

Table 5-1 as well as figure 5-3 offers some important information about the socio-demographic characteristics of the Danish society. Obviously, the proportion of the elderly population (i.e., 14.4 percent of the total population) and the female labor force participation (i.e., 75.6 percent of the total female labor force) in Denmark appear to be very high, particularly compared with other industrial countries. Although these socio-demographics increased in recent years, as seen figure 5-3, the aging population

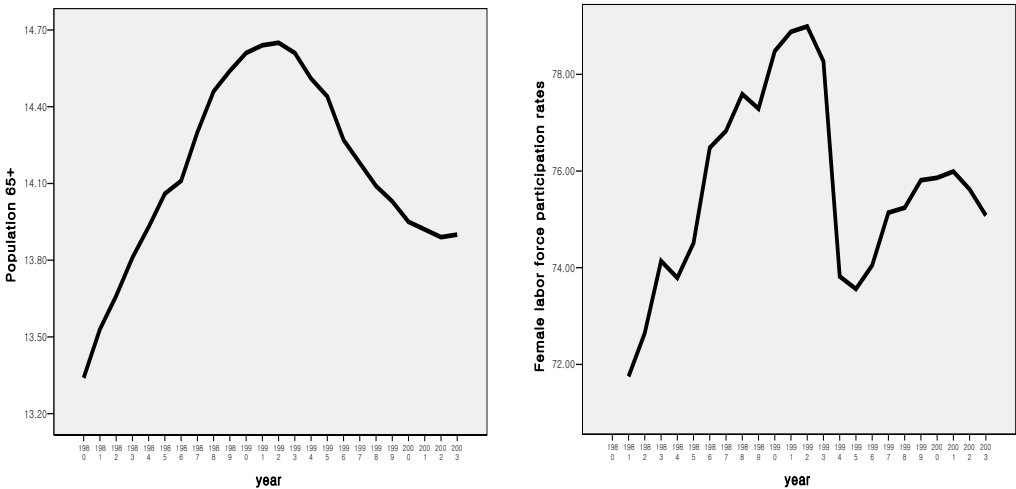
and female labor force participation clearly had much influence on the public social services in the 1960s and 1970s. During those years in Denmark, the increase in the female labor force participation was understood as ‘the feminization of the state.’ But since state employment was still dominated by men, it was rather a ‘feminization of the municipalities’ (i.e., 71 percent of local government employees in 1981 were women) or the ‘municipalization of women’ (Tonboe 1991: 39). Almost half of all women in the labor force are employed by the public sector, and the vast majority of work for local or regional authorities. Many of the rest (in the state and private sectors) depend heavily on municipal services provided by their ‘sisters,’ such as child care and care of the sick and elderly (Tonboe 1991: 39).

In the 1980s, these growth rates were rather modest, and in the 1990s they have been nearly constant (Boje 1996: 347). They seem to have reached their maximum. Any radical change can be hardly made with regard to the elderly population growth. Only large-scale economic turbulences and welfare state reforms can affect the FLPR. What needs special attention here is the covariant patterns between these two indicators over time; the elderly population rapidly increased hand in hand with the FLPR. This indicates that socio-demographic pressure on social care services and welfare municipalities is inclined to be maximized by the interaction of the aging population and the increase in the FLPR that grows coincidentally.

Indeed, a number of scholars have argued that there is a close relationship between the FLPR and social care spending. It has been contended that working women make demands of the state for better health, education, and welfare services to reconcile between paid and unpaid work, on the one hand, and for increasing jobs in these fields as women fill these jobs disproportionately, on the other, regardless of the institutional and political context (Esping-Andersen et al. 2002; Huber and Stephens 2000; Taylor-Gooby 2004). However, it should be noted that since 1993 the FLPR has fluctuated and therefore became inconsistent with the pattern of social care spending in Denmark. At this point, one might consider the FLPR as an insignificant force of changes in social care spending. It is clearly seen that the divergence between the elderly population ratio and social care spending has become greater since the mid-1990s; the former therefore appears not to be a significant determinant of the latter.

Nevertheless, one must acknowledge that some short-term fluctuations in these socio-demographic factors do not result in an immediate change in social care spending (Siegel 2007: 58). It is rather a long-term change (i.e., levels) that determines the change in the spending. Of course, such a change in the spending influenced by the socio-demographic changes is projected for a long period of time, rather than for a few years. In this regard, one should take into account the levels, not the short-term change, of the Danish aging population and the female labor force participation as the determinant of social care spending.

Figure 5-3 Populations 65+ (1980-2003) and FLPR (1981-2003) in Denmark



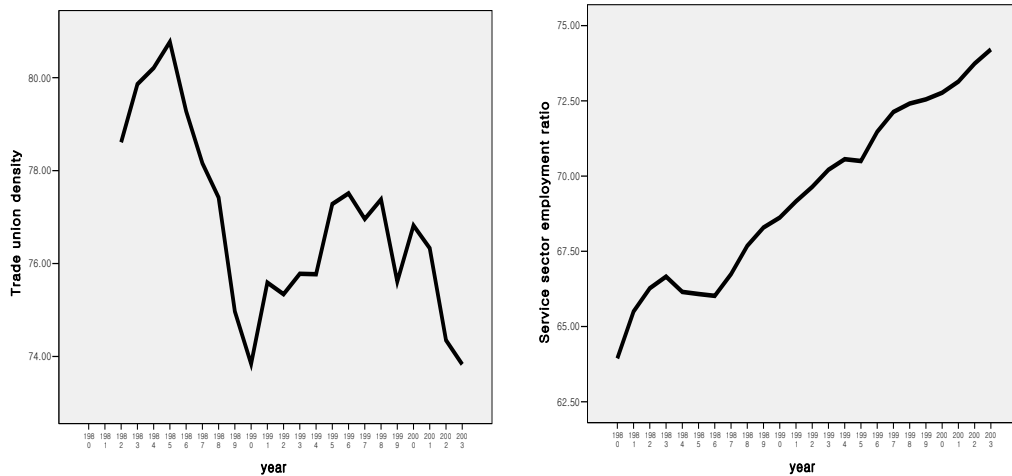
Source: OECD (2003)

In table 5-1 and figure 5-4, the changes in trade union density and the service sector employment ratio have been explored. Here, the former refers to the strength of old politics, focusing on class conflicts, and the latter indicates the power of new politics such as consumer politics. As seen in table 5-1, the trade union density appears evidently stronger (i.e., 76.89 percent) than other advanced industrial economies. However, the density has recently experienced a considerable decline. Accordingly, its change has taken a trajectory largely different from that of social care spending as well as that of the service sector employment ratio. Given that trade union density refers to the political power pertaining to the Left and labor groups, figure 5-4 shows that the political mobility based on the Left and labor organizations became reduced over the past two decades. In theory, this change is related with the shifting structure of employment—from manufacturing to the service sector—which is known as a place

where generally employees face difficulties in becoming politically unionized (Clayton and Pontusson 1998).

Conversely, the significantly increasing service sector employment implies that consumerism and the managerial politics originated from the private service sector have played an important role in Danish welfare municipalities (see figure 5-4). One of the best examples of these politics is the “Modernization programme for the public sector,” launched by the Conservative-Liberal government in November 1983. The programme consisted of five main elements: budget reform, marketization, management and human resource management, deregulation and more customer-orientation, and e-government. In 1992, the program presented a report called “Choice of Welfare,” which outlined a “citizen-governed competition of management competence.” This report was clearly inspired by the public choice/rational choice jargon of economists and clearly modeled on the marketization-stream of the NPM-agenda. One could understand “deregulation and more customer-orientation” as parts of the government’s anti-bureaucratic rhetoric at the time (Ejersbo and Greve 2005: 3). The idea of customer-orientation was also in line with the “service ethos” at the time, which was heavily inspired by developments in the private sector (Ejersbo and Greve 2005: 2). Given the growing consumer-orientation in Denmark, political interests and power have considerably shifted from the labor group to the consumer group of public services.

Figure 5-4 Trade union density (1982-2003) and service sector employment ratio (1980-2003) in Denmark



Source: OECD (2003)

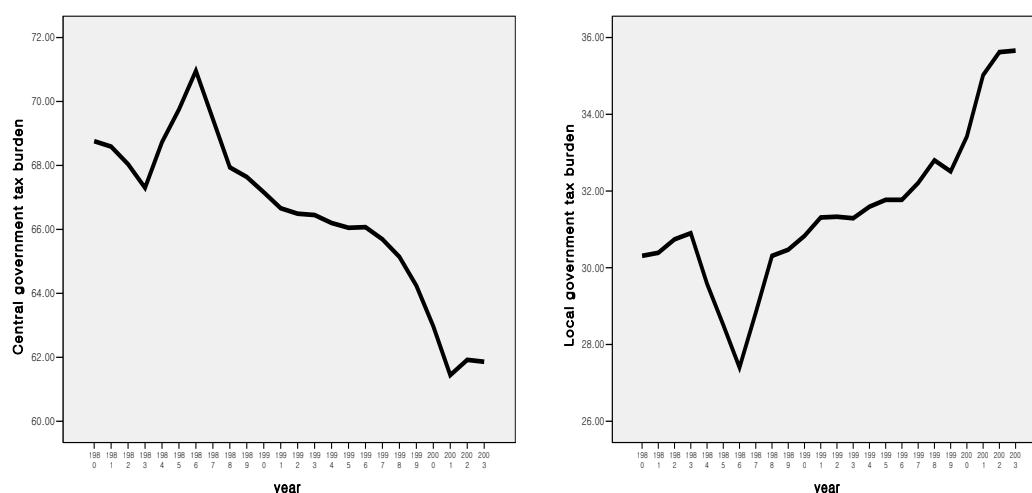
Finally, table 5-1 showed that both the central and local government tax burden in terms of the proportion of the total municipal revenue in Denmark. At first glance, the proportion of the central government tax (i.e., 66.48 percent, on average) appears to be evidently higher than that of the local one (i.e., 31.44 percent, on average). But it is also true that the Danish municipalities play a considerably larger role in financing social care services in comparison to other advanced industrial countries, notably except for the other Nordic countries (Sipilä 1997). More specifically, figure 5-5 helps us to understand the relationship between the central and local governments in terms of the tax revenue ratio. No surprising, a negative relationship appears between the central and the local government tax revenue. What is important to note is the growing share of municipal tax revenue in Denmark. In January 1993, a Social Democratic government came to power and mostly concentrated on kick-starting the economy again and implementing an ambitious job plan (Ejersbo and Greve 2005: 4). The Ministry of Finance kept experimenting with how to decentralize management responsibility to public managers in different public organizations. The preferred tool in the 1990s was performance-based contracting. The new system meant that each agency had to sign a performance contract with the agency's government department. The contract period is as normally three to four years.

Of course, one cannot say that this fiscal devolution is only a passive reflection of the intention of the central government that aims at reducing its fiscal burdens. Apart from



this vertical dimension of IGR, there are some municipal authorities that themselves actively increase to a large extent their role through the horizontal dimension of the IGR. In fact, ‘the Danish local authorities have a long tradition of mutual cooperation, which improves the local authority solution of tasks and the possibility of having a high-performing operation of institutions (e.g., exchange of knowledge and experience, joint use of equipment and personnel, development of local government co-operatives and joint operation of technical plants and institutions)’ (Local Government Denmark 1999: 10). To sum up, the overall opposite trends of the central and local tax burden seen from figure 5-5 suggest that the expansion of social care services over the last two decades in Denmark can be better explained by the increased role of municipal authorities, not the national government.

Figure 5-5 Central government and local government tax revenue in Denmark, 1980-2003



Source: Statistics Denmark (2007)

To sum up, for the last two decades social care spending in Denmark has faced both political and institutional changes. The center of politics seems to have gradually shifted from the ideology groups to interest groups. At the local level, institutions such as municipal authorities have continually replaced the responsibility of those institutions, such as the national government. In contrast to these political and institutional features, there appears to be no clear-cut shift in the economic field. Denmark has hardly been in an economic crisis; rather, the country has seen continuous economic growth for the period. Nonetheless, the unemployment rate was neither low nor stable over time until the mid-1990s, just as other advanced industries.

This disentanglement between the economic growth and unemployment rates suggests that unemployment can increase with economic growth in the post-industrial society. Because of the technological development and declining value and competition of the manufacturing sector in the post-industrial era, a large-scale labor force is no longer needed (Taylor-Gooby 2004: 2).

From an empirical perspective, it is very interesting to see that the overall trend and small fluctuations in the social care spending level are better understood when both the economic growth and unemployment rate are simultaneously taken into account. It can be thus confirmed that contemporary changes in welfare municipalities are made by both economic affluence and unemployment, both of which represent the old and new socio-economic environments for social policy development in much of the welfare state literature.

Lastly, socio-demographic pressures in Denmark were slightly reduced after the early 1990s and onward. However, they are still considerably higher than in other countries, except for neighboring Nordic countries. Nevertheless, since both the old and new pressure decreased together after the mid-1990s, the following might be an interesting question: Which causal determinants replaced the role of socio-demographic pressure on the social care service development and welfare municipalities after the mid-1990s? Until now, the nominated casual factors are economic growth, increasing service-sector power or local governments, and the path dependence effect of social policy in Denmark.

Overall, all the findings in this subsection are obviously hardly new from those presented by the literature focusing on social care provision at the national level (social care services); hence, welfare municipalities have expanded even the period of fiscal austerity. The expansion of social care services appears to be influenced not only the demographic burdens but also new social risks such as growing unemployment and the FLPR. Political interests that sustain or expand the provision of social care services have shifted over time: from class politics based on a strong manufacturing sector in the post-war era to consumer politics based on expanding service industries. The role of municipalities has been more extended in the provision of social care services with fiscal decentralization from the national to the local governments. Nevertheless, given

the emphasis on welfare geography, it must be interesting to examine whether those structural changes presented in the comparative cross-national studies of social care services happen to the individual municipalities and influence the welfare municipality change.

#### 5.2.1.2 Local-level description

Table 5-2 offers key information about the dynamics of local social spending and important settings for local social policy development. First of all, it is noticeable that the Danish welfare municipalities are highly matured. For the period 1995-2004, the Danish municipal authorities spent 47.4 percent of total local expenditure, on average, on local social programs. However, a greater gap in terms of social spending appeared across municipalities (with a minimum of 26.6 percentage points and a maximum of 60.1 percentage points throughout the whole period, see figure 5-6). Focusing on the striking geographic variations in local social spending, one could claim the existence of residual welfare municipalities in the institutional welfare state regime (Hanssen 1997; Szebehely 1998).

Undoubtedly, the matured level of local social spending always leads to an “incremental” or “growth to limit” increase in its level. Figure 5-6 shows that the average change in local social spending in Denmark from 1995 to 2004 was just 3.6 percentage points (i.e., 45.39 in 1995 and 48.97 percent in 2004). This means that an increase of only 3.6 percent has been made out of total 47.6 percentage points. This confirms Tonboe’s argument (1991) that the expansion of welfare municipalities took place mainly in the 1970s.

Albeit some differences between 1995 and 1998, the overall pattern of local social spending is largely consistent with the social care spending at the national level seen in figure 5-1. In particular, the considerable spending cutbacks are presented in 2000 and 2001 with aggregate social care spending at the national level and municipal social spending at the local level (see figures 5-1 and 5-6); thus, it can be agreed that municipal social spending represents, to a large extent, social care spending. Furthermore, the rest of differences between the local- and national-level spending might be explained by distinguishing between the nature of aggregate data and that of

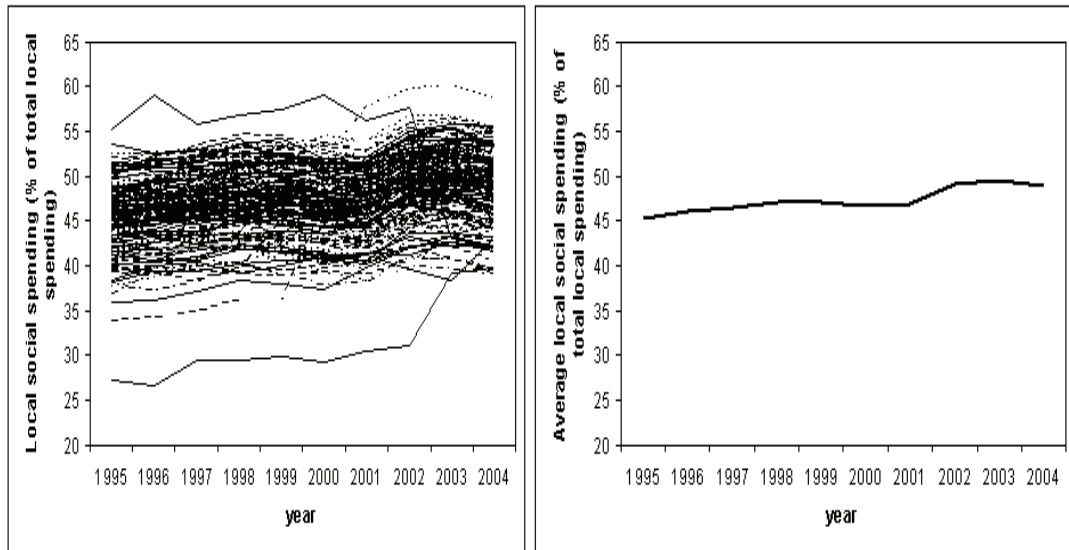
disaggregate or the average of disaggregate data. The point is that the former is inclined to represent the situation of large municipalities with large populations and the latter tends to represent large and small municipalities equally. In other words, if some big municipalities increase their social care spending to a large extent the change is clearly indicated by the national-level aggregate level, but not much represented by the disaggregate municipal level. In this view, one can argue that much of the cross-national studies are likely to address the social care service issue in big cities exclusively.

*Table 5-2* Descriptive analysis: local social spending of individual municipalities and related forces, Denmark 1995-2004

	Denmark(N= 1,674)			
	Mean	S.D.	Minimum	Maximum
Local social spending	47.39	4.10	26.59	60.06
Population	19992.24	39943.76	2955.00	501664.00
Local budget	30.88	6.35	17.94	63.26
The elderly dependency ratio	15.51	3.67	4.36	37.09
Left-wing party strength	36.14	13.04	5.88	71.43
Central government aid	15.08	3.01	7.43	27.76
Local income tax rates	31.89	1.65	23.5	35.6
FLPR	69.07	5.50	51.15	83.06
Unemployment rates	5.44	2.58	1.53	17.85
Female political power	27.95	9.88	4.76	60.00
Competitive spatial dependence	47.36	2.18	40.42	52.20
Co-operative spatial dependence	.36	.95	-2.89	3.03

*Source:* Statistics Denmark (1995-2004)

Figure 5-6 Local social spending in Denmark, 1995-2004



Sources: Statistics Denmark (1995-2004)

In table 5-2, population size is used as an alternative indicator of measuring the size of the local economy, as planned in chapter 4. Municipal populations tremendously vary across municipalities from 3,000 to 500,000. Thus if the population is considered an economic resource, one could argue that there is an extreme difference in the municipal authorities' own fiscal capacity for implementing social care programs in Denmark. Besides, although not radical, it is impressive to see that the average local population has continually increased, whereas in other European countries decreases are often the case. This may partly reflect the continuous development of the Danish economy, as seen in figure 5-2, and the most advanced child care systems that relieve the care burden on the family, particularly on housewives. As a result, female fertility rates in Denmark are considerably higher than any other advanced countries (Huber and Stephens 2000; Sipilä 1997; Taylor-Gooby 2004).

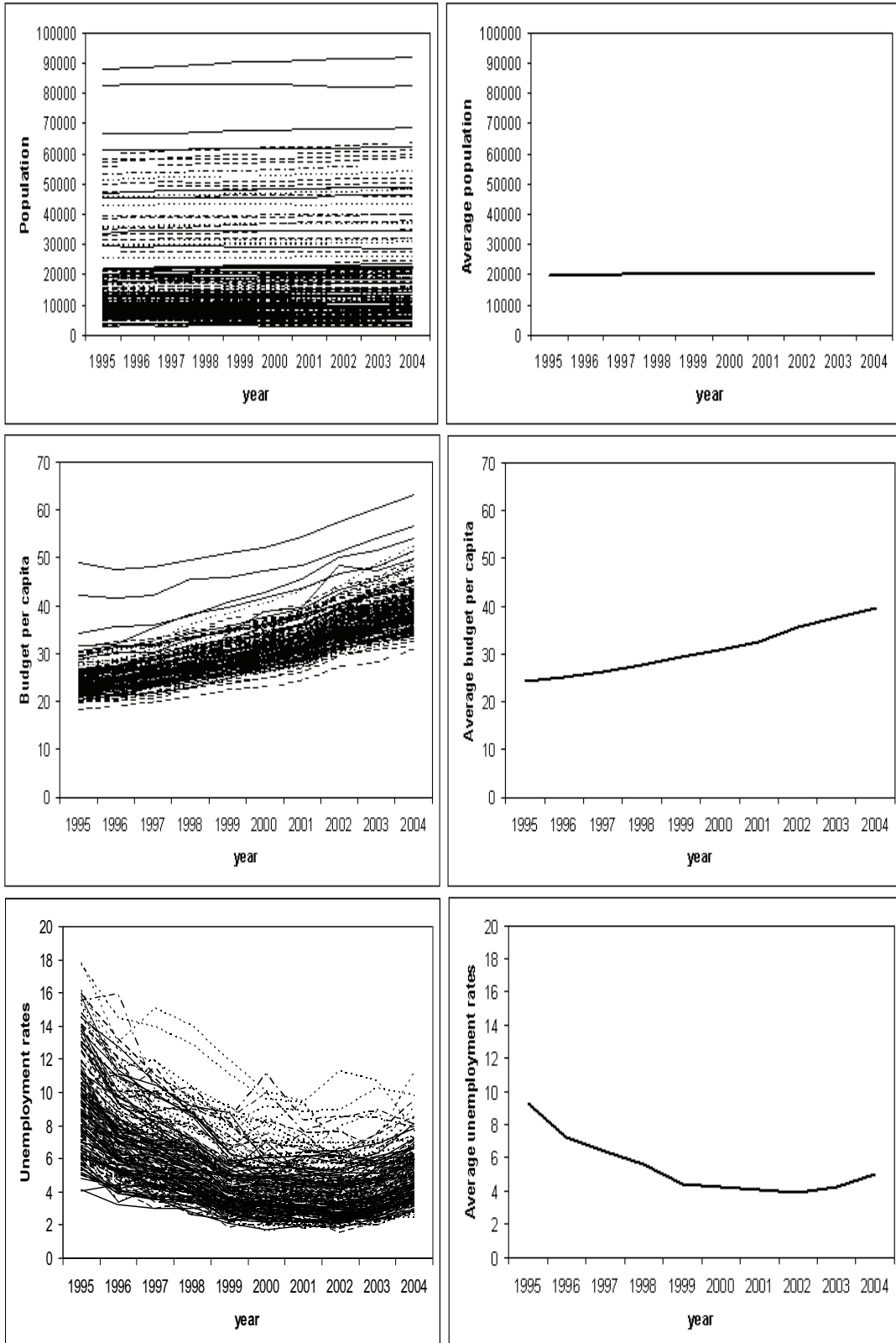
On the other hand, the local budget per capita on average was increased from 24.2 thousand DKK in 1995 to 39.6 thousand DKK in 2004. Thus, one can say that the economic scale of individual municipalities rose continuously. But one must pay attention to the variation in levels of municipal budget per capita; it started from 17.9 thousand DKK, as the minimum, to 63.3 thousand DKK, as the maximum. Such geographic budget polarization in Denmark has been always one of the most controversial issues in the country because the Danish welfare state model has been

always considered “very coherent and uniform, consisting of universal and egalitarian modes of welfare provision” (Kröger 1997a: 486). This issue was well demonstrated almost three decades ago by two Danish scholars as follows:

The cities were surrounded by independent taxing municipalities whose inhabitants benefited from services provided by cities without paying for them. The economic and administrative resources in the rural parishes were intolerably meager. These shortcomings were especially obvious in education and social services, the very responsibilities which served as the foundation for the system of government, but which had changed radically with the growth of the industrialized welfare state. (Bruun and Skovsgaard 1980: 229)

Meanwhile, the local variation in unemployment is rather extreme again; it varies from 1.5 to 17.9 percent. Despite the extreme variation across municipalities, the unemployment rate during the period was 5.4 percent on average. This low Danish unemployment rate at the local level indicates a positive economic performance in Denmark at the local level in general. Theoretically, there is no doubt that the low and declining unemployment itself cannot be the factor increasing the municipal social spending (Bonoli 2005; Esping-Andersen et al. 2002; Pierson 2001; Taylor-Gooby 2004). But, empirically, a negative relationship nonetheless appears between these factors over time, as seen in figures 5-6 and 5-7.

Figure 5-7 Local population, budget, and unemployment in Denmark, 1995-2004



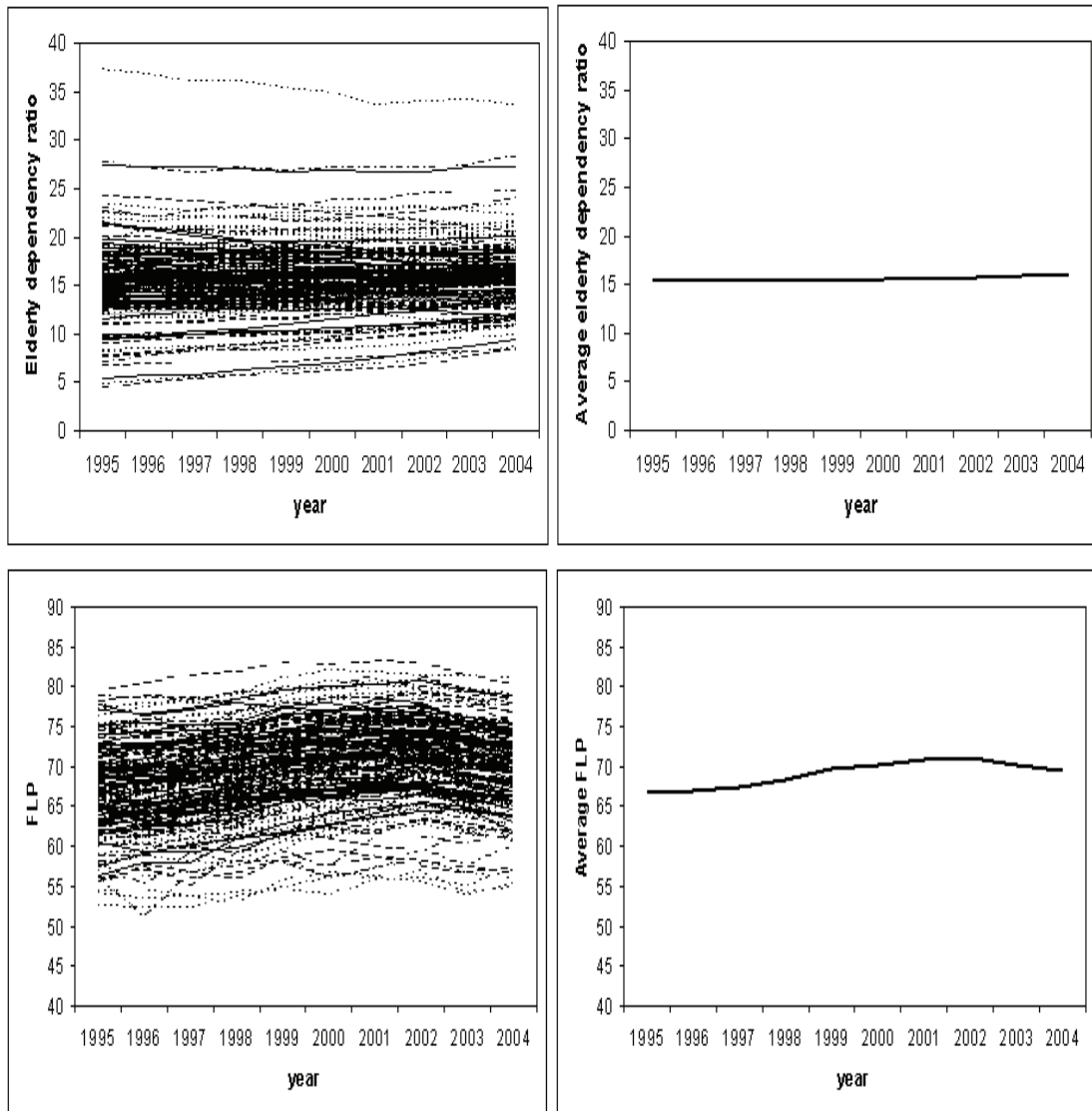
Source: Statistics Denmark (1995-2004)

The percentage of the elderly population of the Danish municipalities is 15.5 percent on average, which is quite high compared to the cases such as Korea (e.g., 10.3 percent, see table 5-6). Again, this demographic burden varies significantly from municipality to municipality: it ranges from 4.4 to 37.1 percent for the period. With regard to the municipality whose elderly population dependence is only 4.4 or similar, one can argue that the demographic burden is not at all an urgent issue for solution. This might be why one should investigate social care service development not only with the national average but also with the local specific information. Nonetheless, a gradual convergence has emerged over recent years among the municipalities, those especially having either extremely large or extremely small demographic burdens, as seen in figure 5-8.

Meanwhile, the high FLPR is the major characteristic of Denmark. In the Scandinavian countries, due to the generous social care provision provided, female workers have been better conditioned for the reconciliation between paid work and family responsibilities (Huber and Stephens 2000; Szebehely 1998; Taylor-Gooby 2004). The FLPR across municipalities is 69.1 percent, on average, and little geographic variation in FLPR appears among municipalities (i.e., 51.2 percent to 83.1 percent). Despite its high level, the comparably small variation the FLPR implies that the informal care work provided by female family members has no decisive impact on the changes in local social spending level during the period 1995-2004.



Figure 5-8 Local elderly population ratios and FLP in Denmark, 1995-2004

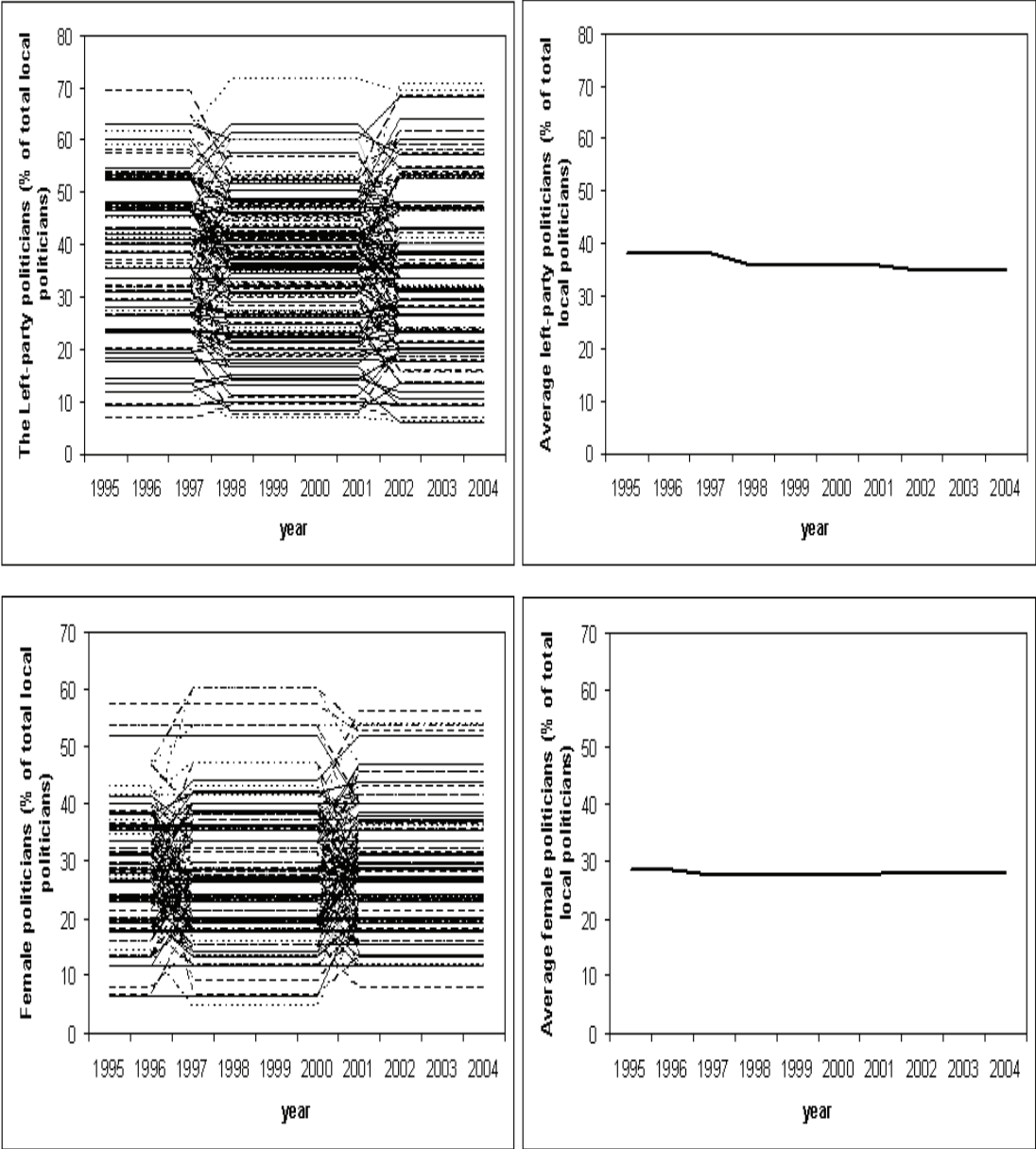


Source: Statistics Denmark (1995-2004)

The local variations in the left-wing party politician and female politician ratio are as remarkable as the other variables previously shown. As seen in table 5-2, the average ratio of the former is 36.1 and that of the latter is 28.0 percent of the total number of politicians in local councils. The former varies from 17.9 to 63.3 and the latter from 4.8 to 60.0 percent. These indicate that even if Denmark is characterized by the Social Democratic country and gender equalities, the left-wing party's as well as women's political power are influential only for some, not the all, municipalities. In addition, as seen in figure 5-9, the left-wing party's and female politicians' powers have slightly decreased. In these regards, one could argue that the overall increase in disaggregate

local social spending might not be appropriately understood by these old “class-based” and the new “consumer-oriented” politics.

Figure 5-9 The left-wing party politician ratio and female politician ratio at the municipal level in Denmark, 1995-2004

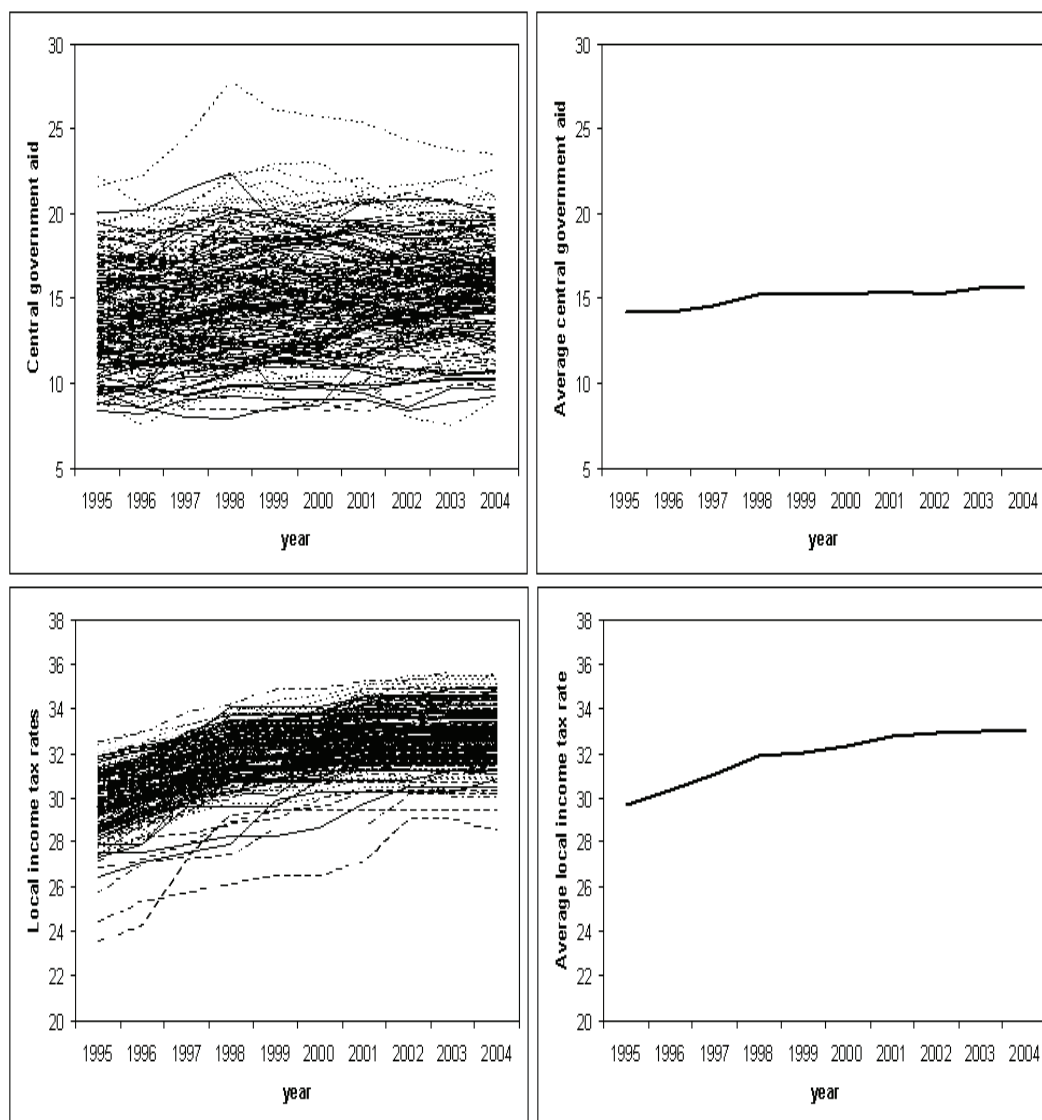


Source: Statistics Denmark (1995-2004)

Unlike the overall decrease in the central government tax burden, as seen in figure 5-10, the average financial aid from the central government to the municipalities slightly increased. If both the central government tax burden and the central government aid function with almost the same resources, the increase in the central government aid in

figure 5-10 would become a puzzle. One possible explanation is that the central government concentrated its financial aid on the municipalities that are far more economically vulnerable than others. In fact, this argument is very persuasive by looking at the different extent of the central aid across municipalities. In one municipality, for instance, only 7.4 percent of the local budget is met by the central aid, while in another 27.8 percent are appropriated by the central government financial resources. This does not mean that the actual amount of the central aid to the latter is larger than that to the former. Actually, it is the other way around. The level of the central aid easily increases when the same amount of the central aid is given to an economically vulnerable municipality with a small budget and little resources, rather than a rich municipality with a large budget and large resources. The increasing financial autonomy of municipalities is well depicted in figure 5-10 as well. The average local income tax rates slightly increased from 29.7 to 33.0 percent for the 10 years.

Figure 5-10 The central government aid and local income tax rates in Denmark, 1995-2004

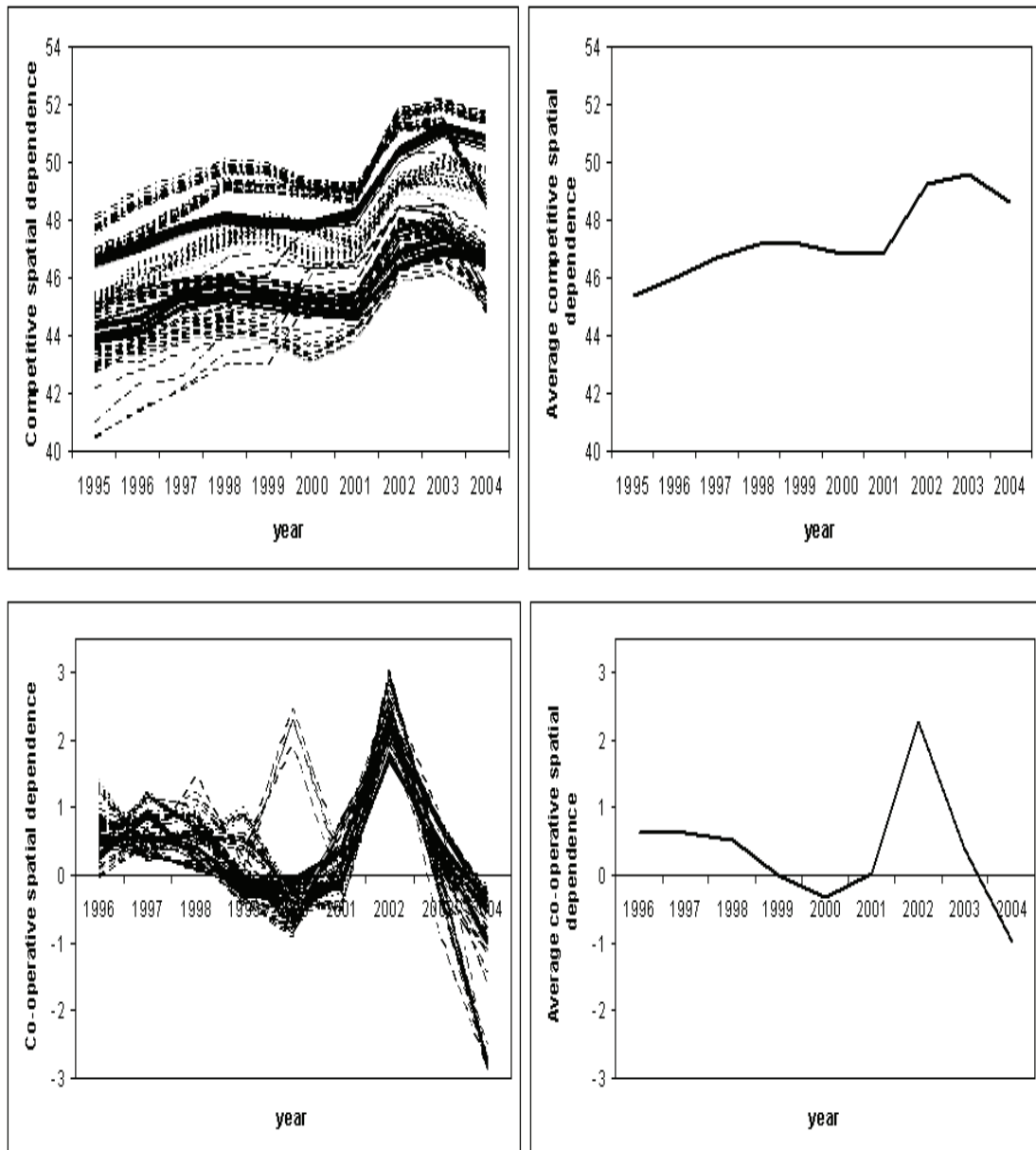


Source: Statistics Denmark (1995-2004)

Figure 5-11 shows the average level and change (i.e., level-difference) of local social spending among neighboring municipalities in the same jurisdictions. The feature of the former and the latter largely reflect the levels and changes in social spending among Danish municipalities, seen in figure 5-6. As expected theoretically, the 'levels' of local social spending are clearly clustered into a handful of groups. This regional convergence may mean two things: first, the regional governments in Denmark play an important role in initiating their own social programs and strengthening regional co-operation among their municipalities; second, there is welfare competition among municipalities within the same regional jurisdictions. Similar patterns of regional convergence in Denmark has been recently confirmed by

Christoffersen and Paldam (2003). What they have found was that municipalities learn from each other about market-oriented reform in municipal services. It is argued that “politically it is much easier to make a reform if neighbors have made it already” (Christoffersen and Paldam 2003: 86).

Figure 5-11 The competitive spatial dependence and co-operative spatial dependence in Denmark, 1995-2004



Source: Statistics Denmark (1995-2004)

## **5.2.2 Welfare paradigm shifts and welfare geography: correlation analysis**

### 5.2.2.1 National-level analysis: welfare paradigm shifts

Table 5-2 presents the results of the Pearson correlation test not only between the dependent variable and each independent variable but also between independent variables. The former relationship mainly refers to the causal mechanism of social care service and welfare municipality change, while the latter shows how paradigm shifts were made in social care and municipal welfare services.

Regarding the aspects of the causal mechanism, the table clearly indicates that the level of social care spending had strong positive correlations with the GDP per capita, the service sector growth, and the local government tax burden for the period 1980-2003. At the same time, it shows that the level of social care spending had strong negative correlations with union density and central government tax revenue. Apart from the positive effect of economic development, the growing influence of the service sector and local government versus the weakening power of the manufacturing sector and the central government on the Danish social care spending are in accordance with the existing debate on paradigm shifts in social care services for the last two or three decades. These have been already well depicted in figures 5-2, 5-3, 5-4, and 5-5. Of course, it does not mean that the influence of the service sector and the local government on social care spending became continuously stronger and never weakened over time again. Indeed, the influence did decrease in the short-term but did not in the long term. For example, the service sector employment and local government tax burden in 2000 hardly declined as low as those in the 1980s. The same holds true for the manufacturing sector and the central government tax burden; they did not increase in the long run (see the aforementioned figures). Remember that the paradigm shifts in this dissertation and elsewhere (Huber and Stephens 2000; Huber and Stephens 2001) are more concerned with the long-term change than with the short-term one.

With respect to the issue, correlation coefficients among independent variables of this analysis indicate how the paradigm shift in welfare municipality occurs (see table 5-3). As indicated with correlation coefficients, there are some negative correlations

between union density and service sector employment ( $r = -.657$ ) and between the central and local government burden ( $r = -.981$ ). It is thus argued that during the period some old/national forces competed with those of the new/local ones, particularly in the area of politics and institutions. The negative correlation ( $r = -.532$ ) between the GDP and unemployment rates is theoretically compelling. The positive correlation ( $r = .728$ ) between the demographic pressure and the FLPR is also theoretically convincing. In brief, every indicator shares a clear-cut relationship with another, indicating the paradigm shift in welfare municipalities over the last few decades in Denmark.

What is also interesting is that neither the increasing aging demographic pressure nor the FLPR has any statistical significance with the level of social care spending. Nevertheless, as is theoretically assumed in chapter 3, these old and new demographic challenges show a very strong positive correlation. One possible explanation regarding the issue is that even in 1980 the Danish demographic structure was already so high (i.e., 13.34 percent) and thus did not radically increase over time. The insignificant correlation between social care spending and the FLPR can be also explained in the same way. Once the FLPR reached a certain level, any further change in the FLPR does not have any important impact on social policy development (see table 5-1, the FLPR is 71.75 percent in 1980).

Based on these findings above, one can arrive at the conclusion: the shift or interaction among the old/national and new/local causal forces matters. Overall, significant correlation coefficients are found in all the causal aspects of welfare municipalities during the period 1980-2000. Nevertheless, such a shift or interaction between different causal forces did not occur to the same extent in each field of our society; thus, these different strengths should be distinguished. According to the correlation coefficients, a radical shift took place in the institutional area ( $r = -.981$ ). The second strongest one occurred in the socio-demographic area ( $r = .728$ ). The third and fourth took place in the political ( $r = -.657$ ) and economic areas ( $r = -.532$ ), respectively. These empirical findings of strong correlations shed light on the importance of examining relationships among the old and new, and the national and local forces simultaneously. Therefore, when local comparisons are made in the next chapter, these aspects must be reflected in the interpretation of the empirical results at the local level.

Table 5-3 Welfare paradigm shift in Denmark, 1980-2003

	Social Care Spending	GDP	Unemployment	Elderly Dependence	Female Labor Participation	Union Density	Service Sector Dependence	Central Government Tax Burden	Local Government Tax Burden
Social Care Spending	1								
GDP	.852**	1							
Unemployment	-.164	-.532**	1						
Elderly Dependence	.331	.183	.516**	1					
Female Labor Participation	.099	.158	.062	.728**	1				
Union Density	-.704**	-.609**	.145	-.408	-.496*	1			
Service Sector Dependence	.912**	.982**	-.423*	.226	.134	-.657**	1		
Central Government Tax Burden	-.808**	-.901**	.518**	.038	-.042	.621**	-.913**	1	
Local Government Tax Burden	.795**	.840**	-.499*	-.116	-.027	-.629**	.865**	-.981**	1

Sources: OECD (2007) for social care spending; Statistics Denmark (2007); OECD (2003) for the rest.  
 \*\* = p < 0.01, \* = p < 0.05



#### 5.2.2.2 Local-level analysis: welfare geography

In this section, local social spending is analyzed at the disaggregated level. Table 5-4 explains “where” the level of social spending is higher than others, as well as in which way various causal forces of local social policy are geographically combined in Denmark.

First of all, the result of the correlation analysis presents a weak and insignificant correlation coefficient between the level and the level-change of local social spending over time ( $r = -.040$ ). This means that there was no convergence in levels of local social spending across municipalities over the 10 years. It can be further implied that no radical changes happened to the municipalities whose positions are low in terms of social spending since even the relatively lower level of social spending is still absolutely sufficient for the social service demand from local citizens. This can be considered to be a characteristic of the welfare municipality in the country of institutional welfare state.

Second, it is suggested that the higher the local social spending the larger the budget per capita ( $r = .330$ ) and the greater the elderly population ( $r = .387$ ). These support the logic of the industrialism thesis, which emphasizes the increasing capacity of providing public service and growing needs of social welfare since industrialization. Furthermore, it shows also that where the greater the local social spending level and larger the left-wing party power ( $r = .230$ ), the greater the central financial aid ( $r = .556$ ), the higher the local income tax rate ( $r = .492$ ), and the higher the local social spending level in the previous year ( $r = .940$ ). All in all, these can be considered critical evidence showing the significant role of economic development, class-based politics, and the institutional power of local governments on local social policies in Denmark. However, it should be remarked that at the local level, in contrast to the aggregate level finding, high levels of central aid are strongly related to the high local income tax rate ( $r = .448$ ). This positive relation of the central-local government role has been argued by Alber (1995). He claims that due to the fragile fanatical basis of many municipalities compared to some wealth municipalities and national government, the role of central aid is important in financing local social services together with financial efforts of local governments.

Third, some geographic configuration of socio-demographic conditions appears to be very important for understanding the welfare municipality change in Denmark. The analysis presents a significant negative correlation coefficient between the elderly population ratio and the FLPR ( $r = -.548$ ). This is clearly the opposite of the same relation at the aggregate national level, as previously shown. Without acknowledging this geographic configuration, in fact, it is very difficult to understand the negative correlation coefficient of the FLPR with the local social spending level in Denmark. Of course, then the question arises: what leads to the negative relationship between the elderly population and the FLPR? This will be discussed in the last section in this chapter with some other theoretically contradictory findings.

Fourth, there are some important findings in the political area as well. One might be the weak but positive relationship of the unemployment rate, the size of the local population, and the local budget per capita. At the national level, one could see an overall negative relationship between the economic growth and unemployment ( $r = -.532$ ). However, this has been found not to be the case at the local level. Although the last two variables here indicate the economic growth of municipalities, the result suggests that unemployment rates are high where economic size is large and where more budgets per capita are allocated in local governments. In fact, these are not very surprising at all since, from a comparative local perspective, increasing unemployment becomes a major issue in large municipalities facing the de-industrialization problem in the labor sector. Furthermore, rising unemployment also leads municipalities to increase local budgets to lower unemployment rates. Indeed, these explanations make more sense than the simple causal assumption based on the macro welfare state theories (e.g., the logic of industrialism thesis, new social risks argument) supposing a negative relationship between the economic growth and unemployment at the local level.

Table 5-4 Welfare geography in Denmark: Pearson correlation coefficients

	Local social spending	Δ Local social spending	Population	Local budget	Unempl oymnt	Elderly depende nce	FLP	Left-party strength	Female political power	Central govern ment aid	Local income tax rate	Local social spendin g <sub>t-1</sub>	Compet itive spatial depende nce	Co-operativ e spatial depende nce
Local social spending	1													
Δ Local social spending	-0.40	1												
Population	-.096**	-.117**	1											
Local budget	.330**	-.123**	.337**	1										
Unemployment	-.063**	-.045	.198**	.063**	1									
Elderly dependence	.387**	.022	-.054*	.110**	-.094**	1								
FLP	-.424**	.002	.005	-.059*	.206**	-.548**	1							
Left-party strength	.230**	-.013	.131**	.163**	.045	.048	-.366**	1						
Female political power	.120**	.024	.054*	-.177**	-.060**	.371**	-.763**	.336**	1					
Central government aid	.556**	-.074**	.077**	.390**	-.119**	.350**	-.664**	.465**	.376**	1				
Local income tax rate	.492**	-.052*	-.041	.599**	-.156**	.228**	-.175**	.226**	-.159**	.448**	1			
Local social spending <sub>t-1</sub>	.940**	-.172**	-.095**	.316**	-.051*	.364**	-.437**	.209**	.204**	.546**	.478**	1		
Competitive spatial dependence	.151**	-.151**	.040	.403**	.040	.132**	.023	-.042	-.122**	.103**	.316**	.188**	1	
Co-operative spatial dependence	.044	.415**	.009	-.088**	.019	-.002	.013	.028	.005	-.029	-.047	-.123**	-.239**	1

Source: Statistics Denmark (1995-2004)

\*\* = p < .01, \* = p < .05

### **5.2.3 The determinants of long-term change in municipal social spending: cross-sectional OLS regression analysis**

In table 5-5, the determinants of long-term change in the Danish welfare municipal social spending are presented. Five different models are presented: The first model examines the explanatory power of causal variables from the old/national perspective. The second model investigates to what extent the causal variables from the new/national perspective account for variation in the local social spending across municipalities. The third model presents the combined results of the previous two models, hence controlling the influences from all dimensions from both perspectives. The fourth model examines the interaction effect of the old and new social risks on municipal social spending. Lastly, the fifth model provides the same combined results but excludes some independent variables in the problem of multicollinearity.

First, it is very striking to see that the long-term change in female labor force participation has a strong negative regression coefficient for long-term change in municipal social spending. In a similar vein, another striking result is the negative regression coefficient of unemployment rates for long-term change in municipal social spending. These mean that hypothesis 1 underlying the significance of welfare geography is verified. In fact, female labor force participation and unemployment rates are the most frequently referred-to indicators of new social risks in the literature of the comparative welfare state. What leads to these theoretically conflicting results? And what are the implications? As seen in table 5-4, these results are closely related to a negative combination between welfare needs and resources. For example, the female labor force participation is negatively correlated with the elderly population ratio, which is seen as having a positive impact on municipal social spending growth. Similarly, the unemployment rates are negatively associated with local income tax rates, which show partly a positive coefficient for municipal social spending (see table 5-4 and model 1 in table 5-5). Thus, it is indispensable to know how various demographic and economic factors are geographically structured. What is just clear in Denmark is that new social risks increased among municipalities in which old social risks and welfare resource have not existed much.

Second, the results show that long-term changes in municipal social spending were not positively influenced by population growth and local budget growth. It is thus confirmed that the economic affluence of municipalities, which is the supply side of social services, is less crucial for the development of the contemporary welfare municipality characterized by its institutional maturity. As will be presented with empirical evidence, although Danish local autonomy is famous, half of Danish municipalities' local revenue is financed by the central government in general.

Third, it is often argued in the literature that social policy today is not only affected by old social risks, such as the aging population, but also determined by new social risks, such as female labor force market participation growth. The results show that both the aging population and female labor force participation rates account for the long-term change in municipal social spending at a statistically significant level. Although it has been already presented in table 5-4, what is still striking is the opposite impact of these socio-demographic factors on municipal social spending: the increase in the FLPR leads to a substantial decrease in social spending levels while that in the aging population<sup>20</sup> results in an increase in social spending levels. The latter is theoretically convincing (e.g., the logic of industrialism) while the former is theoretically contradictory (e.g., new social risk approach). The result implies that for the last few decades in Denmark where the demographic structure has been older than anywhere else along with the rise in municipal social spending, the FLPR has been generally lower than anywhere else.

Underpinning the impact of the structural change in socio-demography, I have more importantly tested as to whether there has been any interactive effect between the old and new social risks. Here, the aging population is referred to as the old, and the FLPR represents the new social risks. The model 4 in table 5-5 clearly supports the perspective of a paradigm shift from the old and new social risk to account for the Danish welfare municipality change over the last few decades. It is noticeable that the  $R^2$  of model 4 appears to be more or less the same as the others in the other models, and the model presents empirical evidence that is theoretically more convincing. In this regard, it can be argued that the test of paradigm shift using an interactive variable

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<sup>20</sup> Despite its extremely weak short-term dynamics (i.e., changes), the aging population appears to be a strong determinant of municipal social spending because the analysis examines the impact of long-term changes in demographic pressure.

provides a great opportunity to understand the theoretically contractive relationships among socio-demographic factors with regard to the Danish welfare municipality change.

Fourth, the left-wing party strength does not have any statistically significant impact on Danish municipal social spending. This means two things: As Alber (1995) argues, the changes in welfare municipalities or social care services are irrelevant or less connected to the class issue and party politics. Or, as Green-Pedersen (2006) argues, class-based party competition in the Danish context has served well as a political basis around the building of the welfare state, probably the most central issue in postwar Danish politics; put differently, the traditional Left-Right conflict dimension of politics are out-of-date. In fact, during the last half a century, class voting in Denmark has declined dramatically and almost disappeared—for instance, dropping from 50 in 1964 to 6 in 2001 when measured using the Alford class voting index<sup>21</sup> (Green-Pedersen 2006: 228).

Fifth, the local financial autonomy did not have a positive effect on long-term increases in municipal social spending. The reason might be that local income tax rates in Denmark were positively related to the local budget per capita (see table 5-4). As seen in table 5-5, the higher the local budget, the lower the municipal social spending levels. What is surprising is that the central government financial aid had the strongest regression coefficient for municipal social spending growth (see the standardized regression coefficient of the variable in table 5-5). It implies then that differences in levels of welfare municipalities are best mitigated by the central government. In this regard, the Danish welfare municipalities can be better characterized not by decentralization but by centralization.

Sixth, unemployment rates show negative or sometime insignificant coefficients for long-term changes in municipal social spending. However, it may not imply that municipal authorities were indifferent to the increasing local unemployment in Denmark. But this means that it is most likely some other causal forces having very

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<sup>21</sup> The index measures the difference in socialist voting percentage between the working class and the middle class (Green-Pedersen 2006: 234).

close relationships with the unemployment rate that determine the long-term changes in municipal social spending more decisively.

Seventh, the FLPR, just like unemployment rates, shows theoretically conflicted results. Again, it shows the importance of welfare geography in a sense that the geographic configuration between welfare resources and needs matters. In Denmark, the larger the FLPR, the smaller the elderly dependence; more precisely, the latter seems to be the winner from the perspective of the old/new social risks competition. Thus, it is implied that the issue of balancing paid work and family responsibilities cannot be an actual agenda for local politics in many Danish municipalities. Additionally, what is interesting is that the impact of the female labor force increase on municipal social spending very much resembles that of unemployment rates (see models 2 and 3 in table 5-5). This supports the argument that women are more affected by unemployment than men even in the Scandinavian welfare state (Hansen 2007: 90) although women do not show clear-cut evidence of new social risks argument in reference to welfare municipality change.

Eighth, in contrast to hypothesis 8, the female political power does not show any significant regression coefficient for municipal social spending in Denmark. This finding is quite surprising because of the most notably increasing role of women in local politics and local unions in Denmark. It has been said that female workers appear to introduce their particular everyday life perspective into the unions. Problems with child care, welfare payments, divorce, depression, mortgages, etc., experienced by individual members and their households, are gradually aggregated and translated into problems and tasks for the female-dominated unions, such as the Union of Female Employees, Union of Local Government Employees, and Textile Workers Union (Tonboe 1991: 41). Then why is there no supporting finding to prove the political influence of the Danish female politics on local social policy? Although not completely satisfying, the following summary of interviews with some Danish female union officials, conducted by Tonboe, can give a hint:

[S]ome indications can be given from our interviews with female union officials and members in the Northern Jutland region. When asked, they spontaneously appear to give a higher priority to national than to local politics. Local politics are regarded as male territory. "Men talk much more about local politics at their work, at home, and with friends than we do." And men appear to know more about local politics than do women. On the other hand, women are very concerned with issues like kindergartens, schools, education, public transport, private services, and in particular the distance, standards, prices, availability, localization, co-ordination, etc., of those services. The household's relation to private and public services is mainly taken care of by women, and on top of that they have to do their job, get to work, and to get home again, on time. But women do not seem to see these concerns as particularly political, although they are central issues in local politics. (Tonboe 1991: 40)

Probably, the policy sectors in which the local actors are involved are also important or even more vital than whether they are female or male politicians. No doubt, all female politicians neither devote themselves to the provision of social care services nor become powerful in proportion to the occupational power of female workforce in each municipality. For example, table 5-3 revealed a very strong negative correlation between the FLPR and the number of female politicians ( $r = -.763$ ). Furthermore, an already matured welfare municipality should be seen as a result that has been greatly reflected from female interests of municipal social care services.

On the other hand, another indicator of consumer politics does show its significance. This means that municipal social policies and programs are hardly altered even if many other similar socio-demographic, economic, or partisan politics change. As Pierson (1994, 1996) and Wildavsky (1964) pointed out, considerable reform of the social policy and programs are very unlikely to happen because politicians and bureaucrats attempt to avoid political (e.g., losing votes for re-election) and administrative danger (e.g., huge workload) of radical cutback. The tendency accounts for the second major part of long-term changes in municipal social spending levels.

Ninth, the results show that during the period 1995-2004 there were no significant competitive and co-operative effects on municipal social spending in Denmark. These findings clearly reject hypothesis 8. These findings might be considered evidence of the maturity of the Danish welfare municipalities, meaning that the needs for social care services are sufficiently met across all the Danish municipalities, and in recent years there have been no needs for local competition and co-operation in this field of



policy. Put differently, there might have been a strong IGR playing an important role in welfare municipalities in the past as Bruun and Skovsgaard describe with regard to the behavior of Danish municipalities in the 1970s:

Local governments do not act alone but form a complex interaction from which they can benefit. For example, the growing importance of these associations in Denmark cannot be characterized by traditional labels of pressure groups ... The most important function of these associations is to negotiate with the state about local government finances. (Bruun and Skovsgaard 1980: 234)

Thus, even if the empirical analysis has failed to prove the significant effect of the IGR on welfare municipalities for the last decade, it does not mean that the IGR has never mattered in Denmark. The IGR became extinguished or less significant after attaining the primary institutional goal: equalizing welfare municipalities at a satisfying level.

Tenth, it was hypothesized in chapter 4 that the larger the local government budget per capita in Denmark, which is an institutional welfare state, the larger the municipal social spending. At the same time, the opposite was assumed with regard to Korea as it is a residual welfare state, emphasizing the role of the market and family in providing social services. Nonetheless, this analysis shows that the local budget per capita has a negative regression coefficient for long-term changes in municipal social spending.

All in all, the results from table 5-5 verify only half of research hypotheses in a straightforward manner. However, the results can at least support the argument that the paradigm shifts taken over the two or three last decades ask us to investigate both old and new determinants of contemporary welfare municipality change. It is shown that while the old economic, political, and institutional factors do not show any significant effect on municipal social spending levels today, new determinants could be traced only from new politics. Against some of hypotheses, the role of new social risks and horizontal IGR in municipal social spending could not be identified in Denmark. Of course, it has to be said that it was not assumed that all independent variables would have significant effects. Furthermore, much of such failure came from welfare geography, which is the case for unemployment and the FLPR, negatively associated with local budget levels and the aging population, respectively. The finding related to

the last hypothesis indicates changing welfare municipality regimes in Denmark. An increasing number of municipalities seemed to find their primary role not in the field of welfare provision but in the field of economic development. In brief, referring to the standardized regression coefficients of model 5 in table 5-5, the strongest determinant of long-term changes in municipal social spending in Denmark is the central government aid; the second and third are path-dependent effects representing consumer politics and the aging population. The least powerful but still significant factor is local budget growth, meaning that municipal social spending can be cut back if the municipal economy or industry expands.

*Table 5-5 Determinants of long-term change in municipal social spending in Denmark*

	Model 1	Model 2	Model 3	Model 4	Model 5
Population	-0.037 (0.000)		-0.006 (0.000)	-0.023 (-0.399)	-0.018 (0.000)
Local Budget	-0.188* (0.075)		-0.159* (0.071)	-0.154* (-2.213)	-0.152* (0.072)
Elderly Dependence	0.226*** (0.057)		0.133* (0.059)		0.194*** (0.055)
Left-wing Party Strength	0.051 (0.019)		0.072 (0.017)	0.063 (1.113)	0.070 (0.018)
Central Government Financial Aid	0.575*** (0.096)		0.358*** (0.113)	0.466** (6.130)	0.453*** (0.103)
Local Income Tax Rates	0.185*** (0.194)		0.047 (0.192)	0.059 (1.002)	0.054 (0.195)
Unemployment		-0.218* (0.221)	-0.180# (0.213)	0.053 (0.765)	0.001 (0.156)
FLP		-0.676*** (0.082)	-0.333* (0.094)		
Female Political Power		0.010 (0.023)	0.021 (0.024)	-0.026 (-0.522)	-0.021 (0.023)
Path Dependence		0.433*** (0.050)	0.353*** (0.052)	0.376** (6.967)	0.374*** (0.052)
Competitive Spatial Dependence		0.013 (0.109)	-0.004 (0.104)	0.004 (0.095)	0.000 (0.105)
Co-operative Spatial Dependence		0.039 (1.143)	0.027 (1.072)	0.020 (0.431)	0.021 (1.088)
The Elderly Dependence × FLP				0.158** (3.400)	
Adj. R <sup>2</sup>	0.558	0.605	0.659	0.643	0.647
N	186	186	186	186	186

*Notes:* Cross-section OLS regression, standardized regression coefficients presented, standard errors in parentheses, constant included but not reported, co-operative spatial dependence defined as averages 1996-2004; all the other independent variables defined as averages 1995-2004.

*Source:* Statistics Denmark (1995-2004)

# = p<0.10, \* = p<0.05, \*\* = p<0.01.

## 5.2.4 Summary

Danish municipal social spending has changed very steadily over the last decade. The high spending level and the extreme incremental change in social spending presented may indicate that more radical changes in the Danish welfare municipalities already took place much earlier, most intensively during the post-war era (see also Clasen and Siegel 2007; Tonboe 1991). Thus, the high levels of municipal social spending today can be understood as an outcome of rapid expansion of municipal social spending in the past, which has been fixed over a long period of time. Although the pattern of municipal social spending barely varies, some evidence of a paradigm shift in local social policy has been clearly identified: new politics (i.e., the effect of consumer politics or path dependence effect) and the joint effect of the old and new social risks (i.e., the interactive effect of the aging population and the female labor force participation) on municipal social spending.

What has been demonstrated in this section is that class politics do not show any significant effect on municipal social spending at all. From a comparative welfare state perspective, this is surprising since the Danish welfare state has been a well-known case in which ideology-based partisan politics has played a distinctive role in its development. As presented by model 1 in table 5-5, left-wing party power does not show its significance regardless of whether other political factors are controlled for. So this finding is robust and more precisely implies a twofold meaning: either partisan politics are out of date or partisan politics do not matter since the issue of income inequality across different classes might not be the major concern at local-level politics and policy (Alber 1995; Bonoli 2007). Instead, when the welfare state and welfare municipalities are mature, the path dependence effect appears to be very strong. Here, this can be translated into the effect of consumer politics. When welfare needs are once well institutionalized, then there might be a growing resistance against any cutbacks in their benefits (Pierson 1994). In this situation, the role of the beneficiary structure becomes much more important than the class cleavages.

The interactive effect of the aging population and increasing female labor force on municipal social spending strongly holds the new social risk argument, which has been

recently supported by a number of scholars (Bonoli 2005; Esping-Andersen 2000; Taylor-Gooby 2004). It might be a big surprise for the scholars of the new social risk approach to see that the FLPR has a negative effect on municipal social spending even if the effect of the variation in aging population is also accounted for. In the comparative welfare state literature, the FLPR alone often shows a positive effect on social policy development, apart from the aging population (Huber and Stephens 2000). But this is the story at the national level: when the FLPR is disaggregated over municipalities, they could have negative relationships with some old as well as new social risks, as seen with the Danish case. This negative relation is reflected in the regression analysis results and leads to a theoretical confusion. However, one should bear two things in mind: First, although a significant shift has been theoretically assumed between the old and new social risks on the one hand, the most important aspect in recent debates is the interaction between the old and new social risks on the other hand. Second, the paradigm shift cannot be made within few years, but is made over several decades at least (Huber and Stephens 2001). In this regard, what is ideal is to attempt to investigate such interactions from a long-term perspective.

The findings show that several research hypotheses of paradigm shifts in politics and institutions have not been successfully verified because of the interference of welfare geography in regression models. It has been clearly suggested in table 5-4 that welfare needs and welfare fiscal and political resources are not evenly matched across municipalities. For example, less central government financial aid and local income tax go to municipalities with a strong political mobilization of labor. This geographic imbalance might be the reason why wealthier municipalities have not established expensive municipal social programs while the poor ones have even provided a large magnitude of such programs to their citizens. Furthermore, even if the institutional effect of competitive and that of co-operative spatial dependence on municipal social spending has not been evidently detected, this insignificance should be understood in the context of the maturity of the welfare municipalities. For several decades in the post-war period, in Denmark, intergovernmental transfer systems played a crucial role in helping economically vulnerable municipalities provide necessary public services to their citizens. But the local variation becomes diminished gradually as welfare municipalities and local governments' financial capacities become enhanced overall over time. Especially, the association of Danish municipalities (LGDK) plus other

interest groups have served as the core institutions and organizations representing the local interests for the central government (Tonboe 1991: 33-37). In brief, no municipality in Denmark works alone; indeed, the municipalities' institutional network has functioned successfully. That is why they have relatively small welfare disparities across municipalities today, and accordingly, no more profound changes in municipal welfare services need to be made through these institutional relationships and systems.

The last important finding concerns hypothesis 9. I assumed that a positive effect of the local government budget growth on municipal social spending has been rejected with the Danish case. Building on theoretical discussion in chapter 2 and empirical indicators (see also Appendixes 1-1 and 1-2), I was convinced that municipalities want to take a more important and larger role in municipal social services than the private alternatives because Denmark is characterized by a number of scholars with the primary role of the state rather than market and family in social policy and welfare services. Then how should one understand the finding that municipal social spending levels were found negatively related to local government budget growth in Denmark? More specifically, this means that for the last few decades in Denmark the increase in local government fiscal efforts has led to the expansion of non-welfare-related municipal policy, such as industrial infrastructural investment. The term "competitive solidarity" seems to be useful in explaining such market or private orientation among the Danish municipalities in recent years (Streeck 1999). Similar to national governments, municipalities in Europe today should serve two functions: building solidarity within the municipality on the one hand and establishing economic and political competition against other municipalities and regional as well as national governments. Municipalities have been forced to reform their policies under the new economic circumstances. Not only national governments but also municipal authorities "seek to defend their solidarity, less through protection and redistribution than through joint competitive and productive success through politics, not against markets, but within and with them, gradually replacing protective and redistributive with competitive and productive solidarity" (Streeck 1999: 6).

## **5.3 The Korean welfare municipality change**

### **5.3.1 The Korean welfare municipality and its surroundings in change: descriptive analysis**

#### 5.3.1.1 National-level description

The welfare state in Korea has developed rapidly since the 1990s. However, it has been said that the change has mainly happened to income transfer policies (Hong and Song 2006). More specifically, only 0.2 percent of the GDP was spent on social services during the period 1980-2004, on average (see table 5-6).<sup>22</sup> Nevertheless, it does not mean that social services have not expanded at all. As shown in figure 5-12, within the short period, social care spending rose rapidly. Nonetheless, “the demands for such social services, which have increased as a result of the processes of industrialization and post-industrialization as well as of the nuclearisation of the family, have outstripped this increase in expenditures and the argument that the public provision of social services has been strengthened becomes less convincing” (Hong and Song 2006: 259). Particularly, the underdevelopment of social services becomes apparent if the remarkable increase in social spending on income transfer programs is taken into account.

Such a low level of social care spending might be closely concerned with the heavy reliance on “strong familialism, an emphasis on filial obligations in caring for the elderly and children” (Hong and Song 2006: 248; Pascall and Sung 2007). Unlike the Danish case, families, NGOs, and NPOs have been continually utilized as the main service providers. They have reduced the responsibility of the state and municipalities for social care service provision. As a result, the Korean welfare state now faces fundamental challenges with regard to its future: the lowest fertility rate and the most rapid aging of the population in OECD countries. More specifically, these challenges require considerable reform of the Korean welfare state regime to adequately address the issue of insufficient social care services on reconstructing the family-state

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<sup>22</sup> Beyond a doubt, social care spending in Korea is quite small. But there are nonetheless some other OECD countries that spend at a relatively low level on social care. In 2000, social care spending, as a percentage of GDP, was 1.0 in Belgium, 0.8 in the United States, 1.2 in Portugal, and 1.2 percent in Spain (OECD 2003).

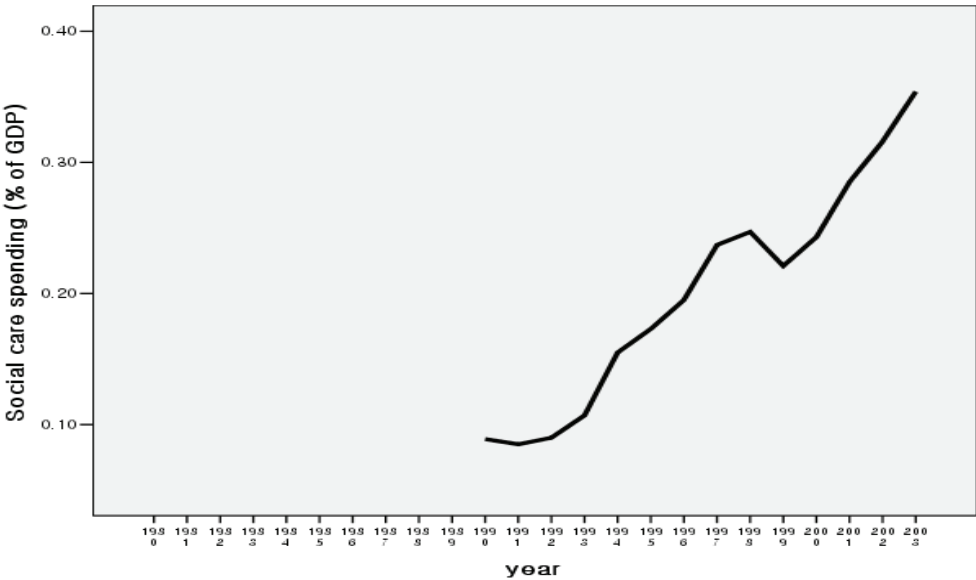
responsibility and reestablishing gender relationships, and integrating the labor market and social policy (Pascall and Sung 2007).

*Table 5-6* Descriptive analysis: social care service expenditure and related forces, Korea 1980-2003

	Mean	S.D.	Minimum	Maximum	N
Social Care Spending	.20	.09	.09	.35	14
GDP	9901.46	5295.61	2643.30	19330.80	24
Unemployment	3.41	1.53	2.10	7.00	15
The Elderly Dependence	5.51	1.36	3.80	8.30	24
Female Labor Force Participation	46.16	2.76	40.70	49.80	24
Trade Union Density	13.63	2.12	11.10	18.60	23
Service Sector Dependence	51.16	8.01	38.61	63.54	24
Central Government Tax Burden	81.50	4.30	76.77	88.30	24
Local Government Tax Burden	18.50	4.23	11.70	23.23	24

*Sources:* OECD (2007) for social care spending; Statistics Denmark (2007) for the central and local government tax burden; OECD (2003) for the rests.

*Figure 5-12* Social care spending in Korea, 1990-2003



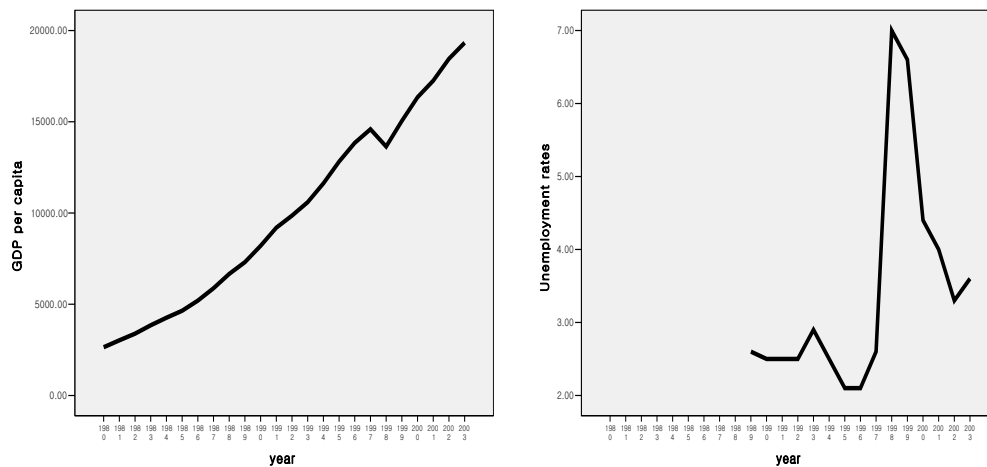
*Source:* OECD (2007)

The Korean economy has rapidly grown from \$2,643 to \$19,331 for the period 1980-2003, as seen in table 5-6. The remarkable growing economy lowered the



unemployment rate during the period of investigation. The rate has been 3.41, on average, except for a few years after 1997, when the Asian financial crisis occurred. The financial shock also devaluated the Korean currency; accordingly, the GDP per capita also declined in the late-1990s despite the immediate recovery soon after. Thus, it can be said that, unlike the economies of many countries in West Europe, the Korean economy has been grown fast until recently, and unemployment, as a new social risk, has not mattered much to social policy development.

*Figure 5-13* GDP per capita (1980-2003) and unemployment rates (1989-2003) in Korea

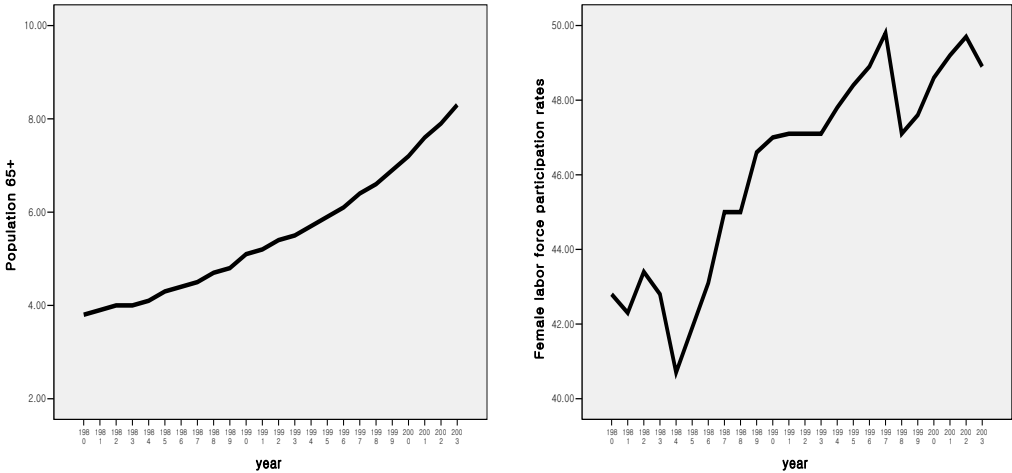


*Source:* OECD (2003)

The demographic structure in Korea appears comparably young from a European standard. Meanwhile, the FLPR appears to be quite low especially in comparison with that in Denmark: the elderly dependence ratio has been 5.51 on average (e.g., 14.43 in Denmark) and the FLPR 46.16 (e.g., 75.64 in Denmark, see table 5-1). Nevertheless, as seen in figure 5-14, they both have gradually increased for the past 10 years: the former has grown very rapidly from 3.80 to 8.30; the latter has arisen from 40.70 to 49.80. Particularly, the very fast expansion rate of the elderly dependency rate is impressive. Undoubtedly, the “high-speed” economic development has led to the increase in life expectancies. The life expectancies in Korea are among the highest in the world; they are already higher than those for the United Kingdom, although Korea’s per-capita income is around two-thirds that of the United Kingdom figure (Pascall and Sung 2007: 3).

Just as the rapidly increasing aging demographic, the FLPR has clearly risen over the last decade. Thus, it is implied that there has been a growing difficulty both from the demand and supply side of care work in the informal care service sector for the last few decades. At this aspect, one might assume that the role of the family in taking care of their relatives has gradually been replaced by the state or local governments over time. However, there are some opposite arguments against this view: for example, Lee (2005: 166) points out in her research “although the Korean family resembles the nuclear family in structure, in terms of the actual activities undertaken within it, the principles of the stem family and the extensive influence of the traditional conceptualization of the family have not diminished.” Married women are still more responsible for their in-laws and feel duty for their parents-in-law (Pascall and Sung 2007: 5).

Figure 5-14 Populations 65+ and FLP in Korea, 1980-2003



Source: OECD (2003)

The modern Korean labor movement, including unions of skilled and unskilled workers, dates to the first decade of Japanese colonial rule. The Korean laws and constitutions since 1948 have recognized the "three rights" of labor: the right to organize, the right to bargain collectively, and the right to take collective action. In practice, however, the government has consistently attempted to control labor and mitigate the effects of unionism through the use of a variety of legal and customary devices, including company-supported unions, prohibitions against political activities by unions, binding arbitration of disputes in public interest industries, which include 70 percent of all organized labor, and the requirement that all unions be affiliated with

one of the 17 government-sponsored industrial unions and with a general coordinating body, the Federation of Korean Trade Unions.

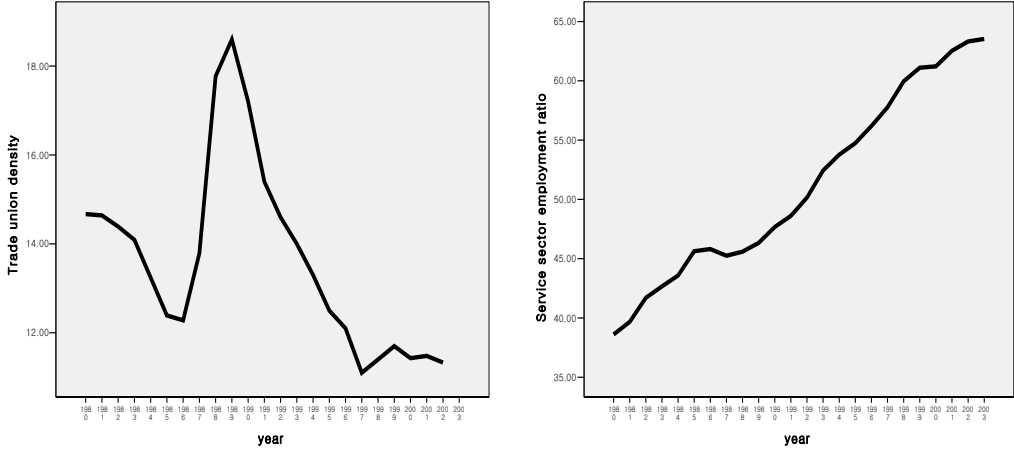
In table 5-6 and figure 5-15, the trade union density is examined. As supposed, it shows a very low union density in Korea, which is 13.63, on average, and thus refers to the small role the working class has played with regard to the development of social policy in Korea. Even if there was one pick of union-density by the end of the 1990s (see figure 5-15) together with the democratization movements, the political mobility became radically reduced when the movement realized that a democratic government would win the election for the first time and onwards in Korea. Low degrees of union density and coverage are closely associated with the fact that trade unions in Korea have been organized by individual companies, rather than by industrial sectors. This structure reinforces the tendency of trade unions to stress the interests of their members rather than those of an entire industry profession, including non-standard workers or those employed in small companies. During most of the post-war period, the Korean government encouraged organization for economic interest but did not encourage professionals and occupational groups to voice political demands. It was only the late 1980s that such challenges accounted for a sizable proportion of extra-governmental political activity. Not surprisingly, therefore, the influence of trade unions on the development of the welfare state has been minimal.

On the other hand, the service sector's share of employment rose from 38.61 percent in 1980 to 63.54 percent in 2003, as shown in figure 5-15. Almost half of the employment in the service sector consists of wholesale, retail, restaurants and hotels. The second largest portion consists of social and personal services, which rose from 7.6 in 1970 to 13.3 percent in 2000 (Jang 2003: 8). In the public sector, consumer-oriented politics appeared to play an important role through the public service sector reforms. Revamping regulations and practices that put undue burden on the daily lives of ordinary citizens was the top priority for the Kim Dae-Jung government. The process was expedited, and organizations and personnel who were believed to be involved in regulations were eliminated or had their responsibilities significantly reduced. Multiple deregulation apparatuses were involved. In line with the concern for convenience, a performance-oriented approach was also of vital concern. Various administrative procedures and preconditions that made citizen contact with the

government difficult were reformed. The reforms in this sense were called bottom-up (daily life administration) reform (White Paper 1997). In consumer-oriented reform, as the slogan of the government, “the people's government,” implies high-ranking reformers and the president spoke of "service" for the people. A citizen's charter and a customer satisfaction survey became an integral part of agency evaluation. The term governance became prevalent among the practitioners, and many NGOs became involved in the process of policy-making and service delivery. Transparency in policy-making and handling civil petitions was emphasized, and diverse Internet apparatuses were utilized to maintain close communicative relationships with the consumers. Partnerships and a policy network were beautiful window dressing for the government.

A number of local governments began to introduce parts of NPM measures to upgrade their internal management. At the time, a local autonomy system was introduced, and residents elected mayors and governors. The consolidation of local governments occurred in three stages (1995, 1996, 1998) and involved more than 40 municipalities (Lee 2004: 6). The local governments became much bigger, ostensibly to allegedly realize economies of scale. In addition to the local democratic consolidation, many local governments have attempted diverse NPM measures to alter the bureaucratic culture to a more business friendly atmosphere. All these imply that the public sector in Korea has been influenced by the growing private culture, such as consumerism and private competition.

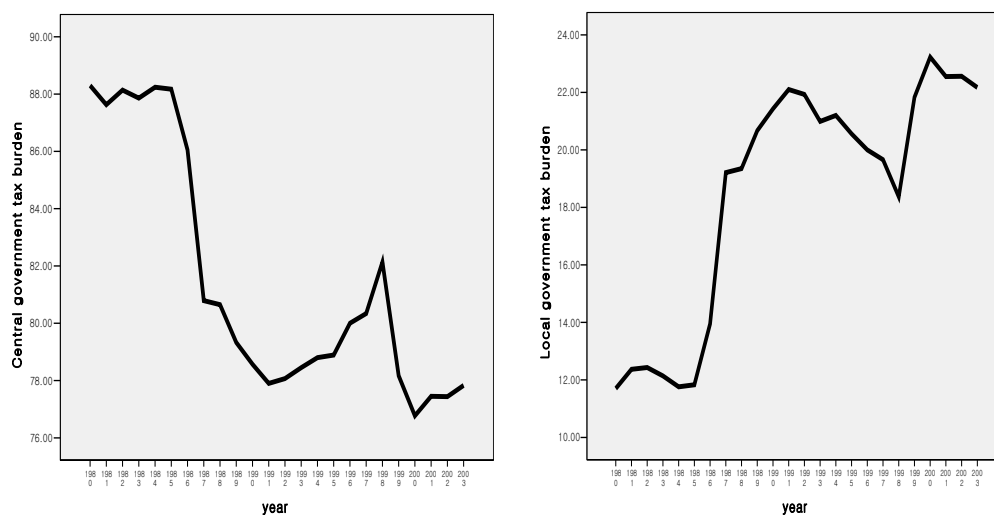
Figure 5-15 Trade union density and service sector employment in Korea, 1980-2002



Source: OECD (2003)

Finally, table 5-6 and figure 5-16 show the central and the local tax revenue ratio, respectively, and their changes over time. For the period 1980-2003, the central government tax revenue took 81.5 percent of the total tax revenue on average in Korea. The rest of the revenue was raised through local tax. At this point, one might misrepresent the role of local autonomy in social care service development. However, two points need being emphasized to avoid some misunderstanding about the contribution of local tax. First, as seen in the figure, there is a clear trend of fiscal devolution from the national to the local level from 88.30 to 77.83. This means that the increase in the level of social care spending has been made in the institutional context of decreasing the central institutional role and increasing the local institutional role. Interestingly, this increase has happened without explicit economic pressure and a decentralization movement. In this regard, it is assumed that the expansion of social care spending and local tax revenue reflected considerably the local government's own interest, rather than the fiscal devolution policy derived by the national government. Second, the low ratio of local tax revenue presented is in fact an aggregate mean among different contributions of local tax across municipalities. The differences often appear obvious, particularly between the urban and rural municipalities (Kang 2004; Toikka et al. 2004). Thus, when the local variation in social care service provision is analyzed later, a more complex model needs to be considered.

Figure 5-16 Central government tax revenue ratios in Korea, 1980-2003



Source: OECD (2003)

### 5.3.1.2 Local-level description

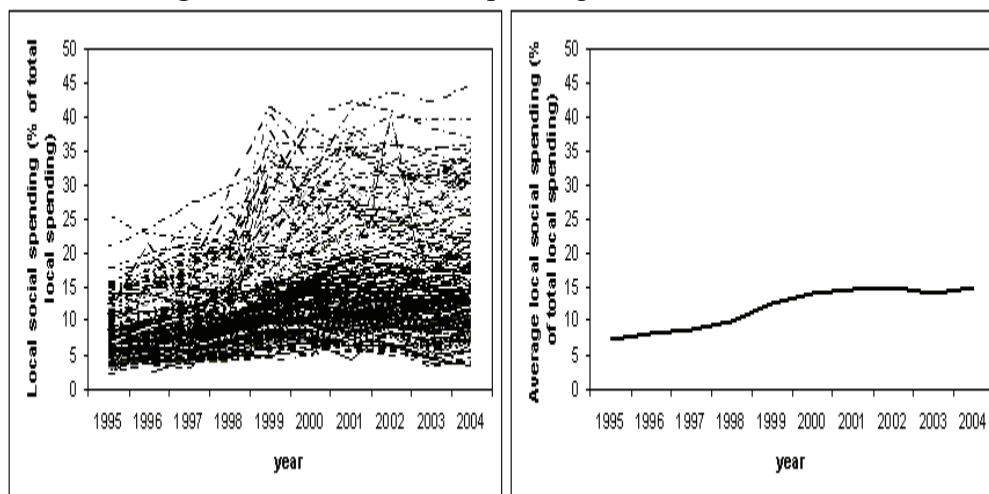
In Korea, 12.4 percent of total municipal spending was used for providing local social programs for the period 1995-2004, on average. This share is just slightly larger than one quarter of the local social spending in Denmark (see table 5-7). In this regard, one can argue that the Korean welfare municipalities have been much less developed, on the one hand, but might assume that the Korean welfare municipalities vary in a dynamic way on the other hand (Jang 2007b). Furthermore, within the undoubtedly low levels of social service spending across municipalities, a large geographic variation exists; it varies from 44.5 percent, that is, close to the average local social spending in Denmark (see table 5-2), to only 2.4 percent, referring to almost no spending for local social policy and programs among some municipalities. The average level of local social spending has almost doubled from 1995 to 2004 while the variation has increased rapidly as well (see figure 5-17). In brief, some municipalities remained or curtailed social care expenditures whereas other municipalities increased expenditures; hence, marked variations in social services have been seen across municipalities.

*Table 5-7* Descriptive analysis: local social spending of individual municipalities and related forces, Korea 1996-2004

	Korea (N=1,582)			
	Mean	S.D.	Minimum	Maximum
Local Social Spending	12.38	7.40	2.4	44.5
Population	204254.33	181395.12	9191.00	1033829.00
Local Budget	1.07	.86	.07	6.55
Elderly Dependence	10.27	5.12	3.16	25.83
Left-wing Party Strength	34.05	42.96	.00	100.00
Local Financial Self-reliance	62.49	28.09	15.13	100.00
FLPR	49.54	3.55	42.0	63.6
Unemployment	3.62	1.78	.70	9.10
Female Political Power	1.76	8.17	.00	75.00
Competitive Spatial Dependence	12.37	6.09	4.68	32.09
Co-operative Spatial Dependence	.85	1.52	-4.53	12.12

*Sources:* Ministry of Finance & Economy (2005) for *local social spending, budget per capita, local financial self-reliance, competitive and co-operative spatial dependence*; Ministry of Government Administration and Home Affairs (2005) for *the rest*.

Figure 5-17 Local social spending in Korea, 1996-2004



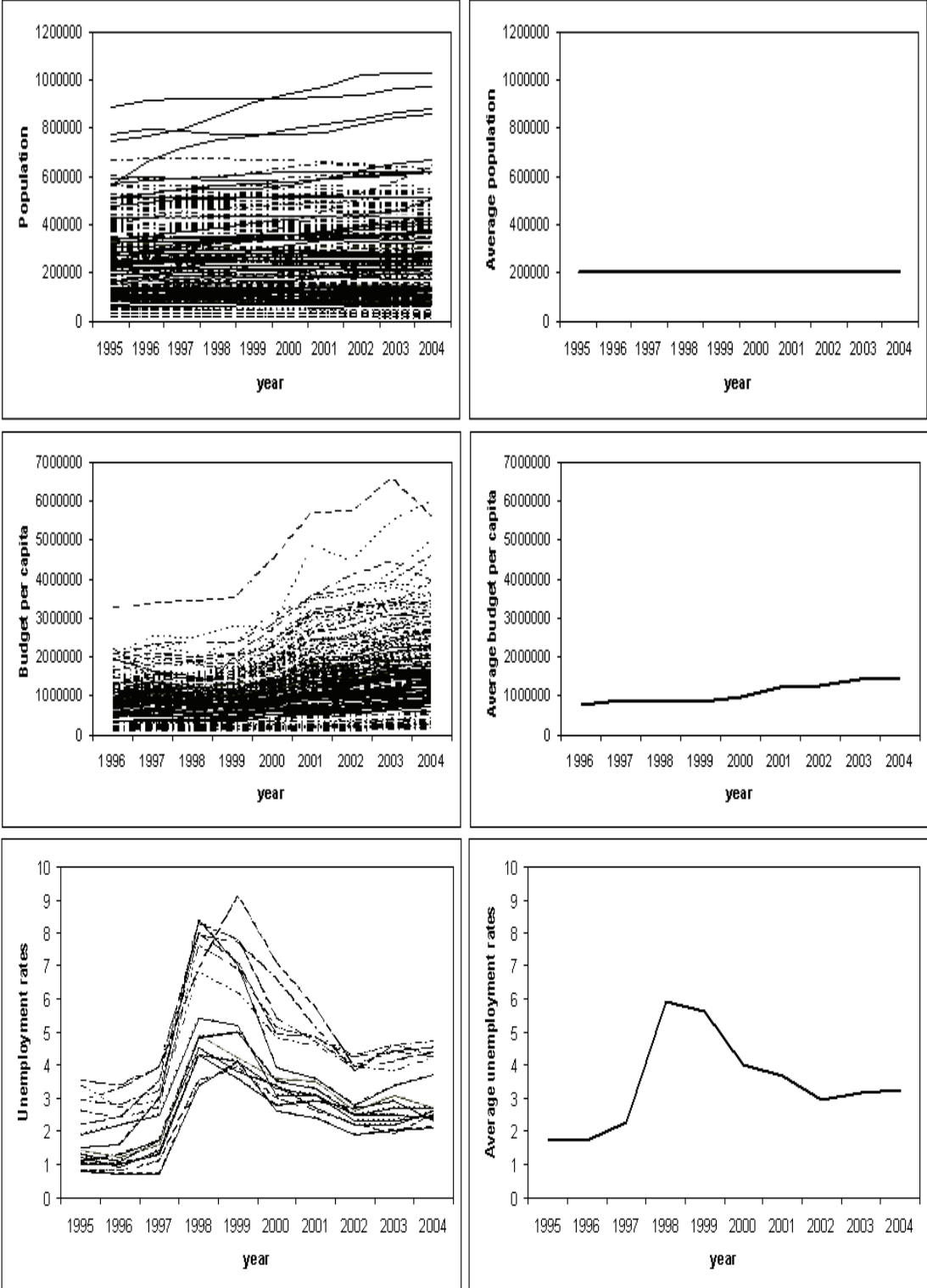
Source: Ministry of Government Administration and Home Affairs (2005)

Local variations in population size matter. The average population in a municipality is 204,254 and did not increase much over the period (i.e., 198,640 in 1996 and 204,254 in 2004). However, it is important to note that the number varies from 9,191 to 1,033,829 across municipalities. Here, the numbers can be interpreted as an indicator of economic scale, showing very extreme differences in the economic geography for local social policy. A similar spatial variation with an overall increase in the Korean local economy is also indicated by the local budget. The local budget per capita has increased from 700 thousand KRW in 1996 to 6.55 million in 2004. Nonetheless, as seen in figure 5-18, an increasing geographic polarization of the local budget per capita has been observed over time. Some municipalities have never increased their budget while others have expanded to a large extent.

Meanwhile, the overall increase in municipal economy seems not to have suppressed a rise of unemployment rate in recent years. Particularly, the foreign currency crisis occurred in Korea around 1997 and its consequences, such as company bankruptcies, have resulted in a sharp increase in the unemployment rate. Besides, as seen from the figure 5-18, the unemployment rate rose even after the economy improved. This means that the increase in unemployment rates also reflect the changing economic structure through the de-industrialization process in Korea. Over time, more economic resources have been created by the service sector, not by the manufacturing sector. Of course, fewer and fewer people are needed to achieve the same level of economic growth over time. Yet, the significance of such a problem of unemployment differs

across municipalities. As seen in table 5-7, some have almost no unemployment (i.e., 0.7 percent) while others have a considerable level of unemployment rate (i.e., 9.1 percent).

Figure 5-18 Local population, budget and unemployment rates in Korea, 1996-2004



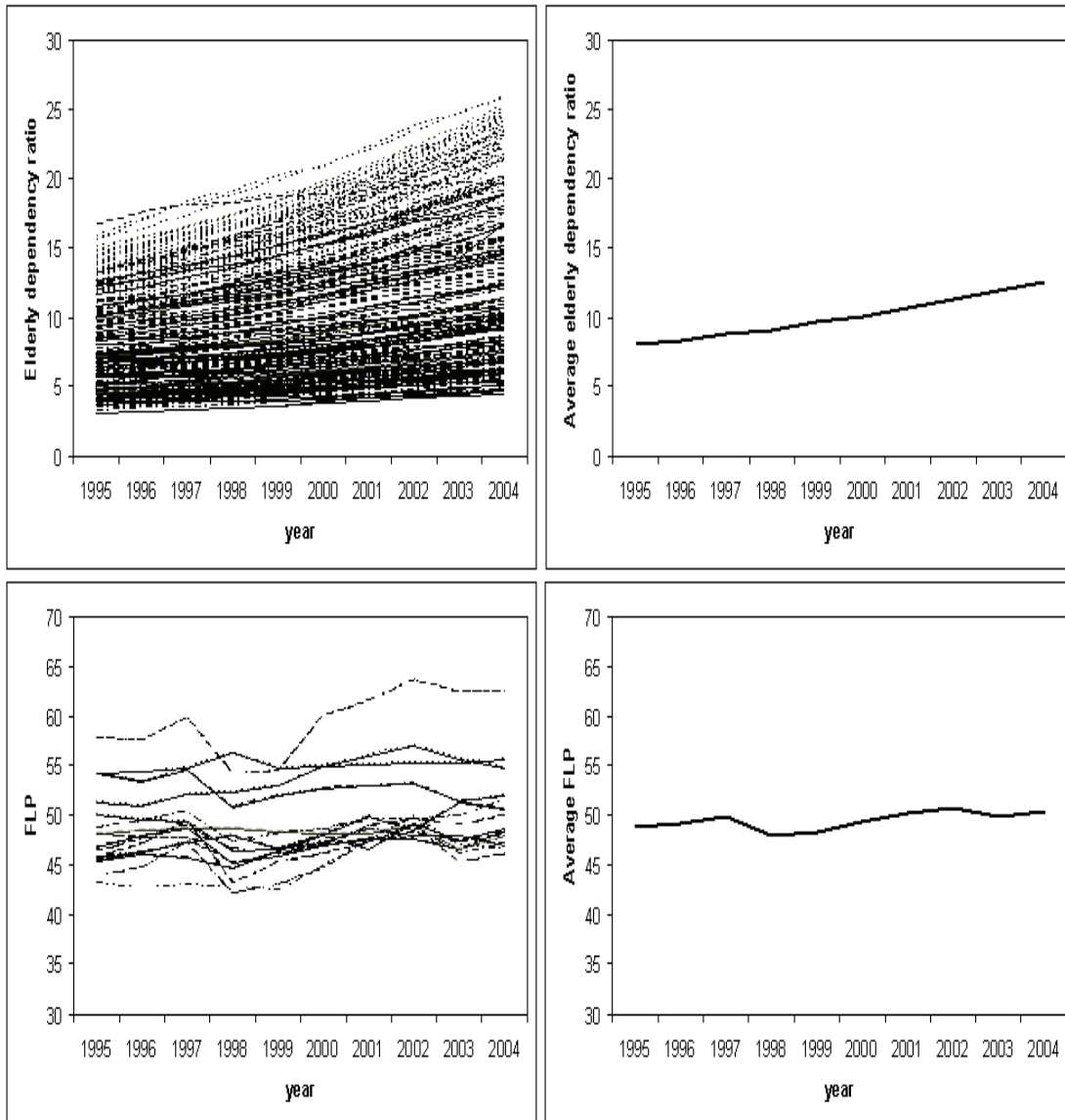
Source: Ministry of Finance & Economy (2005) for local budget per capita; Ministry of Government Administration and Home Affairs (2005) for the rest.



Compared to Denmark, the aging population in Korea is relatively young (i.e., 10.27 percent, on average, of the total population). However, the geographic variations within the structure are much greater than those of Denmark. For example, the lowest average elderly population ratio, a percentage of the total population, of a municipality found in Korea is 3.2 whereas the highest is 25.8. This means, again, that demographic geography matters. Over time, a gradual trend of divergence in the elderly dependency ratio appeared among municipalities, as local social spending does, in figure 5-17.

Meanwhile, the FLPR presented here is declared as not basic local but regional unit data, as the case of the unemployment rate data. This would not be a serious problem with regard to understanding the average of the FLPR. However, the regional level indicator could obscure the sub-regional variation in the FLPR. Yet, the maximum local variation of the FLPR is still considerable (i.e., slightly larger than 20.0 percent of the variation in the FLPR). It is therefore indicated that different extents of new social risks exist across municipalities. In the long run, the FLPR has arisen during the period albeit with some significant fluctuations due to the financial crisis. This means that the family capacity, mainly by female members, for providing care work has decreased significantly throughout the country.

Figure 5-19 Local elderly dependence ratios and the FLP in Korea, 1996-2004



Source: Ministry of Government Administration and Home Affairs (2005)

The number of members of the Left and that of female politicians in local councils are investigated to understand how class-based (income) and gender-based (services) politics have mattered in Korea. For both democratic governances, popular authorization of the local government is a minimum condition. Compared to that of Denmark, such a condition came quite late into being in Korea. Since 1995, mayors and governors as well as councilors have been directly elected by local residents. Thus, despite its constitutional autonomy, one notable feature of Korean local politics has been the continued nationalization of local elections. Local issues and personalities hardly dominate local elections, which are often regarded as referenda on the central government. Local elections appear to be a sideshow of national politics (Park 2006:

16). As a result, regional cleavages in local elections become as deep as those in national ones. In all local elections held since 1995, a majority of the electorate voted for parties that were identified with their regions of residence, namely their hometown parties.

In history, political parties both at the national and local levels in Korea have been fundamentally influenced by the spatial selectivity of state regulation concerning the national economic development policy. As mentioned before, since the 1960s, Korea has achieved fast economic growth on the basis of an authoritarian and centralized regulatory system led by the development state. In spite of the system's contribution to the country's economic achievement, this regulatory scheme has caused various forms of territorial politics that have challenged top-down regulatory activities. This is because the benefits of national economic growth have been unevenly distributed across regions due to the spatial selectivity inherent in the state's industrial and regional policies. One of the most significant forms of territorial politics that stemmed from the spatial selectivity of state regulation has been the politics of regionalism. Since the early 1970s, one of the major cleavages in Korean party politics has been regional development to mobilize their respective support bases (Park 2008b: 48). As a result, different territorial interests have often been constructed in different regions or localities.<sup>23</sup> More specifically, regions in the southeast and the southwest showed contrasting voting patterns in the 1971 presidential election for the first time. Consequently, one could say that it has been the economy not the welfare policies or projects that result in different patterns of local voting in Korea in general. However, one might expect to see whether changing support for either the Left or the Right has resulted in significant changes in municipal social welfare over time (Jang 2007b; Jin 2006).

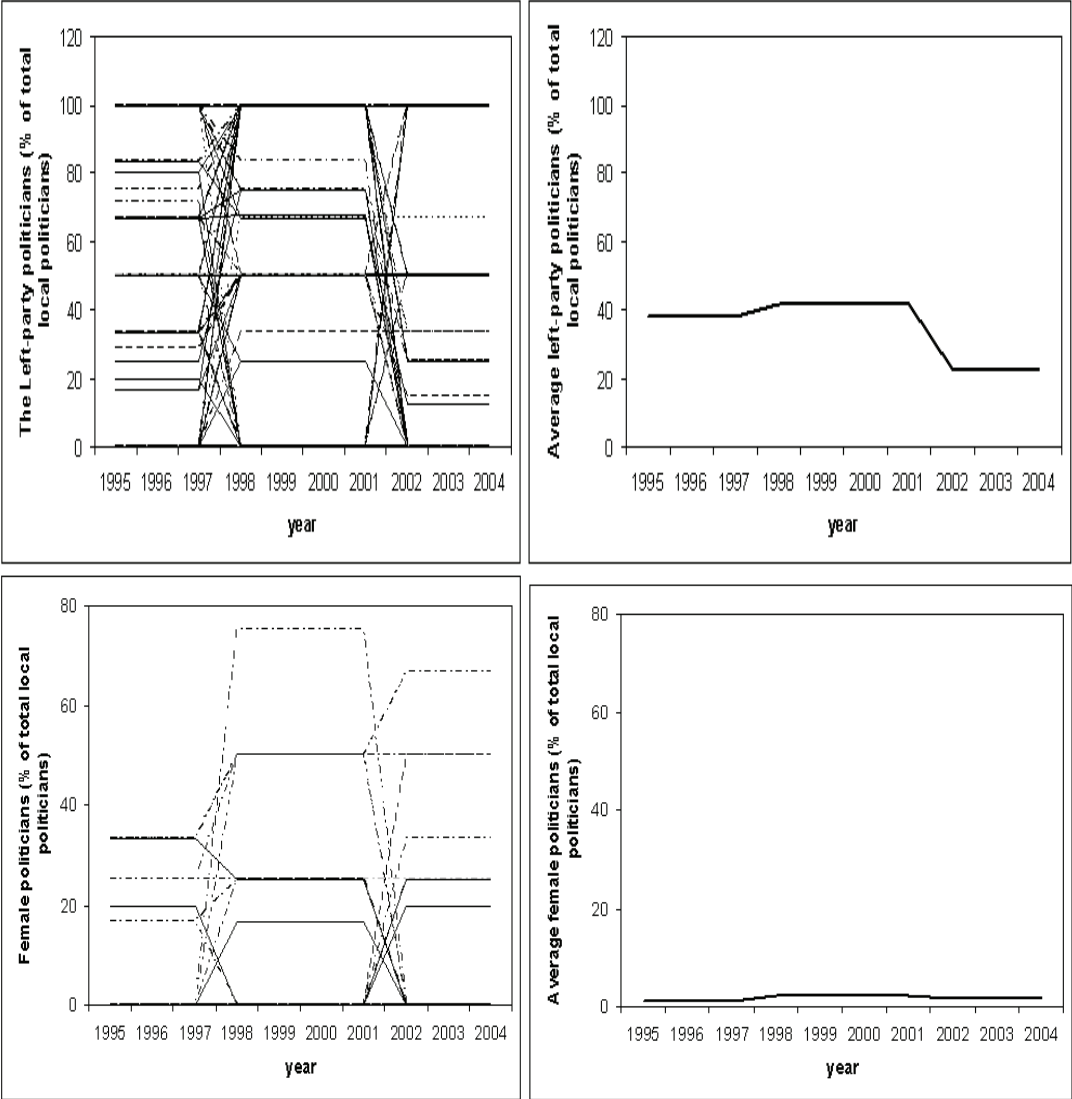
On the other hand, the female politician ratio appears to be an insignificant indicator of the new local politics. The average percentage is 1.8 percent; hence, it is almost incapable of distinguishing the nation-wide variation of local social spending levels. In fact, local governments in various cities and provinces have a low number of woman

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<sup>23</sup> For instance, in the Honam region, out of 41 positions, no major right-wing candidate (e.g., the Grand National Party) was elected in the 2002 local elections. Out of 70 positions, no major left-wing candidate was elected in the Yeongnam region (Park 2006: 16).

representatives. For example, in the outgoing council of Seoul, there are only nine female representatives (8.8 percent) out of 102 seats. In the council of Busan, there are only four female representatives (9 percent) among 44 seats. In Chungnam province, there is an only one female representative (2.3 percent) out of 43 seats. Likewise, candidates for the post of city mayor and provincial governor in local elections in 2006 included eight women and 124 men. Again, women’s participation is lower for the post of member of municipal and provincial assembly—214 women against 3,922 men. The results of the local elections highlighted the poor performance of female candidates, as they failed to win any high-ranking positions such as mayor or governor. Also, the elections results mirrored the difficulty of entering the male-dominated political arena (Bhatta 2006).

Figure 5-20 The left-wing party politician ratio, female politician ratio at the municipal level in Korea, 1996-2004



Source: National Election Commission (1995-2002)

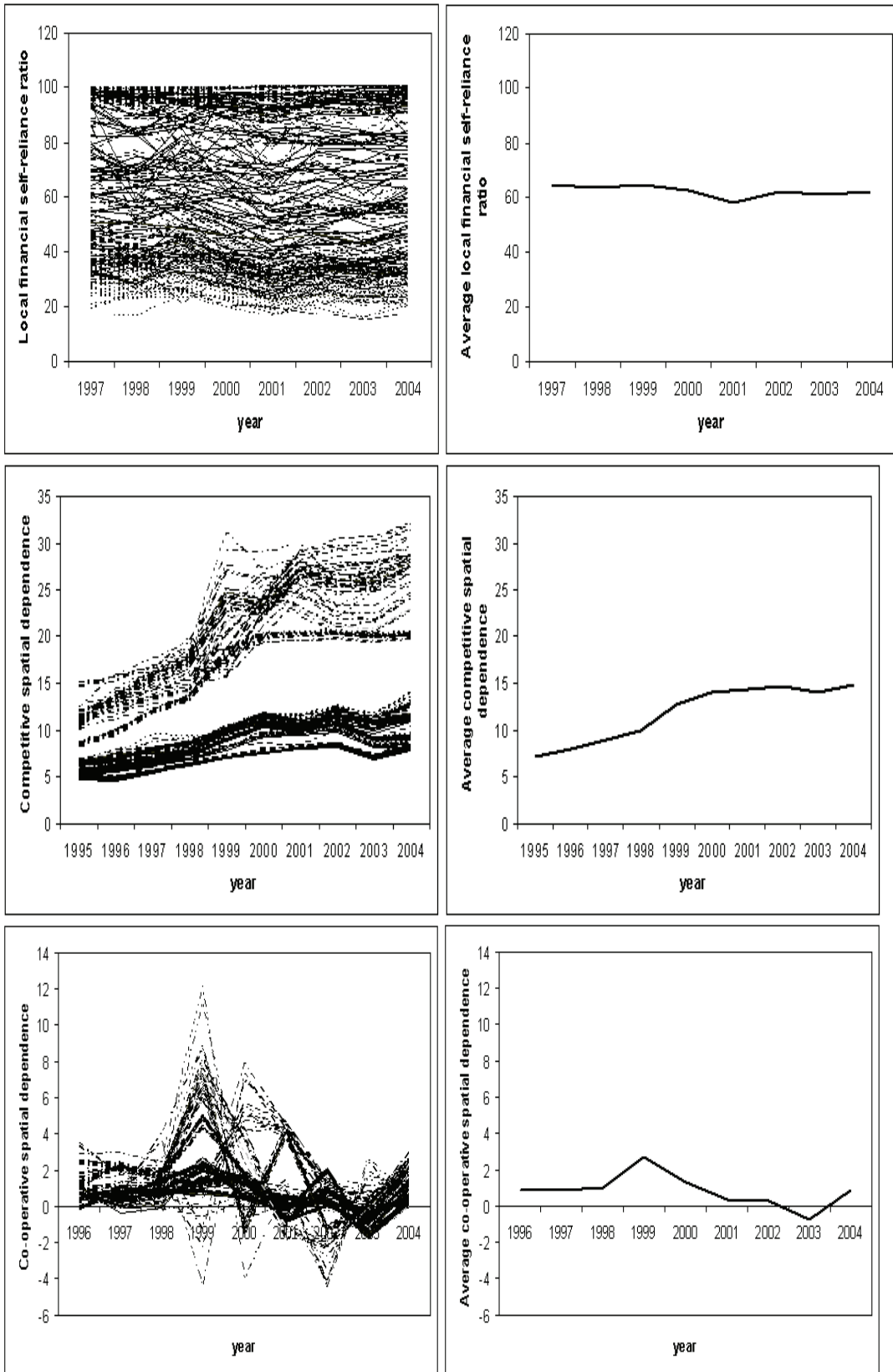
According to the local financial self-reliance, it is difficult to generalize the financial context of decentralization. Municipalities have made 62.5 percent, on average, of their revenue with their own resources. Furthermore, the ratio extremely differs from one municipality to another. Roughly speaking, the ratio ranges from 20.0 to 100.0 percent across municipalities. However, there have been some big and small fluctuations in the ratio of local financial self-reliance over time (see the change on average in figure 5-11). Such rises and falls in local financial autonomy might be due to the changes in central government financial aid<sup>24</sup> (Kim 2002: 19). Since major parts of National Treasury Subsidies are health and income related, it explains why the relative share of the National Treasury Subsidies in the intergovernmental grants rose rapidly after 1998, the year Korea had a great number of financial and economic shocks. However, it is also true that the greater political power of local governments after the initiation of local autonomy contributed to making the size of the National Treasury Subsidies bigger. The central government also seems to have a bigger interest in the National Treasury Subsidies after the initiation of local autonomy since financial power has become a more important tool in controlling local governments after parts of administrative and political powers were ceded to local governments.

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<sup>24</sup> The financial aid from the central government to local governments in Korea is referred as to 'Intergovernmental Fiscal Transfers,' which are administered through three major transfer mechanisms: Local Shared Tax, Local Transfer Fund, and the National Treasury Subsidy. The Local Shared Tax is a general grant whose size and allocation formula are stipulated in the local Shared Tax Act (Kim 2002: 16-19). The main purpose of the grant is to fill the fiscal gap between basic fiscal need and basic fiscal capacity, and it plays a powerful role in equalizing the local governments' expenditure levels. Currently, the size of the Local Shared Tax is defined to be 15 percent of the "domestic" tax revenue. The nature of the Local Transfer Fund, introduced in 1991, can best be characterized as a block grant since the Local Transfer Fund Act stipulates that the grant should be used for five broadly defined local functions: roads, sewage, regional development, rural area development, and juvenile care. National Treasury Subsidies are categorical grants provided to local governments out of the central government's general and special accounts for specific projects. The majority of the items of the National Treasury Subsidies are either local delivery of national goods or redistributive expenditures. Health care and support for low-income households are national programs, but delivered by the local governments. Rural development projects are redistributive programs and take a big portion of the National Treasury Subsidies.

To measure the spatial dependence of competition and co-operation in municipal social policies and programs, both the level and level-difference of neighboring municipalities' social spending are investigated. As mentioned earlier, these figures themselves are different versions of dependent variables; accordingly, they show basically the same geographic figures of an increasing average in local social spending. What is striking with the figures, nonetheless, is the ongoing process of the extreme polarization in the changes of local social spending in Korea. This means that individuals who enjoyed generous local social programs 10 years ago take more pleasure with even more generous welfare programs today, whereas those who suffered from poor social services 10 years ago still have the problem today. In the next sections in this chapter, the major reason for this polarization will be explained.

Figure 5-21 The local financial self-reliance ratio and competitive and co-operative spatial dependence in Korea, 1996-2004



Source: Ministry of Finance & Economy (2005)

### 5.3.2 Welfare paradigm shifts and welfare geography: correlation analysis

#### 5.3.2.1 National-level analysis: welfare paradigm shifts

Table 5-8 presents the results of correlation analysis among the dependent and each independent variable on the one hand and the results among independent variables on the other. As argued earlier, the former relations best indicate the causal determinants of social care services at the national level, while the latter shows how paradigm shifts in social care services and welfare municipalities have taken place in Korea.

The results in table 5-18 indicate that the long-term dynamics of social care spending has been positively related to the economic growth ( $r = .976$ ), the elderly population ratio ( $r = .971$ ), the FLP ( $r = .745$ ) and the service sector employment ( $r = .961$ ). The table 5-8 also further shows that social care spending has been negatively related to the union density ( $r = -.888$ ). These all support the theoretical argument about new social risks (Bonoli 2005; Esping-Andersen 1999; Taylor-Gooby 2004) and consumer politics (Clarke and Newman 1997; Schridde 2002). However, the central and local government tax revenue burdens have insignificant relations to social care spending levels, unlike my assumptions in chapter 4. As seen in figure 5-14, it is notable that the radical fluctuation in the central and local government tax burden happened around 1997 when the financial crisis occurred in Asian countries, including Korea. If this external shock is taken as a noise artifact and if “long-term trends” (Huber and Stephens 2001) are only taken into account (see figure 5-16), one could expect more significant relations between the change in either the central or the local government tax burden and the social care spending level.

How paradigm has shifted in the world of welfare municipalities has been examined at the national level. In the table, a negative correlation coefficient among two relevant independent variables is referred to as an indicator of paradigm shift in general. Nonetheless, as new social risk scholars argue, a positive correlation is supposed to exist between the elderly population (i.e. old social risk) and the FLP (i.e. new social risk). First of all, two negative correlations are evidently seen in relations between the union density and service employment ratio ( $r = -.630$ ) on the one hand and between the central and local government tax ratio ( $r = -.999$ ) on the other. In other words, the



paradigm shifted clearly in political and institutional structure of Korea. Instead, there appear no significant coefficients either among some economic variables or among some socio-demographic variables. Of course, it does not mean that there has been no change in these areas. Rather, the reason might be the late industrialization as well as de-industrialization in Korea. For the last decades the unemployment rate itself in Korea has kept quite low owing to the rapid economic growth based on export-industry. The financial crisis occurred in 1997 would be one of the reasons. It drastically raised to the large extent the unemployment rate and the FLP in a short term. Again if this external shock is taken into account, the structural change in socio-demographic area becomes more coherent. Of course, the financial shock has nothing to do with the demographic structure such as the elderly dependence ratio directly (Siegel 2007).

Overall, one can argue that there have structural changes of welfare politics and institutions. The determinants of social care or municipal social spending today would be rather new political and institutional factors, rather than the old ones. Politics based on service sector and its interest groups play a more important role than that based on manufacturing sector. The power has gradually shifted from the central government to local governments over time although it is far from a complete change. Due to the relatively late industrialization and de-industrialization, it is hard to say at least at the national level that the Korean welfare state and municipalities have gone under fiscal crisis and welfare state opponents attempt to curtail public social programs. Although the population aging has continuously generated significant demands for long-term care, the informal care tradition has been still sustained by families mainly referring to adult female family members. This is clearly suggested by the low level of the FLP in Korea. Nonetheless, all these descriptions are based on the aggregate level analysis. It will be thus no surprising that different story emerge when the local level data are used in the following section.

Table 5-8 Welfare paradigm shifts in Korea: 1980-2003

	Social Care Spending	GDP	Unemployment	Elderly Dependence	Female Labor Participation	Union Density	Service Sector Dependence	Central Government Tax Burden	Local Government Tax Burden
Social Care Spending	1								
GDP	.976**	1							
Unemployment	.421	.388	1						
Elderly Dependence	.971**	.990**	.459	1					
Female Labor Participation	.745**	.907**	-.090	-.067	1				
Union Density	-.888**	-.561**	-.438	-.573**	-.294	1			
Service Sector Dependence	.961**	.986**	.560*	.980**	.860**	-.630**	1		
Central Government Tax Burden	-.048	-.800**	.195	-.759**	-.906**	.055	-.750**	1	
Local Government Tax Burden	.111	.805**	-.102	.767**	.910**	-.057	.757**	-.999**	1

Sources: OECD (2007) for social care spending; Ministry of Finance & Economy (2005) for the central and local government tax basis; OECD (2003) for the rest.

### 5.3.2.2 Local-level analysis: welfare geography

Table 5-9 presents relationships between municipal social spending, economic and socio-demography, and political and institutional structure. Here it is important to understand how the national context of the welfare municipality is disaggregated. Put differently, this correlation analysis distinctively aims at clarifying whether or not the factors significantly correlated to the changes in social care spending at the national level, seen in the previous section, still matter at the local level, in this section. Interesting findings are summarized as follows:

First, table 5-9 clearly presents a significant correlation between municipal social spending levels and annual municipal social spending changes. This indicates that municipalities tend to spend more on social programs than others this year if their social spending levels were higher than others in the past. Noticeably, the correlation ( $r = .311$ ) refers to the high demand for welfare municipality development. However, one might expect to find a weaker or even a negative correlation between levels and growth in municipal social spending, as seen from the Danish case<sup>25</sup> (e.g.,  $r = -.117$  in table 5-4) if the welfare municipalities mature significantly.

Second, the results show that the local variation in local social spending is positively related with population size ( $r = .448$ ), local financial self-reliance ( $r = .589$ ), path dependence ( $r = .912$ ), unemployment rates ( $r = .406$ ), female politician ratio ( $r = .172$ ), competition ( $r = .757$ ), and co-operative spatial relationship ( $r = .209$ ). It has also some negative correlation with budget per capita ( $r = -.523$ ), the FLPR ( $r = -.201$ ), and the elderly population ( $r = -.434$ ). These imply that the development of welfare municipalities in Korea has been closely related to local economic growth, new social risks, consumer politics, and local institutions. Compared to the results of the correlation analysis at the national level in the previous section, the role of new social risk such as the rising unemployment rate becomes evident. It seems that when the unemployment rate is disaggregated into the local level, the rate has wide geographic variation, and this variation is parallel to that of municipal social spending.

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<sup>25</sup> This means there is a beta convergence in municipal social spending in Denmark. More specifically, this refers to the situation in which a low-social-spending municipality tends to spend much more than a high-spending one.

Meanwhile, the negative correlation coefficient of elderly dependence with local social spending is very striking. Although the elderly dependence ratio is in most cases the best indicator of demographic pressure for social welfare development, the policy impact has been revealed as somewhat insignificant. Even so, the “negative” relationship between social spending and elderly dependence was never often the case in previous research (Toikka et al. 2004). Similarly, the negative relationship of the FLPR with local social spending is a difficult result to understand. However, some important hints are already given by table 5-9. Three geographic relationships may be important: the negative geographic relationship between the FLPR and unemployment rates ( $r = -.424$ ) and the negative relationship between the FLPR and the population ( $r = -.237$ ), the positive relationship between the population and local social spending level ( $r = -.448$ ).

In short, local social spending levels are low in rural area that is characterized by small populations and a large percent of female workers. From the logic of industrialism, a problematic finding might be the negative correlation of local social spending with the local budget per capita. Nevertheless, as discussed in chapter 2, the finding could be interpreted as the evidence of the general spending behavior of municipalities under a residual welfare state regime. But the negative correlations of the social spending level with the elderly dependence ratio and the FLPR nonetheless challenge the logic of industrialism and the new social risks argument. This leads us to an investigation of how the other important causal factors are geographically configured with these socio-demographic factors.

Third, the geographically unique distributions of economy, socio-demography, politics, and institutions in Korea formulate an interesting causal mechanism of the welfare municipalities. Especially, it does so since the geographic patterns appear to theoretically contradict the arguments of macro-level welfare state theory. Overall, these patterns show the fundamental reasons why local social spending is small where municipal authorities have enough local finance and great service needs by the elderly as well as female workers. In the economic and socio-demographic field, for example, population size is negatively related with local budget per capita ( $r = -.587$ ), the elderly population ratio ( $r = -.689$ ), and the FLPR ( $r = -.201$ ). It appears to be obvious that the lower the density of the population, the larger the proportion of the elderly

population and female workers as well as the local budget per capita. Indeed, in rural areas major populations are likely devoted them into agricultural industry which unfortunately provides a low additional value production. The high level of budget per capita seems to be strongly motivated by the underdeveloped economy in rural areas, which in fact ultimately encourages people in rural areas to vote for local projects for economic development, rather than social service development. Meanwhile, in the political field, the left-wing party strength is positively related to the female politician ratio ( $r = .125$ ). However, this relationship is weak and probably being influenced by other factors, which are geographically attached. Furthermore, the left-wing party strength has no significant correlation with path dependence. This can mean that consumer politics are irrelevant to partisan politics based on ideology. Of course, a more fundamental argument is that class conflict has never taken an important role in Korean politics. This argument appears to be more relevant to local politics although consumer-oriented new politics have not taken such a role either (Park 2006). Lastly, in the institutional area, it is clearly seen that if the municipal fiscal autonomy is greater, more competition are made with neighboring municipalities in the field of social policy. As a result, this results in a growing gap in municipal social spending levels over time, as presented in figure 5-21. The rich get richer, and the poor become poorer.

On the whole, the correlation analysis has provided very interesting and somewhat new findings, especially from a national perspective. Nevertheless, one has to understand that each correlation coefficient has been estimated without controlling for its other important relationships. Thus, a more concrete conclusion will be put forward in the next section with regression models.

Table 5-9 Welfare geography in Korea: Pearson correlation coefficients

	Local social spending	Δ Local social spending	Population	Local budget	Unemployment	Elderly dependence	FLP	Left-party strength	Female political power	Local financial self-reliance	Local social spending <sub>t-1</sub>	Competitive spatial dependence	Co-operative spatial dependence
Local social spending	1												
Δ Local social spending	.311**	1											
Population	.448**	.105**	1										
Local budget	-.523**	-.193**	-.587**	1									
Unemployment	.406**	.220**	.289**	-.400**	1								
Elderly dependence	-.434**	-.152**	-.689**	.770**	-.426**	1							
FLP	-.201**	-.119**	-.237**	.298**	-.424**	.424**	1						
Left-party strength	.029	.070**	.134**	-.047*	.104**	-.053*	.024	1					
Female political power	.172**	.050*	.163**	-.185**	.158**	-.163**	-.115**	.125**	1				
Local financial self-reliance	.589**	.145**	.735**	-.744**	.515**	-.847**	-.428**	.064**	.233**	1			
Local social spending <sub>t-1</sub>	.912**	-.107**	.438**	-.507**	.267**	-.388**	-.176**	.000	.157**	.553**	1		
Competitive spatial dependence	.757**	.030	.300**	-.462**	.329**	-.328**	-.215**	-.023	.211**	.567**	.778**	1	
Co-operative spatial dependence	.209**	.379**	.118**	-.289**	.435**	-.221**	-.234**	.111**	.100**	.239**	.047*	.033	1

Sources: Ministry of Finance & Economy (2005) for local social spending, budget per capita, local financial self-reliance, competitive and co-operative spatial dependence; Ministry of Government Administration and Home Affairs (2005) for the rest.

\* = p<0.05, \*\* = p<0.01

### **5.3.3 The determinants of long-term change in municipal social spending: cross-sectional OLS regression analysis**

Table 5-10 presents the determinants of the long-term dynamics in local social spending in Korea. Five models are again presented: The first model examines the explanatory power of causal variables from the old/national perspective. The second model investigates to what extent the causal variables from the new/national perspective account for variation in local social spending across municipalities. The third model presents the combined results of the previous two models, hence controlling the influences from all dimensions from both perspectives. The fourth model estimates the combination effect of the aging population and increasing female labor force. The fifth model provides the same combined results but excluding some independent variables in the problem of multicollinearity.

First, although not very striking, it is worth mentioning in the first place that welfare municipalities in Korea develop with local economic growth. Through the different models in table 5-10, the aging population presents a partly positive effect on municipal social spending. This effect becomes clearly significant when local economy (e.g., population size) and social demographic conditions (FLPR) are taken into the models (i.e., models 3 and 4). However, it does not mean that affluent municipalities tend to have larger local budgets than the opponents. Inhabitants in rich municipalities might have a relatively small demand for public social services since the richer has more consumption power of private goods and services. It is also obvious that in richer areas more private goods and services are available on the market. This might be the reason why the budgetary power of municipalities turns out to be both significant and negative on municipal social spending levels through every different model. Certainly, this explanation can be opposed by the logic of industrialism, arguing that the richer the government, the greater the municipal social spending. Two points need to be made: on the one hand, the low level of municipal social spending in absolute terms might not demand a substantial increase in the municipal budget; on the other hand, a poor municipality in Korea tends to increase economic investment than redistribute goods and services since within a capitalist society economic vulnerability fundamentally dismantles their living conditions (O'Connor 1973). In this regard, the order is clear: economic growth first and

redistribution later. Unless the first condition is met, as among rich municipalities, there might be only little need for municipalities to achieve the latter.

Second, the aging population appears to be a significant factor that has increased municipal social spending, whereas the growing female labor force participation does not show any significant effect. The significant effect of the aging population is rather unexpected in a sense that the proportion of the elderly is much higher in small municipalities, in which municipal social spending levels are lower in general. It is assumed that such a result has occurred because the model controls the local variation in the per capita municipal budget and local financial autonomy, which are generally quite lower in small municipalities. At this point, I argue that geographic configurations of welfare needs and welfare resources matter. Meanwhile, neither the FLPR nor the joint effect of the FLPR and the aging population has led to statistically significant changes in municipal social spending in the long run. Despite all the convincing arguments about new social risks, the FLPR in Korea is still not high enough to exert a positive effect on municipal social spending.<sup>26</sup> The late timing of industrialization, unlike Denmark, and late de-industrialization might prevent the issue of new social risks from being publicized in the field of local social policy to a large extent (Bonoli 2005).

Third, the left-wing party strength does not have any statistically significant impact on Korean municipal social spending. During the last two decades, great progress has been made toward democratic consolidation in Korea. The re-emergence of local autonomy since 1995 signified a touchstone in the development of local politics. People longed for local autonomy as it would potentially ensure decentralized democratic politics. It was expected that local residents would engage and be empowered in the broader democratic process (Hwang 2006: 34). Contrary to expectations, actual voter participation in local elections has been considerably low. Trends over time suggest that voter turnout in local elections is declining just as rapidly as it is at the national level. The depressing voter turnout, indicating a lack of interest in local politics, is intermittently intertwined with the limited power of local governments. Yet, many local residents are ignorant or not fully aware of the extent to

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<sup>26</sup> In model 3, a problem of multicollinearity emerged between the *local budgets per capita*, *local financial self-reliance*, *elderly dependence*, and *unemployment rates*. As a result, the latter two variables were excluded in model 5.



which the local government affects their day-to-day lives. The growing involvement of political parties, which have traditionally had strong ties with not labor, or welfare, but regions, or economy, has caused regionalism to penetrate local elections and has become the major factor in mobilization (Hwang 2006: 35). Given the short history of the party system and the lack of clear ideological or issue differences between competing major parties (Hwang 2006: 53), it seems natural that the changes in the left-wing party strength has not led to a significant change in municipal social welfare. “Class conflict is hardly a feature of Korean local politics” (Park 2006: 21).

Fourth, local financial autonomy does not show coherent results. As seen in table 5-10, in model 1, a very high and significant regression coefficient was seen but in model 3 when the path dependence effect and horizontal IGR are controlled for, local financial autonomy became insignificant. The reason might be that municipal social spending increased over the last few decades in large populated municipalities that had higher levels of social spending in the past, strong local fiscal autonomy, and intergovernmental competition and co-operation in the provision of social services on the horizontal dimension (see table 5-9). Furthermore, in Korea, since local taxes are merely interpreted by both the local governments and local residents as an instrument for transferring the central government’s tax resources,<sup>27</sup> it is not in the interest of local governments to raise the local tax rates when more revenue and expenditure are wanted by local residents. When a local government wants to increase its expenditure level, the government either argues for a transfer of national taxes to local governments or more intergovernmental grants (Kim 2002: 15). An increase in local expenditure, therefore, tends to be accompanied by an increase in intergovernmental grants rather than an increase in local tax rates.

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<sup>27</sup> Nowadays, the distinction between national taxes and local taxes has become less clear. The best example would be a Local Transportation Tax was introduced in 2001; its size is approximately 12 percent of the National Transportation Tax Revenue. The Local Transportation Tax is not like other local taxes since it is collected by the central government along with the Local Transportation Tax, and then it is distributed to local governments in proportion to the number of car registrations. In this sense, it is not so much a local tax as tax sharing between the central and local governments. As a matter of fact, local residents do not recognize the Local Transportation Tax as a local tax since it is not shown in the receipts they receive at the gas station (Kim 2002: 15).

Fifth, unemployment rates had incoherent results. The unemployment rate proved to be a significant factor in model 2 but was insignificant in the other models. Building on the findings from the correlation analysis, this might be due to the strong correlation between the population size, local budgets, and unemployment rates during the period. It can be argued that unemployment itself would have a positive effect on social policy development regardless of whether it is related to the national or the local level. But because of the geographic configuration, which is negative with welfare resources represented by population size and local budget, unemployment might have an insignificant effect on municipal social spending in Korea. Of course, except for the years 1998 and 1999 in which the East Asian fiscal crisis caused mass unemployment, the overall low unemployment rates might be why unemployment has not led to any significant increase in municipal social spending.

Sixth, similar to the Danish cases, female political power again does not present any powerful explanatory power on municipal social spending in Korea. This result can be also understood through the context of the underdeveloped system for local politics. Theoretically, female politicians might well represent the issue of daily life conditions. But the proportion of the female labor has nonetheless not been so considerable that they can exert significant change in welfare municipalities. Building also on the same finding from Denmark, it appears to be rather unconvincing that the gender of politicians determines their willingness to support municipal welfare programs. It could be rather the policy membership of politicians that concludes to what extent politicians support municipal social services. Instead, another indicator of consumer politics measured by the path dependence effect<sup>28</sup> does show its significance. Although the overall level of municipal social spending is referred to as an indicator of the underdevelopment of welfare municipalities in Korea, it can be assumed that in some municipalities, in which almost half the municipal social spending is used for municipal social programs, the various consumer groups might have a deterministic role. As seen in table 5-10, this variable shows the strongest explanatory power among

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<sup>28</sup> To measure the path dependence effect on municipal social spending, I used not a one-year lagged but a nine-year lagged dependent variable as the independent variable. This wide time-distance therefore hardly refers to a short-term dynamics containing “noises” but refers to long-term dynamics, which is theoretically more meaningful and powerful to support the path dependent effect and consumer politics.

all the independent variables (compare all the standardized regression coefficients in the table).

Seventh, there has been strong co-operative effect on social spending among municipalities. As has been recently pointed out in the literature, policy-learning processes among individual municipalities have been facilitated more and more today in Korea. These processes become amplified via local media. For example, local newspapers report on the issue of local variation in quantity and quality of social care programs across municipalities (Jang 2007a, b). This trend finally realizes 'the politics of program evaluation' or 'politics of comparison' (Palumbo 1987) which means that politicians and administrators of a municipality increase social spending levels not only because of its internal demand from the inhabitants but also because its neighboring municipalities are doing so. In addition, it is also interesting here that when this co-operative variable is excluded in model 5, due to its problem of multicollinearity, the competitive spatial variable becomes significant. Probably, this could imply that there is both competitive and co-operative spatial interdependence in the process of welfare municipality change although the latter might be more deterministic.

Eighth, the result shows that the local budget per capita has a negative regression coefficient for long-term changes in municipal social spending. It thus means that municipalities in Korea put more effort into economic/industry development rather than into the development of municipal social services. This trend largely stems from the relatively underdeveloped local economy in Korea. Municipalities need capital accumulation to sustain their institution functions. If this condition is not sufficiently met, the primary task for municipalities is not providing social services but developing the local economy. Overall, the welfare municipalities are rather residual, stressing the role of the market and family in care work in Korea, which is also characterized by the residual nature of the role of the state in the provision of social welfare.

Lastly, the results from table 5-10 verify only half of research hypotheses in a straightforward manner. However, the results can partly support the hypotheses related to the paradigm shifts in welfare policy that have taken place over the last two or three decades. Although old political and institutional factors do not show any significant

effect on municipal social spending today, new determinants could be traced from consumer politics (i.e., new politics) and the horizontal effects of IGR (i.e., new governance). Against some hypotheses based on new social risks argument, the causal effects of growing unemployment and female labor force rates on municipal social spending are unclear. It seems that much of such failures might occur due to the geographic configuration of unemployment and the FLPR, which are negatively associated with local budget levels and the aging population, respectively (see table 5-9).

*Table 5-10 Determinants of long-term change in municipal social spending in Korea*

	Model 1	Model 2	Model 3	Model 4	Model 5
Population	-0.042 (0.000)		0.102* (0.000)	0.064 (0.859)	0.094* (0.000)
Local Budget	-0.578*** (0.842)		-0.152* (0.652)	-0.287** (-4.289)	-0.166** (0.566)
Elderly Dependence	0.221* (0.172)		-0.105 (0.136)		
Left-Party Strength	0.046 (0.010)		0.018 (0.007)	0.234** (4.549)	0.033 (0.007)
Local Financial Self-reliance	0.440*** (0.033)		-0.109 (0.033)	0.116 (1.208)	
Unemployment		0.134# (0.610)	-0.021 (0.754)	-0.041 (-0.433)	
FLP		0.008 (0.097)	-0.001 (0.099)		-0.021 (0.083)
Female Political Power		0.004 (0.045)	-0.014 (0.043)	0.015 (0.330)	-0.023 (0.043)
Path Dependence		0.505*** (0.095)	0.419*** (0.096)	0.366** (7.380)	0.424*** (0.094)
Competitive Spatial Dependence		0.112 (0.223)	0.132 (0.225)	0.193 (1.334)	0.380*** (0.078)
Co-operative Spatial Dependence		0.259# (2.170)	0.314* (2.119)	-0.036 (-0.218)	
Elderly Dependence × FLP				0.024 (0.596)	
Adj. R <sup>2</sup>	0.575	0.788	0.816	0.697	0.816
N	226	226	226	226	226

*Notes:* Cross-section OLS regression, standardized regression coefficients presented, standard errors in parentheses, constant included but not reported, co-operative spatial dependence defined as averages 1996-2004; all the other independent variables defined as averages 1995-2004.

*Sources:* Ministry of Finance & Economy (2005) for *local social spending, budget per capita, local financial self-reliance, and competitive and co-operative spatial dependence*; Ministry of Government Administration and Home Affairs (2005) for *the rest*.

# = p<0.10, \* = p<0.05, \*\* = p<0.01

### 5.3.4 Summary

How has Korean municipal social spending changed? What are the determinants of such changes? Obviously, Korean municipal social spending appears to be at a very low level. However, it has been rapidly expanded over the last decade. Especially, compared to that of income transfer policy, municipal social spending mainly consisting of various social care services has been less enlarged. More to the point, one can see a deepening polarization in social spending across municipalities. At this point, an important question arises: What has determined such variations? Using aggregate social care spending data and disaggregate municipal social spending data, the causal mechanism has been explored at the national and local levels. In this section, it has been particularly investigated as to whether welfare geography, paradigm shift, and welfare state regimes matter. The results can be summarized as follows:

Welfare geography matters. As seen from the correlation analysis, although municipal social services have been demanded by the aging population, this demand does not lead to a real increase in municipal social spending given the general condition that a larger number of elderly population live in rural areas. Because these areas are economically vulnerable, municipalities face a difficulty of institutionalizing such welfare needs. According to the empirical result based on the correlation analysis, social care and municipal social services appear to have been more influenced by welfare resources than needs. But it does not nevertheless mean that the demographic pressure has nothing to do with the growth of social care and municipal social spending in a sense that Korea records one of the fast-growing life expectancies in the world. As table 5-10 shows, when other relevant variables such as population size and local financial self-reliance are controlled for, the aging population shows a strong positive effect on municipal social spending.

Except for partisan politics, most variables support the theoretical arguments based on the old economic, political, and institutional context of social policy development. Rapid economic growth has accompanied drastic regional inequalities, especially between the urban and rural areas. Unlike Denmark, the Korean equalization system of local revenue has not functioned widely national but regionally. As a result, the difference in levels of social spending becomes greater over time. It furthermore results in regional discretion in priority of municipal policy and programs. For

example, municipalities in rural areas tend to raise industry-related investment than social care services, while those in urban areas can spend more on social care and cultural and educational programs (Jung et al. 2005: 530). Local government fiscal autonomy appears to be a very strong determinant of municipal social spending in the long run as has often been argued in previous studies (Jang 2007b). However, it becomes insignificant when the effect of the horizontal dimension of intergovernmental relations are control (see model 3 in table 5-10).

It is notable that the role of new social risks such as unemployment and female labor force participation is not clear with regard to the Korean welfare municipality change. These results probably can be explained in the context of the rapid economic growth, hence keeping unemployment rates lower and the context of late changes in socio-demographic structure in Korea. In addition, the short history of political democracy might allow gender-oriented politics to function either. Instead, the effect of path dependence and both competitive and co-operative intergovernmental relationships produce a positive influence on municipal social spending. In the introduction, it was questioned how some poor and financially vulnerable municipalities in Korea can provide expensive social services. According to the results, it can be possible in Korea if the municipalities may offer such services because of the increasing consumer right and new public management culture originated from the strong private welfare sector. In addition, a significant raise in social spending among neighboring municipalities can serve as political pressure on the municipalities if they are merely maintaining the existing level of social spending (Allard and Danziger 2000; Jang 2007b; Tiebout 1956). In seeking regional solidarity in welfare, moreover, upper-level local governments take an important role in mitigating the inequalities within each region. Hence, it can be concluded that a municipality does not work alone but together with others with relative autonomy in its decision-making.

Lastly, the result implies that the Korean welfare municipalities mirror the residual nature of the welfare state regime. As argued earlier, this is significantly related to the degree of industrialization and the amount of capital accumulated (O'Connor 1973; Wilensky and Lebeaux 1965: 140). This analysis clearly presents that the increasing local budget per capita has been more likely to be spent on non-social programs. As seen in chapter 2, here the non-social programs refer to the investment in economic

industrial development. The logic of welfare municipality change is clear: when a municipality is economically vulnerable the budget is spent more on economic projects, not social ones (Christoffersen and Paldam 2003).

The most important determinants of social care spending and municipal social spending can be summarized as follows: the aging population referred to as an old social risk, path dependence effect as consumer or new politics, intergovernmental relationships as a new mode of governance, and welfare state regimes as an overall structure for welfare municipality development.

#### **5.4 Similarities and dissimilarities between the Danish and Korean welfare municipality changes**

The welfare municipalities in Denmark are highly mature, thereby changing very gradually whereas those in Korea are underdeveloped but change radically. Almost the same trends have been observed in the Danish and Korean welfare states at the national level. Regardless of these differences, local variations in social care and municipal social services have been evident and considered a major issue that threatens territorial justice in both Denmark and Korea. More specifically, this raises the question of what determines such local variations in each country. In this chapter, the question has been empirically investigated. Overall, one can argue that paradigm shifts in social welfare and welfare geography matter equally matter in both countries although the role of the welfare state regime types is not clear. However, detailed differences by factors need to be put forward.

Social care and municipal social spending have been supported by different forces over time in both countries. Although not all new post-industrial forces of welfare municipalities have been proven to be significant, the same holds true for the old industrial forces. In Denmark, the power of partisan politics, for instance, cannot explain the long-term change in municipal social spending; the central government's financial system plays a more important role than local governments' fiscal autonomy. Instead, consumer politics and the changing socio-demographic structure exert a profound influence on municipal social spending change; furthermore, the



intergovernmental system (e.g., the equalization grant) and the LGDK had led to a significant change in municipal social services in the past even if their roles became insignificant after having achieved considerable territorial justice. Similarly, in Korea ideology-based partisan politics has never been a major force to determine municipal social spending. Due to the late timing of industrialization, some old industrial forces such as the local economy, the aging population, and local governments' fiscal autonomy play a great role in the developmental process of welfare municipalities. However, consumer politics and intergovernmental relationship and organizations take a powerful and decisive role in determining municipal social spending levels today.

Next, welfare geography limits to an extent municipal social spending changes in both countries. In Denmark, the FLPR, for example, is negatively related to the local government' budget size, the aging population, and the central and local governments' fiscal efforts in welfare municipalities. Likewise, in Korea the aging population has a negative relationship with local governments' fiscal autonomy. In this way, the service demand of working women in Denmark and the aging population in Korea might be less politicized and institutionalized than had been theoretically expected. Indeed, what these findings highlight is the "variety of industrialism" that has led each county to different geographic distributions of welfare needs and resources. As mentioned earlier, the Korean economy has been exclusively based on the "export-oriented" manufacturing industries, which result in large-scale industrial cities. Of course, young laborers are prevailing in these cities, and the result is that a large municipality has a relatively young demographic structure and better local economy, while the opposite is left to small ones. On the contrary, the Danish economy has been developed by the growing food industries based on agriculture. Thus, the variations in local economy might be less evident across municipalities. In my view, the negative correlation between the aging population and the FLPR reflect the geographic distinction among municipalities with working and non-working people.

Lastly, in contrast to my hypothesis, it appears that the welfare municipality in Denmark plays a residual role in the provision of social services despite the institutional welfare state regime in Denmark. Of course, it is not surprising to see the residual role of municipalities in municipal social provision in Korea as the overall characteristics of the Korean welfare state regime presents the same. Thus, one can

argue that these findings indicate that welfare municipalities in both countries, and probably other advanced industrial countries as well, have recently attempted to invest more in industries and less in welfare. For Denmark, the European integrations and globalization force municipalities to compete with other municipalities to protect their economy. For Korea, the deepening polarization of economic resources among municipalities leads poor municipalities to more investment in local projects of economic development. All in all, in both countries, when faced with economic problems or suspected economic declines, municipalities give priority to the development of local economy rather than welfare. This conclusion might sound contradictory as the economic situations in both countries are rather optimistic. But one should nonetheless remember that when the economy appears to be developed at the national level, one can easily find serious economic downturns among many municipalities at the local level.

## CHAPTER 6: CONCLUSION

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### 6.1 Summary of findings

For the last two decades, a growing local variation has been observed in welfare municipality change. Even Denmark that has developed a highly universal welfare state regime has faced with the problem of inequalities in quality and scope of municipal social care services (Hanssen 1997). This issue might be even more serious in a country like Korea with an underdeveloped welfare state and less developed economy and politics (Jang 2007b; Kim and Lee 2000). From this aspect, one might argue that the spatial injustice in social policy and the relevant national and local strategies have been a universal issue in any advanced industrial countries (Varies 2000). In both Denmark and Korea, the possibility of tailor-made policies based on greater knowledge of the actors at the local level has been considered as the great advantage of decentralized social policy. On the other hand, the argument of cost-efficiency has been prevailed in both countries too. The idea has been that to be more efficient one has to provoke competitiveness among municipalities especially under limited resource for municipal services.

The central aim of this dissertation was to identify the causal mechanism behind the welfare municipality change. This research was motivated by the growing necessity of the cross-local comparative studies in municipal social policy. Impressed by the growing gap of social services across municipalities much of comparative research has begun to demonstrate welfare municipality change and its determinants for the last two decades. However, it is rather striking to see that almost all previous studies have heavily relied on the theories and research designs in most of comparative welfare state studies. Only the unit of comparison is at the local and the others remain still on the national level (Cochrane 1994: 117): municipalities are often considered as much autonomous as the state. All the theories that explain the welfare state change well are strongly assumed to be effective when accounting for the welfare municipality change.

Surprisingly, only few have established a theoretical framework which supports that argument that welfare municipality change is a result of neither national-wide force nor local specific one, but rather a result of both conditions (Bureau and Kröger 2004). Furthermore, to produce generalizations beyond the limits of a single national study, the research should be based on a cross-national comparative analysis. Otherwise, studies of welfare municipalities are likely to end up with some national specific understanding (Wiatr 1980). Without any cross-national comparison or with too much stress on the national level, of course one can neither generalize findings from one country to another nor can clearly explain why municipalities respond to welfare issues differently within the same country.

Bearing these in mind, I have explored studies and theories that have conventionally as well as recently resulted in the most important debates on social policy development and change: the logic of industrialism, power resource approach, state-centered thesis, new social risks argument, consumer politics and the IGR. As many researchers argue (Bonoli 2007; Green-Pedersen 2002), here the first three theoretical approaches and their logics of explanation are considered as having a root in the post-war social context. Therefore it raises the question as to whether those theories can account for social policy matters in the post-industrial context. Moreover, the popular application of these “post-war” theoretical perspectives to the studies of welfare municipalities appeared to be problematic since social policies in which those theories have been primarily concerned with are social insurance schemes, generally irrelevant to municipal social policies (Alber 1995).<sup>29</sup> In these regards, what was ultimately supposed to do was to explore other types of theories that can demonstrate social policy change at the local level and over recent years. Reflecting these issues, the last three theoretical accounts were chosen and integrated into the theoretical framework. Notably both the first three and the last three theoretical approaches emphasize the contribution of either economy and socio-demography, politics or institutions to social policy development even if each of those has a considerably different perspective in terms of time and place of policy implementation. The best advantage of this

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<sup>29</sup> However, one can see some exceptions in federal states like Canada, Switzerland. In these countries social programs such as social assistant benefits, health and old-age insurances did not early nationalized because of serious local resistance by some rich local governments that did not want to have an identical national system of social welfare because then they need to share financial burden with other poor local governments. For more detail, see Obinger et al. (2005).

framework is that both old and new and both national and local effect on municipal social policy change can be investigated.

Thus, within this theoretical framework an empirical finding based on a certain social policy development or based on one theoretical account is likely to be contrasted with that of the others. For example, with the logic of industrialism one would consider the economic wealth as a factor having a positive influence of municipal social spending. However, from the perspective of new social risks it can be hypothesized that the more the poverty the greater the need of municipal social services. More precisely, it can be assumed that if municipal populations are rich, they rather use private services (Ascoli and Ranci 2002; Hanssen 1997). Although the old social risks like population aging matter to today's welfare municipality, it can be argued by new social risk researchers that contemporary welfare municipalities are fundamentally influenced by new social risks, such as growing unemployment and female labor force participation.

In an industrial era, the central politics in many advanced industrial countries are governed by the class and partisan politics. However, in a post-industrial era, which is characterized by complex needs and interests of people, such ideology-based class and partisan politics play a weaker role than they used to be. This trend appears evident especially in the provision of social services (Schridde 2002). Instead, public services efficiency/efforts are more exerted by consumer politics which are common in service industry (Clarke and Newman 1997). During the national building after the second world war, what was important with regard to municipal social policies was fiscal autonomy (Obinger et al. 2005; Rokkan 1999). However, in the post-industrial era, welfare municipalities can also change through the horizontal types of intergovernmental co-operations and competition. This trend can be clearly captured by distinguishing levels of social policy implementation. Different social programs are implemented on different levels of government. While all important changes in any social programs are made by the national government, the magnitude and scope of social care service programs can be considerably altered by municipal authorities (Szebehely 1998). From the comparative national perspective, the poverty is translated into the incapability of increasing public social spending or simply a lack of financial resources enabling public sector growth. However, at the municipal level, poverty is often a strong determinant of increasing public social spending.

The considerable freedom of fiscal burden among municipalities in implementing municipal social services is essentially afforded by the IGR. A large portion of municipal spending is transferred through finance equalization systems (Bogason 1987; Park 2008a; Tonboe 1991). It could be possible for municipalities which are economically vulnerable to provide similar or even more expensive social programs to their citizens. For social insurance schemes the most important socio-demographic structure is certainly population aging. However, with regard to social care policy one must look at the role of increasing female labor force market participation. From political point of view, it can be argued that partisan politics may be more concerned with income and class issues, on which social insurance schemes are based. Such issues are however taken as less important in the policy field of social care services. Remember that social care services largely benefit not only the poor but also the middle class (Goodin and LeGrand 1987). Professionals and humanitarian value of the programs also play an important role in expanding these services (De Swaan 1988). In these regards, we are supposed to find that the contemporary changes in welfare municipalities could be better understood by the theories constructed in post-industrial era especially with regard to local social care policy development, rather than those of post-war and national social transfer programs related.

Furthermore, the changing paradigm from the old and new social policy appears to be complex to understand because of welfare geography (Curtis 1989; Pinch 1997; Smith 1977). Here, welfare geography does not merely refer to the geographical variation in municipal social services. It more exclusively refers to the geographical configuration between different welfare needs, and between welfare resource and need, as discussed in chapter 4. The problem is that some welfare needs are negatively correlated to each other. In theory, the aging population, for example, is assumed to have a positive relation with female labor force participation, and the both are further assumed to have a positive effect on municipal social spending. But in reality their relations are nonetheless geographically negative. Likewise, a conflict can emerge between welfare needs and resources. Thus, a municipality in which the more the aging population matters faces less fiscal resources available or municipal social services.

Lastly, a local government is believed as a part of the state. Likewise, welfare state regimes are often conceived as major policy templates for local policies (Bureau and Kröger 2004). As discussed with the Danish and Korean case in chapter 2, to what extent the state intervenes to enforce the public service sector differs across welfare state regimes. Some countries are likely to have a large public service sector like most western European countries while others tend to do the opposite, found in the Anglo-Saxon and East Asian countries although there is not much difference in terms of economic levels. Therefore, it was theoretically important to question as to whether the welfare municipalities simply mirror the welfare state regimes or not.

In the empirical part of this dissertation, I attempted to identify the effect of welfare paradigm shifts, welfare geography and welfare state regimes on welfare municipalities in Denmark and Korea. Based on social expenditure data, welfare municipalities have been described both at the national and local level. In doing so, it became clear that much debate on welfare paradigm shifts has reflected structural changes at the national or big city levels (Alber 1995). A number of tables and figures indicated that there were huge contradictions in the patterns of social spending change in each municipality. Indeed, because of its autonomous social spending change of individual municipalities cannot be well understood with their averages or aggregation; thus, it does not make sense to generalize a retrenchment or resilience at the national level. This may also be the case regarding the determinants of welfare municipalities. Although the new social risks perspective, for instance, emphasizes the role of increasing female labor force participation, a considerable number of municipalities appeared not to have experienced such increases.

With correlation analyses plus graphic descriptions, welfare geography has been examined across municipalities. What is important from this is that we can find an unbalance between welfare resource and needs. Indeed such finding cannot be measured at the national level once all the resources and needs are aggregated. This was clearly presented by again correlation analyses with graphic descriptions at the national level. The geographical configuration found in Denmark and Korea might not appear in other countries because it might be largely confirmed by the structure of national industries. For instance, welfare needs and resource might be evenly distributed in an agricultural industrial society, than a manufacturing industrial society.

Even if welfare needs and resource are evenly allocated over space, one could reveal the conflict between different welfare needs or between different resources for local social policy development. All in all, if a long list of economic and socio-demographic indicators is examined, one would find a unique configuration between them from each country. But researchers should nonetheless be able to distinguish universal trends of paradigm shift in social policy if there any from this national specific findings.

At first glance, the regression analyses present somewhat disappointed results regarding my research hypotheses emphasizing the distinction of spatial and time dimensions in comparative research of welfare municipality change. It is indicated that only about half of hypotheses formulated appeared to be verified. Especially the new social risk argument has not been satisfactorily supported by “cross-local comparative analysis” in this dissertation although an apparent shift in welfare paradigm has been identified with the national-level description. The point is that there may be paradigm shift in welfare municipalities, but the welfare geography curves this pattern at the local level. Nonetheless, one can argue that the overall picture of changing world of welfare municipalities have been empirically supported; some of the paradigm shift hypotheses have been verified by the insignificance of ideology-based partisan politics, local fiscal autonomy based on the post-war context. In addition, significant influences of consumer politics and IGR appear to be significant factors in welfare municipality change in the post-industrial context; hence supporting the paradigm shift argument in this field of research.

What appears striking is that the empirical findings show the increasing residual characteristics (e.g., an increasingly passive role of municipality in local social programs) of the welfare municipalities in Denmark. Yet the Danish welfare municipalities are the most advanced level and rather classified into the institutional welfare in the World (Wilensky and Lebeaux 1965); as also seen from Appendix, for example, the big municipalities in Denmark, in terms of budget amount, clearly tend to spend lager amount of budget on municipal social services. Nonetheless, the regression result presented in Table 5.10 is this trend has changed over the past decade. More specifically, today municipalities, particularly those economically vulnerable ones, increase their budget not more for developing public welfare provision but more



for strengthening economic competition (Pickvance and Preteceille 1991; Vesterggard and Ærø 2006). In fact, this finding is not at all new in the literature that focuses on the relations between welfare state regimes and globalizations (Streeck 1999). The growing globalization for the last decade exerted individual municipal authorities to compete to each other to get themselves more financially secure. On the contrary, the Korean case shows the residual role of municipal social provision. This result was anticipated based on the characteristics of the Korean welfare state. Among municipalities especially economically vulnerable, developing local economy is a more urgent issue than distributing public social services. This finding appears to be strong evidence of O'Connor's argument (1973), suggesting that the state including sub-national states have a dual functions: social investment functions (broadly operationalized as decisions affecting capital accumulation) and social consumption functions (usually welfare-oriented policies). Especially after 1997 when the Asian financial crisis occurred there has been a growing mobility of population from rural to urban cities to find jobs. This certainly led municipalities in rural areas to more opportunities of employment and for that they invested more explicitly on local industries than on municipal social services.

## **6.2 Directions for future research**

This dissertation contains might have two major limitations, related to the empirical analysis. First, some data ideally preferred to use could not be employed for empirical analysis. For example, in the dissertation the population size was also considered as a proxy indicator of local economy by assuming that individuals tend to move from the poor to the wealthy municipalities. This argument seems to be quite reasonable with regard to the Korean case. But the Danish case maybe not since the Danish food-export industries which produce high value-additions have been often located in some small and rural agricultural municipalities (Tonboe 1991). Furthermore, the variables for new/local institutional causal forces were also somewhat unsatisfactorily employed indicators. Nevertheless, I can still argue that the higher the neighboring municipalities' social spending level can be the political pressure leading to municipal competitions. The inter-municipal similarity in the patterns of annual social spending could indicate to some extent of co-operations and policy diffusion among local

governments. Yet, they may retain some errors since the empirical analysis of this dissertation did not measure the real interactions among them. More adequate indicators could have been employed as variables of consumer politics. The influences of the NPM and the political power of public service users and groups could have been possible to measure. But dealing with hundreds municipalities did not allow me to find and employ any further adequate indicator. After all, an effective way to solve all those limitation of data availability would be an intensive small-N case study from a cross-national perspective.

Second, the relatively short time-series data used in the analysis does not allow to access the change occurred in post-war era. Of course, as I argue earlier, levels in many social indicators can be referred as to a long-term change or an accumulated short-term change in social phenomenon. This argument holds true as far as social expenditure, socio-demographic variables like the population aging and the FLP are concerned (Siegel 2007). However, there are also some exceptions. As an example, the Danish case presents that intergovernmental relations took an important role municipal social policy in 1970s and 1980s could not be distinguished by the empirical analysis of this dissertation. In other words, intergovernmental relations radically change in a short run, so that the short-term data cannot mirror the changes in intergovernmental relations in the past. This problem is avoidable if the sufficient time-series data are offered at the local level. But it is obvious when such data are available then the time-span should be extended especially if paradigm shift and social policy change are considered as the key of the study.

### **6.3 Understanding the logic of welfare municipality change**

As argued earlier, studying the welfare municipality change is as much complex as understanding the welfare state change. This dissertation clearly presents that investigating the “local” does not mean a “small requirement” of knowledge or “narrow view” about social policy. Rather the comparative research of welfare municipality change calls for an encompassing framework that can control many complexities like welfare geography, paradigm shift in social welfare and the influenced of welfare state regime on local social policy. In this section, as a closing, I

would like to present some important implications with regard to the concepts, theoretical framework and methodological approach in this dissertation.

First of all, the dissertation presents how to analyze welfare municipality change. As presented in chapter 5, significantly different patterns of social policy change and paradigm shift can be detected according to the level of description. Stressing on the growing polarization of municipal social services, a growing number of scholars emphasize the necessity of “between-municipalities” comparison. However it appears that the empirical results are likely to overestimate the context of small municipalities and tells quite a different story from the findings based on a national level description. For instance, if local economy has grown especially within few metropolitan cities and there has been a decline in many small rural municipalities, a research based on a local comparison might demonstrate the national economic situation is overall in downturn. Such a distortion of reality has not been often referred in the comparative studies of welfare municipalities. Of course, it will be desirable that both the national and local description are distinctively made and attempt to understand which effects are overestimated by the local comparison. The unit of comparison thus must be both individual countries and individual municipalities. The both have pros and cons in describing welfare municipality change.

Second, there has been a considerable debate on how to measure social policy change. Should one need to investigate levels (i.e. development and underdevelopment) or change measures (i.e. increase and decrease) in social policy? (Bonoli 1997) This question has been at the center of many distinguished comparative studies of welfare state retrenchment. Korpi and Palme (2003) as well as (Clayton and Pontusson 1998) point out that if the welfare state retrenchment is conceptualized based on a level change, then the empirical result is inclined to reject retrenchment argument; on the contrary, the growth rate change is conceptualized as retrenchment then the result is likely to support retrenchment argument (Pierson 1994). This is often considered as the “dependent variable problem” and raises questions of how to investigate social policy change based on a strong linkage between theories and methodologies (Clasen and Siegel 2007; Clayton and Pontusson 1998; Huber and Stephens 2001; Korpi and Palme 2003).

Focusing specifically on the social spending as dependent variable, Huber and Stephens (2001: 57-58) present several reasons of why one needs to choose levels rather than change. At the first place, the annual changes in the expenditure measures are strongly determined by economic cycles. This means that business cycles confuse the picture for the expenditure because they affect not only the numerator (e.g. expenditure goes up in recessions because of the increase in unemployment and down in booms because of the fall of unemployment). At the second place, the social spending in most advanced industrial economies, which are in general the cases for the comparative studies of welfare state change, does not present any radical annual change. Rather relying on change measures one can get data error easily. Besides, some social policy, notably pensions in which entitlements are based on the duration. Thus, again the result can obtain rather unnecessary errors. However, as too Huber and Stephens well taken, the choice of level as the measurement of the dependent variable can be considered as problematic since the assumption of independence of the observations becomes questionable (2001: 59).

To increase the independence of observation, a lagged dependent variable has been included increasingly in the regression model, as suggested by Beck and Katz (1996). But then a subsequent problem emerges; the inclusion of a lagged dependent variable “eats up” all variation (Kittel and Obinger 2002: 22). Kittel and Obinger suggestion (2002) is twofold: if a long-term change is concerned one should use cross-sectional regression model because long-term change can be well reflected on cross-section data with only one time-point; in other cases one should investigate only short-term changes (i.e. dynamics) using TSCS regression model. Coming to the conclusion, I would like to emphasize that one must focus on “levels” in social spending and employ the cross-sectional regression model if the research question is as to whether paradigm shift occurs over time. No doubt that one paradigm of welfare states or municipalities is replaced by another within few years. Not every change is important to make a “time matters” argument. What the paradigm shift argument needs to present is not simply all turning points but the turning points with trajectories having different slopes for considerable time before and after themselves (Abbott 2001: 243-250).

Third, the most neglected part of previous studies of welfare municipality change has been the theoretical or analytical framework. Changes in municipal social spending

have been understood often based on the law of demand/supply: the more service needs the higher municipal social spending level (Hanssen 1997; Trydegård 2000). Besides, most studies have been too much relied on so-called the three major welfare state development theories: the logic of industrialism, power resource approach and the state centered thesis (Jin 2006; Newton and Karran 1985). This means that much of empirical research has aimed at proving the effect of local economic development, demographical pressure, partisan politics, and local fiscal autonomy and so on. What is striking from a different angle is that in this research trend a municipality is treated as if it is a nation state (Jang 2007b: 331). As presented theoretically and empirically, municipalities are not as much autonomous as the state and have political and institutional network among them. Therefore, this is a significant problem that the relative autonomy of municipalities has not been adequately addressed within the theoretical and analytical framework. In almost of all comparative studies of welfare municipalities, municipalities are either described as fully autonomous or considered as totally dependent on the central government. Such a distortion has been made probably either to make comparison easy to understand or make authors' argument bolder or for the both.

To encourage more cross-national comparative studies of welfare municipality change, presenting effects of a list of independent variable on municipal social spending or programs is not enough. As the Danish case presented with the geographical relation between the aging population and the FLP, empirical analyses can present insignificant effects of some causal variables because of welfare geography. What is desirable thus is to establish a well defined analytical framework that can not only distinguish between economic, political or institutional effects, but also can tell us whether there are any geographical or welfare state regime effects on welfare municipality change. In this way, similarities and dissimilarities between welfare municipalities across different countries become more evident; accordingly the implications of the research become clearer.

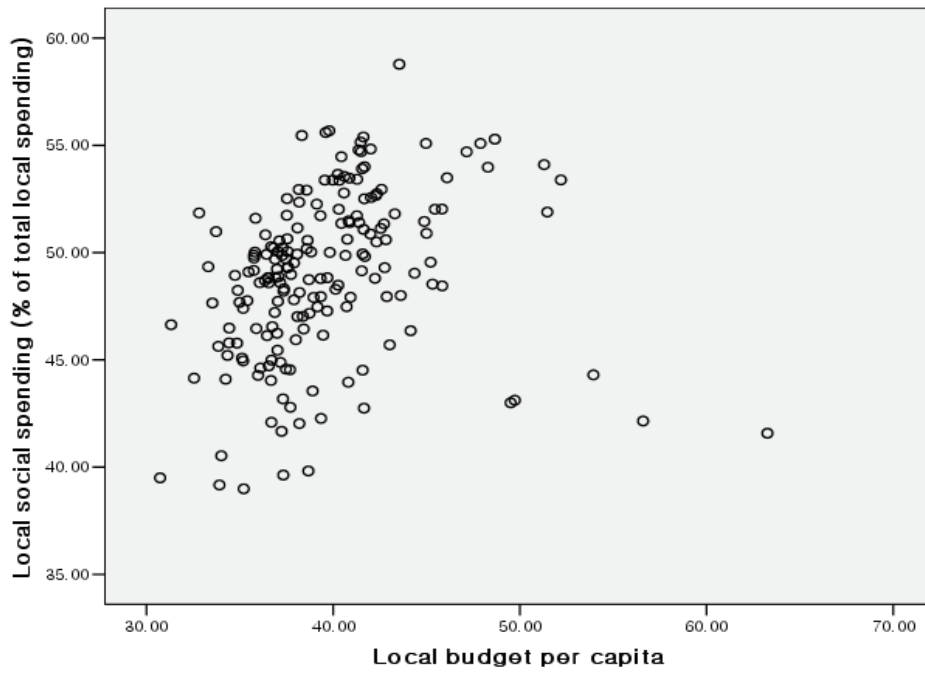
In conclusion, studying about welfare municipality change is inherently studying about the concept of time and space. Different paradigms and forces play different role over time. Although the primary interest is the recent transformation or turning points in welfare municipality change, the recent change is certainly affected by old social

contexts. The past and the present are both important. Thus researchers should analyze not only as many individual effects of each causal force as possible but also the interactions between them over time if they cause an independent effect. A wide concept of space is crucial because the determinants of welfare municipality change are situated in both vertical (e.g. central-local government relations) and horizontal dimension (e.g. inter-local government relations) of space. It is presumable that any significant changes in the former might have a significant effect on the horizontal relations and *vice versa* (Obinger et al. 2005). Therefore, empirical results based on a poorly organized framework would be highly contingent on the change in situations over time and space. At this point, again I argue that studying the ‘welfare municipality change’ is as much complex as studying the ‘welfare state change’ is. A real comparative study of welfare “municipality” change should not be considered as a part of comparative study of welfare “state” change.

## APPENDIX

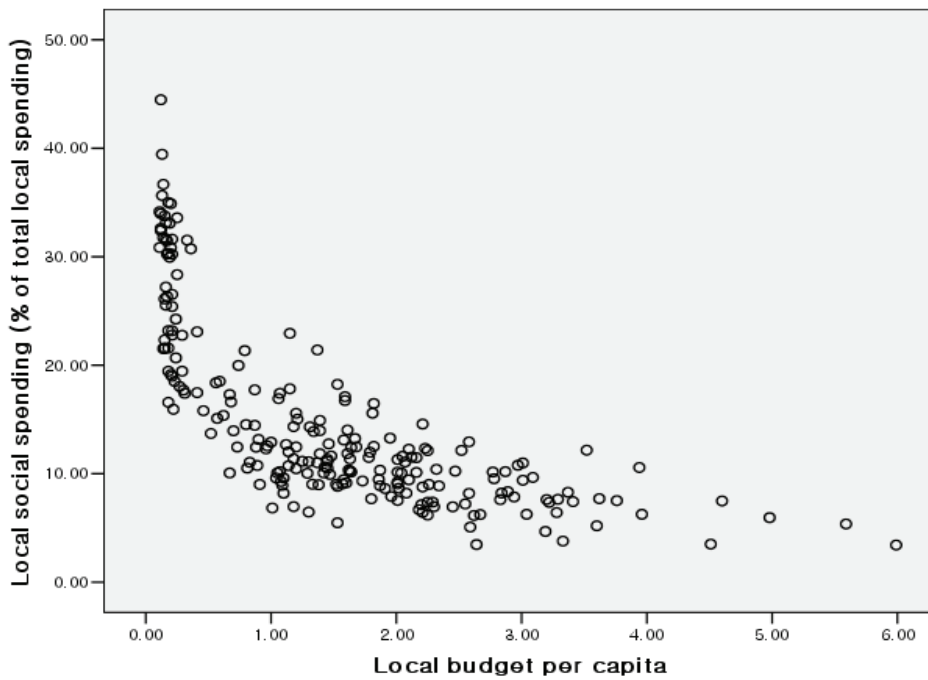
Appendix 1-1 and 1-2 below supports this conclusion that in the institutional welfare state the municipalities take more institutional role in welfare, while in the residual welfare state the municipalities take more residual role. Appendix 1-1 indicates that the larger the local budget per capita the greater the municipal social spending ratio in Denmark. In other words, when the Danish municipalities increase their role for citizens, it is mainly for the development of local social policy and programs. By contrast, figure 1-2 indicates the strong negative correlation between the local budget per capita and local social spending ratio. This means that when the municipal authority increases its budget, the major policy which benefits from this increasing budget is not likely to be social policy. As table 2-2 in chapter 2 indicates, the spending would be increased for industry and economy and regional development, which in turn strengthen the market and family through the increasing income from the market. Therefore, one can argue that there is the institutional welfare municipality regime *vis-à-vis* the residual welfare municipality regime within a country (see the geographical variation). But the same distinction exists across countries. This argument will be empirically tested in chapter 5 in relation to some important local level variables, representing local economy, socio-demography, politics and institutions.

*Appendix 1-1* The relation between local social spending and local budget in Denmark, 2004



*Source:* Statistics Denmark (2007)

*Appendix 1-2* The relation between local social spending and local budget in Korea, 2004



*Source:* Ministry of Government Administration and Home Affairs (2005)



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