

# Comparative Patterns of Political Institutions and Social Policy Developments\*

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*This paper tries to provide empirical support for a formal model of social policy development, as presented in a former paper on this study. In a direct democracy, the median voter's social policy preference is critical because he is a Condorcet winner in pair-wise pure majority voting. However, in a more general setting, we should think of various political institutions as a collective choice of device. For this reason, I draw a formal model that formulates three contrasting types of political institutions that are distinguished by the developments of political democracy and the differences in electoral rules. Comparative patterns of key variables that measure political institutions, social policy developments, and social policy preferences provide support for arguments. My empirical results suggest that three political institutions are associated with very different policy outcomes. Compared to other institutions, a committee system entails more targeted subsidies and a less universal benefit. In contrast, proportional elections produce a more universal benefit and fewer targeted subsidies.*

*Keywords: Social Policy Preferences, Social Policy Developments, Political Institutions, Democracy, Electoral Rule, Korea*

## I. INTRODUCTION

This paper attempts to analyze at an empirical level the social policy preferences<sup>1</sup>

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\* Translated from an article published in the *Korean Journal of Social Welfare* 62(3): 141-162, 2010 with permission from the Korean Academy of Social Welfare.

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<sup>1</sup> There are a number of terms similarly applied, such as public opinion, beliefs, attitudes, awareness, and others; however, in the area of social policy, these are used together with no major distinction. In this paper, I use the term "social policy

held by members of society and the effects of the basic political system collectively determining such preferences on the development of social policy. Social policy is a concept that encompasses policies in a variety of domains, but here it is defined as a system that takes income from the market and redistributes it through national policy, thus creating public income transfers. Typical public income transfer systems are income security systems that include social benefits and, of course, social insurance and public assistance. Income security systems distribute taxes (or contributions) collected from members of a society according to a particular standard. Members of society who can increase their utility through such a system prefer the development of an income security system (that is, as social policy), whereas members of society who experience a decrease in utility would not prefer such a development. Of course, it can be said that the difference in social policy preference is linked to individual characteristics (e.g., such as socioeconomic status, position within the labor market, age, and risk aversion tendencies). It has been noted that if a society's social policy preferences can be expressed as a monotonic function of its members individual characteristics, then collective decisions from the principle of majority rule are possible, and their preferences have a single crossing property (Gans and Smart 1996). Also, in such a case, the result of collective decision coincides with the preference of the voter with the median characteristic.

However, although it has been stated that preference aggregation by pure majority rule is possible, the results of the social policy also depend on the institutions that govern how the preference aggregations are made. Bearing in mind the democratic political structure that is founded on collective decision-making according to voter preferences, it is clear that this can have a direct and powerful impact on development and changes of social policy. However, political systems based on collective decisions are truly diverse. Therefore, to discuss the relationship between voters' social policy preferences and social policy development, a theoretical discussion of the effects of the concrete institutional form of collective decision-making is necessary. This paper aims to verify empirically the theoretical model of former study, which states that diversity of welfare regime or difference in social policy

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preference" to refer to people's awareness or attitudes of social policy.

development are related to differences in the mechanisms for converting voters' social policy preferences to collective decision-making.<sup>2</sup> Because the main goal of this paper is based on an empirical study, it will give the briefest possible introduction to the aforementioned theoretical model and will base its argument on an empirical analysis that utilizes a variety of evidences.

## II. THEORETICAL MODEL

In a preceding article related to this paper, a formal model concerning social policy preferences, political systems, and the development of social policy was proposed. The following will serve as a brief introduction to this model.<sup>3</sup>

### 1. Asset Model of Social Policy Preferences and its Limitations

The asset model of social policy preferences (Iversen and Soskice, 2001) emphasizes the points where the skill constraints<sup>4</sup> involved in a particular production system have an effect on voters' social policy preferences. Let  $\alpha$  equal the proportion of people employed by businesses that use both general skills and specific skills, and let  $s \cdot g$ <sup>5</sup> equal those workers' hourly wages. Furthermore, let  $\beta$  equal the proportion of people employed by businesses that use only general skills, let  $g$  equal these worker's hourly wages, and suppose that the social policy allowance  $R$  is allocated by means of a proportional income tax  $t$  (on market income). If the proportion of

<sup>2</sup> This paper is the second part of a two-part paper. The first paper was published as "Explaining the development of Social Policy; social policy preferences and political institutions" in the *Korean Journal of Social Welfare* 61(4): 35-39. Here, the focus is on points explicated in that paper's theoretical model. This paper focuses on empirically verifying the theoretical model derived in the prior paper. Therefore, for a more detailed look at the theoretical model, please refer to the respective paper.

<sup>3</sup> The following description of the theoretical model refers to Hong (2009).

<sup>4</sup> The degree to which a given skill is valued only at specific industries or companies is referred to as "skill specificity." Specific skills are those that are valued only at specific industries or companies, whereas general skills are those that are valued at a variety of businesses and companies.

<sup>5</sup> Therefore, in cases without specific skills ( $s = 1$ ), the wage rate is  $g$ .

unemployed workers  $\gamma = 1 - (\alpha + \beta)$ , and  $l(t)$ <sup>6</sup> and  $w^-$  are the labor supply (or hours applied to labor) and the average wage rate, respectively, then voters' income before taxes, according to their employment and skill status, can be expressed as follows:

$$\begin{aligned} \text{Specific Skills Group: } C^S &= (1 - t) \cdot l(t) \cdot sg + R = (1 - 2R/w^-) \cdot sg + R \\ \text{General Skills Group: } C^G &= (1 - t) \cdot l(t) \cdot g + R = (1 - 2R/w^-) \cdot g + R \\ \text{Unemployed Group: } C^U &= R \end{aligned} \quad (1)$$

Here,  $\alpha$ ,  $\beta$ , and  $\gamma$  represent the probability that voters will belong to their respective groups; hence, they consider each of the three cases and attempt to maximize their own expected utility. If the discounting of future income is not taken into account, then the expected utility can be expressed as  $V = \alpha \cdot u(C^S) + \beta \cdot u(C^G) + \gamma \cdot u(C^U)$ . If the expected wage rate  $y = \alpha \cdot sg + \beta \cdot g$  and this value is fixed and if the change in  $R$  is evaluated according to the increase in  $s$ , then the following holds:

$$\text{When RRA (relative risk aversion)} > 0, \delta R / \delta s > 0$$

Finally, if we assume that the expected wage rate is fixed and if voters' risk aversion tendency is greater than zero, then the increase in  $s$ , that is, the increase in the proportion of specific skills with respect to general skills, causes an increase in social policy allowance  $R$ . More intuitively, this model can be organized as follows. First, because the skill specificity and their transferability in the labor market usually have an inverse relationship, members of a society with specific skills may potentially experience longer periods of unemployment or serious drops in income due to unemployment. Second, as a result, members of a society with specific skills have more motivation than those with general skills to avoid such risks. In other words, a greater the degree of specificity in skills leads to a greater inclination toward risk aversion. Third, social policy is a powerful mean for dispersing the risks of unemployment and the drops in income that can occur in the labor market. Fourth, as a result, voters with a high degree of skill specificity have a

<sup>6</sup> Accounting for the decreasing effect of taxation on the labor supply,  $l(t) = 1/(1 + t)$ .

greater preference for social policy.

Based on the asset model of social policy preferences, production regime and welfare regime are complementary because voter preferences, shaped in the institutional constraint of the production regime, form the welfare regime. For example, Coordinated market economies (CMEs) had fostered a production regime which depends on the incremental innovation according to comparative advantages, the specific skills set of an average worker is one condition that makes incremental innovation possible. Therefore, the proportion of voters with a specific skill among all voters is high in CMEs. Finally, due to their preferences, the level of development of social policy in CMEs is high. This model has the advantage of being able to explain the complementarity between production regime and welfare regime by means of a voters' policy preferences established by their skill specificity.

However, the point that is overlooked in this type of theoretical model is that some countries classified as CMEs—particularly Japan and South Korea, which are the focus of this paper—do not have a higher level of social policy development than countries with liberal market economies (LMEs). Examples such as Japan and South Korea<sup>7</sup> show that even if voters prefer an apparatus that disperses the risk of unemployment or income losses in the labor market, actual social policy development may not occur. If this is the case, then are these examples exceptions beyond the range of application of a universal theory? Should they be regarded as special cases? The answer to both questions is no. The limits of an asset model of social policy preferences are related to the fact that research on social policy or welfare states has generally been based on some advanced capitalist countries of the West, which easily satisfy the conditions of a democratic political system and as a result operate on the basis of collective decision-making according to voter preferences. Thus, to discuss the relationship between voters' social policy preferences and the actual level of social policy development at a general level, an additional

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<sup>7</sup> Hall and Soskice (2001: 34), with the leading theory of institutional complementarities, divide CMEs into those adjusted at the industry level and those adjusted at the business level, placing South Korea and Japan in the latter category. Amable (2003: 107) also explains that capitalist Asian countries such as South Korea and Japan are just as reliant on specific skills as capitalist countries from continental Europe and countries with social-democratic economies.

theoretical discussion of the effects that the concrete institutional form of collective decision-making has on social policy decisions is necessary.

## 2. Political Systems Based on Collective Decision-Making

Based on common sense, it is clear that not all societies are based on collective decision-making according to voter preferences. Voter preferences are easily ignored in societies ruled by dictators. Even in the case of societies with democratic political systems, depending on the institutional form of the collective decision-making process, voter preferences are reflected in different degrees in the determination of actual resulting policy. There are a variety of ways to differentiate political systems, which have an effect on collective social policy decisions, but this paper divides them into three types according to the degree of the development of democratic politics and the characteristics of electoral rule.<sup>8</sup> First, there are cases in which the development of democratic politics lags behind. In such societies, the decisions regarding social policy are entrusted to special groups or actors with the authority to make policy decisions. These policy decision-makers can be dictators, or they can be leaders of democratic system administrations or bureaucrats that formally claim to support democracy but are in reality deficient. In this paper, such political systems which are relatively behind in the development of democratic political systems are called committee systems. On the other hand, even in cases in which democratic political systems are developed, there are a variety of ways to gather preferences. In a proportional election system, the number of seats given to a given political party is based on the proportion of voters supporting that party among all voters, whereas in a majoritarian election system, this is determined based on the proportion of electoral districts supporting the party among all electoral districts.

Let all members of society, with income levels all set to a level of 1, belong to one of the three groups ( $J = 1, 2, 3$ ), and let the size of each group be set to 1. Additionally, suppose that voters belonging to each of the three groups all have the same policy preferences. On the other hand, suppose that policy is multi-dimensional. In other words, in this society, there are not only income

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<sup>8</sup> This theoretical model is a reconfiguration of Persson and Tabellini (1998).

security allowances given universally to all groups as public goods, but also subsidies given exclusively to each group.<sup>9</sup> If a tax ( $t$ ) appropriated for this policy is imposed equally on all groups, the budget constraint condition can then be expressed as  $3t = \sum_{j=1,2,3} g^j + R$ <sup>10</sup> and the policy preferences of members of group  $J$  can be expressed as follows:

$$w^j = U(c^j) + V(g^j) + H(R) \quad \text{s.t. } 3t = \sum_{j=1,2,3} g^j + R \quad (2)$$

Here,  $U(\cdot)$ ,  $V(\cdot)$ ,  $H(\cdot)$  are all concave functions, assuming that they are normal utility functions, and  $c^j$  represents individual consumption of voters belonging to group  $J$ ,  $g^j$  represents subsidies given exclusively to each group, and  $R$  represents universal income security allowances having the characteristics of public goods.

Now let's compare the size of the vectors of the policy determined collectively in the three different political systems: committee systems, proportional election systems, and majoritarian election systems.<sup>11</sup> First, assuming no distortion effect of taxation, taxes are collected on all income-receiving members of society in all three political systems. In other words,  $t^c = t^p = t^m$ .<sup>12</sup> The next step is a comparison of the size of the subsidies returned to each group and the universal income security allowances returned to all groups. In order to do this, some assumptions about the preferences of policy decision-makers are necessary. First, there is the assumption that takes into account developmental welfare regime, for which, in a committee system, policy decision-makers are authority figures with developmental goals; in group 2 ( $J = 2$ ), they are placed in the industry sector, which receives governmental support; and subsidies given to group 2 are paid as "contingent

<sup>9</sup> This assumption reflects the reality that shadow welfare state programs such as subsidies, tax expenditures, and rents clearly exist in addition to social policies such as income security systems. Particularly in the case of countries such as South Korea and Japan, the proportion of such programs is relatively large. See Hong (2008).

<sup>10</sup> In order to avoid complicating the analysis, distortion effects from taxation, such as a decrease in the labor supply, are ignored.

<sup>11</sup> For more detail, see Hong (2009).

<sup>12</sup> The policy vector is attached to the case of the committee system as superscript  $c$ , the proportional system as  $p$ , and the majoritarian system as  $m$ .

rent” for the purpose of industrial development (Hong 2008). Therefore, the objective function of policy decision-makers in a committee system can be expressed as that which provides the maximum contingent rent to the one possible group, group 2. Of course, here, the size of the contingent rent given to group 2 depends on the scope of the authority possessed by the policy decision-makers. If the policy decision-maker is a dictator who has monopolized all policy decision-making authority, then the situation can be depicted as an extreme type of developmental welfare regime in which not only universal income security payments, but also subsidies for groups 1 and 3 are completely nonexistent, that is, all available resources are utilized as contingent rent for the purpose of economic development. On the other hand, if we apply the condition of requiring majority consent in a committee for policy decisions, then a fixed amount of subsidies will be paid to group 1 or group 3 or even weaker groups.<sup>13</sup>

The case of proportional election systems and majoritarian election systems applies to most democratic systems; therefore, the political party that wins an election becomes the policy decision-maker. In this type of political system, political parties promise policies that reflect the preferences of voters, and voters give their support to the political party, putting forth policies that maximize their own utility functions. Therefore, the objective function of policy decision-makers is to maximize the probability of winning an election. However, the policies that competing political parties propose in order to increase the probability of winning an election cannot help but differ between proportional election systems and majoritarian election systems. The way a political party maximizes its probability of winning in a proportional election system is not only to offer universal income security allowances to all members of society but also to pay additional subsidies to groups with the greatest homogeneity of attitudes as well as to those with the most swing voters. This also occurs in majoritarian election systems, but it differs in that such subsidies are concentrated in electoral districts with many swing voters rather than on all swing voters. In other words, because the marginal utility of subsidies evaluated by political parties in majoritarian election systems is

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<sup>13</sup> This is because, since policy decision-makers benefit from the lower cost of building a winning coalition, members representing weaker groups are drawn into alliances.

greater than the marginal utility of subsidies evaluated by political parties in proportional election systems, the size of subsidies directed at special groups is larger in majoritarian election systems. As a result, subsidies returned to special groups adhere to  $g^c > g^m > g^p$ , and universal allowances returned to all groups adhere to  $R^c < R^m < R^p$ .

The above model shows that even if the preferences of members of society are identical, the level of development of social policy differs according to the political institution on which collective decisions are based. In other words, when other conditions are equal, social policy develops the least in committee systems—political systems with a relatively low development of democracy—while in the case of democratic political systems, social policy develops more in proportional election systems than in majoritarian election systems.

### III. SOCIAL POLICY PREFERENCES, POLITICAL INSTITUTIONS, AND THE COMPARATIVE ASPECTS OF SOCIAL POLICY DEVELOPMENT

#### 1. Skill Specificity, Social Policy Preference, and the Comparative Aspects of Social Policy Development

Is social policy more developed in societies in which members have a strong preference for social policy? It is appropriate to study the relationship between these two variables from a comparative perspective that allows controlling of multiple factors. A multi-variable analysis in which the independent variable is a social policy preference or the skill specificity that affects it and where the dependent variable is the level of development of social policy would be useful as a study of the empirical relationship between social policy preference and social policy development. However, it is not easy to procure the data required for this type of analysis. First, it is not easy to synthesize social policy preferences or skill specificity measured at the individual level into the national or macro-level. Analytical methods exist for solving various associated problems, including the difference in measurement levels, but in order to apply such analytical methods, a sample size large enough for multi-variable analysis must be procured. The problem is that in

this paper, measurements of the variables of social policy preference and skill specificity were collected in 2006, whereas measurements of the measurable variables of social policy development in the relevant countries were most recently collected in 2005. Including South Korea and Japan, which are the targets of this research, it is difficult in reality to procure data that satisfies time precedence, one of the conditions for establishing a causal relationship. Due to this limitation, several proxy variables that measure skill specificity, preferences of social policy, political system, and social policy development are introduced below, and the method of studying the patterns of co-variation observed between these proxy variables is used.

The best means of measuring skill specificity is to look for elasticity of substitution between skills represented on a production possibility curve. However, because it is extremely difficult to observe such elasticity of substitution empirically, there is no choice but to use a variety of proxy variables. Hainmueller and Hiscox (2007) surveyed and compared some of the most common measures of skill specificity applied in previous empirical researches: 1) job training, 2) job change and tenure, 3) the degree of inter-industry labor mobility, 4) wage differentials, and 5) the occupational classification (Iversen-Soskice Index). This paper uses the occupational classification index because this index is designed to allow the direct measurement of skill specificity from micro data at the individual level.

The occupational classification index proposed by Iversen and Soskice (2001) was created with the aim of hierarchically structuralizing the ILO's job classification index, ISCO-88's two concepts of "skill" and "job." In ISCO-88, skills are categorized according to the level and degree of skill specialization. All of the jobs listed in ISCO-88 are divided first into ten job categories (level-one classifications) according to four skill levels. Next, these ten job categories are hierarchically divided into 28 middle classifications (level-two classifications), 116 sub-categories (level-three classifications), and finally 390 sub-sub-categories (level-four classifications), a process in which the degree of skill specialization is utilized. The index of skill specificity goes through this type of process and the jobs in the 390 sub-sub-categories are assumed to be homogenous in terms of skill. As a result, within the largest classification of job categories, the proportion comprised of a sub-sub-category can act as a proxy for that job's skill specificity. For example, the sub-sub-category

jobs included in “Plant and Machine operators and assemblers” (level-one classification number 8) with 70 entries comprise about 17.95% of the total jobs in the sub-sub-category, but the sub-sub-category jobs included in “Clerks” (level-one classification number 3) with 23 entries comprise about 5.90% of the total jobs in the sub-sub-category. Therefore, the skill specificity of “Plant and Machine operators and assemblers” is greater than that of “Clerks.” One point to note here is the number of people who work in a given job, as ISCO-88 suggests a greater variety of sub-sub-categories in job categories with a large number of people working in them. For example, sub-sub-category jobs included in “specialists” (level-one classification number 2) comprise about 14.10% of all of the sub-sub-category jobs. This can be considered quite high in terms of skill specificity; however, this situation arises because the number of people working in the “specialists” category is large. To offset this type of scaling effect on the index of skill specificity, an inverse weighting is given according to how many people belong to a given job category. If the aim is to be able to measure the degree of skill specificity using the same method applied to sub-categories, then the degree of skill specificity can either be represented as these two measurements or as the average value of these two measurements. However, it is important to note that in the theoretical model we examined earlier, we defined skill specificity not as the absolute value of specific skills  $s$  but as the relative value of specific skills compared to general skills,  $s/g$ . Therefore, we can produce final measure of skill specificity which is based on dividing this index by proxy variables that measure general skills, that is, ISCO measure of the level of skills. This can be expressed in mathematical terms, as follows:

$$\text{Index 1} = \frac{\text{skill specificity}}{\text{skill level}}$$

$$\text{Index 2} = \frac{\text{skill specificity}}{\text{skill level}}$$

$$\text{Index 3} = \frac{\text{index 1} + \text{index 2}}{2}$$

$$\text{Here, skill specificity} = \frac{\text{sub-category specificity} + \text{sub-sub-category specificity}}{2}$$

$$\text{Also, sub-category specificity} = \frac{\text{number of sub-category jobs belonging to the broad job category}}{\text{number of jobs in the sub-category}} \times \frac{\text{total size of workforce}}{\text{size of workforce in broad job category}}$$

$$\text{sub-sub-category specificity} = \frac{\text{number of sub-sub-category jobs belonging to the broad job category}}{\text{number of jobs in the sub-sub-category}} \times \frac{\text{total size of workforce}}{\text{size of workforce in broad job category}}$$

On the other hand, according to Kim (2009), who critically reviewed previous researches on the social policy preferences, the preceding researches largely approached two methods with respect to the measurement of social policy preference. First, there is the general approach of looking at the degree of respondents' social policy preferences by means of their preferences for social justice or equality or by means of the degree of government responsibility for social policy in general and understanding this through the method of using a single index or multiple indices in a simple aggregate. The other approach is a more program-specific approach of understanding individual members of society's preferences toward each specific social policy program, such as medical, education, pension, unemployment benefits, and others. Kim (2009) emphasizes the fact that when one examines these critically, measurements of social policy preference exist on the basis of the multidimensionality of social policy arising from the target of the preference. If social policies can be divided into those that target the workforce and those that target the non-workforce and if it is more useful to discern the changes and developments of the social policy than preceding approaches, then social policy preferences targeting the workforce and those targeting the non-workforce should also be distinguished. This suggestion is appropriate with respect to this paper's theoretical model of social policy preferences and skill specificity. In the theoretical model suggested above, members of the society are assumed to have the ability to work and are assumed to receive social policy allowances universally regardless of employment or skill status. In other words, target of

the social policy preference in this study is the workforce.

It is not easy to find quantitative data set which contains social policy preferences from a comparative perspective. Moreover, data related to social policy preferences must ask questions of the same form to all societies chosen for comparison. This is because one cannot be sure of the reliability of measurements in cases where, a small difference in the content of the questions exists. The International Social Survey Program (ISSP) has an advantage on this point; it has devoted much effort ensuring that the questions about social policy preferences as used in this study have exactly the same meaning in all of the countries. Moreover, this data offers individual-level measure on skill specificity. The social policy preferences in the ISSP data were surveyed a total of four times from the 1985 study to the present, but this paper will utilize the data from 2006, which includes South Korea as a survey population.<sup>14</sup> The social policy preferences in the ISSP data consisted of a variety of questions, but this paper has chosen the six questions shown in Table 1 as the questions that ask about the social policy preferences targeted at the workforce.

**Table 1.** Survey Items for the ISSP Social Policy Preference Data

Preference Target	Survey Item	Value
Workforce	Financial supply for job creation projects	5 points
	Government spending on unemployment benefits	5 points
	Providing a job for everyone who wants one	4 points
	Support for unemployed people to live an appropriate lifestyle	4 points
	Government spending on healthcare	5 points
	Providing medical insurance for sick people	4 points

Source: ISSP. 2010. International Social Survey Programme. 2006.

On the other hand, Table 2 shows the ratio of public social expenditure to GDP in the 16 OECD countries. This measure is the proxy of the degree of social policy developments. The value shown is the average value from 2001 to 2005. As one may well know, the Organization for Economic Cooperation

<sup>14</sup> This considers the point that the index of skill specificity explained above and the survey data can be used and found.

and Development (OECD) totals the size of spending on social policy programs disbursed through government and private funds, terming it “social expenditure.” The social expenditure in this data are categorized into nine areas: 1) old age, 2) survivors, 3) incapacity related, 4) health, 5) family, 6) active labor market programs, 7) unemployment, 8) housing, and 9) other social policy areas and include both cash and in-kind payments. Because this paper is focused on social policies for which the target group is the workforce, it uses the size of social policy payments made in only four of the nine categories (health, family, active labor market programs, and unemployment) as a percentage of GDP as a proxy variable for the degree of social policy development. Among the four areas targeting the workforce, spending on healthcare was the largest, and averaged from 2001 to 2005, Germany had the highest spending with 7.74% of GDP, while South Korea had the lowest spending with 2.84% of GDP. The five-year average for spending on family programs was highest in Denmark at 3.38% of GDP, and South Korea was again the lowest at 0.14% of GDP.

Conversely, in the policy areas of active labor market and unemployment, Denmark had the largest amount of spending, whereas the United States and South Korea were lowest in the two categories, respectively. Although these measures are ratio variables, Table 2 shows the country-by-country rank in spending as a percentage of GDP together with the Weibull plotting position calculated based on that ranking. In such a case, in a situation in which multivariate analysis is difficult, a non-parametric statistical method that uses an ordinal scale such as rankings may be more appropriate. Moreover, we may understand the aspects of social policy development using a plotting method that allows us to visualize immediately the sequenced variables alongside other variables.<sup>15</sup>

Now, we examine the relationship between social policy preferences and the degree of social policy development. Table 3 shows the result of examining the simple correlation between social policy preferences and skill specificity and the degree of social policy development. Here, social policy preferences

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<sup>15</sup> Actually, in many comparative studies, comparative aspects are understood by plotting the relationship between target variables. This is used as empirical evidence for a theoretical discussion.

**Table 2.** Social Policy Spending as a Percentage of GDP for the 16 OECD Countries<sup>1</sup>

Country	Total	Health	Family	Labor Market	Unemployment	Rank	Weibull Plotting Position <sup>2</sup>
Australia	17.10	5.72	2.94	0.3	0.68	10	0.4188
Canada	16.40	6.64	0.96	0.28	0.66	12	0.2941
Denmark	26.70	5.62	3.38	1.84	3.02	1	0.9412
Finland	25.00	5.78	2.88	0.82	2.06	5	0.7059
France	28.34	7.62	2.96	0.98	1.66	2	0.8824
Germany	26.38	7.74	1.92	1.10	1.62	4	0.7647
Ireland	15.26	5.66	2.36	0.68	0.82	11	0.3529
Japan	17.62	6.12	0.72	0.22	0.42	15	0.1176
South Korea	5.54	2.84	0.14	0.12	0.12	16	0.0588
Netherlands	20.2	5.64	1.54	1.42	1.42	8	0.5294
New Zealand	18.02	6.36	2.54	0.38	0.72	9	0.4706
Norway	22.60	5.88	3.00	0.66	0.54	7	0.5882
Sweden	29.26	6.80	3.14	1.34	1.14	3	0.8235
Switzerland	19.24	5.80	1.28	0.62	0.80	13	0.2353
United Kingdom	20.16	6.50	2.98	0.44	0.26	6	0.6471
United States	15.52	6.68	0.64	0.10	0.40	14	0.1765
Average	20.21	5.96	2.26	1.02	1.37		0.5000

Source: OECD. 2010. Social Expenditure Database.

Note: 1. Average public social expenditures as a percentage of GDP from 2001 to 2005.

2. The Weibull plotting position of an item with rank  $r$  in a list of  $n$  items is calculated as  $r/(n + 1)$ .

and skill specificity are averaged for each country, and the degree of social policy development is measured by the total public social expenditure shown in Table 2 above and the public social expenditure targeted toward the workforce.

The point we can confirm through Table 3 is that the correlation between skill specificity and social policy preference is statistically significant,<sup>16</sup> but on the other hand, the correlation between skill specificity and social policy development and the correlation between social policy preferences and social policy development is not only extremely weak, but it is also not statistically significant. What are the implications of this empirical evidence? It shows us

<sup>16</sup> The effect of skill specificity on social policy preference can also be confirmed through a multiple regression analysis. See the appendix.

that attempts to establish a direct causal relationship between social policy preference and social policy development are not appropriate, as when one allows for the fact that social policy is produced according to a process of collective decision-making by all members of society, then of course social policy development will differ according to the concrete institutional form of that collective decision-making process.

**Table 3.** Simple Correlation of Skill Specificity, Social Policy Preference, and Social Policy Development (n = 16)

	Skill Specificity <sup>1</sup>	Social Policy Preference <sup>2</sup>	Social Policy Spending 1 <sup>3</sup>	Social Policy Spending 2 <sup>4</sup>	Social Policy Spending 3 <sup>5</sup>
Skill Specificity <sup>1</sup>	1.0000				
Social Policy Preference <sup>2</sup>	0.3592*	1.0000			
Social Policy Spending 1 <sup>3</sup>	0.1245	0.0350	1.0000		
Social Policy Spending 2 <sup>4</sup>	0.1115	0.0861	0.9386*	1.0000	
Social Policy Spending 3 <sup>5</sup>	0.1227	0.0871	0.9397*	0.9963*	1.0000
Social Policy Spending 4 <sup>6</sup>	0.1422	0.0799	0.9223*	0.9932*	0.9831*

\* P < .1

Note: 1. Average value of Specificity Index 3 for the country. Data shown in Table 1.

2. Average value of Social Policy Preference Index for programs targeting the workforce in the country. Data shown in Table 1.

3. Average value of public social expenditures as a percentage of GDP from 2001-2005, from Table 2.

4. Average value of public social expenditures related to the workforce (healthcare, family, labor market, and unemployment) as a percentage of GDP from 2001-2005, from Table 2.

5. Average value of public social expenditures related to the workforce as a percentage of GDP in 2002 (data as in that of note 3).

6. Average value of public social expenditures related to the workforce as a percentage of GDP in 2005 (data as in that of note 3).

## 2. Comparing the Aspects of Political Systems: The Degree of Development of Democratic Politics and the Characteristics of Electoral Rules

In the theoretical model suggested above, political systems were categorized as committee systems, proportional election systems, and majoritarian election systems according to the degree of the development of democratic politics and the differences of electoral rules. Also, using a mathematical model, with all other factors being equal it predicted that the level of social policy development would be highest in the proportional election system, while it would be lowest in the committee system, in which democratic development is relatively slow. Table 4 shows various measures on the degree

**Table 4.** Characteristics of the Political Systems of the 16 OECD Countries

Country	Civil Liberties Index <sup>1</sup>	Political Liberties Index <sup>1</sup>	Politician Promise-Keeping <sup>2</sup>	Politician Corruption <sup>3</sup>	Weibull plotting position <sup>4</sup>	Electoral Rules <sup>5</sup>
Australia	1.0000	1.0000	3.2724	2.6607	0.6176	Majoritarian
Canada	1.0000	1.0000	3.2473	2.9515	0.6029	Majoritarian
Denmark	1.0000	1.0000	2.9438	1.7500	0.7794	Proportional
Finland	1.0000	1.0000	3.5116	2.4844	0.5588	Proportional
France	1.7857	1.0000	3.6796	3.3927	0.2868	Mixed
Germany	1.7857	1.0000	3.4575	3.1286	0.3603	Mixed
Ireland	1.1429	1.0000	3.3833	2.9670	0.4338	Mixed
Japan	2.0000	1.1429	3.9825	3.4173	0.1029	Mixed
South Korea	2.1429	1.9286	3.8265	3.9168	0.0735	Mixed
Netherlands	1.0000	1.0000	3.0914	2.4375	0.7059	Proportional
New Zealand	1.0000	1.0000	3.2624	2.4082	0.6912	Mixed
Norway	1.0000	1.0000	3.2926	2.3180	0.6765	Proportional
Sweden	1.0000	1.0000	3.4395	2.6944	0.5441	Proportional
Switzerland	1.0000	1.0000	2.9675	2.4937	0.6912	Mixed
United Kingdom	1.7857	1.0000	3.3118	2.9467	0.4485	Majoritarian
United States	1.0000	1.0000	3.5683	3.3046	0.4265	Majoritarian

Note: 1. Each rating of 1 through 7, with 1 representing the highest and 7 the lowest level of freedom. Averaging over 1991~2005. Freedom House (2010).

2. What degree the respondent would agree "MPs try to keep promises". It start with 1-as strongly agree and end at 5 with strongly disagree. Shows the average value from each country from the ISSP survey data.

3. What degree the respondent would agree "politicians involved in corruption". It start with 1-as strongly agree and end at 5 with strongly disagree. Shows the average value from each country from the ISSP survey data.

4. Weibull plotting position using these 4 measures.

5. Classification of electoral rules. MR means majoritarian, PR is proportional, and Mixed means mixed system. Interparliamentary Union (2010).

of development of democratic politics and the differences of electoral rules in the sixteen countries ECD.

First, the average of measurements taken from 1991 through 2005 is shown, of the civil liberty index and political rights index is depicted, showing typical proxy variables expressing the degree of the development of democracy. This stems from the conclusion that it is more appropriate to understand the degree of the development of democracy from a medium-term point of view than from one particular point in time.

Next, the 2006 ISSP also contains two questions that are closely related to the development of political democracy. One question asks to what degree the respondent would agree “MPs try to keep promises”. The other asks to what degree the respondent would agree “politicians involved in corruption” These two variables are measured on individual level, so they can represent subjective evaluation of each country’s political democracy. There are several reasons for inserting these two variables into the proxy index expressing the degree of development of democratic political systems. First, since implementation of electoral promises are essential factors in collective decision-making based on the preferences of members of a society, collectively this is judged to be an important index for expressing the development of democratic political systems. Also, because the institutionalization of competitive elections according to the development of democratic political systems naturally minimizes the possibility that politicians (policy makers) will acquire illegal rent payments, the subjective assessments of members of a society of corruption by politicians are seen as an index of the degree of the development of the democratic political system in a given society. In Table 4, the above four categories of variables are synthesized and ranked, and the Weibull plotting position calculated from these rankings is shown. If we examine the degree of development of democratic political systems based on the regional ranking, Denmark is positioned at the highest rank, with the Netherlands, New Zealand, and Switzerland coming next.

In the theoretical model suggested in this paper, the proportional system is described as a situation in which all of society consists of only one electoral district, whereas the majoritarian system is described as a single member electorate system in which one candidate is elected from each of many electoral districts. However, each country’s electoral rules are

extremely complicated and diverse; therefore, it is never easy to measure their characteristics with only a single tool. If we examine the related research, considering these limitations, it becomes clear that there are generally two methods used to classify electoral rules (Alesina, Glaeser, and Sacerote 2001). First, there is the method that uses information supplied by international organizations such as the IPU (Inter-Parliamentary Union). IPU classifies a given country's electoral rules as proportional, majoritarian, or a mixed system. This method has a problem in that it assigns a simple classification to complicated electoral rules, but has the advantage of including a comparatively high number of countries and of being intuitive. The other method measures the degree of proportionality using the sizes of the electoral districts and the electoral formula for choosing a winner. The greater this measure is, the more it resembles a proportional system. This method has a problem that it requires the collection of detailed information about each country's election system; depending on the method used to compile the index, one country's electoral rules may be classified differently. This paper uses information supplied by the Inter-Parliamentary Union and classifies each country's election regulations. However, in this case, the countries that have bicameral systems become problematic. If a country has majoritarian electoral rules for its lower house and proportional rules for its upper house, this introduces the question of how to classify it. This paper classifies such countries as having a mixed system. The results of classifying election systems using this method are shown in the last row of Table 4. In the case of European countries, the United Kingdom is the only country with a majoritarian election system, while Germany, France, Ireland, and Switzerland operate with systems that are a combination of proportional and majoritarian. The other countries all have proportional election systems. Conversely, among countries belonging to East Asia, North America, and Oceania, none have adopted a proportional election system.

### 3. Overall Picture

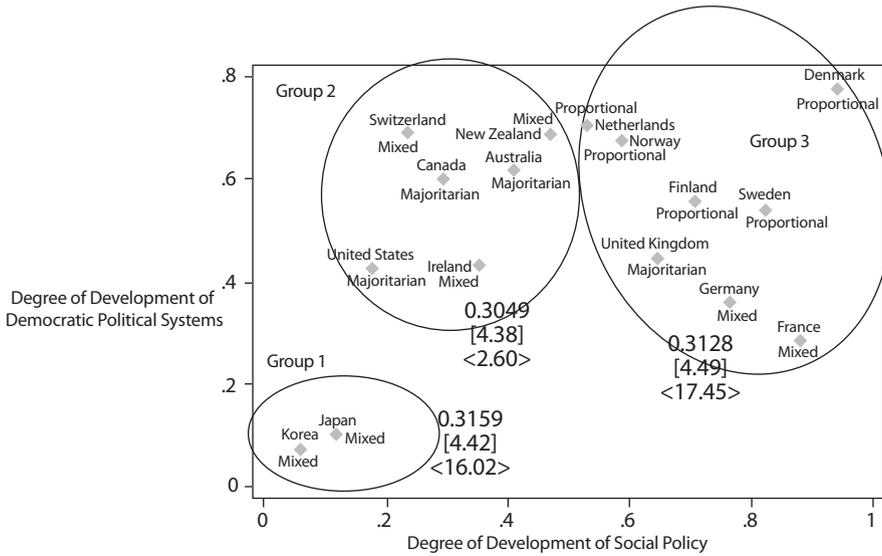
In this section, we examine the overall picture, with social policy preferences, political systems, and the development of social policy all taken into account. First, we put the degree of the development of social policy and the degree

of the development of democratic political systems on the x and y axes, respectively. Figure 1 expresses the position of a given country based on the Weibull plotting position. Also, the countries belonging to a cluster resulting from the implementation of a hierarchical cluster analysis based on the skill specificity, social policy preference, and the development of democratic political systems as suggested above are grouped together in an ellipse.

Let's examine this concretely. The average value of skill specificity in Group 1, consisting of South Korea and Japan, at 0.3159, is not only higher than the average value for Group 2 at 0.3049 but also higher than that of Group 3 at 0.3128. Also, the average value of the preference for social policy in Group 1, at 4.42, is shown to be lower than the average value for Group 3 at 4.49 but higher than that for Group 2, at 4.38. Finally, if we only look at preferences for social policy and the degree of skill specificity, then Group 1 is comparable to Groups 2 and 3. However, Group 1, compared to Groups 2 and 3, is relatively slow in terms of the development of democratic political systems and is also lower than the other groups in terms of the development of social policy programs taking the workforce as their target group. The type of comparative aspect shown in Figure 1 shows the possibility that the lack of the development of democratic political systems based on a foundation of collective decision-making through the preferences of members of a society is related to the phenomenon of the formation of a gap between the social policy preferences of members of society and the actual social policy development of that society.

On the other hand, in the case of Groups 2 and 3, the difference in the development of democratic political systems is not large, whereas there is a difference in the degree of the development of social policy programs. Group 2, which is composed of Australia, Canada, Ireland, New Zealand, Switzerland, and the United States, has a difference in the degree of the development of social policy from that of Group 3, which is composed of Denmark, Finland, France, Germany, the Netherlands, Norway, Sweden, and the United Kingdom. What is the difference between these two groups? First, the average value of skill specificity in Group 2 is 0.3049 and the average value of the degree of preference for social policy is 4.38, which are lower than the average value of skill specificity, 0.3128, and average value of the degree of preference for social policy, 4.49, in Group 3. Considering

**Figure 1.** Comparative Aspects of Preferences and Political System, and the Development of Social Policy.



- Note: 1. Countries shown to belong to the same cluster resulting from the cluster analysis are grouped in an ellipse.
2. The first numbers listed correspond to the group's average skill specificity; numbers shown in square brackets [ ] correspond to the group's average degree of social policy preference; numbers shown in brackets < > correspond to the group's average electoral district magnitude.
3. District magnitude measure is computed as a weighted average of the various district sizes. The larger the district magnitude, the greater the degree of proportionality. See Johnson and Wallack (2007).

the fact that the degree of the development of democratic political systems is relatively high in Groups 2 and 3, the difference in the degrees of social policy development between the two groups can be seen as a reflection of the social policy preferences of the members of the society. However, there are many differences between the methods used in Groups 2 and 3 to gather the preferences of society members. This is a direct result of the fact that among the countries belonging to Group 2, there are none that have a proportional election system, whereas among the eight countries belonging to Group 3, five have a proportional election system, and two more have a system

combining proportional and majoritarian election systems.

For a clear understanding of this difference, we looked for the average value of the district magnitude, which is widely used as an index to measure the degree of the proportionality of the election system. The result is shown in that the average value of the proportionality of the countries belonging to Group 2 is 2.60 compared to that of the countries belonging to Group 3, at 17.45.<sup>17</sup> Remembering that a larger proportionality value denotes a closer type to the ideal of a proportional election system, this result means that Groups 2 and 3 can be distinguished by their respective majoritarian and proportional election systems. Finally, the comparative picture shown in Figure 1, that is, the picture that the degree of social policy development is expressed more highly in Group 3 than in Group 2, and in Group 2 than in Group 1, shows that differences in the degree of social policy development or differences in the welfare state arise according to differences in social policy preferences and in the political system when collectively assessing the social policy preferences of members of a society.

#### IV. CONCLUSION

This paper has attempted to demonstrate through a theoretical model and empirical data that there is a close relationship between the social policy preferences of members of a society and the political system used to gather those social policy preferences collectively and the development of social policy. The prediction of an asset theory of social policy is supported by the results of empirical research targeting western welfare states. This theory is receiving attention in that it explains the development of social policy, regional deviations in the development of such policies, the institutional complementarity of production regime and welfare regime, and other factors with a generalized causal model based on the rational preferences of members

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<sup>17</sup> The large difference between the two clusters is due to the method of measuring the degree of proportionality. Supposing there were a total of 200 seats and a country had a completely proportional election system, then the index of proportionality would be 200. Conversely, if this country had a completely majoritarian election system, then the index of proportionality would be 0.995.

of a society. Nevertheless, South Korea and Japan, despite being classified as CMEs and therefore having a comparatively high assessment of the skill specificity of the members of their societies, still lag behind compared to other countries in terms of the development of social policy. In other words, South Korea and Japan are considered outliers in asset theory, just as they are in most theories of social policy developed from western societies. However, there is no reason such examples must be considered as outliers exceeding the limits of application of a universal theory, or as special cases. In order for social policy preferences to guide the development of actual social policy, there is a necessary precondition that these preferences are fully reflected in the collective decision-making process. This precondition is true only in certain countries that have very developed democratic political systems. This is an extremely obvious point, but the application of labels such as “outlier” or “admixture” to East Asian welfare states such as South Korea and Japan is more of a problem with the theory applied than with the given example itself. This is evidence of the necessity of focusing on the effects of the concrete institutional form of the collective decision-making process on social policy decisions.

A detailed multivariate analysis was not possible due to limitations in the data, but as a result of examining patterns of co-variation observed between political systems and social policy development, we noted that there is a close relationship between the political system and the social policy. First, if we only look at the preference of social policy and skill specificity, Japan and South Korea are comparable to other countries classified as CMEs. However, for Japan and South Korea, compared to other countries classified as either CMEs or LMEs, the degree of the development of democratic political systems is relatively low and the degree of the development of social policy programs targeting the workforce is also low. This comparative picture shows the possibility that this lag in the development of democratic political systems based on the collective decision-making of preferences of members of a society is related to the formation of a gap between the social policy preferences of members of a society and the actual development of social policy. On the other hand, between countries that have developed democratic political systems to some degree, there are differences to be found not only in the degree of social policy preferences by members of society or

skill specificity, but also in the aspects of their political system, that is, their electoral rules.

Finally, the comprehensive picture of the sixteen countries shows the existence of a close relationship between the social policy preferences of members of a society and the political system that collectively gathers these preferences, and the actual development of social policy. A political system creates a relationship—whether one of complementarity, discord, or outlier—that exists between the social policy preferences of members of a society and the actual development of social policy. This illustrates the necessity of paying attention to the problem of the participation of members of a society in the collective decision-making process and of the problem of the normative framework of a constitution and the institutional framework of a political system to that democracy may be advanced.

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## APPENDIX

The effects of skill specificity on social policy preferences are analyzed through general OLS regression model. However, because many different countries are included in the data analyzed, the possibility is high that the systematic characteristics of each country will have an effect on the estimation process of the regression coefficients. Therefore, the sixteen countries targeted by the analysis (Australia, Canada, Denmark, Finland, France, Germany, Ireland, Japan, South Korea, the Netherlands, New Zealand, Norway, Sweden, Switzerland, the United Kingdom, and the United States) are inserted into the analytical model through country dummy variables. On the other hand, a variety of variables predicted to have an effect on the social policy preferences of members of a society must be inserted into the model as control variables. These are explained below:

1) Income: In the ISSP data, pretax income variable was collected through a self-reporting method. In a given country, pretax income was measured in ordered categories, but the ISSP offers measurements of the median value in a given category. On the other hand, all income is measured according to the country's currency value. In this paper, these are converted into U.S. dollars according to purchasing power parity exchange rates at 2006 levels. Depending on whether social policy is looked at as a means of redistribution or as a means of insurance, the effect of income on social policy preference can be different, but according to the asset model of social policy preferences presented in this paper, the higher the income level, the lower the preference for social policy.

2) Age: Older members of a society will have a greater preference for social policy than younger members of society. As age increases, retirement draws closer. In addition it becomes more difficult to find a new job. In the ISSP data, age data is collected through self-reporting.

3) Gender: According to a number of arguments (Orloff, 1993; Iversen and Soskice, 2001), in cases of equal status in the labor market, women will have a greater preference for the development of social policy than men. According to such arguments, it is predicted that women will show preferences for the development of social policy more than men.

4) Labor Market Status: This paper's theoretical model starts from the assumption that individual positioning in the labor market is a major factor determining social policy preference. First, regular workers with a high degree of job security compared with those who do not have this security have less of a preference for the development of social policy as a mechanism for dispersing labor market risk. By the same token, the unemployed may have a greater preference for the development of social policy than those who are employed. The economically inactive population of people who are not engaged in economic activity is a very heterogeneous group consisting of people unable to work as well as those who cannot find jobs; thus, the direction of their social policy preferences cannot be easily predicted. However, it has been concluded that the necessity of including it as a control variable is great. In the ISSP data, labor market status is divided into ten categories, from regular employment to inability to work. This paper inserts as a dummy variable whether or not one is a regular employee, whether or not one is unemployed, and whether or not one belongs to the economically inactive population.

5) Union Membership: According to theories of power resources (Stephens, 1979; Korpi, 1983), the social policy preferences of those belonging to unions or supporting left-wing political parties can be predicted to be higher. In the ISSP data, the union membership variable is measured by three categories: 1) union membership, 2) currently withdrawn, but having the experience of being a union member, and 3) not a union member. This paper creates two dummy variables as the categories of union membership and uses them.

6) Party Preference: As with the union membership variables, party preference is input as a control variable based on theories of power resources. In the ISSP data, the preferences of currently active political parties in the target country are normalized according to an ideological spectrum from left to right after they are gathered. Through this method, the normalized party preferences are reclassified in this paper as follows: 1) left-wing party supporter, 2) moderate party supporter, 3) right-wing party supporter, or 4) independent/undecided. Furthermore, in the analysis, three dummy variables created for "left-wing party supporter" as a mood category are inserted.

**Supplemental Table 1.** Characteristics of the Input Variables in the Analysis

Measured Variable	Operational Definition	Sample Size	Average (Ratio)	Standard Deviation
Preference of social policy aimed at the workforce	Points for six items normalized to 1 and combined	10,237	4.46	0.69
Specificity Index 1	(Ratio of a given job/Ratio of a given workforce)/Skill level	11,644	0.42	0.35
Specificity Index 2	(Ratio of a given job/Ratio of a given workforce)/Education level	11,562	0.20	0.19
Specificity Index 3	The average of Index 1 and Index 2	11,562	0.31	0.26
Income	Annual pre-tax income (in U.S. \$)	11,644	33,759.7	27320.1
Age	Age	11,644	46.14	15.42
Gender		11,644		
Men			0.49	
Women			0.51	
Labor Market Position		11,277		
Regular Employment	Regular Employment = 1, Not = 0		0.57	
Unemployed	Unemployed = 1, Not = 0		0.02	
Economically Inactive	Economically Inactive = 1, Not = 0		0.24	
Union Membership		11,644		
Current member	Currently a union member		0.32	
Has been a member	Was a union member in the past, but not currently		0.21	
Never a member	Never a union member		0.47	
Party Preference		11,644		
Left-wing	Supports extreme left or left-leaning party		0.34	
Moderate	Supports a moderate party		0.17	
Right-wing	Supports extreme right or Other or does not support a party		0.30	
Independent/Undecided			0.19	

Source: Same as Table 1 in body text.

Here we examine the effects of skill specificity on social policy preferences through the results of a regression analysis into which the above variables were inserted. The results of the regression analysis of the three models distinguished according to the index's manner of measuring skill specificity

are shown in Table 2, while in Table 1, the characteristics of the above variables inserted into the analysis of the effects of skill specificity on social policy preferences are shown.

**Supplemental Table 2.** Effects of Skill Specificity on Social Policy Preference; Regression Analysis of the 16 OECD Countries

	Preference of Social Policy Targeting the Workforce <sup>1</sup>					
	Model 1		Model 2		Model 3	
	Coefficient	SE	Coefficient	SE	Coefficient	SE
Specificity Index 1	.075**	.020	--	--	--	
Specificity Index 2	--	--	.154**	.038	--	
Specificity Index 3	--	--		--	.112**	.027
Income	-3.50e-06**	4.83e-07	-3.53e06**	4.82e-07	-3.49e-06**	4.82e-07
Age	.033**	.0005	.003**	.0005	.003**	.0005
Gender <sup>2</sup>	.068**	.015	.069**	.015	.071**	.015
Regular Employment	-.007	.021	-.005	.021	-.005	.021
Unemployed	.339**	.044	.340**	.044	.339**	.044
Economically Inactive	.027	.024	.025	.024	.026	.024
Has been a union member <sup>3</sup>	-.016	.019	-.016	.019	-.016	.019
Has never been a union member <sup>3</sup>	-.086**	.018	-.087**	.018	-.086**	.018
Moderate party supporter <sup>4</sup>	-.256**	.020	-.258**	.020	-.258**	.020
Right-wing party supporter <sup>4</sup>	-.415**	.017	-.416**	.017	-.416**	.017
Independent or Undecided <sup>4</sup>	-.163**	.021	-.164**	.021	-.163**	.021
Sample Size	10,237		10,174		10,174	
R <sup>2</sup>	0.20		0.20		0.20	
F value	86.68**		86.28**		86.36**	

\*\* p < .001

Source: Same as Table 1 of the body text.

Note: 1. The sixteen countries are inserted into the analysis as dummy variables (omitted in the table).

2. The reference category is male.

3. The reference category is union membership.

4. The reference category is left-wing party supporter.

Table 2 shows that in all the models, the proxy variables measuring skill specificity have a statistically significant effect on social policy preferences. In other words, the higher a member of society's skill specificity is, the higher his or her preference for social policy targeting the labor population will be. Given that the institutional differences between the sixteen OECD countries are controlled through dummy variables in the analytical model, these results show that social policy preferences are reasonable within the institutional constraints. In the analysis, the effects of the inserted control variables are consistent with the predictions. First, it is shown that the higher the member of society's income level is, the less he/she will prefer social policy, which is consistent with the prediction of the asset model. It is shown that older members of a society will prefer social policy more and that women prefer social policy more than men. Additionally, the unemployed prefer social policy more than the employed. The analysis shows that the union membership and party preference variables inserted according to theories of power resources also have a statistically significant effect on social policy preferences. In other words, members of a society who have never been union members, compared to those who are currently union members, have a lower degree of preference for social policy. Also, members of a society who do not support left-wing political parties have lower social policy preferences than those who do support these parties.