

For the Poor, but Not Only the Poor

For the Poor, but Not Only the Poor: On Optimal Pro-Poorness in Redistributive Policies

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The optimal design of redistributive systems continues to be a matter of considerable academic and public debate, with the optimal extent and intensity of pro-poor targeting remaining a key issue of contention. This article shows, first, that the overall relationship between pro-poor targeting and income inequality reduction is very weak. Although occasionally the association is positive, it is not robust, very weak, and effectively zero with various reasonable methodological decisions. Second, and more importantly, a detailed disaggregated analysis reveals that the most redistributive systems do contain subsystems that are strongly targeted to the poor by intent and by design. Third, we also show that a disaggregation over the function of social transfers is very relevant: old-age benefits are an important driver of the weak overall association, while for family benefits we find a positive relationship. Absolutely key, however, is our finding that means-tested systems play a crucial role in bringing about redistributive effectiveness, even if their relative size is small. We thus shed new light on the politics of targeting. While it remains important that broad sections of the electorate benefit from social transfers, strong pro-poor targeting within such a context is possible and indeed essential for real redistributive impact. Benefits for the poor need not be poor benefits if and when these are embedded in benefit systems that meet wider redistributive needs and rationales.

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Introduction

Does the purposeful targeting of benefits and services toward the poor actually enhance or weaken their redistributive impact? Diametrically opposed views have long existed on this question, and the debate remains as animated and relevant as ever.

On the one side, there are those who believe that a welfare state can fight poverty effectively and efficiently only if and when benefits are targeted to those most in need. As [Goodin and Le Grand \(1987, 215\)](#) put it almost thirty years ago in *Not Only the Poor*: “the beneficial involvement of the non-poor in the welfare state is not merely wasteful—it is actually counterproductive. The more the non-poor benefit, the less redistributive the impact of the welfare state will be.” This view is still widely held. Many economists are in this camp, and powerful international organizations, like the IMF and the World Bank, actively promote strongly targeted systems. The issue thus has acute real-world relevance, especially in times of austerity.

But not everybody is keen on pro-poor targeting of social benefits and services. The grounds of opposition are diverse. It has been argued that targeting is administratively complex and costly, that means-testing and the intrusion it brings into private life causes stigma and consequently non-take-up, and that it severely distorts work and family formation incentives ([Van Oorschot 2002a](#)). One further and strongly debated counterargument is that proponents of selectivity pursue a “mechanical” argument, which makes abstraction of the political processes determining how much is actually available for redistribution. [Korpi and Palme’s \(1998\)](#) article “The Paradox of Redistribution and Strategies of Equality” marked a seminal point in this debate. In it they state that, paradoxically, strong pro-poor targeting does not yield more income inequality reduction.

One of their key pieces of empirical evidence was an analysis showing an inverse relationship at the country level between the extent of pro-poor targeting in benefits and inequality reduction. A number of subsequent studies have reinvestigated that relationship. [Kenworthy \(2011\)](#), using the same data, methodology, and set of countries, found that the relationship weakened over the 1990s and 2000s. [Brady and Bostic \(2015\)](#) show that that the relationship does not hold when including a wider set of countries into the analysis.

Yet, these studies remain at the level of overall system characteristics. This article brings to light the crucial importance, theoretically as well as empirically, of delving below that surface and of distinguishing between benefits that primarily seek to redistribute from richer to poorer, and benefits that incorporate other rationales. Pensions or child benefits, for example, tend to be less progressive for the simple reason that they incorporate multiple redistributive rationales, as we elaborate in this article. The political dynamics of such benefits are therefore different. The non-poor legitimately expect their share, based on citizenship, past contributions, or other principles, while they may accept that vertical redistribution also plays a role. Means-tested benefits, by contrast, do have poverty relief as their primary aim, but their legitimacy depends on other characteristics, like work incentives or consistency with notions of deservingness.

We show that the most redistributive systems do contain benefits that are strongly targeted to the poor by intent and by design. Usually systems are considered by looking at aggregate benefits, effectively taking these as representative for the way benefits are distributed within the various subsystems. But countries sometimes have strong pro-poor targeting within one provision, usually social assistance, and not in others. In fact, there appears to be a pattern whereby strongly redistributive systems have strong targeting within one provision but more universal tendencies in others. Overall, we observe the strongest redistribution to occur in countries that employ targeting within universalism thus understood.

In this article, we discuss the theoretical and policy implications of these findings for the way we should think about strongly poor targeted systems, specifically about means-tested benefits. One clear implication is that it appears that these work best if embedded in more comprehensive transfer systems that cater well beyond the poor. Even so, there remains the issue of the political support dynamics of these strongly targeted (sub-) systems themselves. In the Discussion section, we develop the idea that means-tested benefits operate in totally different ways today than before, accounting for fundamentally different political dynamics.

This article starts off with an overview of the debate and the literature. We then discuss methodological and data issues before proceeding to an in-depth empirical analysis of the relationship between pro-poor targeting and redistributive impacts. In the Discussion section, we try to make sense of these findings against the background of prevailing views on the political dynamics of targeting. The Conclusion section sums up our main findings and the interpretations thereof, and also sets out some issues for further research.

The Story So Far

The empirical case for the universal welfare state was put forward most forcefully and influentially by [Korpi and Palme \(1998\)](#), who define universalism as a system that aims to include all citizens. Based on data relating to institutional characteristics of welfare states on the one hand, and data relating to observed income distributions and financial poverty on the other, they concluded that more selective systems, paradoxically, have a smaller redistributive impact than universal systems offering both minimum income protection as well as income security and cost compensations (for children) in a broader sense. Korpi and Palme found that this relationship is mediated by the relative size of available means for redistribution. Essentially, they claim that strongly targeted systems are generally smaller systems, and for that reason less redistributive, despite their design to that effect. To be clear, Korpi and Palme did not go as far as saying that the more universal systems are, the more redistributive they will be. But they did claim that strong targeting implies weak redistributive outcomes.

Korpi and Palme's main conclusion went relatively uncontested for a while, although some scholars expressed reservations because of the rather rudimentary character of the research methods ([Bergh 2005](#)). The degree of redistribution, for example, is measured by comparing the actually observed income inequality or at-risk-of-poverty rate with a rather unsophisticated "counterfactual" distribution.

Pre-transfer income is simply calculated by deducting observed social transfers and re-adding observed taxes. Full abstraction is thus made of any behavioral effects, which a change in transfer/tax regime would entail. While patently less than perfect, the reality is that no satisfactory method exists to adequately model such behavioral effects, except for specific measures and marginal deviations. Another critique was formulated by [Moene and Wallerstein \(2001, 2003\)](#), who argued that analyses of redistribution need to be done at a more disaggregated level than “the welfare system,” because the redistributive principles may differ substantially for, say, unemployment, health care, or pensions. Some schemes may rest heavily on the insurance principle, while others may put more weight to the need principle. Thus, universality and selectivity can coexist within one system.

In line with [Korpi and Palme](#), [Corak, Lietz, and Sutherland \(2005\)](#), for example, find that universal child-related benefits provide better protection against poverty. Their conclusion that “targeting within universalism,” in [Skocpol’s \(1991\)](#) words, yields the best outcomes is echoed by [Figari, Paulus, and Sutherland \(2011\)](#) and [Van Lancker, Ghysels, and Cantillon \(2015\)](#). [Moene and Wallerstein \(2001, 2003\)](#) also conclude that universal provisions provoke the largest political support because of the higher chance of middle-class citizens to become a beneficiary.

Some opinion-based studies confirm that universal welfare schemes enjoy broader support ([Forma 1997](#); [Kangas 1995](#); [Nelson 2007](#); [Ferrarini, Nelson, and Höög 2013](#)). It is plausible, however, that public opinion is influenced by the institutional setup of a welfare state and so the causality cannot be seen as running one way (see [Larsen 2008](#); [McCarthy and Pontusson 2009](#)). Also, one should not overestimate the effect of public opinion on social policy (e.g., [Brooks and Manza 2006](#)), as public policy is influenced by resource mobilization, path dependence, political framing, and so forth.

Returning to the core focus of this article, some recent studies have claimed that the cross-country relationship between overall targeting and the observed redistributive impact has weakened, or even reversed over time. [Kenworthy \(2011\)](#) reproduces and updates [Korpi and Palme’s](#) analyses, which related to the situation in 11 countries around 1985. [Kenworthy’s](#) findings indicate that for around 2000 and 2005 there is no longer any association (either positive or negative) between redistribution and targeting. Evidently, the findings are based on a small number of cases (10 countries), which makes them particularly sensitive to outliers. A trend toward more targeting in Denmark in conjunction with an evolution toward more universal benefits in the United States is largely responsible for the shift in conclusions. Moreover, the new findings may be driven, to some extent, by the growing share of pensions in social spending. [Kenworthy](#) refers to an earlier study by [Whiteford \(2008\)](#), showing that also methodological choices, like the method of ranking incomes, matter.

The most recent addition to this literature is a study by [Brady and Bostic \(2015\)](#), which re-examines the targeting–redistribution relationship as part of a wider set of relationships at the cross-country level, including redistribution preferences. They revise the “paradox of redistribution,” stating that low-income targeting does not worsen inequality. However, low-income targeting is found to be unpopular. They do find, however, that poverty is negatively associated

with transfer share and with universalism. They propose two new paradoxes. The “non-complementarity paradox” entails a mismatch between the dimensions that matter to poverty and the dimensions that matter to redistribution preferences. The “undermining paradox” emphasizes that the dimension (transfer share) that most reduces poverty tends to increase with low-income targeting—the one dimension that reduces support for redistribution.

This article takes the quest further from there, addressing measurement issues in more depth, expanding the number of countries included in the analysis, and performing a significantly more detailed disaggregated analysis than elsewhere in the literature. We start with some key conceptual and measurement issues. We then move on to the analysis. There, we also argue in more detail why it is theoretically important to do a disaggregated analysis.

Measuring Pro-Poor Targeting and Redistribution

Choice of Income

Overall, the building blocks of our analysis consist of some commonly used income concepts, namely market income, social transfers, gross income, and disposable income. These income concepts are constructed in line with those used in Korpi and Palme and Kenworthy unless specified otherwise. In brief, *market income* includes income from labor and capital, as well as mandatory individual and occupational pensions. *Gross income* is defined as market income plus social transfers plus net inter-household transfers. *Social transfers* consist of the total of work-related insurance transfers, universal benefits, and social assistance benefits. Targeting is an essential benefit design feature of the latter type of transfers (see more below). Finally, *disposable income* is arrived at when deducting taxes from gross income. These taxes refer to personal income taxes and employee social contributions. For the distributional analyses, all relevant revenues are pooled at the household level. An equivalence scale, namely the square root of household size, is used to correct for household size.

Concepts and Operational Definitions

Targeting, redistribution, and generosity are key concepts in this article. The aim of this section is to address the conceptual clarity of these terms, as misunderstandings related to their interpretations may easily arise (e.g., van Oorschot 2002a, p. 173). For instance, targeting is often equated with means testing although it does not necessarily imply a means test, as other eligibility criteria (e.g., family composition) can be established to channel benefits to specific groups (e.g., lone parents). By contrast, “universal” benefits are aimed at broad segments of the (national) population. Still, it should be noted that universal benefits are rarely truly universal, as they often apply for instance a residency criterion, which can be more or less strict. Moreover, whether benefits are flat rate or earnings related is a question that is closely linked but distinct from universality or targeting.

The extent of targeting is often assessed using the *concentration coefficient* (CC). This is calculated in a similar way as the Gini index (see, e.g., [Kakwani 1977](#); [Lambert 2001](#); [OECD 2008](#)). The value of the CC is derived on the one hand from the relative size of the transfer going to each income unit, and on the other hand from the ranking of each income unit, which determines its relative weight in the contribution to the CC. The difference between the concentration and Gini coefficients lies in the variable according to which income units are ranked: with a CC of an income component, income units are ranked according to income (and not by the income component itself), while for a Gini coefficient the focal variable and the ranking income variable are the same (namely income). When the CC has a value that is lower than the Gini coefficient of the income on which its ranking is based, then lower incomes benefit relatively more: individuals receive a higher share of the income component than their share of income. CCs thus provide insight into the pro-poorness of the various income components in a scale-invariant way (i.e., irrespective of their overall size). A CC will be zero if all income units receive the same absolute amount of transfers, which corresponds to the 45° line in the Lorenz diagram. Hence, we can make a distinction here between weak and strong pro-poorness. Strong pro-poorness corresponds to a negative CC, whereas weak pro-poorness is captured by a CC between zero and the value of the Gini coefficient of income. When the value of the CC is larger than the Gini, then the benefit entails pro-rich distribution.

The term “targeting” suggests that outcomes are due to the characteristics of the system, but this need not be the case, as the outcomes of a system are also highly dependent on the characteristics of the underlying population, in terms of socio-demographic characteristics, income inequality, composition and distribution of income, and so on. If, for instance, a benefit is designed in such a way that all children are eligible, but all children are situated in the bottom quintile, then this policy measure may appear as very targeted in its outcomes, even though its design may not include any means-testing or needs-based characteristic. Similarly, a universal old-age pension system may be characterized as highly targeted if the elderly disproportionately cluster at the lower end of the income distribution. This means that, strictly speaking, we cannot derive from the CC the extent of targeting of a transfer. Hence, instead of using the term “targeting” to interpret CC values, we deem it more appropriate to talk about “progressivity” or “pro-poorness,” that is, whether these transfers are going relatively more to lower or higher incomes.

Different income concepts could be used to assess social transfers and rank equivalized incomes when calculating concentration coefficients. In line with previous studies, we assess gross social transfers, which means that our assessment of progressivity of social transfers can at least partially be due to distributional implications of tax systems. Ideally, one would want to evaluate CCs of net social transfers. This, however, poses a number of methodological challenges, as usually tax levies are imposed on the total taxable income rather than on each taxable income component per se (e.g., [Verbist 2006](#)). Tax-benefit microsimulation models (e.g., [Sutherland and Figari 2013](#)) provide about the

best way of assessing tax on social transfers. The use of microsimulation models is, however, out of the scope for this study, not the least due to the choice of establishing empirical evidence on the basis of the [Luxembourg Income Study \(LIS\)](#) data (see more detailed explanations on this in the following section) and consequent limitations.

To rank income units, we use gross income. Of course, there are arguments to use other income concepts for ranking individuals. The most obvious candidates are market income and disposable income. With market income, income units are ranked according to the position they take in the hypothetical situation that there would be no social redistribution. This effectively puts households that rely solely on transfers at the bottom of the distribution. This makes more sense for people who fail to gain access to the labor market whereas they are supposed to be economically self-reliant. But this is a stronger assumption for the elderly who rely on public pensions. This probably overstates the impact of social transfers on the income distribution. For this reason, [Whiteford \(2010\)](#) and [OECD \(2008\)](#) use disposable income as the ranking measure. The drawback here is that the impact of the welfare state may be underestimated. Some pensioners, for example, might have occupied an entirely different position in the income distribution in the absence of a public pension system.

If taxes and transfers do not alter the ranking of income units, then CCs will be the same for all income concepts. However, especially the inclusion of social transfers (i.e., moving from market to gross income) causes income units to change rank in practice, implying that concentration coefficients can substantially differ when market income compared to gross or disposable income is used.

The concept of *redistribution* refers to the impact of taxes and transfers on income inequality. The impact on inequality is driven by the size of transfers and taxes, as well as by their pro-poorness. Redistribution is measured by the difference between the Gini coefficients with and without tax transfers relative to pre-transfer income; this corresponds in our analysis to the difference of the Gini coefficients of market and disposable income relative to that of market income. As such, redistribution is due to both taxes and transfers. Alternatively, one could also address redistribution due to transfers only. In this case, the redistribution index could be evaluated by the difference of the Gini coefficients of market and gross income relative to that of market income. For indicating the impact of the size of transfers, we use the concept of generosity: how much is spent on social transfers? Here, we measure it as a share of average social transfers over average gross income.

Data and Country Selection

The empirical analysis uses micro survey data of the [Luxembourg Income Study \(LIS\)](#), in line with the data selection of [Korpi and Palme \(1998\)](#) and [Kenworthy \(2011\)](#). This not only allows us to have full comparability across the studies, but also enables providing explanations regarding specific methodological choices. We include the following 25 countries, referring to 2004: Australia (2003), Austria, Belgium (2000), Canada, the Czech Republic, Denmark, Estonia,

Finland, France (2005), Germany, Greece, Hungary (2005), Ireland, Israel (2005), Italy, Luxembourg, the Netherlands, Norway, Poland, Slovenia, Spain, Sweden (2005), Switzerland, the United Kingdom, and the United States.

The issue of data selection is not just a matter of data availability. Arguably, for the political economy dynamics at the heart of the paradox argument to occur, well-functioning democratic processes need to be in place. We think we can make the case that the countries we include are full democracies in which the presumed political economy dynamics can potentially play out. That is not to say that all these countries have fully mature, consolidated welfare states. These systems remain in flux, but 25 years after the fall of the wall they have reached a level of maturity and we think, on balance, that it is better to include than exclude these.

LIS tries to provide datasets that are as comparable as possible. However, some issues remain. For example, one of the major issues relevant for our study is the fact that not all LIS national datasets include tax information. This implies that gross income, as well as its components, are net of taxes and therefore in fact correspond to disposable income; this is the case for Belgium, Greece, Hungary, Slovenia, and Spain. Taxes are also only partially captured in the French and Italian data. Having no tax information distorts cross-country comparability in multiple ways. This implies that (part of) social transfers are net of taxes in these countries, whereas in the other countries gross transfers (i.e., before deduction of taxes) are used. It also means that the value (and distribution) of available gross income is lower (different) for the countries having no full tax information in the dataset. To address this issue, we have performed several sensitivity checks, which are reported at length in [Marx, Salanauskaite, and Verbist \(2013\)](#).

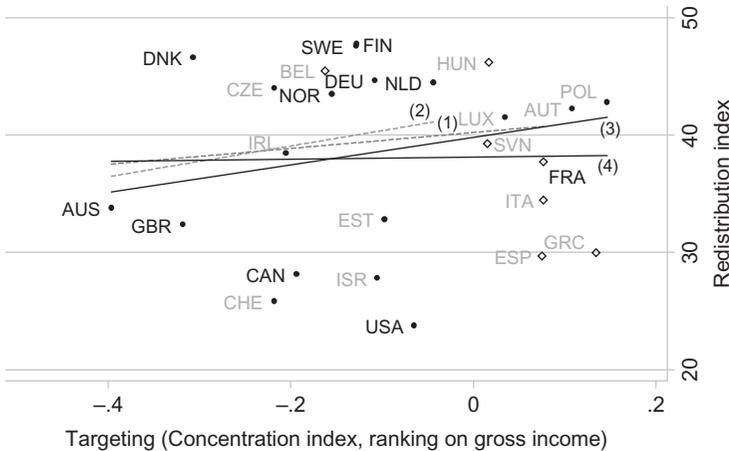
It must also be noted that the continuing prevalence of multi-generational households and family solidarity transfers in Southern Europe raises particular methodological issues for the present analysis. Pensions, for example, play an important role in the household income packages of the working aged, including children. However, to what extent the assumption of full and fair sharing in such households holds is unclear.

Results

The Overall Relationship between Pro-Poorness and Redistributive Impact

Our analysis starts with a broad picture. Figure 1 sets the CC of social transfers (with income units ranked according to gross income) to the redistributive effect of taxes and transfers, as measured by the difference between the pre- and post-tax/transfer Gini coefficient. We mark differences in country selections: as in [Korpi and Palme \(1998\)](#), [Kenworthy \(2011\)](#), for countries with tax information available, and finally for all countries included in our analysis.

If [Korpi and Palme's \(1998\)](#) seminal finding holds, we should see a strong positive correlation between the concentration coefficient (x -axis) and inequality

Figure 1. Progressivity of social transfers and redistribution (transfers and taxes), mid-2000s

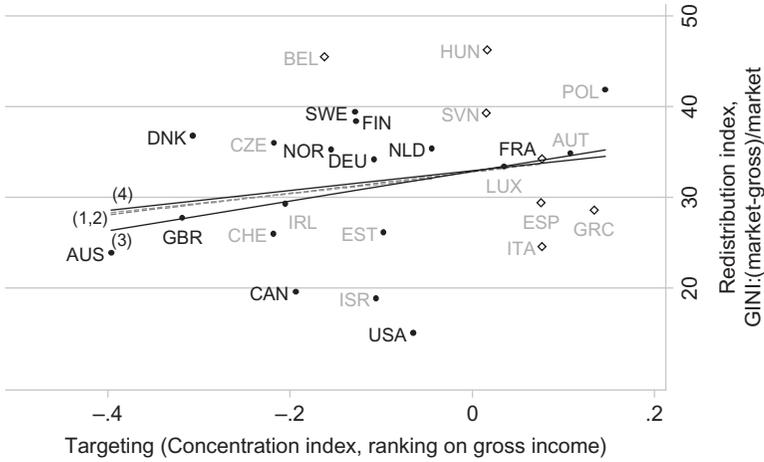
Note: Countries included in [Korpi and Palme \(1998\)](#) are in black font; hollow diamond markers point to countries for which no tax data are available to derive gross incomes: Belgium, Greece, Hungary, Slovenia, Spain, and partially for Italy and France; fitted lines are estimated for different selection of countries: (1) and a dashed line for countries covered by [Korpi and Palme \(1998\)](#); (2) and a dashed line for countries covered by [Kenworthy \(2011\)](#), which is (1) without France; (3) and a solid line for all countries with full tax information available; (4) and a solid line for all countries. Correlation coefficients for (1): 0.110; for (2): 0.174; for (3): 0.010; for (4): 0.061.

reduction (y -axis). Yet, no association between pro-poorness and redistribution is found among the 25 countries included in this analysis (see fitted line 4, Figure 1), with significant variation in the spectrum of both pro-poorness and redistribution. All CCs are smaller than the Gini coefficient of gross income, which means that all systems are progressive to some extent. Negative CCs are found in the majority of the countries, pointing to strong pro-poorness. Australia, the United Kingdom and, maybe somewhat surprisingly, Denmark have the most negative CCs (lower than -0.3). Note, however, that the redistributive impact is much higher in Denmark than in Australia and the United Kingdom. Similarly, looking at the other countries with strong pro-poor spending (concentration indices between about -0.3 and 0), the corresponding redistributive impact differs a great deal. Some of the countries with the strongest redistributive tax/transfer systems are to be found here (Sweden and Finland), together with some countries with the weakest redistribution (the United States, Canada, Israel, and Switzerland). Similarly, no clear relationship is found on the right-hand side of the graph. This includes the countries with positive CCs and thus countries with weak pro-poor spending: Austria, France, Greece, Hungary, Italy, Luxembourg, Poland, Slovenia, and Spain. Note that the overall lack of a relationship is in part driven by “new” countries in the graph, occupying a section of the targeting spectrum that was unoccupied in [Korpi and Palme \(1998\)](#) and some subsequent studies. Importantly, these countries at the right-hand side cannot and should not be labeled as “universalist.”

The existing literature has focused on a narrower selection of countries than used in our analysis. As shown by figure 1, the selection of countries is among the driving determinants regarding the “strength” of the link between pro-poorness and redistribution. Some outlier positions are of particular influence. For example, Kenworthy (2011) includes the same countries as Korpi and Palme (1998), with the exception of France. Figure 1 displays that this exclusion of France is responsible for the “steeper” fitted line—indicating a stronger targeting–redistribution relation in the Kenworthy study. France is, however, among the countries for which tax information is not fully available in LIS data. Thus, Kenworthy’s selection of countries is more “pure” regarding tax information. Note, however, that both Korpi and Palme (1998), as well as Kenworthy (2011), do not cover a number of other advanced European/EU economies and mature democracies, such as Italy, Spain, Austria, Belgium, and Ireland. Exclusion of these countries implies that observations with weak pro-poorness of social transfers are entirely not covered. As it is relevant indeed to restrict analysis to countries with full information in taxes, we display the impact of such selection on the targeting–redistribution link: it becomes a positive one, with the slope of the fitted line highly similar to the one observed by Kenworthy (2011). The question, though, remains to what extent such restriction introduces bias due to the choice of country selection. All the excluded countries with no or partial tax information have positive CC values, with one exception of Belgium. Furthermore, a negative relation between targeting and redistribution prevails for the latter group of countries. This observation would be missed, if focusing only on the countries with full information on taxes.

Another way to address the tax issue is by refining operational measures of our concepts. The way redistribution is measured in figure 1 captures the effect not only of transfers but also of taxes, which are levied on all income sources, be it transfers or not. Given that our focus is on (pro-poorness of) transfers, it is more consistent to measure redistribution due to transfers only, that is, the difference between the Gini coefficients of market and gross income relative to that of market income. The results of such alignment of concepts are displayed in figure 2. Measuring redistribution of transfers implies only that the degree of redistribution for most of the countries reduces—hinting to a large impact on redistribution achieved by personal income taxation. The largest drop in redistribution is noted in Germany (more than 10 percentage points reduction), followed by Australia, Denmark, Italy, Finland, Ireland, the Netherlands, and so forth. As LIS data provide partial tax information for Italy, one would not expect to still observe such a high impact of taxes. In line with our expectations (i.e., given the full or partial availability of tax information in LIS data), the redistribution index for some countries remains essentially the same—Belgium, Slovenia, Hungary, Spain, and Greece—or slightly reduces, as in France. It is also worth noticing that redistribution of transfers only is essentially the same as redistribution of transfers and taxes in Switzerland and Poland, pointing to barely any redistribution effect achieved due to personal income taxation.

With a measurement of redistribution due to transfers only, the relationship established by Korpi and Palme seems to re-emerge, though this association is

Figure 2. Progressivity of social transfers and redistribution due to social transfers

Note: countries included in [Korpi and Palme \(1998\)](#) are in black font; hollow diamond markers point to countries for which no tax data are available to derive gross incomes: Belgium, Greece, Hungary, Slovenia, Spain, and partially for Italy and France; fitted lines are estimated for different selection of countries: (1) and a dashed line for countries covered by [Korpi and Palme \(1998\)](#); (2) and a dashed line for countries covered by [Kenworthy \(2011\)](#), which is (1) without France; (3) and a solid line for all countries with full tax information available; (4) and a solid line for all countries. Correlation coefficients for (1): 0.197; for (2): 0.146; for (3): 0.191; for (4): 0.202.

still a very weak one. Yet, the relationship becomes less sensitive to country selection. For example, the exclusion of France does not alter the slope of the fitted line (see essentially overlapping fitted lines 1 and 2 in figure 2). One can also observe that focusing on countries with full tax information only, as in figure 1, indeed leads to a “stronger” relationship between targeting and redistribution (see fitted line 3), as otherwise found among all countries of this analysis (see fitted line 4). Hence, the main conclusion from figure 1 still holds: the relationship between targeting (progressivity) and redistribution is very weak, as is also demonstrated by the correlation coefficients reported under figure 1.

Note the immense dispersion on the redistributive axis for countries with weak targeting (with the United States and Israel having systems with weak redistributive impacts and countries like Belgium, Finland, Sweden, and so forth having strong ones, despite being similar in terms of CC values). In the Korpi and Palme line of argument, there is nothing necessarily inconsistent about this. Their argument is that very strongly pro-poor targeted systems tend to be or become small systems. Universalism does not necessarily imply a strongly redistributive system, but is in their reasoning a necessary precondition for having a large system, not a sufficient one.

Throughout this article, we continue to use the redistribution indicator that Korpi and Palme have used—for comparability purposes with their seminal contribution and subsequent re-examinations. But in future studies on this topic, we recommend to apply coherence between the targeting and the redistribution

concepts. Moreover, a comparison of figures 1 and 2 also indicates that the role of taxes in the redistribution process merits further investigation, not only because the redistributive effect of taxes (in general and on transfers specifically) differs across countries and thus has different implications for distribution of disposable incomes.

A Disaggregated Approach

We now look at transfers at a more disaggregated level. We think it is especially important to distinguish between benefits that are by intent and design targeted at the poor, and benefits that incorporate other and often multiple rationales and purposes.

It is particularly important to consider separately transfers whose primary aim is to bring about vertical redistribution toward the lower income groups. With these kinds of benefits, it is the income need principle that prevails, as implemented through a means test, although other notions of deservingness may lead to further categorical differentiation of benefit levels and durations. If a paradox of redistribution prevails, it should apply most forcefully to these benefits that purposefully seek to redistribute from the better off to the poor.

Other social transfers tend to incorporate multiple rationales. Family benefits, for example, exist in most countries to partially compensate for the cost of raising children. Children are seen to hold benefits for society as a whole (e.g., as future workers, taxpayers, and carers), and so it is widely considered desirable that society contributes to the cost of parenting. Moreover, poor children are in general deemed to be deserving of public support, given that they cannot be held responsible for their plight. If child poverty has long-lasting effects, and there is evidence that it has, it makes good sense for society to prevent child poverty over and above reasons of compassion. Thus, family benefits exist for financially supporting parents in general, and also, in most cases, to contribute toward the prevention of child poverty.

Unemployment insurance benefits compensate laid-off workers for lost earnings. As social *insurance* benefits, these benefits tend to be strongly reflective of work and thus contribution histories, as well as past earnings. At the same time, within such systems usually minimum and maximum entitlements exist so as to bring about some degree of solidarity between workers, to the benefit of those with the smallest entitlements. Again, there may be a sound externality motive to this if unemployment has scarring effects, or other societal costs.

Similarly, public pension systems incorporate various redistributive rationales, and these vary considerably across countries. In some countries, pensions are citizens' rights; in others, pensions are devised as delayed wages, reflecting past work histories and earnings. In some countries, the prime responsibility for lifetime income smoothing rests primarily with workers, firms, and markets, with the state fulfilling a residual role that focuses on elderly poverty prevention. Earnings-related pension systems sometimes grant minimum entitlements to pensioners that have incomplete work histories, for example because of child care

or unemployment, or to workers with insufficient past contributions, for example because of low wages.

Hence, the political dynamics of social insurance benefits are likely to be different from those that apply to benefits that have the more singular purpose of redistributing toward the poor. The non-poor legitimately expect their share, based on parenthood, citizenship, past contributions, or other principles, but they may accept that vertical redistribution also plays a role. Hence, the issue is what the optimal mix is between these objectives, if we are concerned with maximizing redistributive impact.

The LIS data allow for two kinds of decomposition, on the one hand by social assistance benefits versus other social transfers, and on the other hand by their need function. We isolate social assistance benefits from other benefits, as they are by design targeted to low incomes (though other criteria may be used in addition to income). Hence, we expect these social assistance benefits to exhibit a large degree of pro-poorness; together with the relative share of these benefits, this may provide an explanation on the degree of progressivity of total social transfers and their redistributive effect. Ideally, we want to disaggregate further the by-design-targeted benefits and the others according to needs function, that is, benefits aimed at children, old age, and active age. Unfortunately, this is not possible, so we look at the three broad groups as such (and they may each contain social assistance benefits or not, but we cannot identify this). We think this disaggregation is useful, as the idea of legitimacy (and hence the relationship progressivity–redistribution) may differ according to needs function.

As social transfers are composed of various transfer types (i.e., social assistance, old-age pensions, family benefits, etc.), we try to identify the distributional properties and contribution of various income sources to the overall CC. Following [Kakwani \(1977\)](#), we apply a factor decomposition analysis of the concentration coefficient of total transfers (CC): it can be decomposed as the sum of the concentration coefficients (C_i) of the different transfer categories i weighted by their share s_i in total transfers s :

$$CC = \sum_{i=1}^n \frac{s_i}{s} C_i$$

Unfortunately, such a decomposition of the CC cannot be done for all countries and for all transfer types, as often LIS data information is missing to distinguish individual transfer categories.

The Role of Social Assistance Benefits

First, we evaluate the individual input of social assistance benefits as opposed to other (remaining) social transfers. This already gives a flavor of how the design of systems operates, as these social assistance benefits are in effect designed to target the financially most needy. Based on the LIS classification, social assistance benefits are transfers from public programs targeted to needy individuals or households (i.e., with a strict income or assets test). They include general

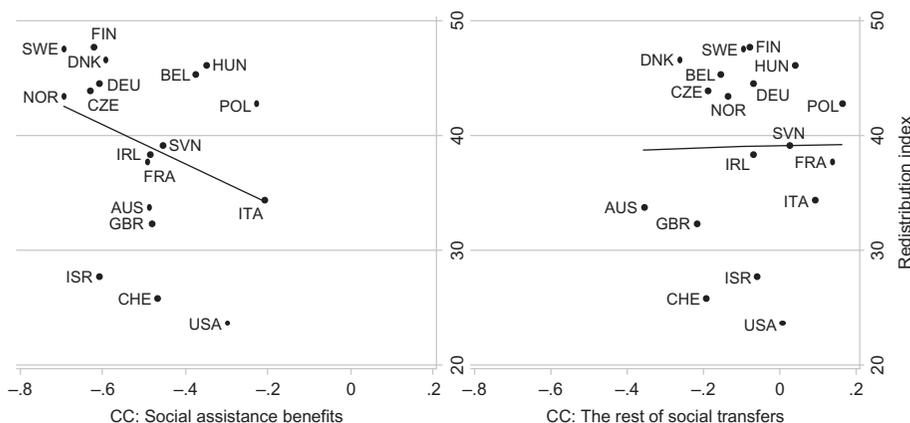
social assistance, old-age/disability/survivors' assistance pensions, unemployment assistance, family/maternity/child assistance, and education/housing/heating/food and medical assistance.

The pro-poor orientation of social assistance benefits is, as expected, much higher than that of other social transfers: for all countries, the concentration indices are lower (and always negative) than those of other social transfers (see figure 3). Furthermore, the association between the targeting degree of social assistance benefits and redistribution is different from the rest of social transfers, and also from the overall social transfers in figures 1 and 2. Actually, a rather clear association between targeting and redistribution emerges: the stronger pro-poorness of social assistance benefits, the more redistribution is achieved. The correlation coefficients for social assistance is -0.326 , compared to 0.012 for the rest of social transfers.

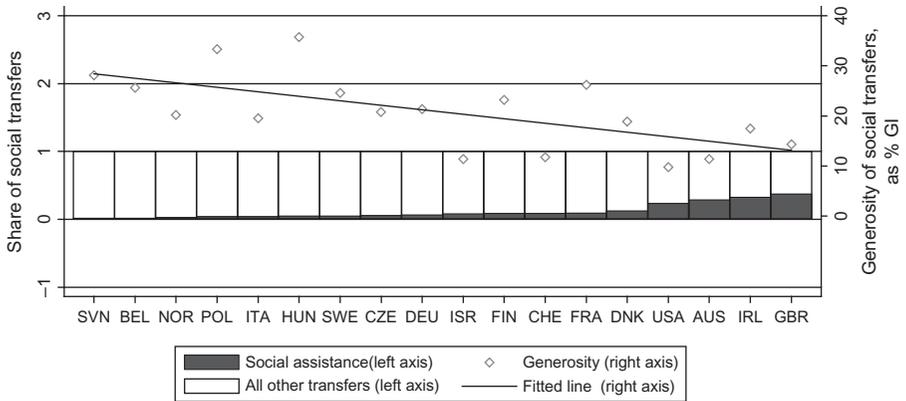
The strongly varying role of social assistance benefits across welfare systems is well documented (Marx and Nelson 2013). They traditionally play a much stronger role in the Anglo-Saxon “residual” systems. In many European countries, social assistance benefits act as final safety nets for those falling through the maze of comprehensive social insurance and/or citizenship-based provisions. The Southern European countries are a relatively unique group among the “old” in not having nationally organized social safety nets, except in Portugal, where it was introduced in 1997. In Italy and Spain, social assistance remains a regional matter and benefit levels vary quite considerably (Van Mechelen and Marchal 2013). Matsaganis et al. (2003) attribute the “patchiness” of the social assistance programs in Southern Europe to the traditional redistributive role of families and the “softness” of state institutions.

To gain a more complete understanding of the relative role of social assistance across our selection of countries, we also look at the shares of social assistance within overall social transfers in figure 4. It is not surprising to find that a country like the United States has a much larger share of means-tested social transfers

Figure 3. Social assistance and other social transfers: progressivity and redistribution



Note: Only countries with information distinguished on social assistance included. Correlation coefficients for social assistance: -0.326 , and for rest of social transfers: 0.012 .

Figure 4. Generosity of social transfers and relative shares by transfer type

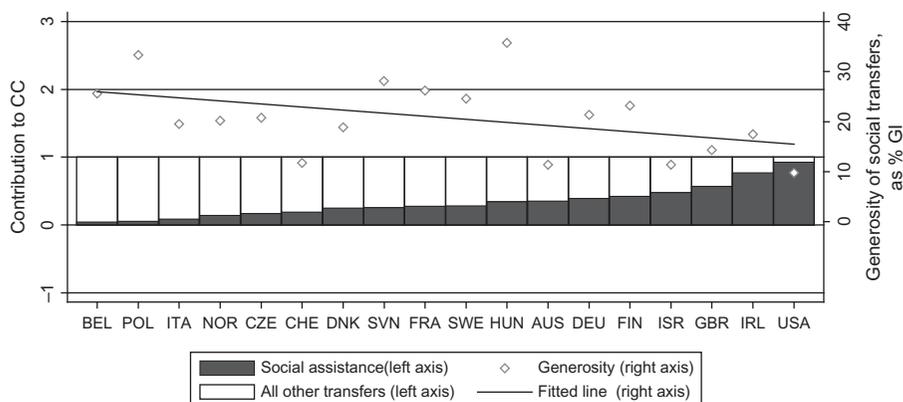
Note: Only countries with information on social assistance are included; countries are ranked by the share of social assistance within overall social transfers; here and further on, generosity is calculated as a percentage share of average social transfers within average gross income.

compared to Germany or Sweden. The European countries with the weakest pro-poor distribution of social assistance—Poland, Hungary, Italy—also have among the smallest shares of social transfers spent on social assistance. Aside from the United States, the other English-speaking countries—the United Kingdom, Ireland, and Australia—have high shares of means-tested social transfers. Interestingly, Denmark has both a large share and a very high pro-poorness of social assistance.

Figure 4 also informs on the generosity of the overall social transfers—so that the relative share of social assistance can be seen in a wider perspective. With a degree of variation, we note that in the countries where social assistance makes a larger part of the social transfers (i.e., the United States, Australia, etc.), the social transfers tend to be smaller in comparison to the population's income than in the countries where social assistance makes up only a small share of social transfers (i.e., Slovenia, Belgium, etc.).

To have the final picture on how progressivity and the size of social assistance interact, we plot contributions of social assistance and of the remaining transfers to the overall CC of social transfers in figure 5. This helps us understand how important social assistance is in determining the value of the total CC. Social assistance has a strongly varying role across countries. Its contribution to the overall progressivity of social transfers is from very low levels, as in Belgium or Poland, to very high levels, as in Ireland or the United States. Also, we observe important re-rankings of country positions. For example, social assistance in the United States has a lower share compared to the remaining social transfers (see figure 4). However, given that progressivity of the US social transfers is much higher than that of the remaining social transfers, social assistance becomes the main contributor to the total CC, as displayed in figure 5. Overall, the contribution of social assistance to the overall concentration coefficient is always higher than its

Figure 5. Contribution to overall progressivity by transfer type: social assistance versus other benefits



Note: Only countries with information on social assistance are included; countries are ranked by contribution of social assistance to the overall value of the CC of social transfers. This contribution is calculated as a share of social assistance within overall social transfers multiplied by the CC of social assistance, and then divided by the value of the total CC, so that the sum of contributions per social transfer type add to 1.

respective share within social transfers. In a few countries, the contribution of social assistance surpasses its relative size in an exceptional way: for example Slovenia (share of social assistance is about 2 percent of social transfers, yet it contributes about 25 percent of the total CC value), Hungary (share of 5 percent; contribution of 34 percent), or Israel (share of 8 percent; contribution of 48 percent).

We also see that the association between the contribution of social assistance to the CC and the generosity of overall social transfers (see figure 5) is weaker in comparison to the association with the share of social assistance in total transfers, as shown in figure 4. This hints to the role of targeting: the size of social assistance is indeed linked to the overall budget for social transfers, but the variation in progressivity degrees of social assistance has little association to the generosity of overall social transfers.

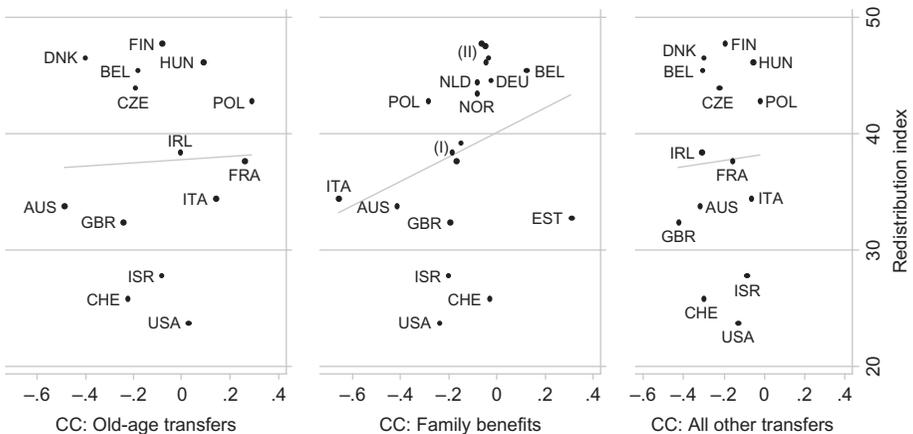
Many determinants other than the size of social transfers or social assistance per se could be at play in explaining the strong association between the progressivity of social assistance and total redistribution levels. For example, the quality of policy implementation is of importance. As noted in the methodological section of this article, the CC captures the actual outcomes of social policy designs, as these work out in various contexts. As such, higher pro-pooriness is associated not only with policy design, but also with implementation quality, such as a higher take-up (i.e., the ones who are intended to benefit do claim benefits) and lower leakage rates (i.e., the one who are not intended to benefit still manage to claim benefits). Good governance of social policies thus could be among the unobserved characteristics underlying the link between progressivity of social assistance and redistribution: states able to achieve very strong pro-poor distribution of social assistance are also better equipped in achieving redistribution due to overall social transfers.

A Further Decomposition by Need Function

In this section, we evaluate the separate contribution of three major categories of social transfers by need function: old-age pensions, family benefits, and a residual category of other active-age benefits.

Figure 6 presents the association between redistribution and the progressivity degrees by social transfer type by need function (old-age pensions, family benefits, and a residual category of other active age benefits). Old-age benefits consist of the following LIS variables: old-age insurance public pensions, old-age universal pensions, and old-age assistance pensions. Family benefits cover maternity/parental wage replacement, family/child universal benefits, and family/maternity/child assistance income variables. The other active-age benefits refer to a range of diverse social security benefits, such as sickness wage replacement, disability or survivor pensions, unemployment or education benefits, and so on. The degree of targeting of old-age pensions and family benefits clearly varies a lot. Other benefits to the active-age population reveal progressivity degrees within a narrower spectrum of variation. There is only one clear association with total redistribution, and it is of the opposite direction than the one observed for social assistance benefits: the higher the pro-poorness of family benefits, the lower the level of redistribution. There is no association between the progressivity degrees of old-age benefits and other active-age benefits and total redistribution. Overall, this implies that the “no relationship” between progressivity and redistribution of social transfers is not because of null association as such, but because of diverging underlying influences of different social transfer types, such as observed here on family benefits and social assistance. Aside from this, other factors—possibly outside the spectrum of targeting—blur the final picture.

Figure 6. Old-age, family, and other active-age benefits: progressivity and redistribution



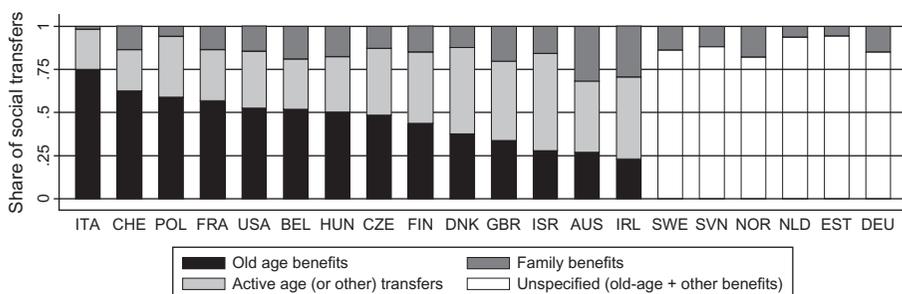
Note: Here and further on, availability of information on social transfer types varies across countries—that is, on family benefits, we have information for 20 countries; on old-age and other transfers for 14 countries; in the panel regarding progressivity of family benefits, (I) refers to the group of countries: FRA, SLN, IRL; (II) DNK, FIN, SWE, HUN.

Also, interestingly, for countries with information available, one can observe that in Australia, Belgium, Switzerland, and Denmark, old-age pensions are (much) more pro-poor distributed than family benefits. This reveals a substantial cross-population redistributive power of old-age benefits that goes beyond a general social insurance principle to redistribute over the person's lifetime. It also points to how diverse social protection systems really are across countries. For example, Denmark and Belgium have weakly pro-poor distributed family benefits, but a strong pro-poor distribution of old-age benefits and other active-age benefits. This comes with very high levels of redistribution in these cases. Switzerland has a comparable distributional profile of benefits, but at much lower redistribution levels than in Belgium and Denmark. Italy, on the other hand, has the strongest pro-poor distribution of family benefits, but among the weakest pro-poor distribution of old-age benefits, also accompanied with rather low levels of redistribution. Many other differences in national welfare arrangements exist.

Figure 6 also hints at the strong impact of old-age benefits on the total CC: the total CC of social transfers is usually of the same sign as the CC of old-age pensions, no matter of how targeted the other two types of social transfers are. The exception is the United States, where the CC of social transfers is slightly negative but the CC of old-age pensions is positive. To have a better understanding of the importance of old-age benefits within social transfers, we evaluate the shares of all three transfer types in figure 7.

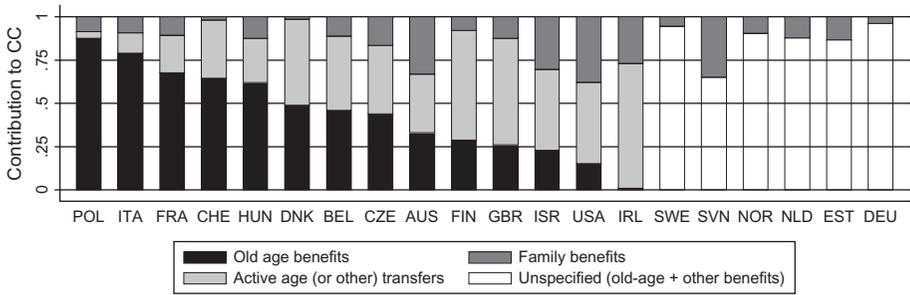
Family benefits make up the smallest share of the three transfer types we are able to distinguish, though important variations across countries exist. For example, we can see that in countries like Australia and Ireland, family benefits make up a larger share than old-age benefits and are more than 25 percent of all social transfers. Old-age benefits exceed more than 50 percent of all social transfers in about half of countries for which information is available, and especially in Italy (75 percent), Switzerland (63 percent), and Poland (59 percent). Active-age benefits can have equal or even somewhat larger weight than old-age benefits, but only in a couple of countries do they make up more than 50 percent of total social transfers, Israel at 56 percent being a notable example.

Figure 7. Relative shares of transfer types: old-age, family, and other active-age benefits



Note: Countries are ranked by the share of old-age benefits within the overall social transfers, if information is available.

Figure 8. Contribution to the concentration coefficient by transfer type: old-age, family, and other active-age benefits



Note: Countries are ranked by the contribution of old-age benefits to the CC of overall social transfers, if information is available.

The progressivity and the share of each social transfer type jointly determine its contribution to the observed total CC's value (figure 8). First, a number of countries take completely different positions, as compared to figure 7 showing the shares of various transfer types. Second, the share of a particular transfer type does not necessarily say much about its impact on the overall CC. For example, we observe a number of countries, like Ireland or the United States, where the share of old-age pension systems is much larger in comparison to their respective contribution on the total CC value. This demonstrates again that one cannot infer from the relative size of various transfer schemes alone what its overall impact on the pro-pooriness of the overall transfer system is. Pension-heavy transfer systems are not necessarily less redistributive overall, provided that there are other parts of the transfer system that are strongly progressive.

Discussion

This section discusses the theoretical implications of our results, notably the large role for means-tested benefits in transfer systems that have the biggest redistributive impacts.

A key causal argument behind claims that benefits that are targeted at the poor are at risk of becoming poor benefits essentially refers to the relative sizes of the electorates benefiting from and paying for universal as opposed to targeted programs (De Donder and Hindriks 1998; Rothstein 2001; Gelbach and Pritchett 2002). In this line of reasoning, systems for the poor essentially become poor systems because of weak median voter electoral support. Thus, our finding that means-tested benefits do have a large role in bringing about redistribution in the most redistributive systems begs for an explanation. One obvious explanation is that such large redistributive impacts actually occur when these subsystems are embedded in more comprehensive transfer systems, making their redistributive impact less distinguishable from the flows generated by other redistributive principles, like social insurance or cost compensation for children.

Another and perhaps more interesting explanation is that the degree of support for means-tested benefits is not simply a product of a rational cost–benefit calculus by the strictly self-interested (median) voter. Kangas (1995), for example, showed that a majority of the Finnish public was in favor of tougher means-testing, including among the middle and higher classes. Van Oorschot (2002b) shows that people’s presumed rational self-interest in specific programs (as estimated by their age, work status, income level, etc.) does not always or even typically predict their stated support. Notions of deservingness and fairness play a role. Perceptions regarding whether benefits end up with the “right” people and whether they stimulate or undermine self-reliance also matter (Van Oorschot 2006)

It is in this respect noteworthy that major changes have happened to means-tested benefits over recent decades. The debates that triggered and shaped social policy changes since the 1980s were arguably less about distributional issues—who pays, who benefits—than about the perceived effects of strongly targeted redistributive policies. One hypothesis that we think warrants further exploration is that means-tested benefits nowadays take totally different forms than was the case two or three decades ago, potentially making such benefits more palatable to electorates. One of the factors that arguably made some targeted systems less politically robust and prone to spending cuts in the 1980s was the fact that strongly targeted, particularly means-tested benefits entailed strong work and work search disincentives.

In the United States, for example, the main means-tested system (AFDC) became the focus of bitter political debates during the 1980s. Murray (1984), Mead (1986), and others launched strong critiques of this final safety net provision as it was then in place. That system was identified as the main culprit in creating an underclass of chronically welfare-dependent single mothers. Welfare reform came to occupy center stage in the political debate, and Bill Clinton ran his first campaign in a slogan to “end welfare as we know it.” What ensued was a major shift in US social policy. Statutory time limits on social assistance benefit duration were introduced. This move was accompanied by the expansion of a targeted benefit of an altogether different nature: the Earned Income Tax Credit. Initially introduced as an exemption from employees’ social security payments for poor working households with children, the 1993 expansion in particular turned the scheme into the country’s pre-eminent anti-poverty program for families of active working age. Spending has increased, and the system appears to enjoy relatively broad and robust political support. In 2007, Page and Jacobs (2009) asked whether the EITC should be increased, decreased, or kept about the same. More than 90 percent wanted it increased or kept the same. Clearly, the system now caters to larger sections of the electorate, including the (lower) middle class, and this also may account for that support. But an equally if not more important factor may be the fact that the system is perceived to encourage and reward work; it enjoys greater overall legitimacy, and that may explain why spending on EITC has risen dramatically (Kenworthy 2011). In Europe, too, means-tested benefits are no longer exclusively aimed at people not in work, but also at those in work in low-paid jobs (Marx and Nelson 2013). The French

RSA scheme (Revenu de Solidarité Active) is a good example of a new style of means-tested benefit scheme that offers integrated support for the non-employed and (part-time) low-paid workers alike.

More broadly, [Marchal and Van Mechelen \(2015\)](#) document a strong focus on activation right across Europe. Social assistance recipients in particular have become a prime target group for activation efforts through a range of instruments; “social insertion contracts,” temporary earnings disregards, enhanced monitoring and sanctioning, tighter job requirements, job and personal counseling, public employment programs, and so on.

The point here is that targeted, means-tested systems look totally different today from the systems in place in the 1980s. Whereas the old systems often were the subject of strongly stated critiques, especially from the political right, the new targeted systems seem to be far more palatable to middle-class voters. Whether and to what extent this account holds requires further analysis.

Conclusion

To target or not to target? That question continues to prompt an immense amount of debate among academics and politicians alike. Even today, [Korpi and Palme’s \(1998\)](#) seminal contribution remains a major reference point in this debate. In their 1998 article, they showed that, paradoxically, a benefit system with a high degree of pro-poor targeting actually yield the weakest redistributive results. More universal systems perform best. Others later revisited and challenged that finding. [Kenworthy \(2011\)](#) showed that the association between targeting and inequality reduction weakened over time, while [Brady and Bostic \(2015\)](#) show that the paradox does not hold if one considers a broader set of countries.

It would appear, then, that the paradox has ceased to exist and is no longer of relevance for public policy design. We show there to be a more complex and interesting reality. One big limitation of existing studies is that redistributive performance is assessed by looking at aggregate benefits, effectively taking these as representative for the way benefits are distributed within the various subsystems. Theoretically, we have argued that this does not make sense, since subsystems may be driven by entirely different redistributive rationales. Empirically, we show that a system may have strong pro-poor targeting within one provision, usually social assistance, and not in other. In fact, there appears to be a pattern whereby countries that have strong targeting within one provision have more universal tendencies in other. Overall, we observe the strongest redistribution to occur in countries that employ fairly strong targeting within universalism, within and often also across provisions. Most strikingly, the most redistributive systems do contain means-tested benefit programs that are strongly targeted to the poor by intent and by design. Even when relatively small, these benefits play a crucial role in bringing about redistribution. In short, for effective redistribution, pro-poor targeting matters a lot.

The wider theoretical implication is that the fundamental political mechanism that [Korpi and Palme \(1998\)](#) asserted still appears to be valid. For a system to

yield a strongly redistributive impact, it has to cater to broad sections of the electorate, but once it does so, there is scope for effective redistribution toward the poor by means of systems that purposefully target the poorest. That is one plausible reason why targeting within universalism is associated with the largest reductions in inequality.

But there may be more to this. While the fundamental political mechanic is still there—the median voter wanting its share—it may be the case that voters' attitudes toward the pro-poor-targeted subparts of the system may have changed. We have put forward the idea here that the way targeting works in many advanced welfare states today appears to be radically different from the way it worked only decades ago, accounting for substantially different political dynamics and outcomes. One of the factors that made targeted systems politically weak and prone to spending cuts in the 1980s was the fact that these systems entailed strong work and work search disincentives. Targeted systems nowadays have been remodeled not only to be more work friendly, but even to encourage and reward work, making them more palatable to middle-class voters. In that sense, the politics of targeting may be fundamentally different nowadays.

Finally, this article raises further questions. Why does a similar degree of strong targeting, as captured by the concentration index, produce much stronger redistributive outcomes in Denmark as compared to the United Kingdom and Australia? More broadly, the question is: why are similar levels of targeting associated with vastly different redistributive outcomes across countries? We have also brought to light that the impact of taxes, both in general and specifically those on transfers, requires further exploration. To what extent all this is a result of our modeling choices, of compositional factors, or of actual design features of systems is still to be established. As we already indicated, the redistributive outcomes of a particular system are dependent on the characteristics of the underlying population, in terms of socio-demographic composition, the extent of market income inequality and other such factors, and so forth. A system may appear as very targeted in its outcomes, even if its design does not include means-testing or needs-based features. This means that, strictly speaking, we cannot derive from the concentration coefficient how the pro-poorness of a transfer comes about. Also here we need to take further steps. Using a tax-benefit model, we could go further in analyzing how system design features matter relative to (or in interaction with) contextual features in producing redistributive impacts.

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