



The paradox of redistribution revisited, or why targeting may matter less than we thought

Ive Marx, Lina Salanauskaite and Gerlinde Verbist

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Claim

- We aim to show that Korpi and Palme's highly influential claim that "the more we target benefits at the poor, the less likely we are to reduce poverty and inequality" does no longer hold as a robust empirical generalisation.
- In fact, the relationship between targeting and redistributive impact has become a very weak one
- We show this finding to be relatively robust across a set of alternative empirical specifications and data sources..but specification matters...



THE STORY SO FAR...



Targeting is good

- Long standing debate, cfr. Marshall (1950), Titmuss (1952), Tawney (1952), Lampmann (1971), Barth et al. (1974); Tullock (1983), Deleeck et al (1983)...
- Goodin and Le Grand (1987: 215):
"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."



Targeting is bad

- Korpi and Palme 'The Paradox of Redistribution' (Am. Soc. Rev, 1998:663):

"the more we target benefits to the poor...the less likely we are to reduce poverty and inequality"



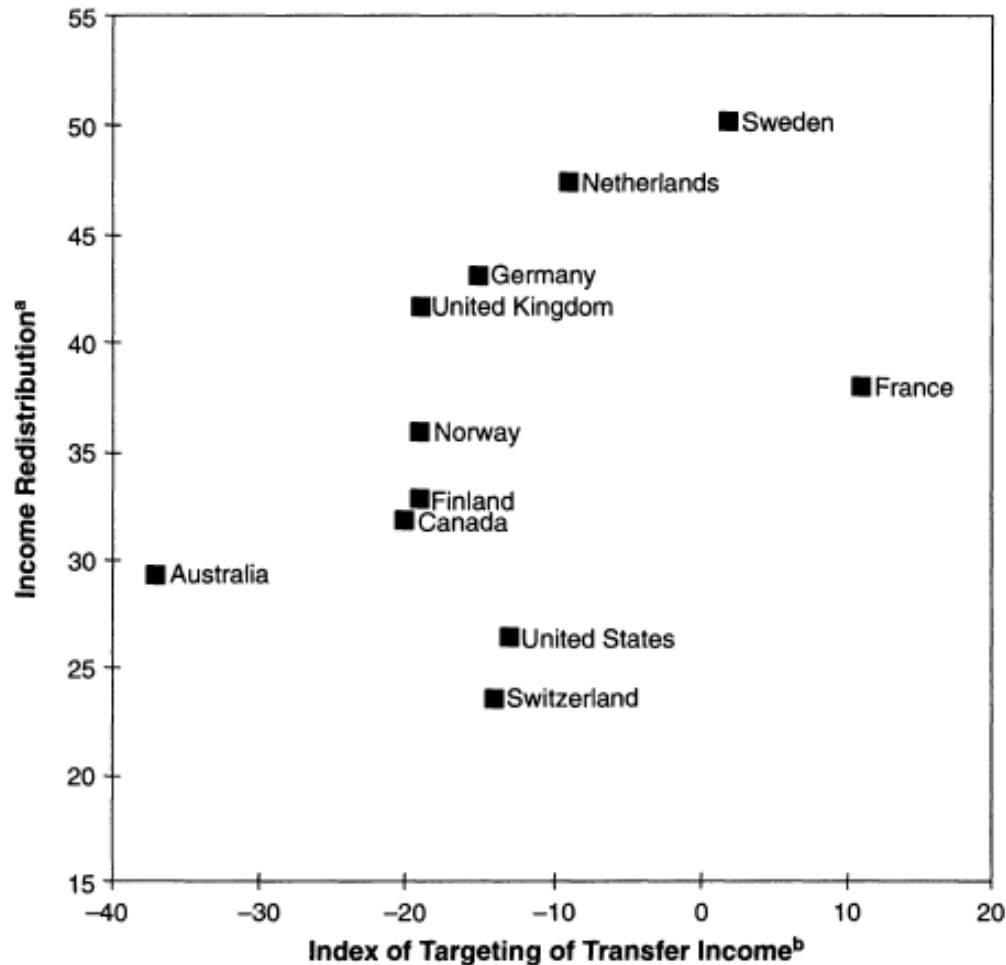
Why targeting is said to be bad

- K&P claim that in welfare systems that target the poor, less resources tend to be available for redistribution because of less widespread and robust political support for redistribution. As a consequence, despite the pro-poor design the redistributive impact of such systems tends to be smaller.
- Put another way: some degree of redistributive “inefficiency” (Matthew effect) is the necessary price to pay for effective redistribution



Targeting may not be so bad after all

- Many subsequent studies: Moene and Wallerstein (2001); Pontusson (2005); Nelson (2007); Whiteford (2007;2008), ...
- Corak, Lietz and Sutherland (2005): “Targeting within universalism”; see also Van Lancker et al. (2012); Van Mechelen and Bradshaw (2012),...
- Kenworthy (2011): “Targeting may not be so bad”



Korpi and Palme,
ASR, 1998

Figure 3. Index of Targeting of Transfer Income and Income Redistribution: 11 OECD Countries

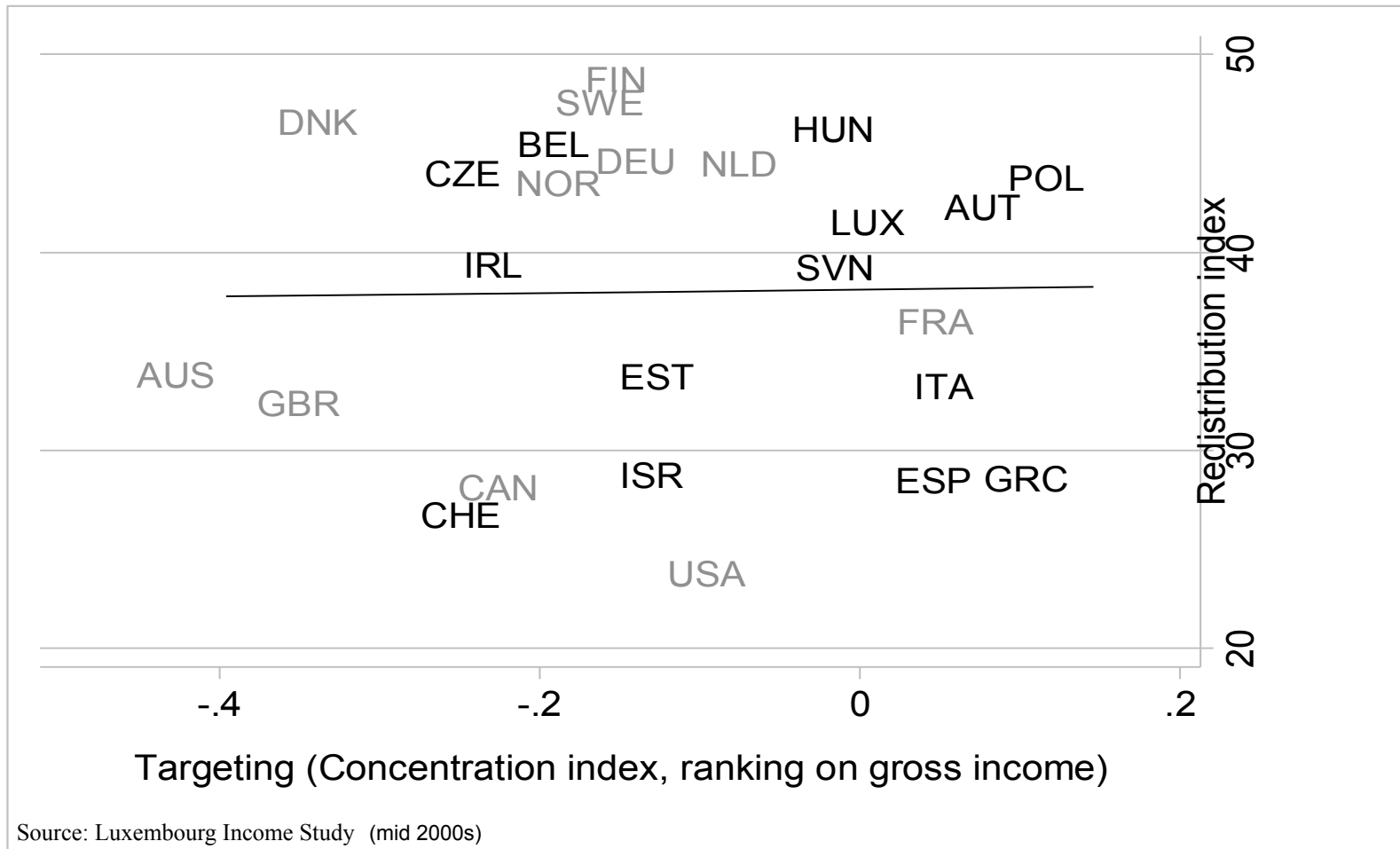
Source: Luxembourg Income Study.

^a Income redistribution equals the reduction in the Gini coefficient from market income to disposable income expressed as a percentage of the Gini for market income.

^b Negative values indicate low-income targeting for transfer income; positive values indicate the targeting of transfer income to residents who are economically better-off.



Korpi and Palme replication, LIS, mid 2000s





MEASURING TARGETING AND REDISTRIBUTIVE IMPACTS



Redistribution

- *Redistribution* refers to the impact of taxes and transfers on income inequality.
- It is measured by the difference between pre and post tax/transfer Gini coefficients for overall income inequality
- Clearly imperfect counterfactual, but no workable alternative for broad cross-country comparisons



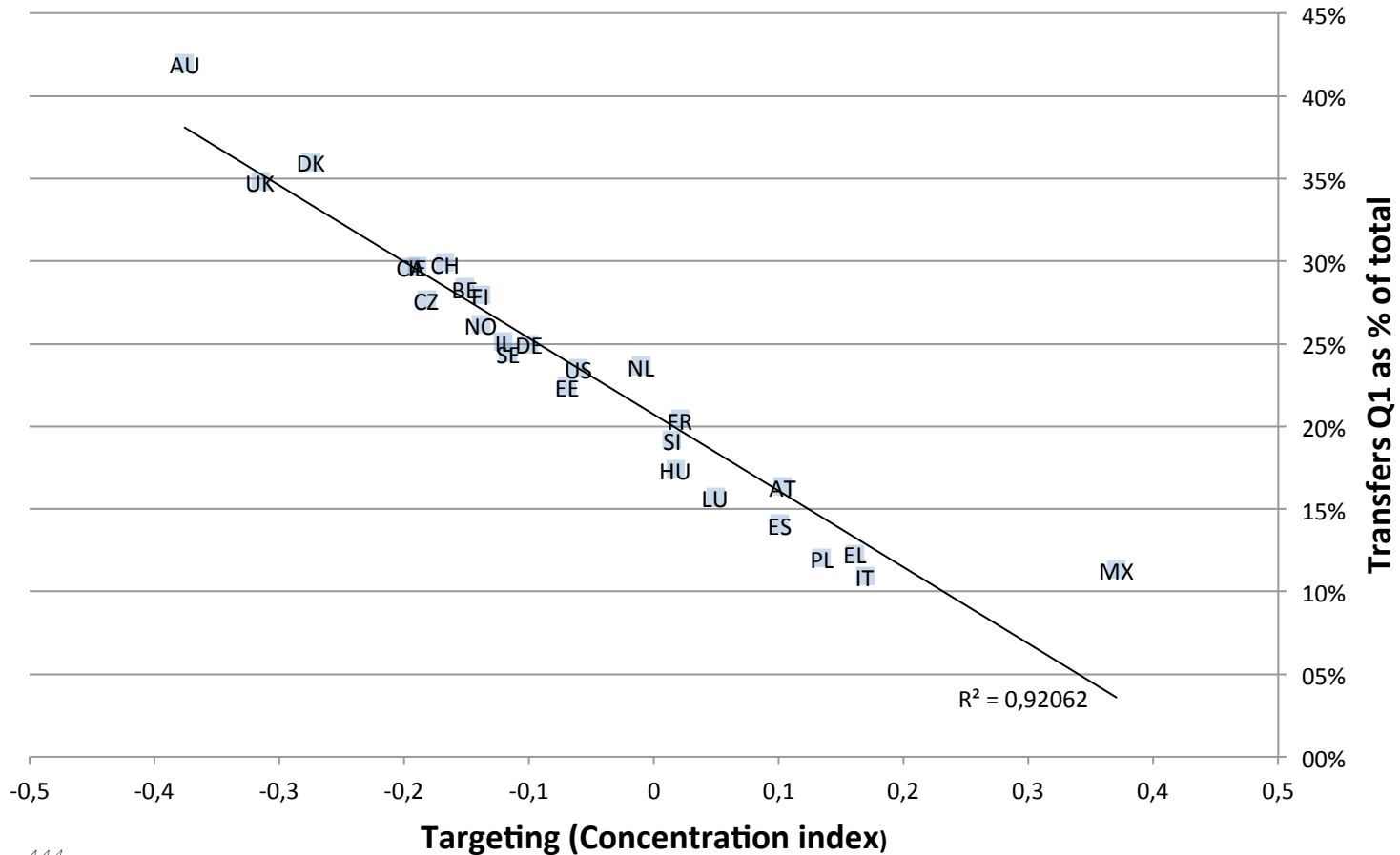
Targeting

- Captured by the concentration coefficient
- 0 when neutral, negative when share of transfers exceed share of disposable income (=pro-poor)
- Is an *outcome* measure, not a *policy design measure*; design + context matter
- Alternative measures of targeting, e.g. transfers going to the bottom quintile of the income distribution



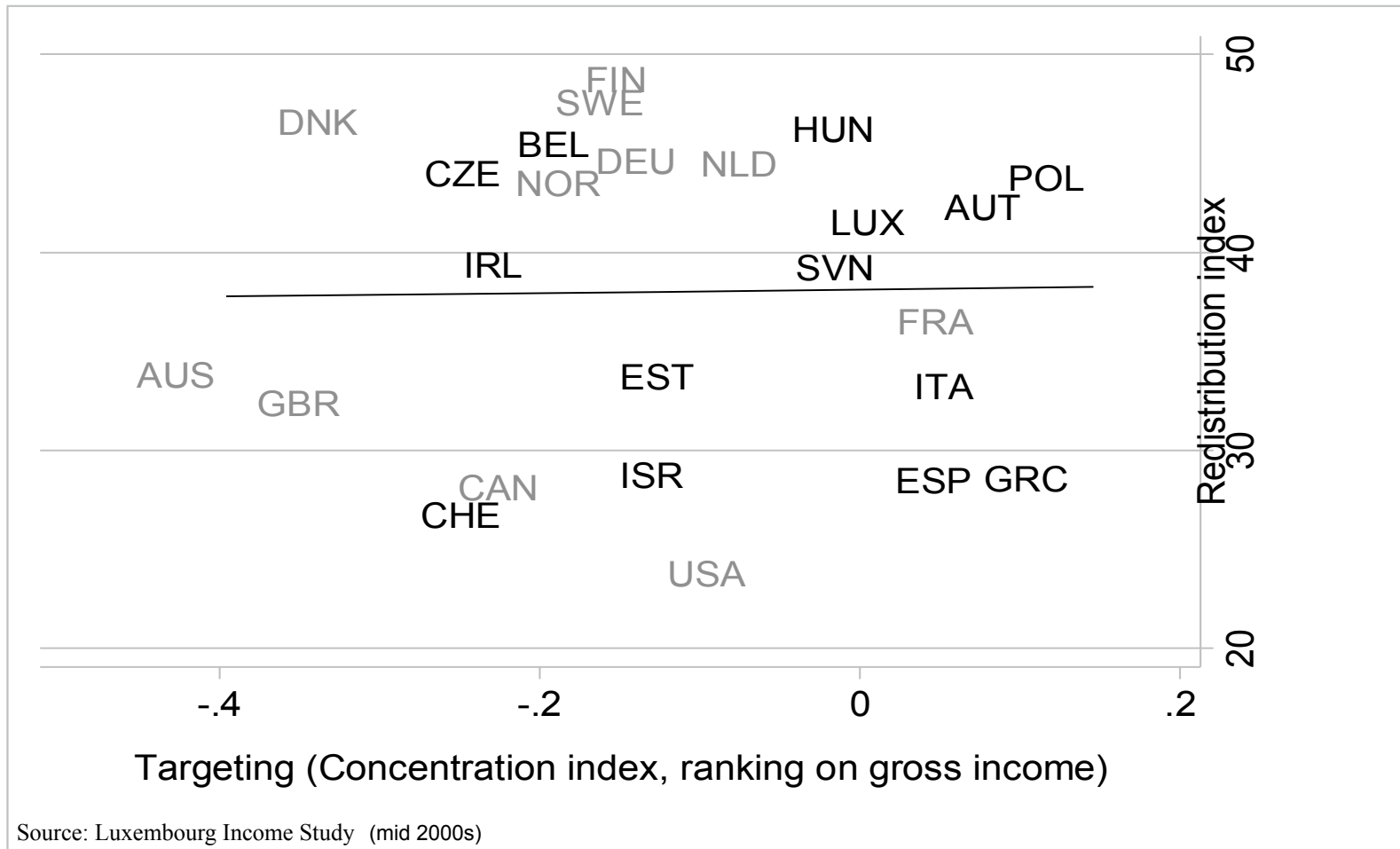
Concentration coefficients versus bottom quintile transfers share

Targeting transfers (CI gi) - Propoorness





Concentration index (ranking by gross income) and redistributive impact, LIS, mid 2000s





Recall: two causal mechanisms

- Universal systems enjoy broader political support, and spending is for that reason larger
- More spending implies more redistribution



Concentration index (ranking by gross income) and redistributive effort

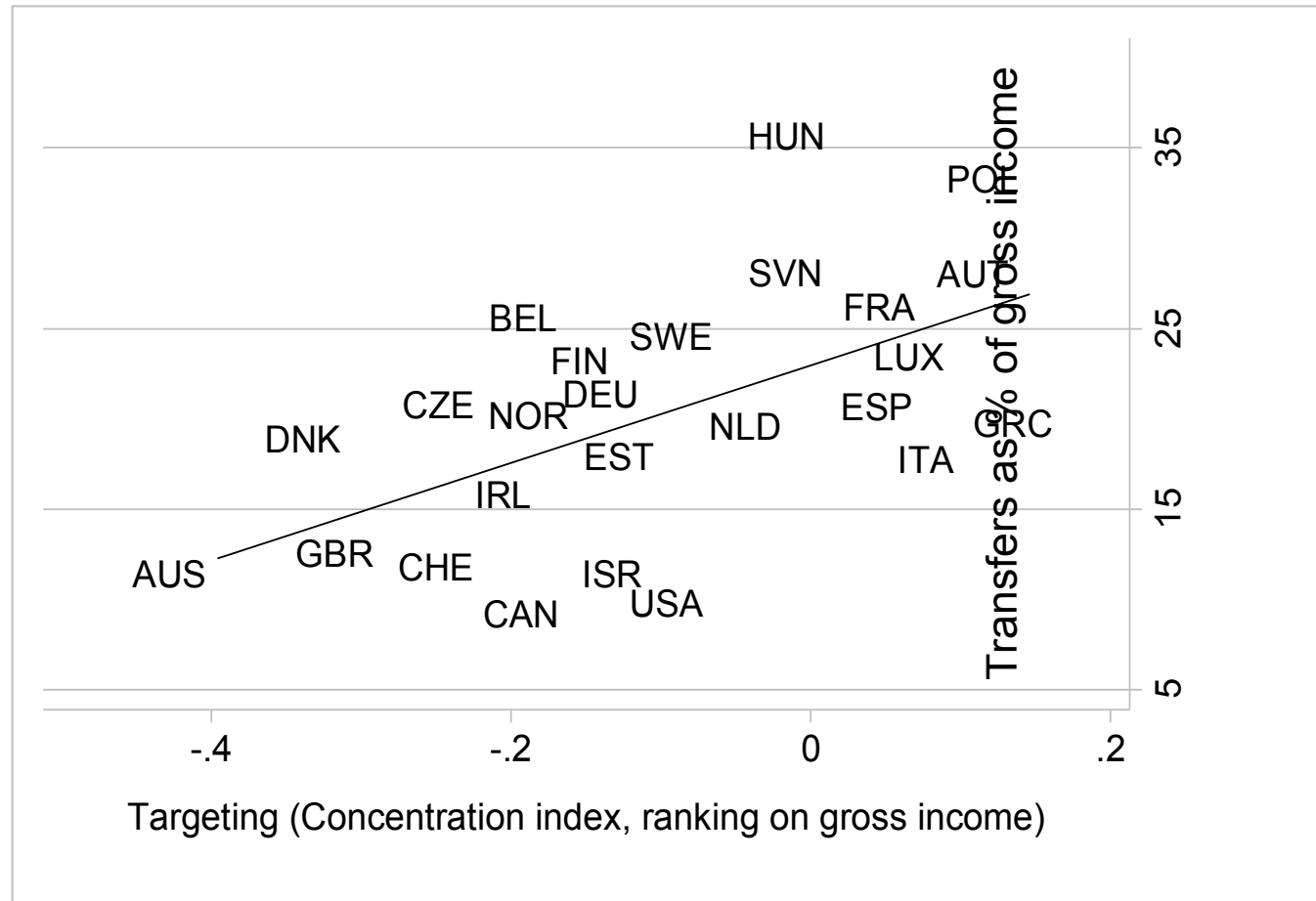
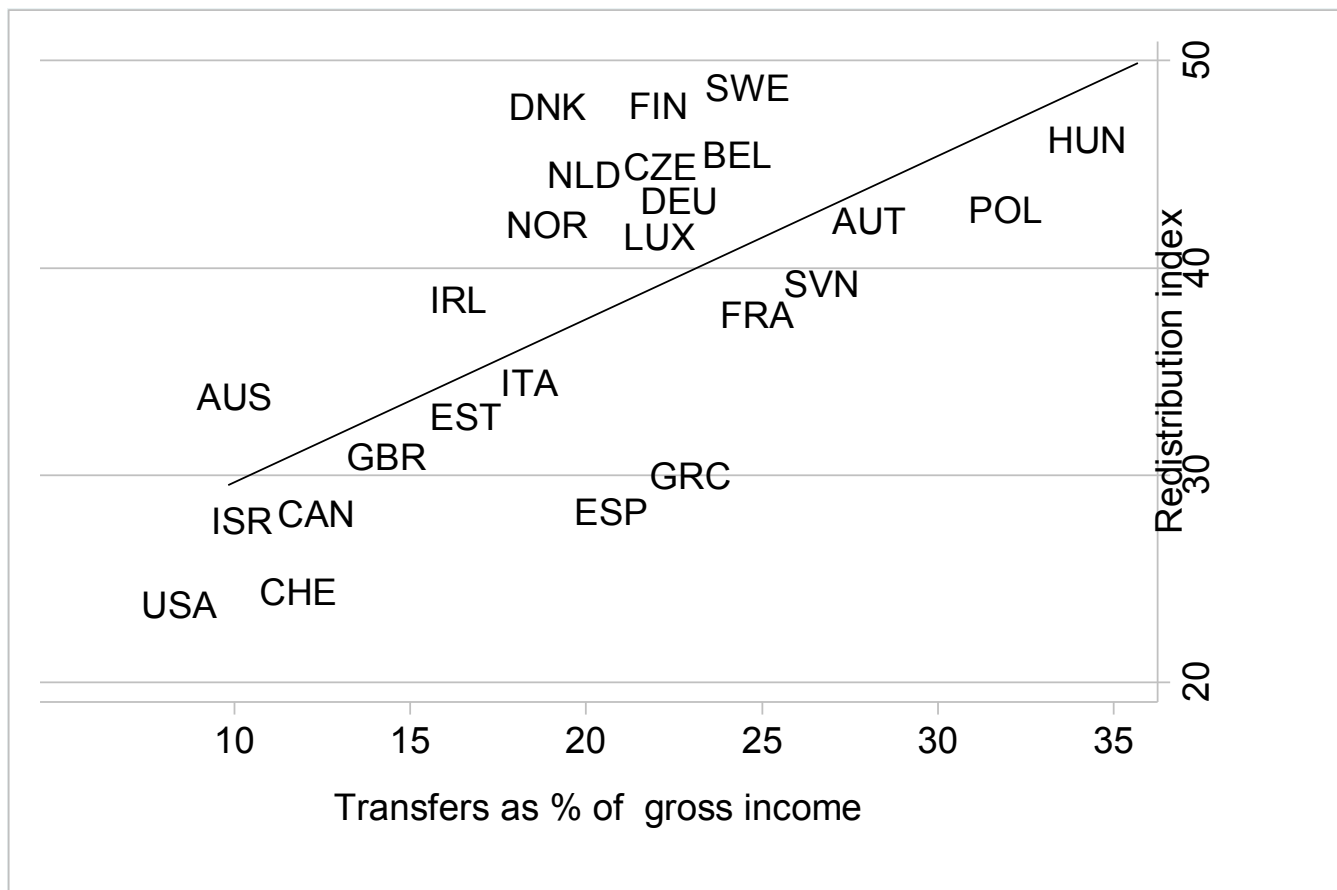




Figure: Reduction in inequality due to taxes and transfers compared with size of social transfers (expressed as a share of gross income)

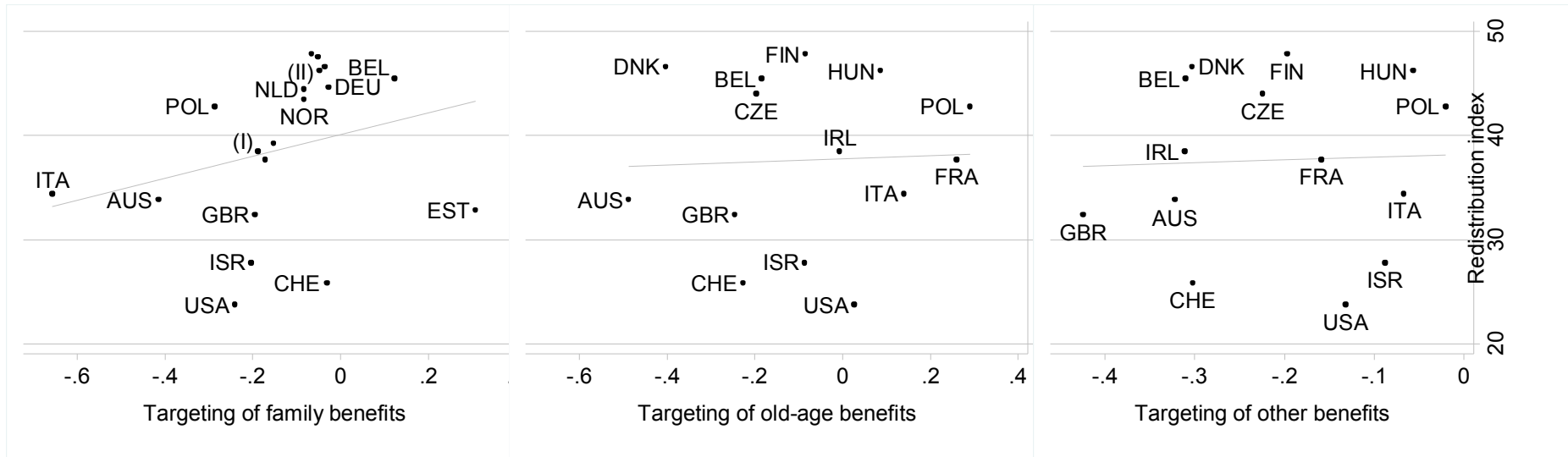




Robustness and specification

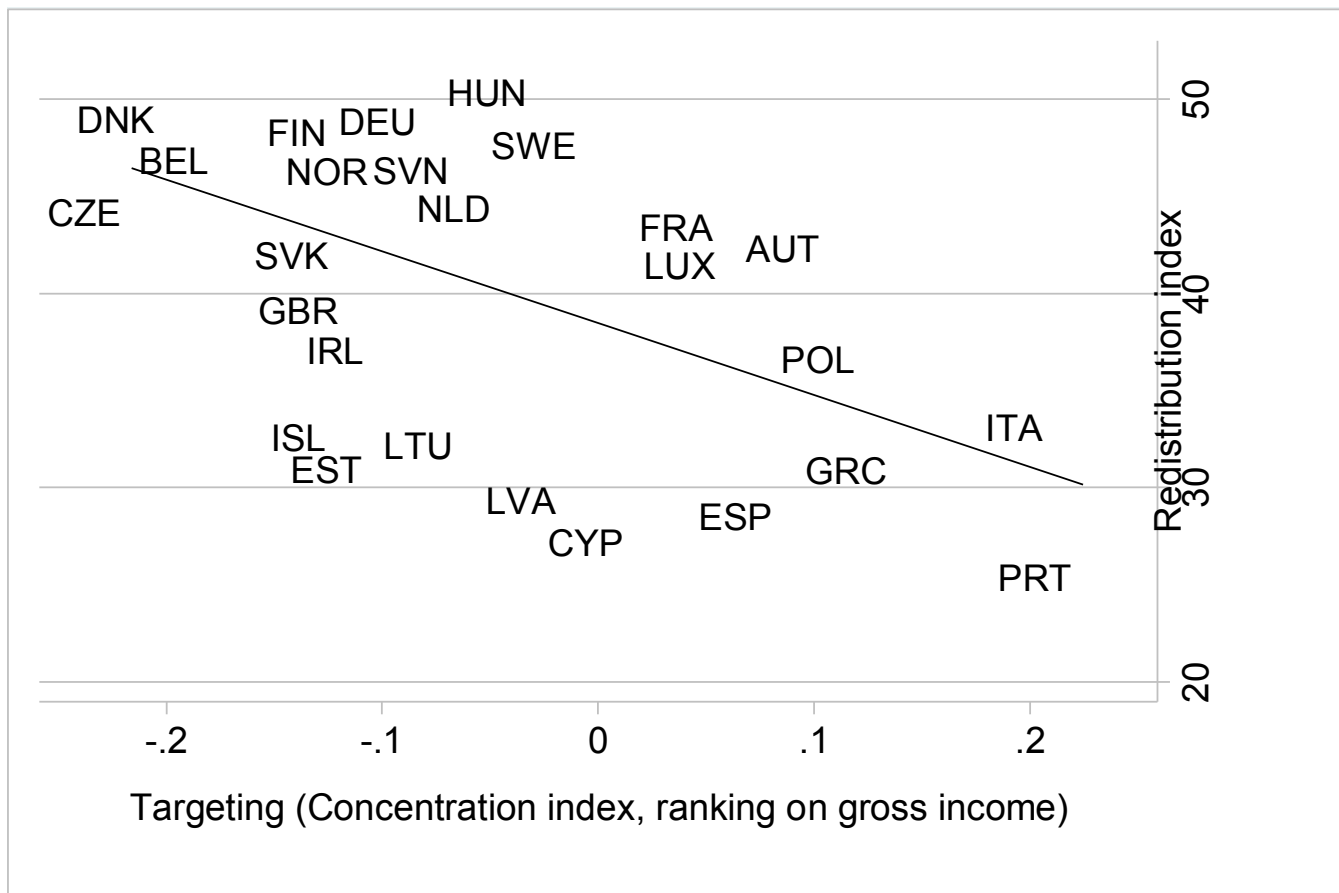


The picture differs somewhat by benefit type





Robustness check for data source: EU SILC

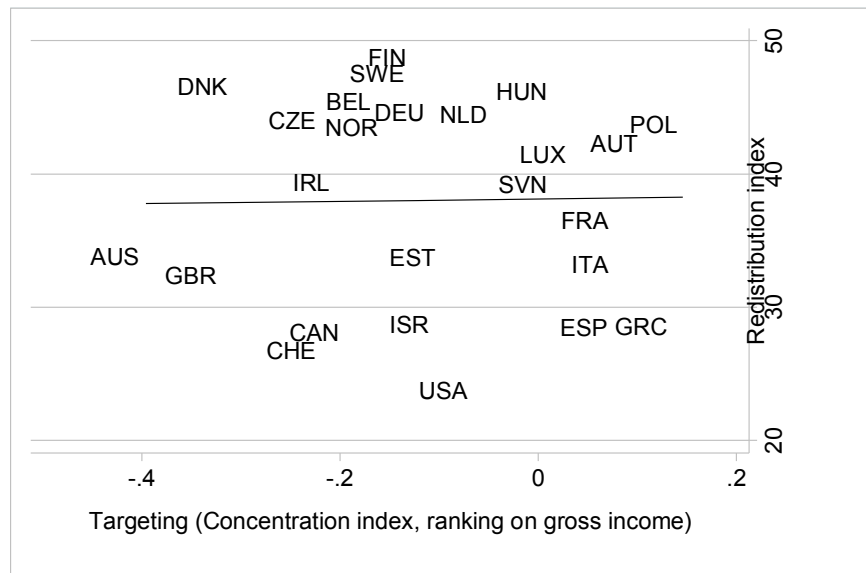


Source: EU-SILC 2005

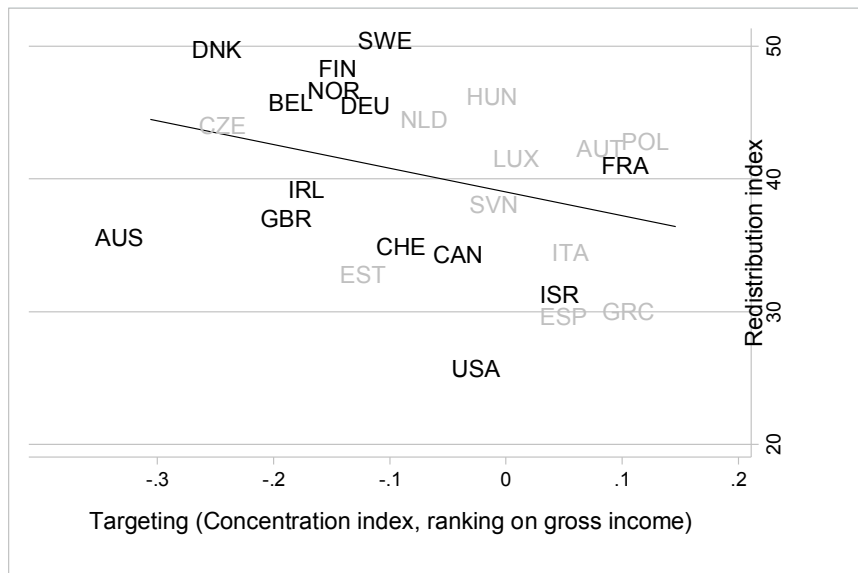


The impact of occupational pensions: LIS data

Part of market income:



Part of social transfers:



Note: countries with no information available on occupational pensions are in grey font

Source: LIS



DISCUSSION: MAKING SENSE OF THIS REVERSAL



Are the newly included countries different?

- K&P included Australia, Canada, Finland, France, Germany, the Netherlands, Norway, Sweden, Switzerland, UK & US
- Additional countries included in LIS analysis
 - a) three Southern European countries (Greece, Italy, Spain);
 - b) post-communist countries now part of the EU (Czech Republic, Estonia, Hungary and Slovenia)
 - c) advanced economies not included in the original analysis: Austria, Ireland, Israel, Luxembourg.



Is targeting different today?

- Political vulnerability of strongly targeted programmes arguably not only due to small electoral base but also to (perceived) perverse work and family formation incentives
- Work incentives in MIPs have been drastically remodelled and some targeted systems are now integrated systems of support for the non-employed and low-paid workers alike
- US: AFDC => TANF + EITC
- France: RMI => RSA



Conclusion

- So perhaps we better stop worrying and learn to love targeting?
- But questions remain..
 - Why are some « targeted » systems more redistributive than others? (policy design vs. compositional effects)
 - Longer term effects of targeting (work, family formation, savings), and political dynamics/robustness...