

TARGETING AND UNIVERSALISM IN DEVELOPING COUNTRIES

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Conceptual case

Aid is nowadays understood not so much in terms of helping developing countries, but in terms of helping the poor. This shift has been due to a number of factors that include the loss of faith in local elites and their “developmentalist ideologies”; the growing awareness of the economic cleavages within the developing countries, the rather discomfoting realisation that anemic “trickle down” has occurred with economic growth; the ideological shifts on the role of the state in the development process. In addition, in the context of “aid fatigue”, it has become politically necessary to argue that (a) aid directly addresses poverty; the “rising tide raises all boats” argument advanced by the World Bank in the much publicized work by Dollar and Kraay [2000] that growth is good for the poor. It is then argued that the policies of the BWIs ensure the requisite growth. An important assumption here is that the SAPs, while promoting growth, do not affect income distribution. Consequently, if they lead to growth, they will increase incomes in all income categories.

It has also been assumed that aid indeed reaches the poor, or that even if aid does not enhance growth, it restructures public expenditure in favor of the poor. The point to bear in mind here is that the argument in both cases is couched in terms of “restructuring aid” away from “developmental concerns” towards “poverty reduction”. As a consequence, both arguments have led to questioning of the purpose of enhancing growth in the absence of mechanisms to ensure that the poor will benefit. It is partly in response to this argument that BWIs have been at pains to argue that aid to countries with “good policies” (read neo-liberal policies) enhances growth.

The Current Push for “Targeting”

Overview of World Bank/IMF Positions

Probably the most advanced argument for targeting is that in the context of serious fiscal constraints, it is necessary to allocate scarce resources to the most needy. The current debate on the choice between “targeting” and universalism as modes of social allocation is couched in the language of “efficiency”, where the social returns for a given level of transfers are higher for individuals or households at the lower end of the income distribution than at the upper end. Thus, to maximize the welfare effect of a transfer program, the appropriate target would be the population segment deemed poor according to some criteria.

The view of the World Bank is succinctly stated in the 1990 report on poverty: “A comprehensive approach to poverty reduction... calls for a program

of well-targeted transfers and safety nets as an essential complement to the basic strategy” (World Bank 1990: 3). The two key instruments proposed by both the IMF and the World Bank have been: (1) social safety nets, introduced to address the adverse effects of SAPs, and (2) “targeting the poor”. Initially, these measures were viewed as temporary, since the need for them would be diminished by the high employment elasticity of growth associated with structural adjustment programmes.

Meanwhile, social policy was intended to enhance the efficiency of resource allocation or to make reform more palatable. The macro-economic model itself remained unquestioned, although it is now increasingly seen to be failing to promote development. In line with the “New Consensus” on poverty, many donors now lean heavily towards targeting -- directly through projects specifically aimed at the poor or indirectly through support to sectors more likely to benefit the poor than the well off. The PRSP process, upon which many developing countries have embarked and to which most donors now contribute, has further reinforced this turn towards “targeting” the poor. Furthermore, setting up global targets, such as the Millennium Development Goals, points in the same direction.

Ideological Shifts

Ideologies play an important part in the choice of instruments used to address problems of poverty, inequality and insecurity. Indeed, the weight attached to forms of allocation is so crucial that it has been used as the defining characteristic of “welfare regimes” because of their affinity with a whole range of other policy positions. Indeed, in various classifications of “welfare states”, those states where social policy is marginal, tend to favour “targeting”. In many countries, universalism has been driven by ideologies of equality and citizenship. And even today, the case for universalism is made in the language of universal “rights”. In most welfare regimes, there are three basic principles of entitlement which are considered: *needs*, *rights*, and *citizenship*. These distinctions are, of course, not as easily drawn as it would seem, but they do capture the philosophical underpinnings of the dominant social interventions.

In the 1980s and 1990s, the rise of the Right privileged individual responsibility and a limited role for the state. And with ideologies of equality on the retreat, policies pushing for universalistic policies were bound to experience setbacks. Current programs on poverty reduction, such as the PRSP, are tethered to the neo-liberal ideology premised on greed and self-interest and fundamental faith in the market. Such an ideology runs counter to such notions as “solidarity” or “social cohesion” that have under-girded social policies elsewhere. It is this

ideological position that has informed the limits set on social policy and the preferences for “user fees”, market delivery of social services or “private-public partnerships” in their delivery. This ideology has also eliminated the equity concerns that have been central to all successful pursuit of poverty eradication.

This mixture of factors behind choices may partly explain why practices in individual countries are rarely as starkly differentiated as a binary choice would suggest. Instead, they tend to lie on a continuum, as each state combines more or less elements of targeting and universalism. The issue, as Sen suggests, is not so much about being selective in one’s initiatives, but how much to push discrimination and where to stop (Sen 1995).

Crisis of Universalism

There is a strong case for placing social policy at the core of development, both as an instrument for development, but also as a guarantor that the development process ensures contemporaneous consideration of the ends of development. In the name of developmentalism, socialist ideologies and nation-building, many Third World governments tended to lean to universal provision of a number of services including free health, free education and subsidised food. In practice, however such “universalism” was stratified and tended to apply to social groups directly linked to the nation-building project (state functionaries, military) and to the industrialisation project. Such stratification was most sharply drawn out in countries pursuing import substitution and especially with respect to social protection.¹ Even prior to the crisis and the adjustment that undermine the policies, such “stratified universalism” was strongly criticised for its “urban bias” and for creating “labour aristocracies” while marginalising large sections of the population. The fiscal crisis of the 1980s further raised questions about the viability of such a strategy and led to the breakdown of some of the “social pacts” that had sustained it.

It should, however, be recalled that the foundation of many of today’s most successful universalistic welfare states was such “stratified universalism”. In most “late industrialisers” such as Germany and Japan, welfare entitlements were directed at those parts of the workforce that were most crucial for economic growth, or best organised, and thus politically most powerful: that is, skilled industrial workers (Manow 2001: 95). “Universalisation” took place through gradual extension of the “performance/achievement” model – hence, the importance of full employment as a labour market objective. The speed with which universalism spread was conditioned by the political regime in place. In

¹ On Latin America see, for instance, Figueira and Figueira (2002).

democratic societies where labour was free, universalism was rapidly extended, partly by the necessity of forming coalitions between workers and peasants, as in the Nordic countries.

The Fiscal Constraint and Privatization Arguments

Much of the debate on targeting in the 1980s revolved around “rolling back the state” through “cuts” and restrictions in public spending designed to allow tax cuts, especially on traded goods, that were considered the main cause of the poor performance of exports. Although there was also the claim that these taxes could be replaced by other taxes, especially value added taxes, the actual record is that most countries have not been able to compensate for the revenues they have lost from past episodes of trade liberalization. An IMF study (Baunsgaard and Keen 2004), covering 125 countries over the period 1975–2000, shows that while high income countries have recovered revenues with ease, middle income countries have recovered only about 35–55 cents for each dollar of trade tax revenue they have lost, while low income countries have recovered essentially none. Nor is there much evidence that the presence of a VAT has, in itself, made it easier to cope with the revenue effects of trade liberalization.

For developing countries, it was further argued that, given limited resources, it is important that they reach the needy poor, and are not captured by the well off, whose needs can be met by the private sector. This argument has gained weight in the context of the fiscal crises of many developing countries, and the problem of servicing the debt. Furthermore, it is argued that, partly as result of the fiscal crisis and retrenchment, the state has less capacity to provide universal services. The state is better off targeting, both its limited financial resources and its much-reduced capacity, so as to maximise the inclusion of the poor. Significantly, part of the argument for reducing the reach and capacity of the state was based on the claim that states had no business providing universal social services. What we now have is a situation where the once desired and deliberately engineered narrowing of the state mandate and state capacity are invoked as arguments for “targeting”.

The privatization of a whole range of social services, including education and health, was not only supposed to relieve the state of a heavy fiscal burden, but also to compel those who could afford to pay user charges to do so. In such markets, individuals would be induced to make the right investments in human capital, reflecting changes in demand in well functioning labour markets.

Marginal Role of Social Policy

In many ways, much of the case for 'targeting' rests on narrowing the social agenda and dismissal of the whole range of moral and ideological underpinnings of social policy as utopian. The preference for "targeting" is thus often a reflection of the residual role assigned to social policy in development. Following the "oil crisis" in the 1970s, social welfare policies, which were once seen as the social lubricants of the market, were now seen as the sand in the machine undermining incentives, hampering competitiveness and harbouring savings by eroding fiscal probity.

Targeting or "means-testing" is not just as an administrative method whose function is to allocate welfare to claimants on the basis of financial resources, but also a social policy instrument for the "redistribution" of resources in society. It can also be used as a means for limiting social expenditure, for flattening the distribution of income, and as an administrative means to target income for groups in society whose income falls below a defined income level. Which function is given more weight depends very much on one's ideological predisposition. Thus, right wing political parties tend to stress "targeting the poor", with its minimal collective arrangements, while those of the Left tend to stress the income redistributive aspect since it suggests solidaristic collective arrangements.

Commercialisation of Service Provision

One force for "targeting" has been the emergence of new arrangements for providing aid. More specifically, the new "partnerships" involving the private sector and NGOs have tended to encourage "protecting" development. This, in turn, has favored "targeting" in the context of the "Bang for the Buck" argument which insists on a clear relationship between inputs and outputs, which in turn calls for clear delimitation of tasks and of costs and benefits. Programmes driven for institutional arrangements are not necessarily ones that respond to social needs.

Counter Arguments

Administrative and Transactions Costs Argument

Structural adjustment policies have sought to eliminate such interventions. Arguments deployed against targeting in the economic field revolve around possibilities that the following distortions might be generated: *information distortion, incentive distortion, moral hazard and administrative cost, invasive loss and corruption*. It was asserted that governments did not have the knowledge

to pick winners or to monitor the performance of selected institutions. In situations of asymmetric information, beneficiaries of such policies conceal the information necessary for correct interventions. Selective policies and rationing of credit or foreign exchange produce perverse incentives, making it more rewarding to seek rents than to engage in directly productive activities. Furthermore, there is the ever present danger of opportunism (moral hazard), and governments cannot always guarantee reciprocal behaviour from those to whom it has extended favours. Developing countries were identified with weak administrative institutions, which cannot be expected to manage the detailed requirements of selective policies. In addition to the purely technical problems, there is the question of the integrity of public institutions and the commitment of personnel. In such situations, the “targeting” of economic policy is an open invitation to rent seeking and corruption. The solution is “universal” policies—i.e. policies that apply equally to all entrepreneurs by creating a “level” playing field. Lump sum transfers or uniform tariffs that apply to all are strongly recommended.

The use of targeting involves some mechanism which discriminates between the poor and the non-poor, and a criterion for inclusion which maximizes some welfare function, which involves weighing two types of possible error: the Type I error of exclusion of the poor, and the Type II error of inclusion of the non-poor [Wodon (1997)]. Borrowing from statistical theory, one can identify two types of errors one can commit. A Type I error occurs when benefits are paid to someone who does not deserve them (overpayment); a Type II error occurs when someone who deserves benefits is denied them (underpayment). Thus, the ability to measure poverty and identify the poor is essential for designing any targeted transfer program. Target efficiency would then be defined as the proportion of expenditure going exclusively to those below the official poverty line.

It should be clear that in developing countries, the chances of committing Type Two errors are even greater, given the poor institutional and administrative capacity to administer targeting assistance and the political economies of the countries. This, in a way, would be the conclusion that one would draw from the World Bank’s perspectives on policy and state capacity in other areas. Indeed, the preference for targeting by the Bretton Woods institutions is rather paradoxical, especially in light of their aversion to targeting in many economic activities, such as selective industrial policies or credit rationing in the financial sector.

The preference for targeting by the BWIs is rather paradoxical, especially in light of the World Bank’s aversion to targeting in many economic activities, such as selective industrial policies or credit rationing in the financial sector. Advocates of such selectivity or rationing have argued that given limited savings

or access to foreign exchange in developing countries, it is necessary to prioritize allocation of resources through “comprehensive planning”, targeting, and so forth. Many industrial and trade policy interventions have been premised on such a case for targeting. The recommendation from the BWIs was against targeting, instead proposing “universalistic” policies such as uniform tariffs, “level playing fields”, etc.

And yet, when it comes to social policy, such “universalism” is rejected on both equity and fiscal grounds. Instead, selectivity and rationing are recommended—apparently totally oblivious of the many arguments against selectivity raised with respect to economic policy. Suddenly, governments lambasted elsewhere for their ineptitude and clientelism are expected to put in place well-crafted institutions and to be able to monitor their performance. And yet there is nothing to exclude the possibility that “targeting” in the social sector may be as complex and amenable to “capture” as “targeting” with respect to economic policy. It is definitely the case that the criteria for selection are at least as complicated, controversial and ambiguous as those for economic policy.

Social indicators are extremely difficult to construct, and poverty itself is multidimensional. Amartya Sen (1999) has raised exactly the same arguments against targeting in the social sphere. Asymmetry of information and attendant moral hazard would always pose the danger of including the non-needy among the needy, or of not including some really needy. Stigmatisation often leads to high levels of non-take-up, whereby people who are eligible for a benefit or service do not receive it (fully), with means testing causing poverty traps and stigmatization. Or as Van Oorshot notes, “Basically...it is the ‘tragedy of selectivity’ that trying to target welfare to the truly needy inherently means that a part of them will not be reached” [Van Oorschot, 2000]

One remarkable feature of the debate between universalism and targeting is the disjuncture between an unrelenting argumentation for targeting and a stubborn slew of empirical evidence suggesting that targeting does not work. The case of India, with its long history of interventions aimed at channelling resources to the poor, does not inspire much hope in targeting. According to Srivastava [2004], the impacts have been “very disappointing”, presumably because of serious under-coverage, so many of the poor are missed, and serious leakage, so many of the better-off benefit from the schemes. Poor implementation and weak governance are given as the key explanations for the failure of these schemes. In a World Bank study (Coady, Grosh, and Hoddinot 2003) of 122 targeted anti-poverty interventions in 48 countries, the authors conclude that while the median program transfers 25 percent more to individuals, than would be the case with universal allocation, a “staggering” 25 percent of the poor were missed. It should be

recalled that the study does not take into account the administrative costs of such programs and the costs to the recipients of such programmes.

Most of the administrative constraints on targeting apply in both poor and rich countries, but are invariably compounded in the poor countries, where most people's sources of livelihood is in the informal sector, and people's "visibility" to the state is low, and where the state's overall capacity is low. It would indeed seem that targeting is a "luxury" for countries with sophisticated administrative apparatus and substantive state reach². For it does seem that, by the logic of the argument for targeting, countries which need "targeting" (given their limited fiscal resources) cannot do so, while those that can (given their wealth), do not need to.

Political Feasibility

The political argument -- political support for targeting

There is a strong temptation to try to design and implement pro-poor policies in a "non-political" or technocratic way. Furthermore, it is necessary to consider the kind of political coalitions that would be expected to make such policies politically sustainable. The World Bank's approach is based on the assumption that the efficient use of a fixed budget for poverty reduction may require targeting, and resources can be optimally allocated to the poor, who are essentially viewed as politically passive. Such an approach therefore does not deal with the relationship between targeting and the political economy of domestic resource mobilization. Indeed, it concentrates on the problem of disbursing external resources (aid), and not on that of generating and disbursing domestic resources.

The experience in developed and middle-income countries is that universal access is one of the most effective ways to ensure political support by the middle class of taxes to finance welfare programmes. Indeed, one thing that emerges from the many studies of the "political economy of targeting" is that the optimal policy for the very poor is not necessarily a policy that targets benefits as narrowly and efficiently as possible (Gelbach and Pritchett 1995; Moene and Wallerstein 2001). In most cases, such targeting tends to lead to reduced budgets devoted to poverty and welfare so that "more for the poor mean(s) less for the poor" since ignoring the budget reducing effects can reduce the welfare of the poor as they receive a greater share of a shrinking budget (Gelbach and Pritchett

² Even middle and low income countries with higher GDP do better at directing benefits towards poorer members of the population (Coady, Grosh, and Hoddinot 2003)

1995). Or as Amartya Sen argues, “Benefits meant exclusively for the poor often end up being poor benefits” (Sen 1995: 14).

One reason why such an eventuality is not taken seriously is that in many countries where targeting has been effectively implemented, income inequality is already high, so that the segmentation in social provision does not raise eyebrows. In the context of structural adjustment, this reduction in effort (expenditure) was one of the objectives of fiscal policy as more and more governments have come under pressure to reduce expenditure. And as Besley and Kanbur (1990) observe, “Indeed, targeting has become a panacea in the area of poverty alleviation, whence it is suggested that policy makers can have their cake and eat it too, improved targeting means that more poverty alleviation could be achieved with less expenditure!”.

For years, this “political economy” approach had little relevance to many situations of developing countries with authoritarian rule. Quite a number of authoritarian regimes, especially “developmentalist” ones, have succumbed to legitimation imperatives and pursued more or less universalistic policies³. The puzzle today would then seem to be why is it that in democracies where the majority is poor, governments have not pursued policies “targeted” for the poor?

Factors that have limited the reach of universalistic policies have included urban bias and elite capture. These factors said to have bedevilled universalistic policies are likely to rear their head with targeting. Or as Figueira notes with respect to Latin America:

“... the problems of social policy in Latin America were not exclusively the result of centralism, the pretension of universalism, or statist and sectoral approaches. Thus, decentralisation, privatisation, and targeting are not their automatic solution. The problem in the region has been centralised authoritarianism, general inequality, rent-seeking political elites, and the bureaucratic weakness of states in coordinating and distributing services. These problems have not disappeared and their structural bases seem more present than ever” [Figueira, 2002].

The “Perverse Incentives” Argument

One other argument against “targeting” is the fear of perverse incentives affecting the labor supply of the poor. This is an idea that goes as far back as Thomas Malthus, namely that support of the poor might encourage indolence and irresponsible behavior. In the contemporary context, the fear is that universalism

³ On Korea, see Kwon (1999)

might simply lead to withdrawal of labor by perfectly able men and women without fear of sanctions.

Targeting can also have perverse effects on economic activity—for example, when individuals avoid activities that may so improve their incomes that they are no longer eligible for public support. Targeting makes difficult demands on the administrative capacities of most developing countries and can easily lead to inefficiency and corruption.

Such a weighing is often reflective of one's ideological predisposition, and something to say about what errors one is willing to tolerate. The liberal welfare regime's primary goal is "alleviation of poverty", at least for the "deserving poor" (Goodin 1999). In terms of both intellectual and ideological affinity, PRSPs draw on the liberal welfare regime whose primary goal is "alleviation of poverty", at least for the "deserving poor". It is preoccupied with "target efficiency" in targeting and not creating "dependence" on welfare, which is deemed as blunting incentives to work, and therefore inimical to overall economic welfare. The PRSP is of a residual type, in which welfare provision is often seen as being for the poor and is firmly based on targeting the poor.

Goodin and associates note that compared to other "welfare regimes", "liberal regimes" are "strikingly bad" at combating poverty in every respect. This, they consider "odd", given that it is liberals who are so "utterly fixated" on the question "what do they do for the poor" (Goodin 1999: 167). One well-known fact is that policies that have the greatest impact on poverty are not necessarily the most narrowly targeted pro-poor ones. Indeed, in many cases, the focus on "pro-poor" policies has diverted attention from the most broad-based and sustainable policies against poverty. The success of the "late industrialisers" of North Europe in addressing poverty was not by explicitly addressing it, but by addressing a whole range of issues that positively impacted on poverty or impeded the poor from bettering their situation – economic development in a broad sense, investment in "human capital" and equity were crucial to rapid eradication of poverty. The issue was not "targeting" poverty, but aiming at what Amartya Sen has termed "un-aimed opulence".

The "Empowerment" Versus Stigmatization Argument

In addition to these problems, Sen identifies two others—*disutility and stigma*, and *political sustainability and quality*. Given the growing attention now being paid to self-respect and empowerment, the danger of stigmatization inherent in targeting is an important policy issue.

Developmentalism/Nation-building and Universalist Imperatives

For developing countries, one factor influencing the “social policy regimes” has been the imperatives of development and nation-building. Nation-building raises the same questions raised in the context of debating social citizenship.

Another common feature of the social policy success story is the universalism with benefits and services treated as “merit goods” available to everyone as a right or obligation (e.g. compulsory education). As for targeting, it became self-evident that where poverty is widespread, “targeting” would be unnecessary and administratively costly. Thus, “universalism” in many countries is in fact dictated by underdevelopment – targeting is simply too demanding in terms of available skills and administrative capacity. The PRSP, on the other hand, is of residual type in which welfare provision is often seen as being for the poor and firmly based on targeting the poor.

In most developmental states, initial social policy attention has been on those sections of the labour force closely associated with industrialisation policy. Thus, for Germany and Japan, rather than extending to all members of the community universal social rights to a minimum level of subsistence, the states came into existence by granting privileges to groups whose cooperation in economic modernisation and nation-building was deemed indispensable by political and economic elites. These initially exclusive rights were to form the basis of the universalistic welfare state in Germany. The important thing to recall here is that the underlying rationale of social policy in these “successful cases” was universalistic, so that the underlying tendency was to extend initially exclusive social rights for the employed to the rest of the labor force. SAP/PRSP, driven by a “targeting” rationale starts with dismantling the exclusive rights of formal labor on the grounds that this will lead to greater labor market flexibility and will attract donor funds for “pro-poor” policies.

Japanese economists close to the aid establishment have argued that the “pro-poor” focus detracts from the larger development project which alone can address the issue of poverty in a sustainable way. The Japanese argument partly stems from the view that currently the PRSPs and their targeting of the poor diverge significantly from the experiences of the East Asian “success stories” of combating underdevelopment and poverty.⁴

⁴ Indeed, in many countries, the new democracies have tended to pursue rather orthodox economic policies as compared to much older democracies. I discuss this and suggest some explanations in Mkandawire (2004)

Human Capital Argument and Externalities

Most of the arguments assume that that all pro-poor policies only lead to consumption, which reduces long-term growth. However, new views on growth and development now argue that a whole range of pro-poor policies enhance long-term growth. The arguments range from the “human capital” effect of pro-poor measures such as better education and health. Pro-poor policies, such as land reform or targeted credit, may enhance the performance of markets, producing both equity and efficiency, which are good for growth. Finally, the social inclusion that pro-poor policies produce may contribute to political stability, which is a robust determinant of long-term economic growth.

Developmental states were willing to accept the commitment of the Type 1 error of overpayment by extending benefits to the “undeserving” rather than committing Type II errors of underpaying and excluding the needy. Thus, a common feature of social policy in the success story is leaning towards universalism which benefits and services are treated as “merit goods” available to everyone as a right or obligation (e.g. compulsory education). This is not to suggest that all late industrialisers immediately introduced universalistic policies.

In most developmental states, initial social policy attention has been on those sections of the labour force closely associated with industrialisation policy. Thus, for Germany and Japan, rather than extending universal social rights to a minimum level of subsistence to all members of the community, the states came into existence by granting privileges to groups whose cooperation in economic modernisation and nation-building was deemed indispensable by political and economic elites. However, these initially exclusive rights were to form the bases of the universalistic welfare state in Germany. If in most of the successful “late industrialisers”, the tendency was to extend initially exclusive social rights for the employed to the rest of the labor force, the SAP/PRSP starts with dismantling the exclusive rights of formal labor on the grounds that this will lead to greater labor market flexibility and will attract donor funds for “pro-poor” policies.

The Equity Argument

Although “targeting” is often favoured by institutions whose primary objective is not equality, it is often justified in terms of its redistributive qualities⁵. As noted

⁵ Indeed a measure of targeting effectiveness is constructed by dividing actual outcomes by the appropriate neutral income that arises either from random allocation of benefits across the population or a universal intervention in which all individuals receive identical benefits. (Coady, Grosh, and Hoddinot 2003).

above, one argument for “targeting” is that it is efficient in distributing resources from the well off to the poor. “Targeting” the poor is not premised on an egalitarian ideology. Indeed, the philanthropic ideology driving it is often distinctly opposed to equity. However, advocates of targeting have often argued that “universalism” is not redistributive, while targeting is. Thus Barry argues

“...the Poor Law by its nature brings about a net transfer between classes, whereas the welfare state has no inherent tendency to bring about such net transfers...By contrast, a welfare state characteristically transfers smoney within income strata” [Barry, 1990]

Universalist policies are, in themselves, not redistributive. Indeed, those supporting targeting have argued their case on both poverty alleviation and redistributive grounds. However, in reality, societies that lean towards universalist social policies have less inequality than those who prefer targeting. The reason for this is that universalism is often chosen by countries who pursue redistribution in other spheres. The point is not that there is some functional relationship between universalist policies and redistributive policies in other areas, but that here is an elective affinity between the preference for universalism and other measures such as high taxation, progressive taxes, etc.

As Korpi and Palme have argued, while targeted programs may indeed be more redistributive *per unit of money*, other factors are likely to make universal programs more redistributive. The argument advanced by Korpi and Palme is that institutions of welfare also act as intervening variables which shape political coalitions that eventually determine the size and redistributive nature of the national budget in defining interests and identities among citizens, the rational choices they make and the ways in which they are likely to combine for collective action.‘ It is this that produces what they call the “Paradox of Redistribution”’: The more we target benefits at the poor only, and the more concerned we are with creating equality via equal public transfers to all, the less likely we are to reduce poverty and inequality. (Korpi and Palme, p. 681).

The elective affinity between targeting and inequality is highlighted by one interesting result in a World Bank study is that the greater the inequality, the better the targeting, since it is then easier to separate out the needy from the non-needy. However, the selective affinity between inequality and targeting is not based on this simple administrative convenience of inequality, but also on the fact that it is likely to be the favoured approach in societies for the same reason that they have such high inequality.

In addition, the focus on poverty reduction obscures issues of income distribution and social equity. The creation of a dual structure—one aimed at the poor and funded by the state, and one aimed at the well-to-do and provided by the

private sector—not only skirts the political issue of financing public provision, but also the problems of incentives and equity produced by such a system, which is likely to consist of a relatively poor quality sector for the poor alongside a second, more modern, “internationalized” system. A likely result will be the siphoning off of human resources from public sector social services to the private sector.

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It would seem that the main objection to universalism is the redistributive policies that come along with them (tax structures, labour market policies, etc) and that produce what Korpi and Palme referred to as the paradox of universalism whereby policies that are apparently not redistributive (universalism) have produced more egalitarian societies than more redistributive policies (targeting).

This might also explain why, stripped of the other measures that have often gone along with them, in Denmark, right-wing or bourgeois parties often push for more universal benefits because they are more market conforming than income- or means-tested benefits. Universal benefits do not damage market incentives to take a job or save for your own pension. On the other hand, left-wing or Social Democratic parties often argue for more income- or means-tested benefits because they are argued to be more redistributive (Green-Pedersen).

Effectiveness versus Efficiency

It is claimed that “effort” and targeting are negatively related so that countries with higher “efficiency” due to targeting have traded a good part of this by reducing “effort” (Oxley, Dang, Föster, and Pellizari 2001). The point has been made that in situations where the focus has been poverty, efficiency in addressing certain aspects of poverty has outweighed effort. Much more time has been allocated to efficiently targeting the limited resources devoted to combating it than has been allocated to generating the resources required for the task. The fixation with poverty has tended to detract attention from measures and instruments that in fact impact poverty most⁶. Much more time has been allocated

⁶ It would thus be wrong to assume that the health of the poor is best served by health expenditures targeted for the poor. Inputs in sanitation and education might actually contribute more to the improvement of their health.

to efficiently targeting the limited resources devoted to combating poverty than has been allocated to generating the resources required for the task.

Although in current parlance, the choice between “targeting” and “universalism” is couched in the language of efficient allocation of resources subject to budget constraints, what is actually at stake is the fundamental question of a polity’s values and its responsibilities to all its members. One implicit assumption in the policy is that targeting is only about poverty eradication, whereas in many cases, social policy has other objectives such as national or social cohesion, equity, etc. As Atkinson [1993] argues, expenditure involving poor targeting, when judged solely by the objective of alleviating poverty, may well be directed at other objectives of the social security system. Indeed, in a number of countries, the relief of poverty was not even the most important motive for the introduction of transfers⁷. Historically, the choice has been conditioned by a wide range of considerations, including citizenship, nation-building, judgements on the sources and conduct of the poor, faith in the efficacy of the market, political ideologies, theories of human behaviour, bureaucratic capacities, overall economic strategies and international pressures; such considerations have driven the choice between targeting and universalism. Although the point about “efficiency” seems clear enough, it should be recalled that notions of efficiency are not independent of the way in which we chose to measure poverty.

The correlation between the index of targeting transfers and the size of transfers is positive, although relatively low (.49). This correlation indicates that, as we have expected, there tends to be a trade-off between the degree of low-income targeting and the size of budgets made available for transfers. Thus, the more countries target benefits at low-income categories, the smaller the redistributive budgets they tend to have.

“Our paper suggests two empirically based conclusions. To paraphrase an old saying, if we attempt to fight the war on poverty through targeting efficient benefits concentrated at the poor, we may well win some battles, but are likely to lose the war. However, universalism is not enough. To have an effect, universalism has to be combined with a strategy of equality which comes closer to the preaching of Matthew than to the practices in Sherwood Forest.” (Korpi and Palme 1998)

⁷ As Jallade notes with respect to France, “Social security was never primarily conceived as a tool to fight poverty. Security, in terms of protection against the risks and hazards of life, was its first, paramount objective” [Jallade, 1988: 248].

Historical Experience

In linear theories of development, it is often suggested that universalism is something countries achieve only at higher levels of development. The initial choice between “targeting” and “universalism” can lead to a political and institutional “lock-in” that can make departure from these initial choices difficult. Study of “late industrialisers” and countries that have done relatively well in terms of social development [in the context of low income] clearly suggests that universal provisioning of social services is one of the important ingredient [Mehrotra, 1997; Pierson, 2004; Vartiainen, 2004]. In a manner reminiscent of the “Gerschenkron Thesis”, for social policy too, “late industrialisers” adopt certain social policies and institutions at a much earlier phase of their development than their predecessors (Mkandawire 2001).

Conclusion

The story of both the political and administrative difficulties of targeting is repeated so many times that one wonders why it is still insisted upon. Indeed, from the literature, it is clear that where poverty is rampant and institutions are weak, what may be wrong is not the lack of appropriate data, but targeting per se. It is definitely the case that in many countries, the shredding that the state apparatus has suffered, leaves it singularly incapable of targeting in the social sector. Most of the proposed refinements of these projects are likely to compound the problems that are often cited as constraints on it. The need to create institutions appropriate for “targeting” has, in many cases, undermined the capacity to provide universal services. This, in turn, has been used to argue for even more targeting. In the more aid-dependant economies, the mere shift of funds from ministries to “projects” run by a motley of institutions has immediately led to the unsustainability of activities that the state may have supported.

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