Targeting within Universalism

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Abstract :

The idea of targeting within universalism has been evoked frequently, usually as a best of both worlds strategy. The approach remains difficult to identify, however, because targeting is usually taken as the opposite of universalism, both measured by concentration coefficients for cash transfers. This article proposes to consider targeting and universalism as two distinct dimensions of the welfare state, in order to assess the redistributive consequences of targeting within universalism. The key for pro-poor targeting is not means testing but the age orientation of transfers. Targeting within universalism is an effective redistributive strategy, better to redistribute than targeting, and less costly than universalism.

Targeting within universalism

The idea of targeting within universalism has been evoked frequently, usually as a best of both worlds strategy. Why not indeed combine the political legitimacy and institutional solidity of an encompassing welfare state with the redistributive efficiency of targeted programs? When Theda Skocpol coined the concept in the early 1990s, she clearly located the approach within a universalist framework. Targeting within universalism, for her, meant making room within "universal policy frameworks for extra benefits and services that disproportionately help less privileged people without stigmatizing them" (1991: 414). Skocpol offered some examples drawn from existing American social policies, but she did not really develop an elaborate conception of what targeting within universalism entailed. The notion nevertheless struck a cord, because it seemed to offer a reasonable way out of the long social policy debate about selectivity and universalism, a modicum of targeting within a broadly universalist arrangement.

In recent contributions, Lane Kenworthy (2011) and Ive Marx, Lina Salanauskaite and Gerlinde Verbist (2016) gave the idea a more operational anchoring, by associating targeting with the concentration coefficient of cash transfers. From this perspective, targeting within universalism would take place when the two logics coexist, to create "a pattern whereby countries that have strong targeting within one provision have more universal tendencies in other" (Marx et al., 2016: 21; Kenworthy, 2011: 61-62). This operationalization is fitting with Skocpol's understanding of the concept, but it opens just as many questions. For one thing, the boundaries between targeting, targeting within universalism, and universalism remain unclear. All universal welfare states have targeted programs: social assistance, for instance, is everywhere residual and means-tested (Esping-Andersen, 1990: 48; Bahle et al., 2011). When does targeting become sufficient to speak of a strategy of targeting within universalism? Second, how do we account for the redistributive consequences of various national approaches? Why, ponder Marx, Salanauskaite and Verbist in their recent study, "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?" (2016: 22). One suspects this is the case because Denmark has more universalism in its mix than the United Kingdom and Australia, but to confirm this intuition, we need to be able to measure both targeting and universalism.

The problem with the empirical approach adopted by Kenworthy and by Marx and his co-authors is that, following an understanding first introduced by Walter Korpi and Joakim Palme (1998), they conceptualize universalism as simply the conceptual opposite of targeting, both notions being measured by the concentration coefficient of cash benefits. In this perspective, an increase in targeting necessarily implies a decline in universalism, and the right balance between the two becomes hard to identify.

We propose a different line of interpretation, which makes universalism a specific institutional configuration that is not the contrary of targeting, as measured by concentration coefficients, but rather the opposite of residualism, assessed by the defining characteristics of a country's social programs. Our approach is more akin to that adopted by Kenneth Nelson (2007) or David Brady and Rebekah Burroway (2012) to estimate the respective merits of targeting and

universalism, and it relies on the measure of universalism proposed in a recent study by Olivier Jacques and Alain Noël (2018). The idea is to understand universalism as an institutional arrangement that may or may not be combined with pro-poor targeting. As we do so, we can delineate four welfare state possibilities: universalism (France, for instance), targeting within universalism (Denmark), targeting in the context of a residual welfare state (the United States), and residualism without targeting (Japan). More than a nice-sounding, hard-to-specify compromise, targeting within universalism then emerges as an existing feature of many, but not all, welfare states.

Once identified, targeting within universalism can be assessed for its relative redistributive merits, compared to mere universalism or mere targeting. Using conventional measures of redistribution and poverty reduction for 21 OECD countries around 2005, we find targeting within universalism to be the best strategy, for both redistribution and poverty reduction. Countries with a universal welfare state and cash transfers targeted toward the poor redistribute better than those with a residual welfare state, and as well and perhaps more effectively as those with a purely universal arrangement. The key to this redistributive success lies in the combination of universal institutions with generous transfers aimed at working age adults. We know from previous work that universalism promotes a comparatively high level of social expenditures (Korpi and Palme, 1998; Jacques and Noël, 2018). Targeting within universalism insures that a good proportion of these expenditures take the form of cash benefits for working age adults, a type of transfer that favours the poor, the unemployed, young families, or persons with an incapacity. Without targeting, the transfers of universal welfare states tend to benefit the old more than the working age adults, and may thus accomplish less redistribution, unless overall social expenditures are very generous. Universalism without targeting may also succeed in reducing poverty and inequality, but it does so at a higher cost. All in all, targeting within universalism appears to be the fairest and most efficient approach to redistribution and poverty reduction.

The article is structured around four arguments. First, following a brief literature review, we propose to see targeting and universalism not as polar opposites, but rather as distinct dimensions of the welfare state, which can combine in different ways. Our second argument concerns the distributive consequences of these various combinations, or welfare state arrangements. It builds on the observation, already made by others, that pro-poor targeting does not necessarily help the poor (Ferrarini, Nelson and Palme, 2016; Marx et al., 2016). In fact, universalism and the size of the redistributive budget hold the key to redistribution: pro-poor targeting only alleviates poverty when it is deployed in a universalist context. This is the true significance of targeting within universalism. Third, we show that targeting, as measured by concentration coefficients, is less a consequence of means tests than an outcome of the age orientation of cash benefits. Transfers have pro-poor consequences when they privilege income replacement or income supplements for working age adults because, by design, they then target the poor or the not-so-rich. When income maintenance favours the old, more resources flow to the rich or the not-so-poor, and the outcome is less redistributive. In other words, the pro-old

welfare state acts more as a piggy bank than as a Robin Hood, and redistributes horizontally more than vertically (Barr, 2001; OECD, 2008: 100; Esping-Andersen and Myles, 2009: 639-40).

Although critical, the age orientation of the welfare state need not be seen as a zero-sum logic. What matters for redistribution is not the relative but the absolute level of transfers to working age households. In a world with budgetary constraints, it may be hard to maintain high levels of both working age and old age benefits, but with a time-series cross-sectional analysis, we find no direct trade-off between spending on old age citizens and on the working age population. The fourth and final argument pulls these threads together and uses simple truth tables to differentiate five roads to redistribution and poverty reduction: 1) pro-poor targeting with a residual welfare state, where redistributive outcomes remain sub-optimal (mainly liberal welfare states); 2) targeting within universalism, with the most optimal redistributive outcomes (Nordic countries and Belgium); 3) universalism pure and simple, which achieves redistribution but at a high budgetary cost (Austria and France); 4) pro-old universalism, a stunted universalism that neglects the needs of working age adults (Mediterranean welfare states); and 5) pro-old residualism, the worst-case scenario (Japan).

1. Universalism and pro-poor targeting are not opposites

In the comparative study of the welfare state, universalism has come to be understood as the polar opposite of targeting, both concepts being measured by the same indicator, a concentration coefficient of cash transfers. The idea, introduced by Korpi and Palme in their seminal article on the paradox of redistribution (1998), was to operationalize targeting and universalism by their redistributive outcomes. Similar to a Gini coefficient, a concentration coefficient ranges from -1 (when all transfers go to the lower income category) to 1 (when all transfers go to the higher income category). If the poor get more of their share of transfers, the targeting measure is negative and the transfers are deemed pro-poor; if the concentration coefficient of transfers is positive, the transfers are deemed pro-rich (or not pro-poor; OECD, 2008: 104-5; OECD, 2015: 319; Marx et al., 2016: 6). Universalism is predominant when the targeting measure is close to 0 — which means that all income categories receive the same absolute amount of transfers — and targeting prevails when the index is negative (or positive if targeting favours the rich).

This understanding of targeting and universalism poses at least three problems. First, as Marx and his co-authors recognize, this approach measures policy and institutional orientations by their outcomes, and these can be "highly dependent on the characteristics of the underlying population" (2016: 6). A universal program for single parents, for instance, may appear pro-poor if most of these households have low incomes. Second, as Jacques and Noël observe, this measure yields counter-intuitive results and makes, for instance, the United States a more universal welfare state than Denmark or Sweden (2018). Third, a focus on concentration coefficients obliterates the complexity of targeting and universalism (a point also acknowledged by Marx et al., 2016: 5). As mentioned above, universal welfare states have, like other welfare states, means-tested social assistance, along with a host of programs aimed at the poor. At the

other end of the income distribution, as Korpi and Palme note, universalism can also be combined with earnings-related benefits that give more to the rich and sustain middle class support for redistribution (1998: 678-81; the same point is made in Esping-Andersen, 1990: 26). Clearly, what is at stake with universalism cannot be captured simply by a concentration coefficient of transfers near zero.

In an enlightening discussion of universalism, Anneli Anttonen and Jorma Sipilä contrast the British tradition, with its emphasis on flat-rate benefits and the Nordic approach, more focused on inclusion and social rights, and less concerned by targeting. In the Nordic perspective, "as long as the same system includes everyone, it is universal, even if benefits are earnings-related" (Anttonen and Sipilä 2012: 34). The proper opposite of universalism, from this standpoint, is not targeting but residualism. Whereas universalism "sees the public welfare services as normal, 'first line' functions of modern industrial society," residualism considers they "should come into play only when the so-called 'normal' institutions of supply — the family and the market — break down" (Anttonen, Häikiö, Stefánsson and Sipilä 2012: 5). Universal welfare state may incorporate a pro-poor orientation in their cash transfers, but they remain universal insofar as "all people in need can use the same system" (Anttonen, Häikiö, Stefánsson and Sipilä 2012: 6). The key contrast, in this understanding of universalism, is not measured by the relative concentration of transfers but by the existence, or not, of dual tracks for social protection.

One option, followed by Kenneth Nelson (2007) and, in a different way, by David Brady and Rebekah Burroway (2012) consists in measuring the level of social insurance or cash transfers, assuming that residual welfare states are less generous than universal ones. This solution, however, does not capture the key difference between a residual and a universal welfare state, which has less to do with the level of transfers than with the inclusive and encompassing character of social programs. To do so, a more institutional measure of universalism is needed. The index of universalism proposed by Jacques and Noël (2018) is useful in this respect, because it captures the extent to which social transfers and services are 'normal' and designed for 'all people in need.' This index combines with a factor analysis two indicators recently developed by the OECD. The first is a measure of the percentage of cash transfers that are income tested, and the second the proportion of private spending in total social expenditures. As mentioned above, income testing is not, in itself, incompatible with universalism. It can be argued, however, that a high proportion of income-tested transfers is indicative of a residual welfare state. Indeed, universalism is broadly understood as contrary to an excessive reliance on means-testing (Rothstein, 1998; Korpi and Palme, 1998). As for the proportion of private spending in total social expenditures, it has the advantage of considering social services, and not only transfers. When the welfare state makes citizens pay for private services, the market tends to be considered as the 'normal' provider, and public services become residual.

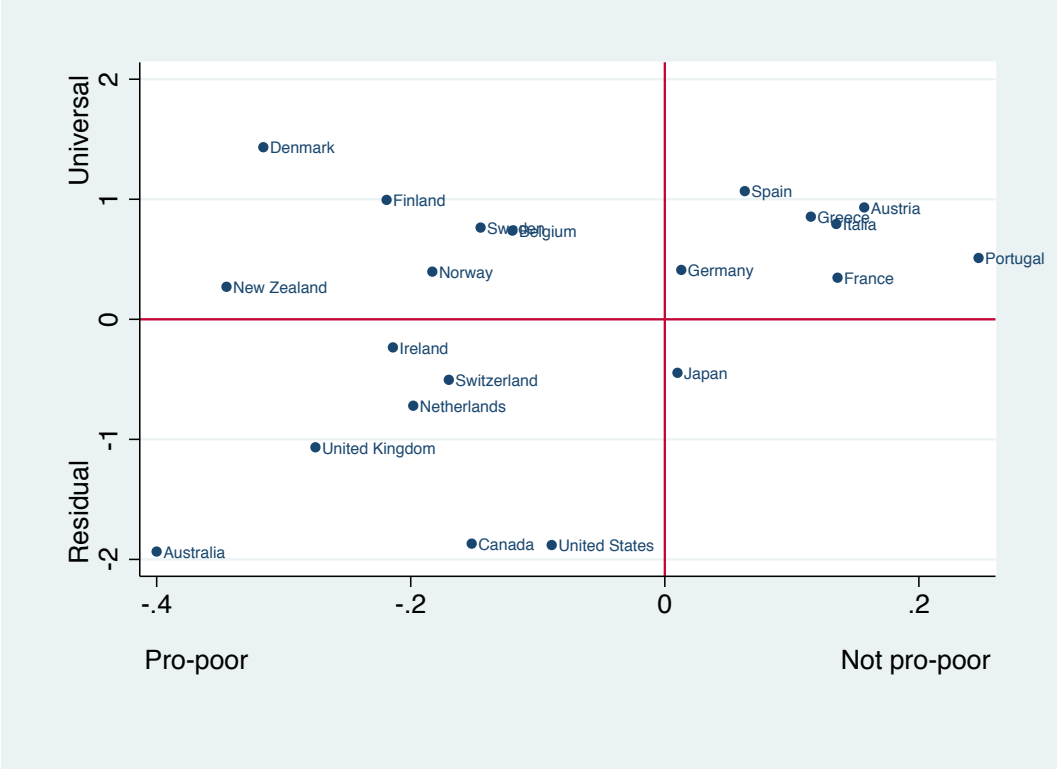
To demonstrate how targeting relates to universalism, we use the same cases as Pablo Beramendi, Silja Häusermann, Herbert Kitschelt, and Hanspeter Kriesi in *The Politics of Advanced Capitalism*, based on the same criteria: "countries whose democracies have been in operation for more than one generation, whose purchasing power parity assessed affluence (per capita GDP) according to World Bank data exceeded $25,000 international dollars in 2011, and

whose population is greater than 4 million inhabitants" (2015: 4). The years selected are in the mid-2000s, because of the availability of OECD concentration coefficients for cash social transfers. For each country, we align the data for other variables to the year for which a concentration coefficient is available. This choice yields the following list of cases: Australia 2003, Austria 2004, Belgium 2005, Canada 2004, Denmark 2004, Finland 2004, France 2005, Germany 2004, Greece 2007, Ireland 2004, Italy 2004, Japan 2005, the Netherlands 2004, New Zealand 2005, Norway 2004, Portugal 2005, Spain 2007, Sweden 2005, Switzerland 2005, the United Kingdom 2004, and the United States 2004. For these years, the index of universalism ranges from – 1.93 (Australia) to 1.43 (Denmark).

Whether they are residual or universal, welfare states can be pro-poor or not. As explained above, pro-poorness can be measured by the concentration coefficient for cash transfers. If transfers decrease when market income increase, the coefficient is negative and transfers are deemed pro-poor; if transfers increase with market incomes, the coefficient is positive and transfers are pro-rich (OECD, 2015: 319). Strictly speaking it is preferable to speak of pro-poorness rather than of targeting, because the concentration coefficients capture the influence of exogenous factors that may not be tied to targeting intentions (Marx et al., 2016: 6). These coefficients nevertheless remain the best indicator of targeting at work, and the best avenue to operationalize the idea of targeting within universalism.

As a starting point, we use the OECD concentration coefficient of cash social benefits for the entire population because we are interested in the balance of spending between generations (OECD, 2008: 105). One may note that this coefficient, which is based on disposable income (post taxes and transfers), is strongly correlated ($r = 0.93$) with the coefficient based on gross income (after taxes but before transfers) calculated independently from LIS data by Marx and his co-authors (2013: 12 and 50). For the early 2000s, the pro-poor orientation of cash transfers ranges from – 0.40 (Australia) to 0.25 (Portugal). Figure 1 shows how the two dimensions, universalism and pro-poor targeting, combine.

Figure 1: Targeting and Universalism, OECD countries, mid-2000s



Sources: OECD 2008: 105; Jacques and Noël, 2018.

When the two dimensions are represented on a single graph, it becomes clear that pro-poor targeting is not the opposite of universalism. Many universal welfare states, including the four Nordic countries, have pro-poor targeting. At the same time, all residual welfare states except Japan are also pro-poor countries. From this standpoint, four welfare state profiles can be drawn: universalism (Austria, France, Germany and the Mediterranean countries), targeting within universalism (the Nordic countries, Belgium and New Zealand), targeting with residualism (most English-speaking countries, the Netherlands and Switzerland), and residualism without targeting (Japan). Universalism and pro-poor targeting are distinct dimensions of the welfare state.

2. Being pro-poor does not always help the poor

What are the distributive consequences of these different welfare state arrangements? We know from the literature that universalism is favourable to redistribution (Korpi and Palme, 1998; Jacques and Noël, 2018), but is this still true when universalism is combined with cash transfers that are not pro-poor? As for pro-poorness, we know it does not always lead to redistribution (Ferrarini, Nelson and Palme, 2016; Marx et al., 2016). Does it need to be combined with universalism to be effective?

To measure redistribution, we use OECD data (OECD, 2018a) and calculate relative redistribution — the Gini for market incomes minus the Gini for disposable incomes, divided by the Gini for market incomes — because a relative measure facilitates comparisons by taking into account different market income starting points (Causa and Hermansen, 2017: 24-25). The years selected for redistribution are the same as for the concentration coefficient, except when data are only available for an adjacent year. We employ the same procedure for poverty reduction, using the OECD proportion of persons with an income below 50% of the median, before and after taxes and transfers. These measures of redistribution are not perfect, because they rest on the unlikely assumption that the market distribution of income is unaffected by the welfare state, but they remain the best measures available (Esping-Andersen and Myles, 2009).

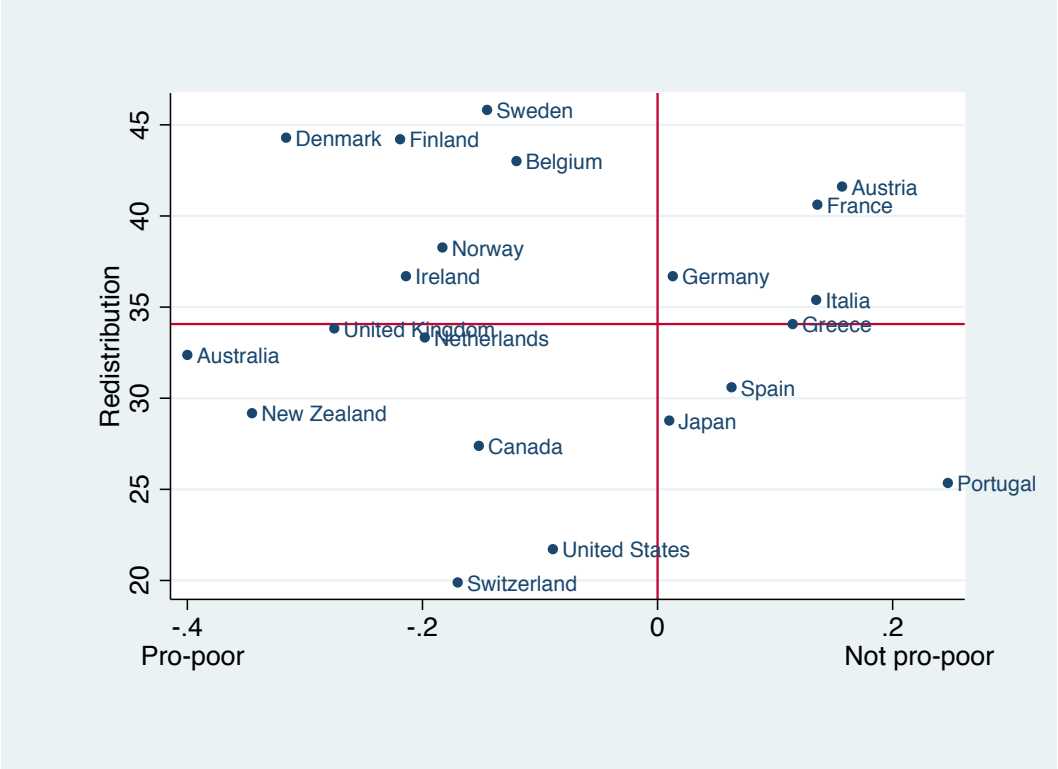
The first observation to highlight is that, by itself, pro-poor targeting does little for redistribution. As Table 1 indicates, there is practically no relation between pro-poorness and our redistribution measures, for the general or for the working age population.

Table 1: Correlations between pro-poor targeting and measures of redistribution

	Pro-poorness (all)	Pro-poorness (working age)
Redistribution	- 0.07	- 0.22
Poverty reduction	- 0.03	- 0.07

This lack of relationship between a pro-poor orientation and redistribution may seem surprising given the impression conveyed by the term pro-poor. Being pro-poor, however, does not necessarily help the poor. Many countries are pro-poor primarily because they help little but the poor, and do so without enthusiasm. Figure 2 locates the different cases according to their pro-poor orientations and redistribution effort (when they are not set at zero, the reference lines in the figures indicate the median).

Figure 2: Targeting and Redistribution, OECD countries, mid-2000s



Sources: OECD, 2008: 105; OECD, 2018a.

Figure 2 looks a lot like the previous one because redistribution (Y axis here) is closely tied to universalism (Y axis in Figure 1). Together, the two figures confirm that pro-poor countries are of two kinds: residual welfare states that target the poor but redistribute little (lower left quadrant); and universal welfare states that also target the poor, but with better redistributive results (upper left quadrants). This result is consistent with studies that outline the importance of universalism for redistribution, largely explained by the fact that universalism favours a large social budget (Korpi and Palme, 1998; Esping-Andersen and Myles, 2009: 640; Ferrarini, Nelson and Palme, 2016; Jacques and Noël, 2018). Whereas there is no significant relationship between pro-poor targeting and redistribution, the relations between universalism, the size of the social budget and redistribution measures are strong, positive and significant, as can be seen in Table 2.

Table 2: Correlations between universalism, the size of the social budget, and measures of redistribution

	Universalism	Social expenditures	Redistribution	Poverty reduction
Universalism	1.00			
Social expenditures	0.75***	1.00		
Redistribution	0.53**	0.74***	1.00	
Poverty reduction	0.61***	0.70***	0.89***	1.00

Note: *** significant at 0.01; ** significant at 0.05.

To redistribute and reduce poverty, it is thus better to have universal welfare state institutions than to be pro-poor. Even among the not-pro-poor welfare states, some countries do well in reducing poverty and income disparities. This is the case, notably, for Austria and France, which have redistribution scores near those of the Nordic countries. By contrast, residual welfare states redistribute poorly, even though most of them are pro-poor. Japan, which is neither universal nor pro-poor, does not do well either in terms of redistribution. By itself, pro-poor targeting does not do much for the poor.

This conclusion leaves two questions open, one related to the two upper quadrants in our figures, the other concerning variations within the upper right quadrant. First, how do we account for the difference, among universal welfare states, between pro-poor and not-pro-poor cases? Second, what is the factor that, among not-pro-poor universal welfare states, makes some countries successful in terms of redistribution and others not? To answer these two questions, we need to probe the significance of pro-poor targeting among universal welfare states.

3. Pro-poor targeting is not a matter of means tests so much as the expression of a sustained financial effort in favour of working age adults

This section shows that targeting can be achieved without a means test if universal welfare states maintain high levels of spending on the working age population relative to spending on old age population. Pro-old welfare states tend to be pro-rich, while welfare states built for the working age population tend to be pro-poor. For the old, the welfare state acts primarily as a piggy bank, to replace lost income after retirement. For working age adults, there is also elements of income replacement (in unemployment insurance for instance) but the prevailing logic is more that of a Robin Hood, taking from the rich to give to the poor (Barr, 2001; OECD, 2008: 100). Because the bulk of redistribution is achieved by working age cash benefits, however, the age orientation does not have a strong impact on redistribution. What matters for redistribution is the absolute, and not relative, level of working age cash transfers. We find, as well, that there is no trade-off between spending on old age and working age adults. Pension expenditures are not realized at the expense of the working population.

3.1. Targeting does not require a means test

The index of universalism includes a measure of the relative importance of means-tested transfers because it is based on the widely shared assumption that universal welfare states rely less on means tests. How is pro-poor targeting possible, then, if not with a means test? How can social transfers be concentrated on the poor in a country that does not design its social transfers on the basis of earned incomes? What is the recipe for targeting within universalism?

Consider, first, the OECD definition of the income-tested transfers used to build the index of universalism. These benefits include "spending on 'other contingencies — other social policy areas' as in the OECD Social Expenditures Database (SOCX), income-tested spending on the unemployed (e.g. unemployment assistance payments for Germany), income-tested support payments to elderly and disabled (e.g., Belgium and the United Kingdom), [and] other income-tested payments (family cash transfers)" (Adema, Fron and Ladaique, 2011: 19). These different income-tested benefits are close to the logic of social assistance and typically pro-poor. Indeed, welfare states devoting a large share of cash transfers to social assistance tend to be pro-poor (Marx et al., 2016).

Many other cash benefits can be pro-poor without an income-test, however, and they would not be included in this OECD list of income-tested transfers. Public cash transfers offered to broad categories of the population (the retired, the unemployed, the disabled, or families) can be deemed universal insofar as they are not income-tested. If the income of these categories of beneficiaries stands below average, these cash benefits nevertheless have a pro-poor effect, even if they are uniform or modestly differentiated. Recall that a transfer is deemed pro-poor if its "share of market income tends to fall as market income rises" (OECD, 2015: 318). Across the OECD around 2013, universal benefits represented 17% of the disposable income for the lower income decile, and this proportion declined thereafter, down to 1% for the top decile (Causa and Hermansen, 2017: 19-20).

In order of importance, the main social cash transfers in the OECD are old age and survivor benefits (6.8% of GDP on average in 2005), incapacity benefits (1.8%), family benefits (1.2%), unemployment benefits (0.8%), and other benefits, including notably social assistance (0.3%). If we leave aside old age and survivor benefits, all the other transfers are aimed at working age adults and are likely to be pro-poor, even without a means or an income test.

Take, for instance, incapacity benefits, the most important cash transfer after pensions. These benefits are increasingly replacing unemployment and early retirement schemes and they constitute a large but overlooked component of the welfare state, counting for nearly 2% of GDP in OECD countries and for up to 3% in the Nordic countries and the Netherlands (Joumard, Pisu, and Bloch, 2012: 46). Just before the 2008 financial crisis, an average of 6% of the working age population was receiving disability benefits. In some countries, this proportion was even higher than that of people entitled to unemployment benefits (OECD, 2010a: 59). Because citizens receiving disability benefits generally have lower incomes than the average, generous disability

transfers for all have a pro-poor effect. Net replacement rates also tend to be higher for those with low incomes, which reinforces this pro-poor effect (Joumard, Pisu and Bloch, 2012: 46).

This redistributive logic has a stronger impact in universal welfare states because benefits are encompassing and generous. By contrast, in residual welfare states, for lack of a solid dedicated program, people with a disability often end up without any benefits or on social assistance, which is certainly pro-poor but much less inclusive and generous (OECD, 2010b: 18-22). In the mid-2000s, the countries with the most pro-poor concentration coefficients for disability benefits were Australia and New Zealand (- 0.35), but Belgium (- 0.27) and Denmark (- 0.18) were not far behind (OECD, 2008: 106). Denmark and New Zealand, however, spent more for disability benefits, and were thus more likely to reduce poverty (3.2% of GDP in Denmark and 2.8% in New Zealand, compared to 1.9% in Australia and 1.8% in Belgium).

Similar conclusions can be drawn for family and unemployment benefits. Because they are largely uniform and advantage households with more children, family benefits tend to have a pro-poor orientation even when they do not rely on an income test (OECD, 2008: 106; Joumard, Pisu and Bloch, 2012: 47-8). For unemployment benefits, the redistributive impact seems even more obvious. Indeed, since those who qualify for these benefits are unemployed, they inevitably have low market incomes. As with incapacity, the net replacement rates of unemployment benefits also tend to be higher for low-income persons, reinforcing their progressive character (Joumard, Pisu and Bloch, 2012: 46-7). Overall, the concentration coefficient of unemployment benefits is negative (OECD, 2008: 106).

When all cash transfers to working age adults are considered, the net impact tends to be pro-poor (OECD, 2008: 105). With or without income testing, these transfers give comparatively more to the poor because they primarily benefit categories of persons with lower incomes.

3.2. The crucial impact of pension systems' design on the pro-poorness of the welfare state

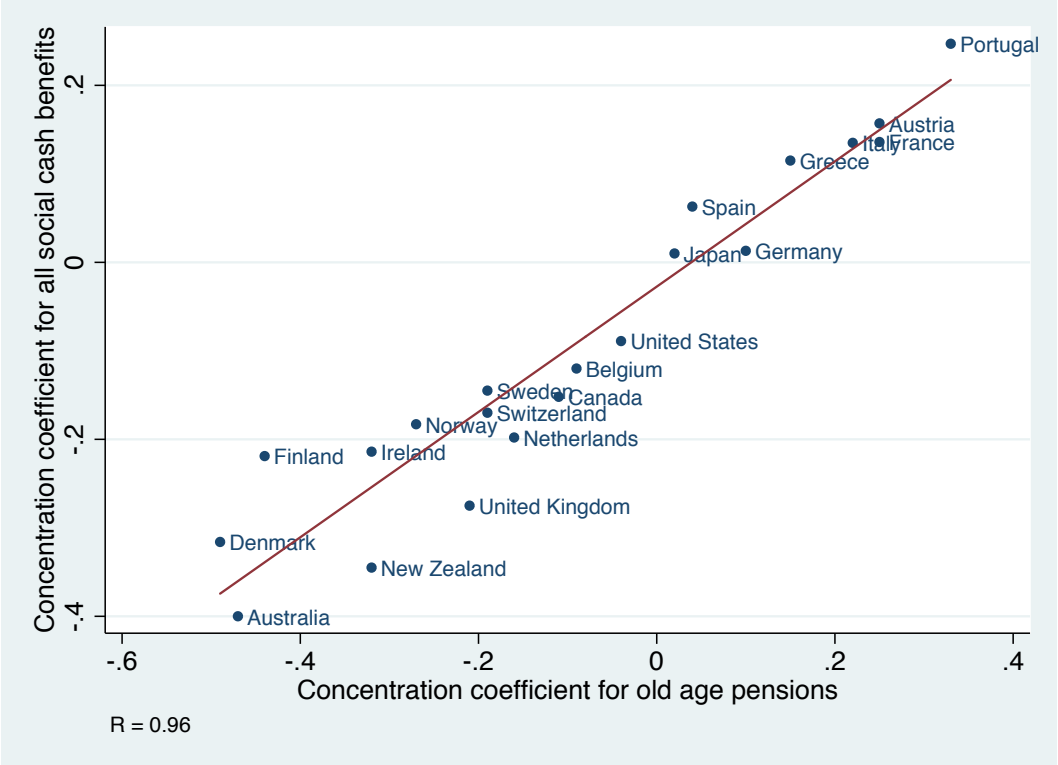
In contrast to spending for the working age population, expenditures on old age cash transfers tend to be pro-rich. The institutional design of the pension system is a crucial determinant of the overall pro-poorness of a welfare state. Pension systems generally have three tiers. The first one is a basic, generally flat-rate benefit funded by general taxation. It can either be universal or income tested, but is always pro-poor, even when the benefits are universal and equal, because pensioners have relatively low market incomes (Joumard, Pisu and Bloch, 2012: 44). The second tier is based on an insurance principle, assures income replacement, and is funded by social security contributions. This second tier is not pro-poor and can even be strongly pro-rich, precisely because it provides income replacement. The third tier is a private complement and tends to be more developed when the second tier is less generous. This private third tier has no effect on the pro-poorness of the public pension system.

The pro-poor character of a pension system depends on the relative generosity of the first (assistance) and the second (insurance) tiers (Joumard, Pisu and Bloch, 2012). Pro-poor pensions systems can be of two kinds: either they provide a flat-rate universal first tier with no second tier (New Zealand) or with a relatively meagre second tier that leaves room to a private third tier

(Canada); or they combine a solid first tier with a rather generous (but not too costly) public insurance scheme (Belgium, Denmark). Pro-rich schemes, on the other hand, prioritize the insurance principle and neglect the first tier, essential for persons with low incomes. There is a relatively strong correlation (r = 0.50) between the share of income provided by the insurance-based, second tier pension system (as measured in OECD, 2007: 45) and the pro-rich orientation of old age cash transfers (as measured in OECD, 2008: 105). Pension systems without a first tier scheme are all pro-rich, except Finland (see online supplementary material for details, SM1).

Because pensions are by far the costliest social cash benefits, they weight heavily in determining the pro-poor character of the welfare state. Figure 3, which relates the concentration coefficients for old age pensions and the coefficients for all social cash benefits, leaves little doubt on the importance of pension systems in determining overall pro-poor targeting.

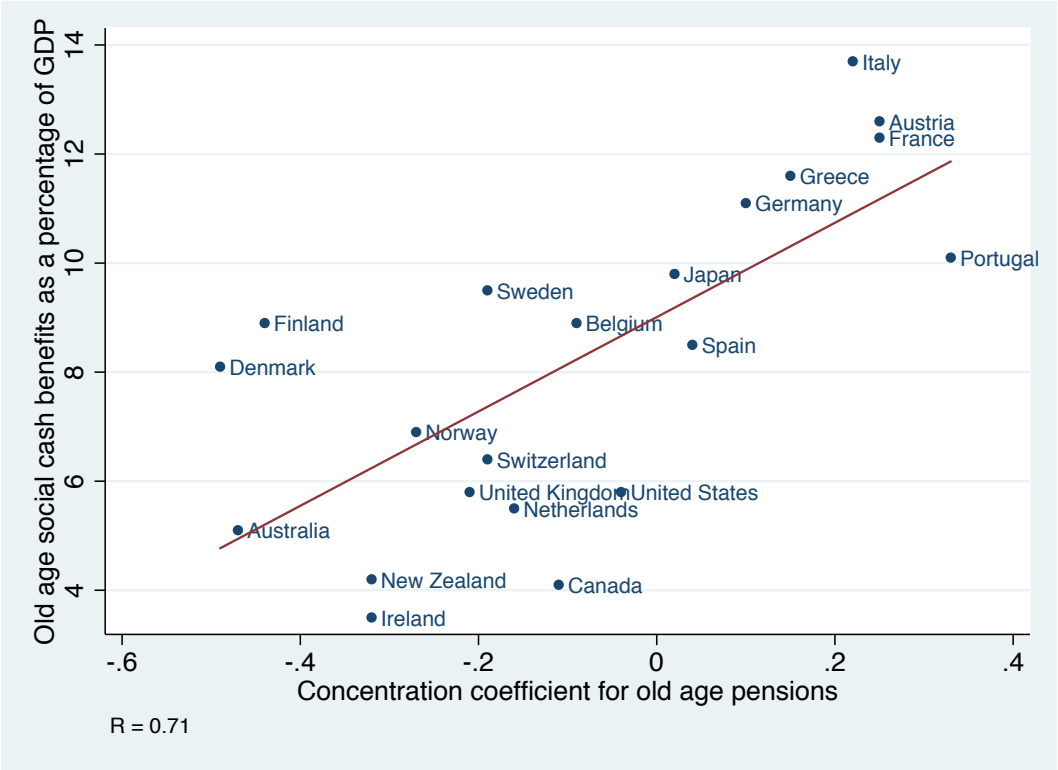
Figure 3: Concentration coefficients for old age pensions and for all social cash benefits, OECD countries, mid-2000s



Source: OECD. 2008: 105-6.

The influence of the concentration coefficient for old age pensions on the overall concentration coefficient is reinforced by the fact that pro-rich pension systems also tend to be expensive, devoting more resources to support the old than do pro-poor systems. Figure 4 highlights this relationship between concentration and spending as a proportion of GDP (for old age expenditures, we add old age and survivors expenses, as in OECD, 2014: 4).

Figure 4: Concentration coefficient for old age pensions and old age cash benefits as a percentage of GDP, OECD countries, mid-2000s



Sources: OECD, 2008: 106; OECD, 2018b.

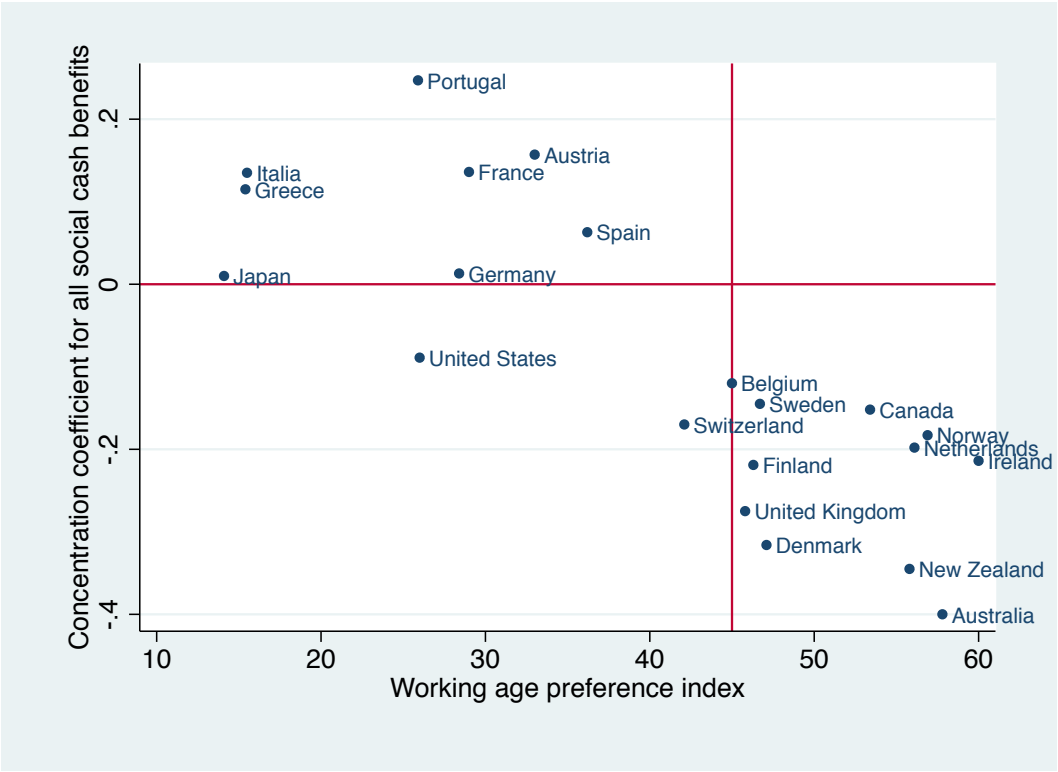
In the lower left corner are residual welfare states that target the poor but spend rather meagrely. At the other end, in the upper right corner, are universal pro-rich welfare states that spend generously but not necessarily for the poor. On the left but above the fit line stand our cases of targeting within universalism, countries that are both pro-poor and high spending. Targeting within universalism can be seen in part as a feature of pension systems.

The logic at play, however, also concerns the balance between the needs of different age groups. Our hypothesis is that the key difference among universal welfare states relates to the financial resources devoted to working age adults. To test the importance of the age balance in social cash transfers, we create a working age preference index that relates old age (old age and survivors benefits) to working age cash benefits (incapacity, family, unemployment and other benefits). The working age preference index is calculated by dividing the sum of working age cash transfers by the sum of working age and old age cash transfers, multiplied by 100. For the mid-2000s, the scores range from a low of 14.1 (Japan) to a high of 60 (Ireland).

The correlation between the working age preference index and pro-poor targeting for the entire population is strong and negative (r = - 0.80), meaning that the higher is the working age preference in social cash transfers, the more pro-poor is a country. In fact, as Figure 5 indicates,

the fit is almost perfect between a working age preference above the median and overall pro-poor targeting. Welfare states that do relatively more for the working age are pro-poor; welfare state that do relatively less for the working age and more for the old are pro-rich, whether or not they are universal. Hence, two factors explain the pro-poorness of a welfare state: the concentration coefficient of the pension system and the working age preference index. These factors are related, since countries with pro-poor pensions tend to maintain a higher level of working age spending relative to pension spending (r = 0.71), notably because they spend less on old age than countries with pro-rich pension systems.

Figure 5: Working age preference index and concentration coefficient for all social cash benefits, OECD countries, mid-2000s



Sources: OECD, 2008: 105; OECD, 2018b.

Does this mean that redistribution fails when the welfare state does too much for the old? Not necessarily. A lower relative effort on working age cash transfers only explains why some universal welfare states are not pro-poor (because they are pro-old). But keep in mind that pro-poorness hardly matters for redistribution and poverty reduction (Table 1 above). The working age preference index reflects the relative resources devoted to active and retired persons, which is helpful in explaining pro-poorness, but it does not say anything about the absolute level of expenditures for the working age, a critical factor in accounting for redistribution.

Whereas working age preference and pro-poor targeting do little to explain redistribution and poverty reduction, as can be seen in Table 3, there is a clear correlation between absolute levels of cash transfers for the working age and these redistribution measures (we obtain the same results with redistribution and poverty reduction for the working age only; the correlations with working age cash transfers are then, respectively, of 0.63 and 0.61).

Table 3: Correlations between working age preference, working age cash transfers and measures of pro-poorness and redistribution

	Working age preference	Working age cash transfers	Pro-poorness	Redistribution	Poverty Reduction
Working age preference	1.00				
Working age cash transfers	0.75***	1.00			
Pro-poorness	- 0.80***	- 0.44**	1.00		
Redistribution	0.18	0.61***	- 0.07	1.00	
Poverty reduction	0.24	0.65***	- 0.03	0.89***	1.00

Note: *** significant at 0.01; ** significant at 0.05.

Interestingly, the redistributive impact of cash benefits for the working age population (r = 0.61) is similar to the impact of total social expenditures (r = 0.69). This is the case because the two other main components of total social expenditures, old age transfers and health services, are hardly related to redistribution and poverty reduction (for old age transfers, the correlations are respectively 0.26 and 0.25; for health services, they are - 0.05 and 0.11; these relationships are not significant). These weak relationships are not surprising since pension income is included in market income and does not count as a redistributive cash transfers (OECD, 2008). The level of inequality (disposable income Gini), however, is a useful measure to evaluate the overall level of redistribution achieved by the welfare state, and it is strongly associated with the generosity of working age cash transfers (r = 0.70), but not with that of old age cash transfers (r = 0.12). Redistribution and equality are mainly the consequences of generous working age cash transfers.

To sum up, a working age preference explains why some universal welfare states are targeting within universalism whereas others are simply universalist. This age preference accounts for the difference, say, between targeting within universalism in pro-poor Belgium and universalism in not-pro-poor France. The redistributive success of universal welfare states, however, does not hinge on targeting as such, but on the absolute level of transfers to working

age adults. Universalist France does not have a strong working age preference because it spends a lot on pensions, but it also spends generously on working age transfers, for good redistributive results. This is not the case for a country like Italy, where financial resources go disproportionately to the elderly.

3.3. No trade-off between the old and working age adults

To be clear, we are not arguing that excessive transfers to the old undermine support for the working age. Indeed, the absolute level of working age benefits is weakly related to old age spending ($r = - 0.25$). Countries that are overly generous for the old are less pro-poor, but they are not necessarily less redistributive, if they also spend generously on working age transfers. Still, one may suspect that an excessive focus on pensions could undermine, over time, the provision of working age benefits (Causa and Hermansen, 2017: 12; see also Lynch, 2006). "It is reasonable to assume," write Simon Birnbaum, Tommy Ferrarini, Kenneth Nelson, and Joakim Palme, that an unbalance between age groups could "foster distributional trade-offs and conflicts that effectively undermine the possibilities of increasing the overall comprehensiveness of the system" (2017: 37).

To assess this possibility, we use a time-series cross-sectional dataset and an error correction model to test whether positive changes in old age cash spending are correlated with lower spending on working age benefits. Our data ranges from 1980 to 2013 for 21 OECD countries, and we control for the level of government revenue, demographic trends, and macro-economic variables.

None of our models, presented in the online supplementary material (SM2), indicate a trade-off between old age and working age expenditures: countries can spend a lot on both at the same time. In fact, short-term changes in old age spending are associated with a positive increase in working age benefits. It seems that governments increasing pension spending tend to increase working age benefits at the same time, achieving what Birnbaum and his co-authors call a "balanced generational welfare contract" (Birnbaum et al., 2017: 36). The long-term impact of old age spending on working age benefits is not significant. Countries can combine both generous old age and working age spending, but the exact balance between the two affects the pro-poorness of the welfare state.

4. Three variants of universalism

The key to redistribution, then, appears to be universalism combined with a high level of social cash transfers to working adults. This combination may or may not be associated with pro-poor targeting. Does it mean that, once a country has universalism and generous transfers for working age persons, targeting becomes irrelevant? Not quite. There are in fact three variants of universalism, and one of them, targeting within universalism, probably provides the most effective and efficient path toward redistribution.

Welfare states vary along a number of dimensions. They can be more or less universalist or residual, more or less pro-poor, and more or less successful at redistribution and poverty reduction. We know that, overall, universalism is favourable to redistribution. But among universal welfare states, some are pro-poor (Denmark) and some are not (France), and some succeed better in reducing poverty (Belgium) than others (Spain). Here, we reach the limits of conventional quantitative approaches, more suited to estimate the average effect of a cause, say universalism, than to evaluate how different causes produce distinct outcomes in specific cases (Goertz and Mahoney, 2012: 41-2). For this purpose, a simple qualitative comparative analysis (QCA) may be helpful.

Table 5 presents the raw data necessary to construct a truth table about the determinants of poverty reduction. We have opted for poverty reduction as the outcome, rather than redistribution, because if pro-poor targeting means anything, it should lead to poverty reduction. Following the advice of Patrick Emmenegger, Jon Kvist and Svend-Erik Skaaning on robustness checks in QCA (2013), we run the same analysis for redistribution in the online supplementary material (SM3).. All variables are dichotomized: for targeting, a value of 1 is given if the concentration coefficient is negative (pro-poor) and the value is 0 if it is not pro-poor; for universalism, a value of 1 is attributed if the score is positive, and 0 if it is negative; the other variables take a value of 1 when a country's score is above the median, and 0 otherwise.

Table 5: Raw data for poverty reduction truth table

Country	**Poverty reduction** 1 > median	**Universalism** 1 = positive	**Working age cash transfers** 1 > median	**Pro-poorness** 1 is pro-poor
Australia	0	0	0	1
Austria	1	1	1	0
Belgium	1	1	1	1
Canada	0	0	0	1
Denmark	1	1	1	1
Finland	1	1	1	1
France	1	1	1	0
Germany	1	1	0	1
Greece	0	1	0	0
Ireland	0	0	0	1
Italy	0	1	0	0
Japan	0	0	0	0
Netherlands	1	0	1	1
New Zealand	0	1	1	1
Norway	1	1	1	1
Portugal	0	1	0	0
Spain	0	1	0	0
Sweden	1	1	1	1
Switzerland	0	0	0	1
UK	0	0	0	1
US	0	0	0	1

When we combine the different cases, we obtain the truth table presented in Table 6.

Table 6: Truth table for poverty reduction

N	Poverty reduction	Universalism	Working age cash transfers	Pro-poorness	
6	0	0	0	1	Targeting
5	1	1	1	1	Targeting within universalism
4	0	1	0	0	Pro-old universalism
2	1	1	1	0	Universalism
1	0	0	0	0	Pro-old residualism
1	1	0	1	1	
1	1	1	0	1	
1	0	1	1	1	

The most common configuration (N = 6) is the residual welfare state, with pro-poor targeting but little poverty reduction. It includes most English-speaking countries (except New Zealand) and Switzerland. This is Esping-Andersen's liberal welfare state par excellence. Following closely (N = 5) are the countries that practice targeting within universalism (the Nordics plus Belgium): universalist, pro-poor and successful at poverty reduction, largely because they have high levels of working age cash transfers. Nearby are two cases that share all the characteristics of the Nordics, except that they do not target the poor (Austria and France). These welfare states are classically universalist and do well regarding poverty, because they devote generous resources to working age adults. The third most important group (N = 4) includes four identical cases of pro-old universalism, the Mediterranean countries, which are universal but not pro-poor and, more importantly, low spenders on working age cash transfers. The remaining cases are borderline cases, like Germany and the Netherlands, not too far from the targeting within universalism pattern, or New Zealand, near the targeting model. More distinctive is the single case of Japan, displaying a pattern on its own: pro-old residualism. If we take redistribution as an outcome, rather than poverty reduction, the same broad patterns emerge; only the residual cases are affected (see online supplementary material).

Consistent with the literature on the paradox of redistribution, universalism appears to be a necessary condition for redistribution and poverty reduction. Residual welfare states, whether or not they are pro-poor, do not succeed in alleviating poverty. Universalism is not, however, a sufficient condition. Universalist welfare states that cater mostly to the old and neglect working age adults fail to redistribute. They remain stunted universal welfare states. The sufficient condition for poverty reduction in a universal welfare state is a high level of cash transfers to working age adults. This objective can be achieved by spending generously on programs that target working age adults, or by spending generously on all. There is no demonstrated trade-off between spending on the old and spending on working age adults but, in the long run, targeting within universalism may be easier to sustain than universalism pure and simple. What is clear, in

the end, is that targeting within universalism is a really existing, distinctive, and effective welfare state strategy.

Conclusion

This paper seeks to give content to the widespread but poorly specified idea of targeting within universalism, which often sounds like an attempt to have one's cake and eat it too. Our argument proceeds in four steps. First, we explain that pro-poor targeting should not be seen as the opposite of universalism, but rather as a distinct aspect of the welfare state. The opposite of universalism can more usefully be understood as residualism. Once we do so, four welfare state possibilities emerge, combining a position on the universalism/residualism axis and one on the pro-poor/not pro-poor axis. Some universal welfare states target and others do not. Second, we establish, following others before us, that pro-poor targeting does not necessarily help the poor. The best approach to reduce poverty is not targeting but rather universalism.

Third, we find that pro-poor targeting can be achieved without means tests, if a government maintains a high level of transfers to persons and households likely to have a low income (persons with an incapacity, the unemployed, or young families) relative to transfers for the old. Pro-poor targeting basically reflects a working age preference, as opposed to a pro-old bias, in cash transfers. The importance given to income replacement in a pension system has a strong incidence on its pro-poorness. Since old age expenditures represent a large share of public cash transfers, the concentration coefficient of a pension system has a strong impact on the pro-poor orientation of the whole welfare state. This does not mean that pensions undermine redistribution. We find indeed, from an error correction model over the 1980-2013 period, that there is no trade-off between transfers toward different generations. These results are consistent with those of Birnbaum and his co-authors, who establish that encompassing welfare states tend to have balanced generational welfare contracts (Birnbaum et al., 2017: 56).

Fourth, we put together the different dimensions in a simple qualitative comparative analysis, to find that there are five distinct roads to welfare redistribution. Two of them pertain to the residual welfare state and do not redistribute effectively, whether or not they target the poor. The three other configurations belong to the world of universalism. One of them, not successful regarding poverty, is the pro-old universalism of Mediterranean countries, which simply does not provide enough to lift working age adults out of poverty. The other two, universalism and targeting within universalism, present solid universalist credentials and spend generously on working age cash transfers. Intuitively, targeting within universalism may seem more promising, if only because it seems to make a more efficient use of the state's financial resources.

To conclude, targeting within universalism does exist, it takes place mostly in the Nordic countries and in Belgium, and it appears to be an effective and probably efficient approach to redistribution and poverty reduction. One should always remember, however, that the secret of this welfare configuration lies not in targeting but in its universal dimension. Pro-poor targeting in these welfare states constitutes an unplanned outcome of a deliberate effort to protect and support the income of working age adults. It facilitates redistribution because it is embodied in

universalism and premised on a large social budget. Targeting alone, however, does not yield the same results. If one were to choose between targeting and universalism, universalism would always remain the best option.

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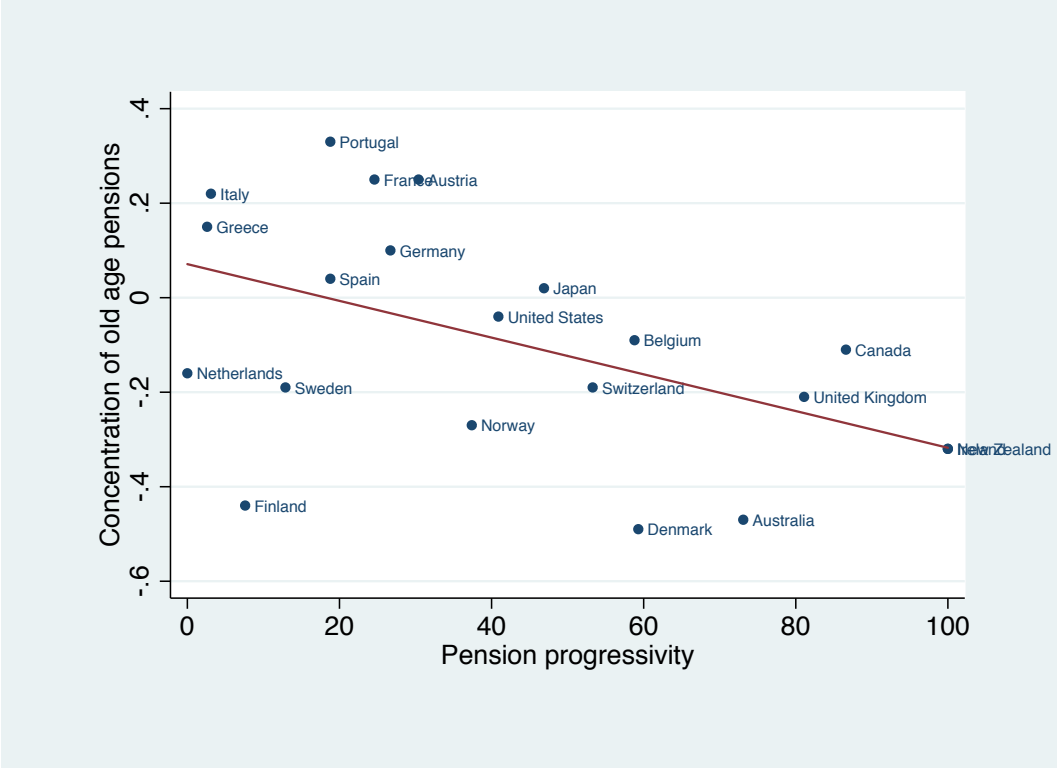
Online supplementary material

SM1. Pensions system design and pro-poorness

Two OECD measures are useful to support our claim on the relationship between the relative importance of the first and second tier of a pension system and its pro-poor orientation: the concentration coefficient for old age cash transfers (OECD, 2008: 105) and the pension progressivity index (OECD, 2007: 45). The pension progressivity index gives a score of 100 for a pure flat rate first tier scheme, and a score of 0 for a pure second tier insurance scheme. We find a relatively strong correlation (r = - 0.50) between this measure of pension progressivity and the concentration coefficient for old age cash transfers (See Figure SM1 below). Finland and the Netherlands being clear outliers, this correlation jumps to r = 0.7 if we remove them. There are possibly measurement issues at play, since the Netherlands' first tier system represents roughly 40% of average pension wealth (OECD, 2007: 51, see Figure SM2 below).

Figure SM1: Pension progressivity and concentration, OECD countries, mid-2000s

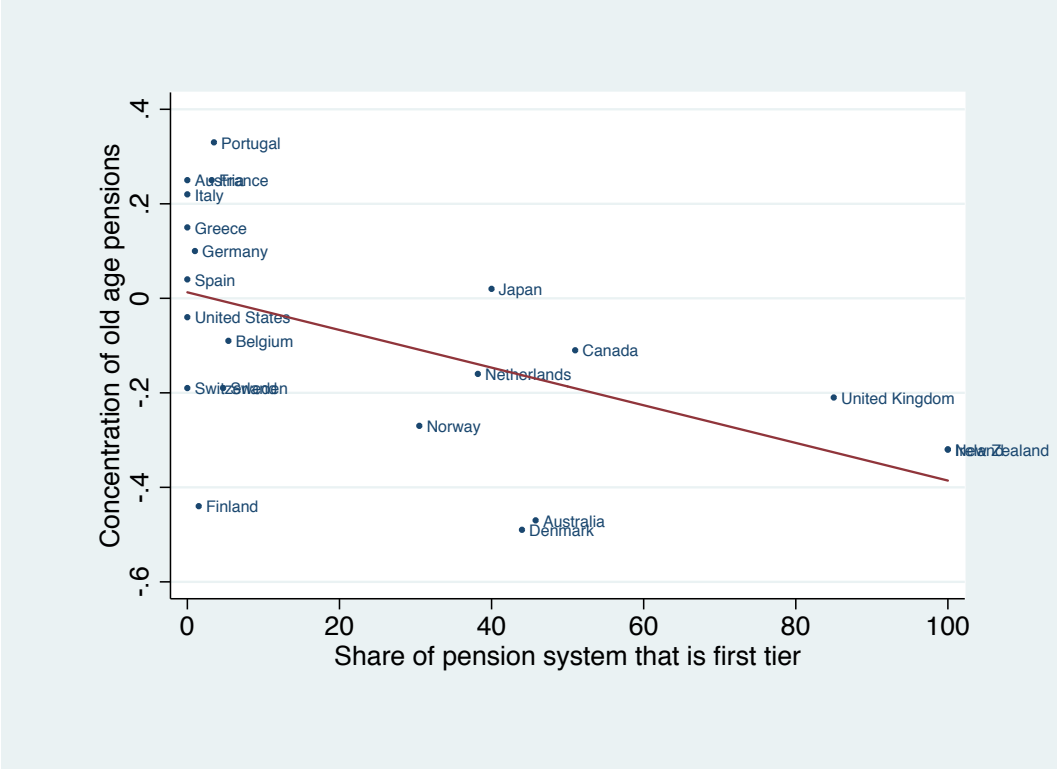


Sources: OECD, 2007: 45; OECD, 2008: 105.

A second measure of pension progressivity presents how much the first tier of pension systems, relative to the second tier, contributes to average individual pension wealth (OCDE,

2007: 51). Except in Finland, all insurance-based pension system whose first tier does not contribute to average pension wealth have a pro-rich pension system.

Figure SM2: Share of first-tier system and pension concentration, OECD countries, mid-2000s



Sources: OECD, 2007: 51; OECD, 2008: 105.

SM2. Error correction model to test for a trade-off between working age and old age transfers

To assess a possible trade-off between working age and old age transfers, we use a time-series cross-sectional dataset to test whether positive changes in old age cash spending are correlated with lower spending on working age benefits. Our data ranges from 1980 to 2013 for 21 OECD countries, and we control for the level of government revenue, demographic trends, and macro-economic variables.

Because the dependent variable, levels of working age cash transfers, displays very strong auto-correlation, we rely on an error correction model (ECM), a general autoregressive equation without pre-imposed restrictions (De Boef and Keele, 2008). This model predicts changes in working age spending but adds a lagged dependent variable as a covariate to account for dynamic changes. Each independent variable is first differenced and lagged one year. The model can be expressed with the following equation, where ΔY is changes in working age social spending, and $\beta_1$is the coefficient for old age social spending:

$$\Delta Y = \alpha + Y_{t-1} + \beta_1 \Delta X_{1_t} + \beta_1 X_{1_{t-1}} + \text{controls} + \text{country and year fixed effects} + \varepsilon$$

The main advantage of an error correction model (ECM) is that is that it can estimate the long-term dynamics, taking into account the steady state equilibrium and the country differences in working age spending, as well as the short-term deviations from that equilibrium (De Boef and Keele 2008). In theory, old age spending should crowd out other spending only in the long term, by reducing the fiscal space to spend on other budget items. In the short-term, higher pension spending should not automatically reduce other type of social spending. A Bewley transformation is employed to calculate the long-term effect of old age spending. We use cluster robust standard errors to correct for heterosckedasticity, as well as country and year fixed effects to control for common time trends and unobserved country-specific time-unvarying factors.

The spending data are from the same OECD sources as above. Spending on working age adults include incapacity, family, and unemployment benefits, active labour market policies and other benefits; spending on pensions include old age and survivors benefits. We tested the model with both cash benefits (which excludes active labour market policies) and total spending (cash and in kind benefits). The model includes four control variables taken from the *Comparative Political Data Set* (Armingeon et al., 2017): economic growth, the unemployment rate, the share of the population over 65, and the total level of government revenues as a percentage of GDP. We control for economic growth because our variables of interest are expressed as a percentage of GDP: lower growth automatically increases expenditures as a proportion of GDP. The unemployment rate has a direct positive impact on unemployment and active labour market policy spending (Bonoli, 2013: 29). The share of the population over 65 has an obvious influence on pension spending. Markus Tepe and Pieter Vanhuysse also find that population aging is associated with a pro-old bias (2009 and 2010). We control as well for the level of government

revenues to model the impact of finite government resources by holding revenues constant. The data set runs from 1980 to 2013.

Table SM1 presents the results for the error correction model. Variables at t-1 display the long-run effect of a change in the variable using a Bewley transformation, while first differenced variable (Δ) present the short-term effect of a change in the independent variable. Models 1 and 3 do not use control variables, while models 2 and 4 do. Models 1 and 2 use total spending for the dependent and independent variables, while models 3 and 4 refer to cash benefits only. None of these models indicates a trade-off between old age and working age expenditures: countries can spend a lot on both at the same time. In fact, short-term changes in old age spending are associated with a positive increase in working age benefits. The long-term coefficients for old age spending are negative, but they never reach statistical significance.

Table SM1: Error correction models predicting the level of social spending on working age adults, OECD countries, 1980-2013

	Model 1	Model 2	Model 3	Model 4
	Total working age		Cash working age	
Working age spending t-1	-0.0758***	-0.0733***		
	(0.0160)	(0.0217)		
Working age cash spending t-1			0.0720***	-0.0776***
			(0.0146)	(0.0171)
Old age spending t-1	0.387	-0.117		
	(0.275)	(0.341)		
Δ Old age spending	0.569***	0.334***		
	(0.146)	(0.110)		
Old age cash spending t-1			0.389**	-0.359
			(0.182)	(0.234)
Δ Old age cash spending			0.476***	0.217*
			(0.137)	(0.126)
GDP growth t-1		-0.565*		-0.520***
		(0.329)		(0.195)
Δ GDP growth		-0.0190*		-0.0254***
		(0.0105)		(0.00834)
Government revenues t-1		0.219		0.309***
		(0.135)		(0.109)
Δ Government revenues		0.0107		0.0143
		(0.0258)		(0.0206)
Share population 65+ t-1		0.536		0.436**
		(0.329)		(0.181)
Δ Share population 65+		-0.0273		-0.0708
		(0.147)		(0.100)
Unemployment rate t-1		-0.554**		-0.389***
		(0.241)		(0.145)
Δ Unemployment rate		0.0881***		0.0848***
		(0.0295)		(0.0237)
Constant	0.485	-0.0300	0.435***	-0.186
	(0.290)	(0.361)	(0.109)	(0.265)
Observations	587	576	638	622
Country and year FE	Yes	Yes	Yes	Yes
R-squared	0.506	0.609	0.438	0.577

Robust standard errors in parentheses
*** p < 0.01, ** p < 0.05, * p <0.1

The results of these error correction models are robust to changes in the measurement on the dependent and independent variables. As a robustness check, we removed incapacity benefits from working age expenditures, since these benefits can also be allocated to people over 65. We also added other control variables (level of government debt and interest rates) and it did not change the results. Alternative estimations using panel corrected standard errors (PCSE) with country and year fixed effects and a correction for auto-correlation also displayed a positive impact of old age spending on working age benefits. There is simply no visible trade-off between old age and working age spending.

SM3. Truth table for redistribution

Table SM2: Raw data for redistribution truth table

Country	**Redistribution**	**Universalism**	**Working age cash transfers**	**Pro-poorness**
	1 > median	1 = positive	1 > median	1 is pro-poor
Australia	0	0	0	1
Austria	1	1	1	0
Belgium	1	1	1	1
Canada	0	0	0	1
Denmark	1	1	1	1
Finland	1	1	1	1
France	1	1	1	0
Germany	1	1	0	1
Greece	0	1	0	0
Ireland	1	0	0	1
Italy	1	1	0	0
Japan	0	0	0	0
Netherlands	0	0	1	1
New Zealand	0	1	1	1
Norway	1	1	1	1
Portugal	0	1	0	0
Spain	0	1	0	0
Sweden	1	1	1	1
Switzerland	0	0	0	1
UK	0	0	0	1
US	0	0	0	1

Table SM3: Truth table for redistribution

N	Redistribution	Universalism	Working age cash transfers	Pro-poorness	
5	0	0	0	1	Targeting
5	1	1	1	1	Targeting within univ.
3	0	1	0	0	Pro-old universalism
2	1	1	1	0	Universalism
1	1	1	0	0	
1	0	0	1	1	
1	0	0	0	0	Pro-old residualism
1	1	1	0	1	
1	0	1	1	1	
1	1	0	0	1	