Social Science Research 50 (2015) 60–75

Contents lists available at ScienceDirect

Social Science Research

journal homepage: www.elsevier.com/locate/ssresearch

Universalism under siege? Exploring the association between targeting, child benefits and child poverty across 26 countries

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ARTICLE INFO

Article history:
Received 10 January 2014
Revised 22 September 2014
Accepted 20 November 2014
Available online 25 November 2014

Keywords:
Child benefits
Child poverty
Paradox of redistribution
Targeting
Universalism
Comparative social policy

ABSTRACT

The long-standing wisdom that universally designed benefits outperform targeted benefits in terms of poverty reduction has come under siege. Recent empirical studies tend to find that targeting is not necessarily associated anymore with lower levels of poverty reduction. In this study, we investigate for a broad set of European countries (1) the relationship between child benefits and child poverty reduction; (2) whether a universal or targeted approach is more effective in reducing child poverty; and (3) the causal mechanisms explaining the link between (1) and (2). In doing so, we take into account the general characteristics of the child benefit system, the size of the redistributive budget and the generosity of benefit levels. In contrast to previous studies, we construct an indicator of targeting that captures the design instead of the outcomes of child benefit systems. We find that targeting towards lower incomes is associated with higher levels of child poverty reduction, conditional on the direction of targeting and the characteristics of the benefit system.

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1. Introduction

In times of economic hardship and fiscal consolidation, governments are in dire need of finding cost-efficient ways to combat rising child poverty rates (European Commission, 2013a; TARKI, 2010). Earlier research for developed welfare states has shown that child benefits play an important role in reducing child poverty. In this paper, we aim to reinvigorate our knowledge on the impact of child benefits on child poverty, in particular how child benefit systems should be designed in order to yield the most beneficial results in terms of poverty reduction.

The long-standing wisdom that universally designed benefits outperform targeted benefits in terms of poverty reduction has come under siege in recent years. On the political front, the World Bank, the European Commission, and the OECD all have encouraged a move towards "more and better" targeting to those in need, often accompanied by a call for more conditionality in benefit entitlement (European Commission, 2013b; Hall, 2007; OECD, 2011). The matter has also been at the centre of renewed scholarly attention. While Korpi and Palme's (1998) 'paradox of redistribution' that benefits targeted at the poor achieve less redistribution than universal benefits has long been regarded a settled matter, recent empirical studies for OECD and EU economies tend to find that targeting is not necessarily associated anymore with lower levels of redistribution (Kenworthy, 2011; Marx et al., 2013). Investigations for non-OECD countries yielded mixed results. Ravallion (2009), for instance, found no meaningful relationship between targeting and poverty reduction for a benefit scheme in China. In a report commissioned by the World Bank, on the other hand, Coady et al. (2004) find that targeted programs perform rather well, although conditional on policy specifics. The matter is clearly not settled yet, and should not be approached light-heart-

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http://dx.doi.org/10.1016/j.ssresearch.2014.11.012
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edly by academics. Once implemented, the choice between universalism or (more) targeting potentially impacts a large number of people, and support for targeting might also conceal an agenda for reduced social spending in the face of the economic crisis (Bradshaw, 2012). This warrants an increase in the academic effort to further unravel the link between poverty reduction and benefit program design.

Generally, previous studies suffer from two shortcomings. First, the analyses are often limited to the aggregate level which provides no guidance for the design of specific programmes (Moene and Wallerstein, 2001). It could very well be the case that the appropriate balance between targeting and universalism differs for child benefits and pension schemes. Second, the level of targeting is almost always operationalised with an index of concentration, in which redistributive *outcomes* are measured rather than the impact of redistributive *intentions*. In this respect, targeting is interpreted as social transfers being more beneficial for lower incomes, irrespective whether this comes about due to characteristics of the welfare system (Marx et al., 2013). E.g. when larger families are concentrated amongst the lowest income groups, universally designed child benefits will be regarded as being 'targeted' because by definition a larger share of total spending will be allocated to the lowest income groups. To enrich the earlier findings on the impact of child benefits on child poverty, an in-depth exploration of the impact of the policy design, i.e. the balance between universalism and targeting, is therefore a desirable further step in empirical research. The aim of this article is to investigate (1) the relationship between child benefits and child poverty reduction; (2) whether a universal or targeted approach is more effective in terms of child poverty alleviation; and (3) the mechanisms explaining the link between (1) and (2). In doing so, we will take into account the general characteristics of the child benefit system, the size of the redistributive budget and the generosity of benefit levels.

We contribute to the existing literature, first, by focusing on a specific welfare programme instead of the whole tax and transfer system for a large number of countries (EU25 + Norway) using recent data; second, by devoting attention to the drivers of the redistributive outcomes; and third, by applying a methodology in which two research methods are united. We combine information on the institutional characteristics of child benefit systems by means of the so-called family model methodology with an empirical analysis of child poverty reduction by means of survey data. This allows to test the *intentions* of policies in relation to its redistributive *outcomes*. Our results shed light on child poverty reduction, the role of policy design and the impact of social transfers, which does not only contribute to our theoretical understanding of the nature of redistribution, but also feeds into policymaking and the matter of cost-efficiency of social transfers in times of fiscal consolidation.

Our paper is structured as follows. First, we review existing literature on the targeting-universalism debate, the impact of child benefits on child poverty, and the connection between the two. Second, we devote some space to a proper definition of the concepts used throughout this paper, and subsequently present our data and analytical strategy. Our empirical results are found in the fourth section. We end this piece with a discussion of our findings and their relevance for the broader academic and policy debate on the benefits of targeting.

2. Background

2.1. Theoretical arguments

The debate on targeting versus universalism essentially boils down to the question "who should get what type and degree of social protection?" (van Oorschot, 2002, p. 171). The exact meaning of both concepts is not always clear, however, and they are often mixed up with related concepts such as means-testing or selectivity. Here, we distinguish between universalism as a system characteristic and universalism as benefit entitlement (Bergh, 2005).

As a system characteristic, the opposite of *universalism* is *selectivity*. A benefit system is universal if the whole reference population is covered, while benefits are selective if eligibility is restricted to a specific category of the reference population based on certain conditions (e.g. having a low income). For example, child benefits are universal when all children are entitled, while they are selective when entitlement is limited to a specific group of children (e.g. poor children). Both are mutually exclusive: a benefit system is either universal or selective.

While selectivity refers to who is entitled to social benefits, *targeting* is concerned with the allocation of resources, i.e. how the budget is meant to be distributed (targeting intentions) or how it is actually distributed over beneficiaries (targeting outcomes). Remember that we are concerned with the targeting intentions, not with the outcomes. In this article, targeting intentions are captured by the variation in statutory benefit levels across income groups. If, say, low income groups are legally entitled to more generous benefits than higher income groups, the child benefit system is targeted towards lower incomes. By the same token, if higher income groups are entitled to higher benefits, the child benefit system is targeted towards higher incomes. This implies that selective benefits are always targeted, but also that targeting not necessarily implies selectivity. Targeting may occur within a universal benefit system as well, previously termed "targeting within universality" (Skocpol, 1991). When all beneficiaries are entitled to equal benefit levels and no targeting occurs, benefit entitlement is *universal*: every one of the reference group is entitled to exactly the same benefit amount. If benefit allocation is not targeted within universal benefit systems and both varieties of universalism are united, we speak of 'strict universality'. Table 1 *infra* provides a classification of European child benefit systems according to these dimensions.

Means-testing, then, is a technique to achieve targeting, a means to an end. Policymakers who want to target low-income households, for instance, might implement a means-test in the form of an income test. In this example, all families fulfilling the criteria of the income test, are eligible for the targeted benefits.

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