

**Means-tested and universal approaches
to poverty: international evidence and how
the UK compares**

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1 UNIVERSALISM VS. SELECTIVISM: A BRIEF OVERVIEW

All advanced welfare states use a mix of universal and means-tested programmes to meet particular needs of their citizens. However, the balance between the two varies considerably across welfare regime types, as well as across countries with similar systems. The relative weight of universal and means-tested benefits in overall welfare provision has considerable implications for income redistribution, and more importantly, for poverty (Esping-Andersen and Myles, n.d.; Smeeding, 2005). However, the effects of the institutional set-up of welfare states are rather complex and difficult to discern precisely, hence it comes as no surprise that scholars and policy practitioners have long debated which of the two types of schemes is more effective in reducing poverty. This debate has helped to identify multiple limitations of both approaches, which we will briefly review below. Box 1 clarifies the terminology used in this analysis.

Box 1 Definitions of main concepts and terms

Selective benefits – cash transfers and services limited to individuals or households with limited resources. The selectivity may either involve direct means-testing or be applied by other measures intended to target the benefit on deprived groups, such as selectivity by deprived area.

Means-tested benefit - type of selective benefit the access to which requires checking applicants' resources (incomes, assets, or both).

Universal benefits - cash transfers or services that are available to all citizens/residents (e.g. primary education), or large categories of citizens (e.g. pensioners) without a means-testing requirement or other form of selectivity. Note therefore that 'universal' encompasses some benefits that do not go to everybody – they may be demographically targeted or dependent on prior contributions, without being specifically targeted at less well-off households.

Contribution-based benefits – universal cash transfers and services, access to which requires a certain minimum period of contributions, usually by paying income tax and/or national insurance contributions.

Earnings-related benefits - type of contribution-based transfer in which the level of transfer is related to the amount of earnings-contingent contributions made.

Targeting - method for selecting beneficiaries of particular transfers or services. Benefits may be targeted through various criteria: age, geographic location, labour market status, family composition, income, etc. Thus targeting can be 'selective' or

can define which groups receive a 'universal' benefit.

Redistribution/redistributive impact - the difference made in the distribution of household incomes by government intervention through taxes and transfers. Redistribution can be horizontal or vertical. Horizontal redistribution implies redistributing income across each individual's lifetime in order to smooth consumption (e.g. between working age and retirement). In contrast, the aim of vertical redistribution is to reduce inequalities by shifting resources from higher income to low-income groups. However, vertical redistribution does not necessarily benefit poor households if a large share of redistribution takes place between upper and middle income groups.

Size of redistributive budget - the amount of resources redistributed by the government. This is usually measured in one of two ways: the share of public social spending in national GDP; or the share of social transfers and services in the average household's disposable income.

Progressivity - the extent to which a tax and benefit system redistributes from upper to lower income groups. Unlike the size of the redistributive budget, this takes account of which groups are its net beneficiaries. It can be measured in two ways:

- Through the net transfers to and from government of each income group in turn. The system is progressive to the extent that these are higher, relative to income, for low income groups;
- Overall by a *concentration coefficient*. This measures the overall extent to which transfers are redistributive across groups. Like the Gini coefficient, which sums up the income distribution in a single figure (with low value signifying greater equality), the concentration coefficient sums up the distribution of transfers (with low value signifying that a greater proportion of these transfers goes to people with lower pre-distribution income).

One of the primary defects of means-testing is the stigma it entails (Titmuss, 1968; Sen, 1995; Rothstein, 2001; Stuber and Schlesinger, 2006). In order to qualify for means-tested benefits, applicants have to demonstrate that their own or their family's income or capital is below a threshold level. In western societies, where self-sufficiency and individual responsibility are highly valued personal qualities, coming forward for public assistance suggests conceding individual failure, which negatively affects a person's social standing (van Oorschot, 2002). This stigma, together with complex and invasive procedures that means-testing often entails, discourages many potential beneficiaries from applying (Sen, 1995; Mkadawire, 2005). This helps explain the generally low level of take-up of means-tested benefits. For example, according to official estimates, discussed below, in 2009/10 only 64 per cent of eligible individuals received Working Tax Credit, and only 62 to 69 per cent

claimed Council Tax Benefit (Figures 3.b and 3.c). In practice means-testing can never be perfect, so inclusion/exclusion errors are inevitable (Sen, 1995; Mkandawire, 2005). In other words, some 'truly needy' are bound to be excluded from the schemes, while part of the benefits will definitely leak out to those not in need. Moreover, means-testing is a costly procedure, considerably exceeding the administration costs of universal programmes and reducing the amount of resources allocated for redistribution (van Oorschot, 2002).

Another critical issue concerns the effect of means-testing on recipients' behaviour, especially with regard to savings and employment. By providing extra support to pensioners with few or no savings, those pension systems which operate mainly on a means-tested basis should in theory prompt rational individuals on low working incomes to spend all of their earnings rather than setting some aside for pension savings. However, since assets and savings that people possess when reaching retirement age generally reflect their lifetime earnings, and given uncertainties about the level of pension supplements in a long-term perspective, means-tested pensions should not have a significant effect on individual decisions concerning savings. More tangible and of immediate concern is the negative effect on employment, usually referred to as a 'poverty trap'. Since eligibility to means-tested assistance depends on low income, the support is usually gradually withdrawn as the targeting unit's income starts grow. This is usually referred to as the 'taper rate'. At the same time, the person has to start paying income tax and social insurance contributions. Furthermore, increased income usually also implies a loss of eligibility to other targeted benefits or services, such as council housing, education fee waivers and free prescriptions. Hence in practice it is possible for recipients of means-tested support to face effective marginal tax rates approaching 100 per cent (Deacon and Bradshaw, 1983; van Oorschot, 2002), and even to make them worse off as a result of working, or of working more hours, once the loss of free or discounted services and additional costs associated with working are taken into account. For example, Hirsch (2013) showed how childcare costs can potentially discourage additional hours except at an above-average wage. Moreover, as van Oorschot (2002) notes, this type of poverty trap is not confined to unemployed recipients of means-tested assistance, but affects low earners in general.

In assessing the combined limitations of means-tested benefits, many authors are highly critical of their desirability. For example, van Oorschot (2002) argues that means-testing by default conflicts with the core objectives of a welfare state: social integration, justice and overcoming dependency. While universal and contributory benefits avoid many of the problems inherent in means-tested schemes, especially those related to stigma and low take-up, they are not without problems either. The main drawback is of course the associated high costs, which account for most of the massively expanded social spending in advanced welfare states, which in turn may have negative effects on their global competitiveness. Moreover, from a purely poverty reduction point of view, universalism is potentially the least efficient strategy for reaching poor households (Barry, 1990). In order to reach poor households who constitute a relatively small share of the population in many OECD countries, the government would need to spend considerably more on non-poor ones if it opted for a universal arrangement.

Another alleged defect of universal transfers is that they may provide more support to the better-off than to low income households. This is most pronounced in case of earnings-related transfers (classified as universal here because they are not tested against current family income, but rather based on historic contributions - see Box 1). While many of the contribution-based transfers are to an extent redistributive because of ceilings placed on the benefits of the highest earners, nevertheless the whole essence of these transfers is horizontal redistribution, i.e. redistribution across the lifecycle, not between richer and poorer groups (Esping-Andersen and Myles, n.d.). Hence these schemes in general are not conducive for those with low earnings and unstable employment records. In the U.K., the relatively small earnings-related element of for example the state pension compared to many other social security systems makes this less of an issue than elsewhere. However, even a flat-rate pension funded by earnings-related contributions can have limited redistributive potential because of the difference in average life expectancy of different income groups: poor households will not only get a smaller transfer if the pension is based on previous earnings and/or contributions, but they will also receive them for a considerably shorter period of time than the better-off. The increasing gap in life expectancy will most likely further aggravate this problem. Overall,

universal transfers and services account for a lion's share of social spending, whose overall level is widely criticised, but this is often missed by the general public.

As with transfers, universal services are often alleged to disproportionately benefit middle and upper income groups. While there is a general consensus that many services, especially healthcare and education, need to be provided universally because of moral and pragmatic considerations, some analysts have critically scrutinized to what extent these services benefit poor households vis-a-vis the better off. In a pioneering study exploring the use of universal services by different income groups, Le Grand (1982, p.128) came to a striking conclusion:

'most public expenditure on the social services in Britain (and elsewhere) is ... distributed in a manner that broadly favours the higher social groups, whether 'higher' is defined in terms of income or occupation'.

However, in a more recent study of the changes in the distribution of 'social wages', Tom Sefton (2002) found that social services in the U.K. are in general markedly pro-poor, though some services, especially higher education, indeed benefit the upper income groups more.

The above difficulties with both universal and selective benefits partly reflect the difficulties in designing policies to achieve intended consequences. However, the tensions are also related to the fundamental issue of what types of state actions attract political support. It has been argued that because means-tested benefits in essence are only for low-income families, there is no sound rationale for the middle and upper classes to support such programmes, especially given that they fund these benefits through taxes (Korpi and Palme, 1998). Hence sharp means-testing undermines a potential coalition between the middle and working class. Together with low costs, this makes selective benefits particularly attractive for the political right, who are often the champions of means-testing. It also makes these benefits easier to cut or abolish (Nelson, 2007) and more difficult to expand (van Oorschot, 2002). Lack of a broad base of support also has implications for the level and quality of benefits; as Sen (1995, p.14) has famously stated, 'benefits meant exclusively for the poor often end up being poor benefits'. On the other hand, voters do not always act solely as self-interested individuals; rather they are guided by a combination of

self-interest and moral sentiments which can lead to different electoral outcomes depending on the context (Rothstein, 2001). It may also turn out difficult to convince the electorate that to benefit poor households the state should give more to the better-off (Green-Pedersen, 2003), especially during times of austerity. Moreover, as Paul Pierson (1994) has argued, the large size of universal programmes makes them a natural target for dramatic cuts by governments with radical agendas for downsizing the welfare state. These may partially explain why a means-tested approach has become more popular even among the left-wing parties who have traditionally supported universal measures.

In sum, both types of welfare programmes have considerable technical and political limitations. Our main research interest in this case though is to establish which type is more effective in terms of reducing poverty. For this purpose next we turn to examining the empirical evidence from comparative studies.

2 ARE UNIVERSAL BENEFITS MORE EFFECTIVE IN REDUCING POVERTY THAN MEANS-TESTED ONES?

While there have been a number of influential studies exploring the effects of universal and means-tested benefits on redistribution and poverty in various OECD countries (see for example, Le Grand, 1982; Goodin and Le Grand, 1987), the first large-scale comparative study covering a large number of advanced welfare regimes was carried out by Walter Korpi and Joakim Palme in 1998. By producing counterintuitive, but coherent and convincingly interpreted findings, this seminal study revitalised the debate and served as a useful reference point for further comparative research. The underlying notion of Korpi and Palme's theory is that popular support for the welfare state is strongly influenced by the degree to which various groups consider it to be benefitting them. That is because while welfare states are shaped by the interests of various politically mobilised groups, once in place, the institutional set-up of a welfare state becomes an important factor on its own that 'influences the long-term development of definitions of interests and coalition formation among citizens' (p.665). This in turn will have a significant effect on the volume and extent of redistribution and consequently on poverty and inequality.

To test this hypothesis the authors first classified 18 OECD countries into several distinctive clusters based on institutional structures of old-age pensions and sickness cash benefits. In practice these clusters closely resemble a continuum between targeted and universal regimes. As expected, the more universal the welfare regime, the higher the share of GDP allocated for social spending (excluding education expenditure). However, since in a universal system much spending may simply move resources around without redistributing much from richer to poor groups, the authors then considered the relationship between high spending on social programmes and the actual redistributive effect. Specifically, they measured correlation between the relative size of the redistributive budget and income redistribution achieved¹ in 11 countries for which the Luxembourg Income Series (LIS) data was available. They found a very strong positive correlation between the

¹ Measured as the difference between Gini coefficients of market and disposable incomes divided by Gini coefficient of market income.

two, indicating that the higher the average share of transfers, the larger the redistribution achieved: the countries with the largest redistribution budgets - Sweden and the Netherlands - were also the most successful in reducing inequality. Moreover, the study showed an inverse correlation between the level of targeting of low-income groups and redistribution achieved: the countries which were making extensive use of targeting (Australia, the U.S.A. and Switzerland) were much less successful in overall redistribution than those where targeting was limited (again Sweden and the Netherlands, but also Germany). This is explained by the fact that higher reliance on targeting was also correlated with smaller redistributive budgets. Another important finding was that while earnings-related old-age pensions are indeed less redistributive than means-tested or universal flat-rate ones, the overall inequality among the elderly was the lowest precisely in those countries which have extensive earnings-related retirement schemes. This might be explained by the greater role of private pension arrangements for those who can afford it in countries where public pensions are not considered adequate.

In sum, the findings of the study point to 'the paradox of redistribution': in the authors' words, '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' (pp.681-682).

They argue that three closely interrelated factors are critical for understanding this paradox. First, the amount of resources allocated for redistribution is not fixed: it depends on the types of existing coalitions between various income groups, which in turn is affected by the institutional set-up of the welfare regime. In other words, more inclusive welfare states generate larger budgets. Second, small benefits cannot provide adequate earning replacement, hence they discourage middle and upper income groups from participating in these schemes; this also reduces their willingness to finance these programmes through taxes. Third, where the better-off opt for private welfare arrangements, the overall outcomes tend to be much more unequal than under earnings-related public schemes.

Results of this pioneering study have also been supported by several other studies with different research objectives, but also considering the link between the volume

of social spending and poverty in affluent nations. For example, Cantillon and colleagues (2003) found a strong negative correlation between social expenditure and the incidence of poverty among the working-age population in 12 OECD countries. Similarly, exploring the anti-poverty effect of taxes and transfers in eight affluent nations, Smeeding (2005) has found that higher social spending contributes to lower poverty incidence. More recently, examining poverty trends in OECD countries using the LIS data, Nolan and Marx (2009, pp. 329-330) have affirmed that the 'strong relationship at country level between the level of social spending and the incidence of poverty... [is] arguably one of the most robust findings in comparative poverty research'. More recently, Brady and Barrow (2012) have demonstrated that universal social policies have a larger effect on single-mother poverty than the targeted ones. We should note though that these authors have stressed important caveats when presenting their findings. Cantillon and colleagues warn that simply increasing social spending under the existing institutional set-up will not automatically result in less poverty. Using the LIS data they projected how poverty rates would change in nine European countries if social spending was increased up to 22 per cent of GDP (the level of expenditure of the second highest spender in the sample, Finland), but the existing arrangements were not altered. They found in some countries, particularly Spain and Italy, this would even have small negative effects. Smeeding too has pointed out that large spending is not the only effective way of reducing poverty - it can also be achieved by more accurate targeting.

As discussed earlier, in addition to potentially being more redistributive than the means-tested ones, universal programmes may also be more resilient to spending cuts amidst austerity. A study by Kenneth Nelson (2007) provides some empirical evidence in support of this thesis. In his study Nelson examined the changes in the level of benefits of three forms of social insurance (old-age pensions, sickness insurance and unemployment insurance) and the main means-tested programmes in 18 OECD countries between 1990 and 2002. He found that both types of programme experienced considerable retrenchment: despite increases in real terms, since the mid-1990s their indexation has lagged far behind the increase in wages. However, the average erosion was slightly lower for social insurance transfers and its downward trend was reversed in 2001, while means-tested programmes continued to follow the sliding trajectory. In addition to comparing the aggregate

changes in the average values of benefits, Nelson also examined how the levels of means-tested benefits have changed in relation to each of the three insurance programmes in each of the countries on a yearly basis. Again, he found that for most of the years in most countries, social insurance programmes were more resilient to erosion than means-tested ones: in the majority of cases their levels increased by more than for the targeted benefit. However, this difference was most pronounced in the case of old-age pensions, and less substantial for sickness and insurance benefits. Furthermore, in several countries (Austria, Denmark, Ireland, and Switzerland) means-tested benefits have fared better than the social insurance ones. Inspecting the correlation between the vulnerability of means-tested benefits and the welfare regime type, Nelson found that means-tested benefits were more likely to be retrenched in more universal welfare regimes than in more basic welfare models.

We should note though that Nelson's study has an important limitation as readily acknowledged by the author himself. While the changes in the largest means-tested programmes are indeed an important development, this alone is not sufficient for capturing the general trend concerning all targeted benefits. While the value of the main 'safety-net' means-tested benefit (the equivalent of Income Support in the UK) may have eroded and eligibility criteria may have become stricter, other targeted benefits, such as housing benefits, tax credits, etc. may have become more generous and inclusive. Moreover, the analysis ignores the changes in the coverage of the programmes. It may well be that while the level of benefits had diminished compared to wages, the coverage of means-tested programmes has expanded, especially where some universal programmes have become selective.

A number of studies using more recent data however have produced results that are at odds with the underlying assumption of previous studies that more universal approaches reduce poverty more than selective approaches. Particularly important is a study conducted by Peter Whiteford (2008) which covered a larger sample of 28 OECD countries using data from the mid-2000s. This study looked both at the amount of money that is redistributed and the extent to which it is reallocated from richer to poorer groups: the *size* and *progressivity* of the redistributive budget as

explained in Box 1. Importantly, it found a negative relationship between the two: the more that is spent on social programmes, the less progressively it is redistributed.

Overall, Whiteford found that cash transfer systems in all OECD countries are progressive in the sense that they lead to a more equal distribution of income than the one generated by the market. However, the extent of progressivity varied considerably across the countries, as well as between different age groups and types of programmes. The most progressive systems were identified in Australia, New Zealand, Denmark and the U.K., while the least progressive were those of Turkey, Portugal and Poland. With a few exceptions, cash benefits for working age people were more progressive than those for the elderly. Within the social programmes, the most progressive were housing and social assistance benefits, followed by unemployment transfers and family benefits. Another important factor determining the extent of achieved redistribution was taxes, though its effect was about half of the cash transfer system. Progressivity of tax systems differed considerably from that of cash transfer system, but the variation across countries was less pronounced. The most progressive tax systems were identified in Ireland and the U.S.A. and the least progressive in Switzerland and Iceland.

Moreover, looking at the overall progressivity of a system across the income range (through the 'concentration index' - see Box 1) does not distinguish its effect on poverty - to what extent the lowest income groups benefit from redistribution. Whiteford therefore also measured specifically what share of transfers accrued to the bottom quintile in each of the countries. Again the results showed large differences across countries, with those more reliant on means-testing - Australia, Denmark, New Zealand and U.K., distinguished as providing the largest support to poor households. Scandinavian countries also transferred large amounts to the bottom quintile, but this was partially offset by a considerable amount of taxes that poor households paid.

In sum, the structure of spending appears to be no less important than the overall size of the redistributive budget in its impact on poverty. Australia spent only two-thirds of what Norway allocated for social spending, but it achieved the same effect in supporting the bottom quintile through a more progressive tax and benefit system.

Other studies that have specifically sought to re-examine ‘the paradox of redistribution’ theory by using the same sample and data source as previous studies, with updated figures, also suggest that the correlation between universality and larger redistribution may not hold true anymore. Kenworthy (2011) used the same methodology for comparing Korpi and Palme’s original 11 OECD countries at five-year intervals between 1980 and 2005. He found that while between 1980 and 1990 the positive association between universalism and redistribution was indeed strong, it became much weaker in 1995, before disappearing completely from the year 2000. He also re-examined Nelson’s thesis about universal programmes being more resilient to cuts by measuring the changes in redistributive size of budgets in 11 OECD countries from the mid-1980s to the mid-2000s. Again, he found that ‘the degree to which a country’s public transfers are universal does not appear to have had an impact on shifts in its redistributive generosity’ (ibid, p.61). Overall, even in those cases when the institutional set-up of the welfare regime was considerably altered, no significant changes occurred either in terms of the overall size of redistributive budget or its impact on income distribution. For example, the U.S.A. becoming more universal (because of the growing share of earnings-related public pensions in total social spending, but also due to providing more support to the lower middle class, mainly through expanding the Earned Income Tax Credit programme) did not result in it having a larger social spending or being more redistributive, while the increased reliance on targeting in Denmark has not diminished its spending and redistributive capacities. These findings prompted Kenworthy to hypothesize that an important effect of universalism on redistribution is that it fosters the general perception of the welfare state being an instrument for insuring against social risks, such as old-age and disability, rather than a mechanism for redistribution in favour of poor households. Long-established positive public perceptions enable committed policy makers ‘to make extensive use of targeting in other programs, because those programs will be seen by the middle class as subsidiary’ (ibid, p.62). But this does not mean that introducing a new form of universal programme where there is no such tradition is the best way to combat poverty.

Whiteford’s and Kenworthy’s main findings were confirmed by another comprehensive study that also sought to replicate Korpi and Palme’s analysis by

using data from the mid-2000s. In their study Marx and colleagues (2013) used the same methodology as in the previous studies described above, and included a large sample of 25 OECD countries. Similar to Whiteford they found that all cash transfers systems were pro-poor, but to a widely varying degree. The largest overall redistributive impact, measured as the difference in Gini coefficients between market and disposable incomes, was observed in Finland and Sweden, but the most pro-poor benefit systems were identified in Australia, Denmark and the U.K. More importantly, similar to Kenworthy, they found that there was no clear relationship between targeting and redistributive impact.

Marx and colleagues took the analysis further by decomposing the concentration coefficient for different categories of cash transfers. Unsurprisingly, they found that social assistance transfers (safety-net benefits which are by definition targeted at the groups with little or no market income) are much more redistributive than any other benefit. More importantly, they account for a significant portion of systems' overall progressivity. Indeed, when these safety-net benefits are excluded, there is no clear correlation between the extent of targeting and a system's redistributive impact. This study did find a positive correlation between universalism and generosity, as predicted by Korpi and Palme, but much weaker than anticipated.

Marx and colleagues point out that the larger size of the sample definitely had an effect on the key finding of their study - the disappearance of the correlation between universalism and redistributive impact. The additional countries, especially the southern European ones had rather large social spending, but much weaker targeting than the countries included in the original analysis. This alone however is not sufficient for explaining this considerable shift. The authors consider that part of the answer lies in recent changes in many means-tested programmes. In response to harsh criticisms about the perverse behavioural incentives of means-tested schemes, policy makers have used a combination of sticks (e.g. limits on duration of benefits) and carrots (e.g. lower tapering rate) to encourage beneficiaries to work. More importantly, many programmes have been expanded to encompass not just unemployed, but also employed, people on low incomes. Together these factors have resulted in more positive attitudes towards some means-tested programmes

and arguably more funding. Moreover, expansion of the programmes has most likely protected many low-income employed households from sliding into poverty.

Another important issue that needs to be taken into account when exploring the link between social spending and poverty is that gross social spending is not a very accurate measure of government's social efforts. Some countries rely more heavily on mandating private welfare arrangements than others, but this is not reflected in social expenditure figures (Kwon, 1997). Also, in some countries social transfers are taxed, hence the net amount received by beneficiaries may be considerably lower than implied by the gross figure. Moreover, despite considerable similarities in the level of economic development, there are important differences in demographic and macroeconomic characteristics within the OECD, and even within western European, countries. These also have important implications as larger spending may simply reflect a higher unemployment or a larger proportion of elderly. A recent study by Caminada and colleagues (2010) tries to address these problems by using net social spending and controlling for the effects of unemployment, ratio of elderly, and GDP per capita, when assessing the correlation between welfare spending and poverty. Using this more refined methodology and LIS, OECD and SOCX data, the authors assert that: 'the familiar claim that higher social expenditure goes along with lower poverty levels does *not* hold across the 28 examined countries' (ibid, p.27).

3 HOW DOES THE U.K. COMPARE WITH OTHER WELFARE STATES?

In the light of these findings it is interesting to explore how the U.K. compares with the other advanced welfare states in three important aspects: the size of redistributive budget, the level of targeting and the achieved reduction in poverty.

On the first dimension the U.K. scores below the average. According to Whiteford (2008), cash benefits accounted for 14.5 per cent of an average British household's disposable income, while the OECD average was 21.9 per cent. Also, in Marx and colleagues' analysis, Britain scored one of the lowest in social transfers as a percentage of gross income.

While total spending on transfers is thus relatively low, Britain is quite successful in targeting it on poor households. Whiteford identified the British system as one of the most progressive in both transfer provision and taxation. Because of this the U.K. achieved the same level of redistribution as Germany, where social transfers constitute almost twice as high a share of households' disposable income (28.2 per cent). In his analysis the UK was also among the leaders in targeting resources at poor households as 31 per cent of all transfers went to the bottom quintile. Similarly, Maitre and colleagues (2005) pointed out that 97.6 per cent of pre-transfer British poor households received some form of cash transfers. Marx and colleagues also identified the UK as one of the top performers in redistributing towards poor households and pointed out that British social assistance transfers accounted for more than half of this effect.

Another way of assessing the progressivity of the British tax and benefit system is to examine the national data. The Office for National Statistics (ONS) provides relevant data disaggregated at the level of income quintiles for each major cash transfer, social service and tax. In 2012 21.3 per cent of British people were estimated to be poor (after housing costs) against the conventional 60 per cent of the equivalised median income (IFS, 2012). Hence the bottom quintile almost fully corresponds to the share of poor households in the country, after redistribution.

As Table 1 shows the British tax and benefit system is progressive. It considerably reduces inequality between households at risk of poverty and the rest: the ratio of the latter's disposable income over the former's is three compared to seven by market incomes. Contributory benefits pay a close-to-average amount to poor households in absolute terms, but this represents a much larger than average share of their incomes. Non-contributory benefits are much more progressive: an average poor household gets £1,889 more a year than a non-poor one. The inequality is further reduced by direct taxes, as non-poor families pay seven times as much in absolute terms.

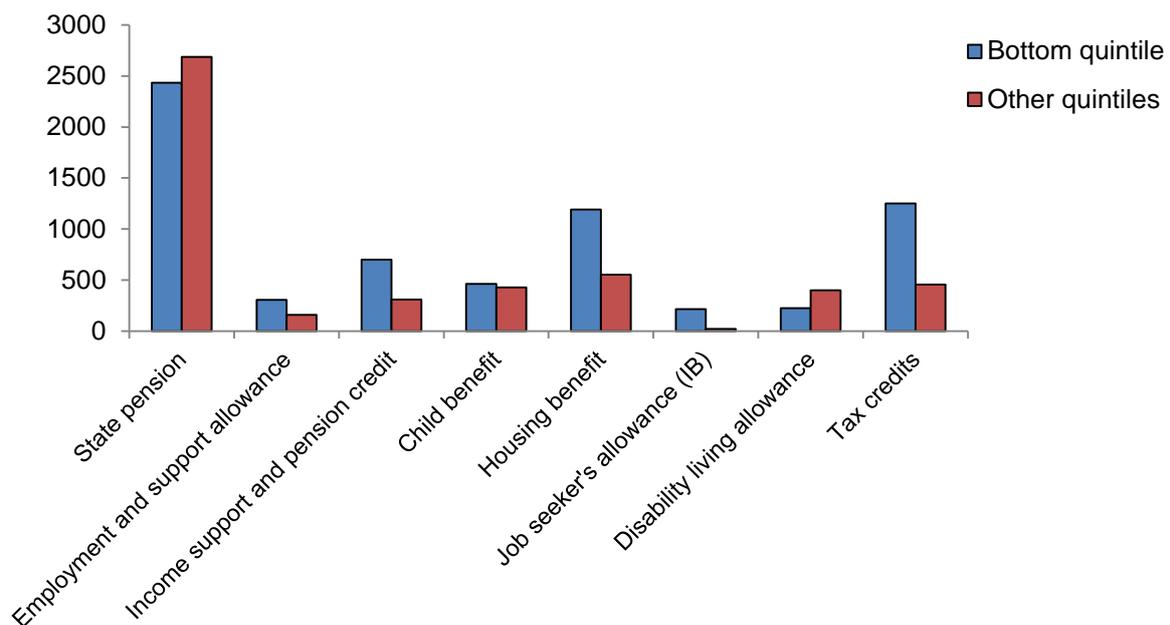
Table 1 The average value of cash transfers received by different income groups, 2011/2012, £

	Bottom quintile		Other quintiles (average)		Average	
	Absolute	% of disposable income	Absolute	% of disposable income	Absolute	% of gross disposable income
Market income	5436	42.2%	37987	87.1%	31477	84.0%
Contributory transfers	2884	22.4%	3000	6.9%	2976	7.9%
Non-contributory transfers	4535	35.2%	2620	6.0%	3003	8.0%
Gross income	12885	100.0%	43607	100.0%	37456	100.0%
Taxes	1306	10.1%	8959	20.5%	7428	19.8%
Disposable income	11549	89.6%	34648	79.5%	30028	80.2%

Source: ONS (2013)

The ONS data also allow us to compare the average value of different transfers and to what extent they are weighted toward poor households (Figure 1). All four means-tested programmes - Income Support/Pension Credit, Housing benefit, income-based Job Seeker's Allowance and tax credits - are clearly pro-poor. Particularly important are housing benefits and tax credits, each accounting for over ten per cent of poor households' disposable incomes. The three main transfers in Figure 1 that are not income-tested show different patterns. Child Benefit and the state pension pay similar average amounts, in absolute terms, to poor and non-poor households. But Incapacity Benefit paid on average nearly twice as much to the former than to the latter, reflecting the fact that it goes to individuals who are not working - although some may have high household income from other sources.

Figure 1 The average values of selected cash transfers, 2011/2012, £

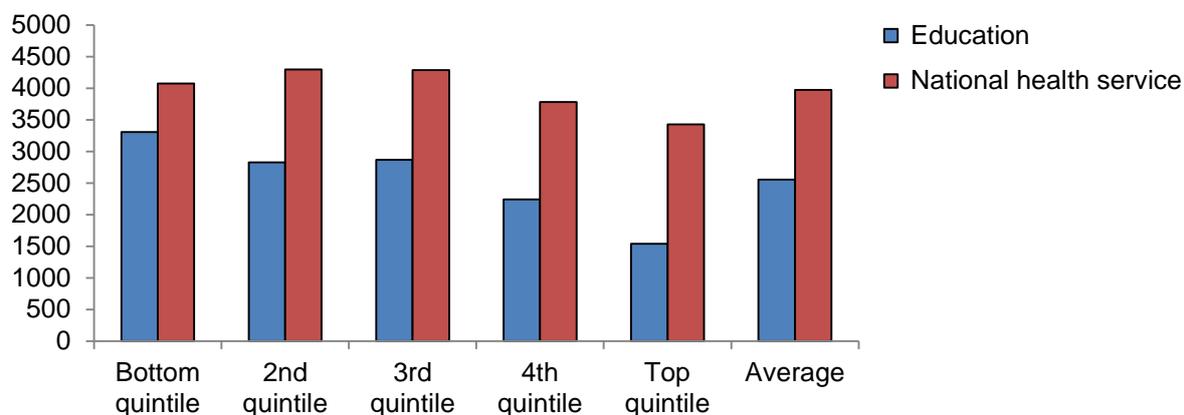


² Source: ONS (2013)

Furthermore, the data also confirms Sefton's findings noted above: both NHS and education services are progressive. However, in case of NHS, the second and the third quintiles benefit more than the bottom one (Figure 2).

² Note: this shows the average value of each benefit to every household in the relevant income quintile, not just those receiving the benefit.

Figure 2 The average values of health and education services, 2011/2012, £



Source: ONS (2013)

Finally, the most important issue is to what extent cash transfers reduce poverty in the UK. This is determined by the size of redistributive budget/social spending and targeting, but a third factor is also important - the pre-tax-transfer poverty rate and gap. Britain's poverty rate before government intervention is very close to the OECD average (OECD, 2013). According to Smeeding's (2005) analysis, the British welfare system reduced relative poverty (measured against 50 per cent of median income) from 31.8 to 12.3 per cent (p. 974). This was much higher than the average of the eight OECD countries included in the sample. Maitre and colleagues (2005) showed that social transfers lifted 43 per cent of poor households from poverty. This was higher than in southern European countries and Germany, but considerably lower than in Scandinavian and several continental European countries. According to the latest OECD (2013) data, in 2010 taxes and transfers halved the relative poverty rate (measured against 60 per cent of median income) from 35.4 to 17.2 per cent.

4 SUMMARY OF MAIN FINDINGS

This brief review of relevant literature and data allows us to draw several broad conclusions:

1 Despite the considerable volume of up-to-date research, the universal vs. means-tested debate is far from resolved. However, more recent studies appear to suggest that the previously established positive correlation between the universal systems, larger spending and higher redistribution may not hold true anymore. At present it is not very clear why this should be so, but three factors may help to partially explain it. Firstly, the original thesis developed by Korpi and Palme was certainly influenced by the small number of cases included in the analysis. Secondly, the earlier analysis ignored the tax systems, which, when taken into account, considerably alter the redistributive profiles of different welfare states. Thirdly, as Marx and colleagues speculate, stricter conditionalities and expanding the coverage to incorporate low-earners has improved the reputation and more importantly the funding of means-tested programmes. Nevertheless, whatever the reasons are, this has a major implication for the strategies of pro-poor interest groups: simply lobbying for more universal measures may not yield the anticipated progress in reducing poverty.

2 Considerable differences persist in the level of redistribution and poverty reduction achieved by different advanced economies. To some extent these differences can be explained by welfare regime types. For example, Nordic countries are clearly more effective than other countries with a similar level of social spending. Nevertheless, in almost every study two countries stand out as particularly successful in redistribution - Australia and Denmark - which are complete opposites according to major taxonomies of welfare regimes. For example, in Esping-Andersen's seminal study (1990) Denmark is placed in the most advanced 'social-democratic' group, while Australia belongs to the least generous 'liberal' welfare cluster. Similarly, Frank Castles and Deborah Mitchell (1993) identify the Danish system with the 'non-right hegemony' regimes, shaped by strong labour movements and left-wing parties, while Australia is assessed as a 'radical' type, distinguished by the inability of left-wing parties to dominate government. Despite the general

differences, what makes these countries similarly effective in redistribution is an extensive use of means-testing. There is other evidence too that the level of targeting is no less important than the size of redistributive budget. For example, the U.K. achieves almost the same level of redistribution and is more effective in reducing poverty than Germany which has a considerably larger spending.

3 There is also evidence that simply increasing social spending within existing systems may not necessarily result in large poverty reduction. That is because the redistributive profiles of different cash transfers matter. Despite all their limitations, selective transfers, especially the social assistance ones (which by definition are means-tested), are the most redistributive and account for a large proportion of the overall progressivity of the systems. Also, as Marx and colleagues point out, the better targeted the social assistance transfers are, the more redistribution is achieved. In contrast, targeting of other transfers does not necessarily lead to more redistribution. Looking at cash transfers from a functional prism, targeting of family benefits in general leads to more redistribution, but the same is not true for old-age pensions or other active age transfers, such as sickness or unemployment transfers. Whiteford also points out that means-tested benefits, such as housing benefits and social assistance transfers, are clearly more progressive than other benefits.

4 Compared to other countries, the UK is a medium performer in reducing poverty. Its relative size of redistributive budget is smaller than the OECD average, but this is compensated by better-than-average targeting of poor households. In addition, the direct taxes in Britain are more progressive than in most other countries. Overall, the cash transfer system reaches almost all of poor households, but it manages to lift only four out of ten above the poverty line.

Looking specifically at distributional effects of the main cash benefits, most transfers are progressive in the sense that the average amount received by the bottom quintile (which roughly corresponds to the share of poor in population) is higher than the average received by the rest. However, the most progressive programmes are housing benefits and tax credits, with each accounting for almost ten per cent of the bottom quintile's disposable income. We should also note that no matter which threshold is used, the overall level of poverty in the UK remains large.

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