

The Paradox of Redistribution Revisited

Ive Marx

University of Antwerp

Gerlinde Verbist

University of Antwerp

While in theory low or moderate levels of social spending would produce low poverty rates if resources were well-targeted, there is a strong empirical relationship at country level between the level of social spending and the incidence of poverty. No advanced economy achieves a low (relative) poverty rate with a low level of social spending. Some countries achieve better 'efficiency' (i.e. poverty is reduced more for each Euro spent) through targeting more on low-income groups. However, because 'targeting' and 'effort' tend to be negatively related, targeted systems tend to have a weaker overall effect than universal systems. Korpi and Palme (1998) called this the 'paradox of redistribution'. Yet analysis on the most recent available cross-country data seems to suggest that the negative relationship between targeting and poverty reduction effectiveness that Korpi and Palme established for the mid 1980s may be weakening (Kenworthy 2012). It is worth looking closer at this. We hypothesize that this may be due to the changing nature of targeting. One of the factors that arguably made targeted systems less politically robust and prone to spending cuts in the 1980s was the fact that strongly targeted (means-tested) benefits entailed strong work disincentives. The last decades have seen an intensified attention to this issue. To reduce work disincentives, earnings disregards have been introduced for people who make a (partial) transition from complete benefit dependency to part-time work. In addition, targeted benefits are no longer only aimed at people not in work, but also at those in work in low-paid jobs (sometimes in the same programme, as in the French rSa). People on targeted benefits have also become the focus of intensified monitoring, activation and sometimes sanctioning efforts. This paper sets out this argument and documents how targeted benefits have changed, with a particular focus on elements that can be deemed particularly relevant for the level of public support. Using the European tax-benefit model EUROMOD we will also analyse how changes in the design of targeted benefits have affected the redistributive impact of systems and their anti-poverty effectiveness. More specifically, we simulate for a selection of European countries the effect of existing and alternative measures of earnings disregard on poverty, inequality and work incentives. We thus revisit the alleged trade-off between targeting and poverty reduction effectiveness.