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# Luxembourg Income Study Working Paper Series

Working Paper No. 145

Universality and Selectivity in Income Support:  
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Sheila Shaver

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# **Universality and Selectivity in Income Support:**

## **An Assessment of the Issues**

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## 1 Introduction

The scale of social expenditure in advanced industrial countries has been in question since the 1980s. This questioning is not new, even since the 1970s, but deep-rooted changes in economies and societies have given it new political force. These include slow growth, higher levels of unemployment, ageing populations, high rates of marriage dissolution, rising levels of female labour force participation, and new patterns of immigration. By the 1980s, active moves were underway in many countries to restructure social policy institutions to reshape their role and restrain their growth. Reflecting these developments, the OECD (1994) has called for 'new orientations in social policy in which government is to serve not as the 'provider of largess' but in partnership with the active, self-sustaining individual. The support of ageing populations has been a primary focus of these concerns, with both the OECD and the World Bank (1994) pointing to the fiscal pressures of growing numbers of old and very old people in many countries.

One important effect of these concerns has been to renew interest in the distribution of benefit income and in particular in the role of universality and selectivity in income support measures. Both the OECD (1994: 11-14) and the World Bank (1994: 152-153) see measures to increase selectivity – narrowing rules of eligibility, targeting benefits to low income groups, flattening benefit rates, clawing back benefits through taxation – as playing an increasing role in income support in the future.

It is timely to review the issues and debates around universality and selectivity in income support. This paper presents such a review, examining the claims made for selectivity in its most overt form, benefits administered through a test of means, in the light of their outcomes in the incomes of the aged. The research compares the income support systems of six countries whose income support systems give varying weight to the principles of universality and selectivity. The countries concerned are Australia, (West) Germany, Norway, Sweden, the United Kingdom and the United States.

While the arguments of the 1960s and 1970s about universality and selectivity were shaped by the portrayal of selectivity as a vestige of the past and the poor law, those of the 1980s and 1990s have been driven by the case to be made for it in the constrained circumstances of the future. In the process, the debates give greater prominence to the economic and less to the social dimensions of the contrast between universality and selectivity than the discussions of the earlier period. Contemporary arguments in favour of selective payments stress their capacity to direct expenditure to those with greatest need, and hence to operate with comparatively low levels of social expenditure and minimal disturbance of the processes of the market economy.

These arguments have been put particularly forcefully in Australia, where income support is almost wholly selective.

The selectivist approach has been defended in the past in Australia on the grounds that it ensures a more effective redistribution of resources to those in greatest need. The poverty alleviation objective is thereby achieved at minimum cost to the budget and, by implication, to taxpayers generally.... Furthermore, in a situation where overall fiscal restraint places constraints on the growth of social expenditure, the arguments for increased selectivity seem even more compelling. This is usually justified on the grounds that the redistributive impact of a given volume of expenditure will be greater the more effectively benefits are targeted on

those in greatest need. Selective or targeted benefits thus permit 'restraint with equity' to be achieved in practice. (Saunders, 1994: 45)

In reply, Saunders (1994: 45) observes that the argument on selectivity is predicated on the assumption that the volume of funds available for redistribution depends on the willingness of taxpayers to finance a social role for government. He suggests that an undue emphasis on targeting may in fact serve to undermine public support for social security, reducing the level of social security expenditure in the longer term. It is recognised that selectivist approaches are likely to encounter problems with respect to incentives to work or to save, and may create poverty traps, and proponents of greater universalism stress the role universal payments can play in maintaining incentives to work. (Whiteford, Bradbury and Saunders, 1989).

From the 1980s provisions for income support in old age, everywhere a major source of public social welfare expenditure, have come under increasing scrutiny (Friedmann, 1987: 247). Nevertheless the aged have generally fared better than able-bodied workers (Morris, 1988: 12). According to Morris (1988: 22-25), there is widespread acceptance of the proposition that public benefits should be more closely targeted upon those who need them most. Reviewing nine countries<sup>1</sup>, he suggests that a marginal movement towards means-testing was underway in the 1980s, often under the cloak of social insurance. While only marginal, this movement was proving sufficient to damp further advances in universal benefits. In a more recent review of trends in pension reform in the OECD countries since the early 1980s, Myles and Quadagno (1996) argue that while there has been a common pattern of constraint it has taken different form in the 'Beveridge' and 'Bismarck' countries. The former, relying on basic security programs as the major pension vehicle, have adopted a tax/transfer model of reform in which benefits are increasingly being means-tested and the link between contributions and benefits weakened. The latter, relying mainly on earnings-related social insurance programs, have seen the link between contributions and benefits tightened. Taylor-Gooby, George and Bonoli (1995) report there being strong support for targeting among policy-makers in six European countries, though principally for its application to family benefits. There was support for increased targeting of retirement provisions in the two countries having flat-rate benefits.<sup>2</sup>

In actuality universal and selective income support instruments have been differently developed from country to country, and moreover the income support systems of most countries combine elements of several kinds. Some writers now argue that outcomes are relatively independent of instruments, and that it is only outcomes that matter. Welfare states, they argue, should be compared in terms of their performances, measured in the achievement of low levels of poverty and moderation of income inequality. Ringen (1987: 7-14), for example, argues that the size of the welfare state is a more meaningful indicator than is the use of universality or selectivity in its programs. Mitchell (1991) examined the tax and transfer systems of ten welfare states with respect to their efficiency and effectiveness in reducing income poverty and inequality. Her data relate to the period around 1980. She dismisses the conventional wisdom about the relative merits of universality and selectivity in benefit administration as unfounded. On the basis of her research there is no clear and necessary association between the universality or selectivity of benefits and either effectiveness or efficiency.

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1 The countries reviewed were Britain, Sweden, West Germany, Austria, Italy, Yugoslavia, Israel, Japan and the United States.

2 These were Denmark and the UK.

It may indeed be true that minimum material standards can be assured, and effective redistribution of income achieved, through a wide variety of transfer and taxation instruments. Nevertheless it is difficult to believe that the institutional contours of the welfare state are irrelevant, for they give the provision of welfare income its particular and variable social meaning. These contours are the stuff of welfare politics, having embodied in them ideas about individual behaviour, social justice, and the collective interests of social groups. It has also been argued that institutions have especial importance in welfare state politics of retrenchment (Pierson, 1994). The approach of the present study is to draw its hypotheses from the arguments about the role of institutional arrangements, but to treat their effects in terms of outcomes as a matter of empirical investigation.

The present study aims to weigh the substance of some of the claims made on behalf of universality and selectivity by comparing the outcomes of differing kinds of income support system in the incomes of aged people. Its approach is quantitative and comparative, exploring similarities and differences in the levels and distributions of income in countries whose arrangements give different weight to the principles of universality and selectivity. From debates about the relative merits of universality and selectivity in income support, four questions have been identified as important in the current context of welfare state development and social policy.

1. *What do universality and selectivity mean in practice in the income support systems of various countries?* Discussions of universality and selectivity have generally been conducted as a simple, one-dimensional contrast, but in actuality income support systems are far more complex. While selectivity can be unambiguously identified with means-tested benefit allocation, universality is variously associated with eligibility for benefits on the basis of social insurance and social citizenship. The income support systems of most countries combine at least two and often three of these elements. An associated question concerns the relative importance of universal and selective benefits in gross income and the relationship between benefit and non-benefit income associated with different types of income support arrangement.
2. *Are selective income support arrangements more effective than universal ones in ensuring low levels of poverty?* The central claim made on behalf of selective benefits is that they ensure that resources are directed to those who need them most. The research is accordingly concerned with comparisons of the relative size of the group below various poverty standards.
3. *Is it true that selective income support arrangements concentrate social expenditure on those with least other income, and that in doing so achieve greater redistribution in favour of low income group than universal arrangements?* This question allows fuller examination of the claim that selectivity is more effective than universality in directing benefits to those who need them most, and that the achievement of greater redistribution in favour of low income groups belies the apparent residualism of means-tested benefits. Selective income support arrangements typically involve lower levels of social expenditure than universal systems, hence an important associated question is, *do selective income support arrangements achieve a given level of redistribution of income more efficiently than universal ones?*
4. *Is it true that benefit levels are less generous under selective than universal income support arrangements?* Poverty alleviation depends not only on directing benefits to those who need them but on providing large enough benefits to raise income to an

adequate standard. It is often said that benefits to the poor are poor benefits, and that in concentrating benefits on low income groups selective benefits fail to secure the political support of middle income taxpayers for social expenditure.

The contrast between universality and selectivity has been framed in a variety of ways. Some writers (Myles and Quadagno, 1996) distinguish between the Bismarck and Beveridge traditions of wage-related and flat-rate provision, both of which are typically underpinned by social assistance. The 'power resources' school combines the contrast between selective or means-tested and universal payments on the basis of citizenship or residence with a second dimension referring to the capacity of the benefit system to displace the forces of the private market. This approach lies behind Esping-Andersen's (1990) typology of 'liberal', 'corporatist' and 'social democratic' welfare states. Korpi and Palme (1996) include it in a wider typology of social insurance institutions ranging from 'targeted' income support systems such as the Australian to 'encompassing' arrangements of the kind found in Scandinavia. These typologies aim to capture both the political and the economic dimensions of pension systems. The present research is more narrowly concerned with the distributive character of universal and selective instruments, for which a simpler approach is appropriate. This approach gives less weight to the distinction between citizenship-based and wage-related provisions than to the distinction between benefits which are targeted on low income groups and those provided on an inclusive basis, whether or not this is income-related.

Selectivity itself can be understood in a number of ways, but for present purposes has been identified with the allocation of benefits on the basis of a test of means. As often observed (Ringen, 1987; Mitchell, 1991; Saunders, 1994), the relation of benefit income to need can be secured through a great variety of mechanisms, including categorical rules of eligibility and tax clawbacks as well as means-testing. Means-tested allocation is, however, the most overt and direct form of selectivity in income support. It has attracted the greatest controversy (Townsend, 1968: 3-4), and its use has been growing in recent years.

In principle, the debates about the relative virtues of universality and selectivity apply across most of the broad range of welfare state programs. This study is limited to income support programs for the aged. Universality, selectivity, and welfare state forms more generally find their strongest expression in old age pension systems, which also account for the largest share of their resources. Old age has long been identified as one of the two life cycle periods when the risk of poverty is greatest (Hedstrom and Ringen, 1990: 77). Old age pensions thus provide an appropriate area of focus for an examination of the claims made on behalf of various forms of income support provision.

## **2 Methodology and Background**

The study has drawn on the international data sets developed by the Luxembourg Income Study (LIS) (Smeeding *et al.*, 1990; Mitchell, 1991). Six countries included in LIS have been chosen as giving expression to universality and selectivity to various degrees and in the context of larger pension systems of different kinds. These are Australia, (West) Germany, the United States, the United Kingdom, Norway and Sweden. All have data available from the 'second wave' of LIS covering years in the mid 1980s, between 1984 and 1987 in the case of these six countries.

With almost all pensions subject to a test of means, Australia was an appropriate exemplar of selectivity. Norway and Sweden were chosen as exemplars of universality on the 'citizenship'

model. The United Kingdom was an interesting inclusion because it has close parallels with the Scandinavian countries in providing a universal, flat-rate allowance while also making substantial use of means-tested benefits. Germany and the United States were included as examples of universality based on wage-related social insurance. In fact, the public pension schemes of these six countries typically combine elements of two or three of these principles. While universality is the dominant principle in five of the countries, there are also means tested elements in all of these.

Personal and income data for aged persons were taken from the LIS data set for each of these six countries. The population to be included from each country comprised aged individuals or couples. Among these, the populations were further limited to aged persons and couples in households where there were no other people present. This maximised the opportunity to compare like with like, but at the same time may have understated poverty by excluding individuals and couples whose low incomes force them to live with others. Individuals and couples whose gross incomes were zero or negative were also excluded.

In setting a lower age limit for inclusion in the study population it was necessary to compromise between the goals of having as large a population as possible and representing the population eligible for income support in each country. In the result, the age of 65 was chosen. By this age both men and women were eligible for income support in five of the six countries, and the population to be included in these was defined as individuals and couples with the head aged 65 or more at the time of the survey. This definition was varied in the case of Norway where pension eligibility commences at age 67, and the population there defined as individuals or couples with heads aged 67 or more.

Data were analysed on an income unit basis. The income unit, comprising a single adult or couple and their dependent children, was chosen as the unit of analysis because it broadly corresponds with the framework of income support systems in most countries. This paper focuses on two particular types of income unit, married couples and single females. These have been chosen as representing the types of income unit which are most common among aged people. They also capture important variations in the effects of different income support systems on income in old age, including the higher incidence of poverty among single aged women in many countries (Smeeding, Torrey and Rainwater, 1993: 12).

In order to keep the analysis as simple as possible, incomes have been compared only with those of other income units of the same type in the same country. Thus the benefit and other incomes of couples are compared with those of other couples, rather than with those of all aged income units in the same country. This has avoided the need to use equivalence scales, to which some of the comparisons undertaken are very sensitive. In consequence, however, the opportunity to compare the incomes of aged couples and single women with each other has been reduced. Nor has it been possible to avoid the use of equivalence scales altogether. These were required for analysis of poverty rates among the aged in the six countries, where the incomes of aged couples and single women had to be compared to those of the general population of the same country. Wherever possible the definitions of variables used in data analysis have followed standard LIS conventions. The main exception concerned Australian income from public pensions, which was recoded as a means-tested rather than social insurance transfer.

The model of income used in the study distinguishes private income, including private pensions, from income received as cash social benefits through the transfer system, and also distinguishes benefits from taxation. The model portrays the process of income formation as taking place in a



succession of stages. The first two stages consist of *factor income*, including income from employment and self-employment and income from property, and *market income*, defined as factor income plus income from private pensions. *Gross income* is the sum of market income and income from transfers, within which social insurance and means-tested transfers have been distinguished.<sup>3</sup> Finally, *disposable (net) income* is defined as gross income less payroll and direct taxes, including social security contributions. The strength of this model is its capacity to elucidate the role of public transfers and taxes in modifying the distribution of income from private sources (Mitchell, 1991: 15). It is, however, less than perfect in providing a 'counterfactual' against which to compare the redistributive effects of public transfers. This is because it assumes that the receipt of private income is independent of the nature and level of public support, when in practice these are interdependent. Because interactions between public and private income are likely to vary from country to country this weakness has to be borne in mind when considering Inter-country comparisons.

National variations in the LIS data sets for Germany and Sweden have had some effect on the comparisons presented. In general, LIS data sets identify income from private occupational pensions, a component of market income, separately from income from social insurance transfers and are then one of the components added in the step from market to gross income. In the German and Swedish data sets, however, income from private pensions is not separately shown but lumped in with income from social insurance transfers. The effect of this is to understate factor income and overstate the contribution of social insurance transfers in these countries as compared with others. These variations are more serious in the case of Germany, where private pension coverage is voluntary and largely limited to salaried workers, than to Sweden, where it is collectively agreed (Pestieau, 1992: 34-38). The implications of these variations for the interpretation of comparative evidence are noted in the text as relevant.

### **3 Income Support To The Aged In The Mid 1980s**

This section describes provisions for income support to the aged in these six countries. These descriptions have been drawn mainly from Flora (1986, 1987), the OECD (1988a), and the LIS Institutional Database. They apply to the income support systems of the six countries as they operated in the mid-1980s.

#### **3.1 Australia**

Income support to the aged in Australia is designed to ensure a minimum standard of income for aged individuals and couples without private resources. The age pension is payable at the age of 65 for males and 60 for females. There is also a service pension payable to those with eligible war service, on much the same basis as the standard age pension but available five years earlier. Alternatively, there are pensions paid in respect of war service or related injury. These latter pensions are paid free of any means test.

Australian pensions are funded from general revenue, and there are no contributory requirements. In principle all persons of the requisite age and who have resided in Australia for at least ten years are eligible to receive a pension. Actual entitlement, however, is subject to a

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3 Income from private transfers and 'other' income are also included in gross income. These have little significance in the incomes of the aged in the countries concerned.

means test applied to the combined incomes and assets of husbands and wives (but does not take into account the resources of children or other relatives). Benefits are flat-rate for those fully entitled, but may be reduced by the effect of means tests.

Separate tests apply to assets and income. The assets test excludes owner occupied housing and assets up to a ceiling figure, which is lower in the case of home-owners than non-owners, and provides for the rate of pension paid to be reduced where assets are above this figure. In comparison with the means-tested provisions of other countries these tests are unusually generous in the level of means permitted to eligible claimants.

### 3.2 (West) Germany

German social provision is framed in the terms of the ‘social market economy’, in which the ‘social state’ has a positive responsibility to ensure a decent standard of living and social justice, including income security. In this conception, the state is not responsible for promoting material equality among its citizens. Benefits are designed to preserve relativities of status and income between social groups over the life cycle (Zapf, 1986:132; Alber, 1986: Vol. I, 4).

Income support in old age is provided through compulsory social insurance. While coverage of employed persons and their dependants is comprehensive, provision itself is fragmented among a series of parallel occupational funds. Provisions are funded through contributions by employees and employers, with a further subsidy from government. Old age pensions are strongly earnings-related. The amount of pension payable is a function of the contribution record and the level of earnings of the insured person. There is no minimum benefit. Many employers also offer supplementary private pension plans providing additional benefits in retirement or disablement or to survivors.

German social insurance is underpinned by means-tested social assistance funded by local and state government and administered by local authorities. Cash benefits are granted on a regular basis, or as a lump sum to meet a specific need.<sup>4</sup>

### 3.3 Norway

The income support arrangements of Norway and Sweden exemplify the ‘Scandinavian model’ (Erikson, Hansen, Ringen and Uusitalo, 1987: vii-viii) of the welfare state, the hallmarks of which are universalism and egalitarianism. As in the UK, income support provisions for the aged have three tiers of provision. In Norway these comprise a minimum, flat-rate pension provided to all citizens and additional earnings-related social insurance, underpinned with means-tested social assistance. Private occupational pension schemes also operate in Norway.

The basic pension is a universal flat-rate entitlement available to all residents from the age of 67. Entitlement to a full pension requires residence of 40 years after the age of 16, but a reduced pension is payable after a minimum period of residence of three years. Employees and self-employed workers earning over a basic amount are also covered by a supplementary insurance

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4 The cost of nursing home residence is supported through means-tested provisions. The residents of institutions are not included in the LIS datasets, hence the coverage of means-tested benefits is understated in the analysis that follows.

scheme providing earnings-related benefits. The scheme is compulsory for all those earning over a basic amount for a minimum period of three years. Age pensions are funded from contributions by employees, employers and government. The level of the basic pension is set annually by parliament and is not indexed automatically. The supplementary wage-related benefit is based on the level of earnings and the number of contribution years.

Some supplements to social insurance benefits are means-tested. The most important of these are housing benefits and the spousal supplement payable if only one of the spouses receives a pension (Nordic Social-Statistical Committee, 1990: 44). National Insurance provision is also underpinned by means-tested social assistance through municipal government.

### **3.4 Sweden**

Like Norway and the UK, Sweden arranges income support to the aged in three tiers. The basic pension provides universal, flat-rate coverage to all persons aged over 16 years. A minimum pension requires residence in Sweden for three years or more. The pension is normally payable from the age of 65, but reduced benefits may be drawn from the age of 60. The basic pension scheme is financed by contributions from employers, central government and municipal government.

In addition, coverage in the earnings-related insurance scheme for National Supplementary Pension (ATP) is mandatory for all employees. Self-employed persons have the right to contract out of supplementary insurance. Supplementary pensions are payable to persons who have earned more than a defined amount for at least three years. Except for contributions from the self-employed, the scheme is wholly funded from contributions by employers. The amount of supplementary, earnings-related pension payable depends on income earned in previous years and the number of years of employment. In addition, retirement provision in Sweden includes occupational superannuation schemes established by collective agreement.

Universal and earnings-related provisions are supplemented by several means-tested elements. Pensioners eligible for only the basic pension are also eligible for means-tested benefits in the form of a supplement for a dependent wife and for a municipal housing allowance. Social assistance provides for people not otherwise covered or where benefits are insufficient.

### **3.5 United Kingdom**

The UK has evolved three tiers of income support to the aged. These are contributory national insurance, providing flat-rate social insurance benefits, a thin layer of supplementary earnings-related insurance, and a safety net of means-tested benefits. Income support in old age is understood as an entitlement to a basic income, available as of right, but designed so as to ensure scope for the reward of effort in employment and saving.

National insurance is compulsory for all employees, including the self-employed, though coverage is optional for employees earning less than the minimum weekly income level and for some self-employed persons. Contributions of employers and employees are earnings-related, subject to a maximum contribution level, with funding supplemented by government. Additional earnings-related coverage is provided through SERPS, with employers having the option of 'contracting out' their employees for equal or better protection through a regulated private fund. Most companies operate private pension arrangements for some or all of their employees.

The retirement pension covers men aged 65 and women aged 60 years or more. National insurance benefits are flat-rate, and entitlement depends on the number of years for which minimum contributions were paid and the length of working life. Partial pensions may be paid, but no pension is payable if entitlement is less than one quarter of the full pension. Social insurance is underpinned by a third tier of social assistance, through which income support and housing benefits are provided to the aged subject to means tests on income and assets.

### **3.6 United States**

American income support in old age is provided through universal compulsory social insurance. American ‘social security’ covers those in the labour market, their spouses and survivors. Amendments in 1983 reduced a series of historical exclusions, but casual agricultural and domestic workers remain uncovered. Eligibility depends on past employment and contributions, with benefits payable from age 65 (62 subject to an earnings test) for both men and women. Private pensions are widespread in the US for both salaried and hourly workers, and for unionised workers often form part of wage and salary bargaining.

The social security program is funded largely from matching contributions by employers and employees. To qualify for benefits an individual must have met minimum contribution requirements approximately equivalent to ten years’ of contributions. Benefits are earnings-related, but the benefit formula is weighted so that low income groups receive a higher proportion of their pre-retirement income than do middle and high income groups. In addition benefits are subject to a maximum limit. An additional amount is payable with respect to a dependent spouse aged 65 or more.

Social insurance is underpinned by social assistance pensions which are means tested on income and assets. Further social assistance is available in the form of food stamps, subject to tests of income and assets.

## **4 Outcomes of Universality and Selectivity in the Incomes of the Aged**

As has been noted, the frameworks of actual income support systems are much more complex than is often recognised in the debates about universality and selectivity in income support. While selectivity can be unambiguously identified with means-tested benefit allocation, universality is variously associated with eligibility for benefits on the basis of social insurance and social citizenship. The income support systems of most countries combine at least two and often three of these elements. Moreover, these elements interact with income from other sources, so that the relative importance of universality and selectivity in income support arrangements also depends on (and in turn influences) the balance of income from public and private sources in the overall incomes of the aged in each country. Thus it is useful to begin with descriptive comparisons of the roles of universal and selective benefits and their place in the larger composition of income among the aged in the six countries.

### **4.1 Coverage**

The most direct expressions of universality and selectivity in income support lie in the spread of income from benefits of these kinds across the relevant population in each country. Claims made for universality have linked it with the shared status and experience of entitlement, while those

made for selectivity have identified that principle with targeting and relative need. The coverage of benefits of each type, i.e. the proportion of the eligible population who receive income from a universal or selective benefit, gives an indication of the importance of each kind of benefit in the income support systems of the six countries.

Table 1 below shows the coverage of universal and selective forms of income support in the six countries. The first row of the table presents the proportions of aged couples and single females living alone who had received income of any amount from a social transfer payment in the survey period, including both universal and selective benefits. The table shows that the receipt of transfer income in old age approaches universality in all countries with the exception of Australia. Australian income support is provided on an overtly selective basis, and only three couples in four had income from a pension or benefit, compared to 95 per cent or more of couples in all other countries. It is notable that there was very little difference between the proportions of couples receiving income from public transfers in the social insurance countries, Germany and the US, and in those countries in which social insurance comes on top of a universal benefit, the UK, Norway and Sweden.

In all countries, the receipt of transfer income in old age was an even more universal experience among single females than couples. This group includes both women receiving retirement income in their own right and widows having entitlements as the survivors of their husbands. The greater universality of receipt says nothing about the level of such benefits, but only that the experience of claiming and receiving them is very widely shared.

The second row of the table shows the coverage of universal benefits in the six countries. These include both contributory social insurance payments and transfers made on the basis of residence or citizenship. The coverage of universal benefits was virtually identical with that of social transfers as a whole, reflecting the reliance on benefits based on social insurance or citizenship as the basis of income support in all the countries except Australia. The only exception to this pattern is found among single females in the United States, where there were some women not receiving any income from social insurance transfers.

The coverage of means-tested benefits is shown in the third row of the table, and here there was much greater variation among the six countries. The spread of means-tested benefits was much wider in Australia than in the other countries, but receipt of these benefits was also widespread in the UK. Proportions of couples and single women receiving means-tested benefits were smallest in Germany and the United States, where the basis of universal income support is social insurance.

The receipt of selective transfers was generally more common in the three countries whose income support systems combine flat-rate benefits with wage-related social insurance. In all six countries the coverage of means-tested benefits was markedly higher among single women than couples.

**Table 1: Income Support Coverage: Percentages Receiving Income from Social Insurance and Means-Tested Transfers<sup>(a)</sup>, Aged Couples and Single Females**

	Australia <sup>(b)</sup>		(West) Germany		United States		United Kingdom		Norway		Sweden	
	(1985-6)		(1984)		(1986)		(1986)		(1986)		(1987)	
	C	SF	C	SF	C	SF	C	SF	C	SF	C	SF
Receives social transfer income of any kind <sup>(c)</sup>	75	91	97	99	95	97	99	100	98	99	100	100
Receives social insurance transfer income <sup>(d)</sup>	0	0	97	99	95	94	99	100	98	99	100	100
Receives means-tested transfer income <sup>(e)</sup>	75	91	3	12	5	18	43	74	18	27	13	49
Receives both social insurance and means-tested transfer income	0	0	3	12	5	15	43	74	18	26	13	49
Receives neither social nor means-tested transfer income	25	9	3	1	5	4	1	0	2	1	0	0

- Notes:**
- a) Income units with heads aged 65 or more (67 in Norway) and living in households with no other persons. Income figures are weighted and are based on weekly data for the United Kingdom and annual data for all other countries. Cases with negative or zero gross income have been excluded. C = couples, SF = single females.
  - b) Australian age pension recoded as a means-tested provision.
  - c) LIS variable soctrans.
  - d) LIS variable soci.
  - e) LIS variable meansi, includes means-tested near-cash benefits.

**Source:** Luxembourg Income Study database.

The fourth row of the table shows the percentages of couples and single women in each country who received both universal and selective transfers. These figures reflect the frequency with which means-tested benefits were used to supplement universal payments – as allowances for particular circumstances or to ‘top up’ low levels of entitlement, or as a safety net for those falling into gaps in the rules of eligibility for social insurance or citizenship payments. Australia aside, the proportions of those receiving means-tested payments closely matched the proportions receiving universal ones. This suggests that the predominant role of means-tested payments was to provide **supplementary** income, and that they were relatively little used as an **alternative** source of minimum income.

The last row of the table shows the proportions of aged couples and single females in each country receiving no income from transfers. Once again Australia stands out from the other countries, with one quarter of couples and almost one tenth of single women receiving neither universal nor selective forms of income support. The United States and Germany had somewhat

larger proportions not receiving income support than the remaining three countries. The proportions of couples not receiving income support were generally greater than those of single women.

These measures of coverage show Australian and to a lesser extent also UK income support as clearly more selective than the systems of the other four countries. Among those four, they show means-tested benefits playing a smaller part in the social insurance universalism of German and US income support than in the mixed systems of Norway and Sweden, where universalism is defined by residence. The receipt of means-tested income support provisions was more common in the supposedly universal systems of Scandinavia than is often supposed.

#### **4.2 The Significance of Transfers and the Composition of Income**

The importance of universality and selectivity in income support depends not only on how widely these types of benefit are shared among the population but also on how significantly such benefits figure in the overall incomes of their recipients. That is, the picture of selectivity and universality in the benefit systems of these two incomes needs to be put in the context of income composition. As Table 2 shows, transfers made up different shares of the total incomes of the aged in the six countries considered here.

The table shows the composition of income among aged couples and aged single women calculated on an 'average share' basis. This entailed finding the fraction of each income component in gross income for each individual or couple and calculating the average of these fractions. While it provides a useful summary picture of the income profiles of the aged in each country, it is also subject to some qualifications. As an average measure, it does not show differences in the extent to which low and high income groups depend on income from earnings, investment and public and private pensions in each country. It is also necessarily artificial in certain respects, showing 'average' shares of income from sources that are not normally combined in the income of a single individual or couple. This is the case, for example, in countries where a retirement test precludes an individual receiving income from both social insurance benefits and a wage or salary.

As Table 2 shows, on average factor income made up as much as one quarter of gross income of couples in the United States and Australia and one fifth in Norway. Factor income made up smaller parts of the gross incomes of the aged in Germany and the UK than in Norway and Sweden, and comparatively larger parts of the incomes of the aged in Australia and the US. In all countries except Sweden it was more important in the incomes of couples than of single women. While cash property income was by far the most important component of factor income in most countries, wages and salaries were important in the incomes of aged couples in Norway and the United States.

Employment-related pensions were a further source of private income in Australia, the UK and the US. Private pensions were much more important in the incomes of couples than of single women in all these countries. Private pensions added little to the private incomes of both aged couples and single women in Norway. As noted above, the LIS data set does not distinguish income from public and private pensions in Germany and Sweden, overstating somewhat the importance of public pensions in gross incomes in those countries.

**Table 2: Composition of Income: Average Share of Each Income Component in Gross Income, Aged Couples and Single Females (Percentages)**

	Australia (1985-6)		(West) Germany (1984)		United States (1986)		United Kingdom (1986)		Norway (1986)		Sweden (1987)	
	C	SF	C	SF	C	SF	C	SF	C	SF	C	SF
Wages and salaries	4	1	3	1	12	4	3	1	10	3	7	1
Self-employment income	3	1	3	1	2	-1	1	0	2	1	0	1
Cash property income	20	15	6	4	19	18	10	7	8	5	7	11
<b>FACTOR INCOME</b>	<b>26</b>	<b>16</b>	<b>13</b>	<b>5</b>	<b>33</b>	<b>20</b>	<b>14</b>	<b>8</b>	<b>20</b>	<b>9</b>	<b>15</b>	<b>12</b>
Employment related pensions	22	5	na	na	15	9	19	10	7	6	na	na
<b>MARKET INCOME</b>	<b>48</b>	<b>22</b>	<b>13</b>	<b>5</b>	<b>47</b>	<b>29</b>	<b>33</b>	<b>18</b>	<b>27</b>	<b>15</b>	<b>15</b>	<b>12</b>
Social insurance transfers	0	0	86	91	51	65	62	63	71	82	85	80
Means-tested transfers	50	77	1	3	1	5	5	18	1	2	1	8
Private transfers	0	0	0	1	0	0	0	0	0	0	0	0
Other income	2	1	0	0	0	0	0	0	1	0	0	0
<b>GROSS INCOME</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
Payroll taxes	0	0	1	0	1	0	0	0	3	1	na	na
Direct taxes	4	2	1	1	5	3	7	3	12	5	29	21
<b>DISPOSABLE (NET) INCOME</b>	<b>96</b>	<b>98</b>	<b>98</b>	<b>99</b>	<b>94</b>	<b>97</b>	<b>93</b>	<b>97</b>	<b>86</b>	<b>94</b>	<b>71</b>	<b>79</b>

**Notes:** Income units with heads aged 65 (67 in Norway) or more and living in households without other persons. Cases with negative or zero gross income have been excluded. Composition of income calculated using average share method. C = couples, SF = single females.

**Source:** Luxembourg Income Study database.

Social insurance (universal) transfers made up more than half of the gross incomes of the aged in all countries. These formed the largest share of income in Germany, Sweden and Norway, making up on average 86, 85 and 71 per cent of the gross incomes of couples respectively. At 65 per cent, social insurance transfers also formed the majority of income of aged couples in the UK, but were on average barely more than half the total incomes of couples in the United States. Because of their greater ages and lower factor incomes, social insurance transfers were more important in the incomes of aged single women than of couples in all countries except Sweden.

Calculated as a mean share in gross income, means-tested transfers were significant only in Australia and, to a lesser extent, the UK. Lacking the social insurance used in most other countries, the Australian income support system relied entirely on these benefits, means-tested



transfers making up on average half the total income of aged couples and 77 per cent of the income of single aged women. In the UK these transfers represented on average 5 per cent of the incomes of couples and 18 per cent of those of single women. In the other countries means-tested benefits played a negligible role in the incomes of aged couples or single women. As Table 1 showed, means-tested benefits went to quite large proportions of the aged in both Norway and Sweden. The marginal place of these benefits in the average composition of income suggests that these benefits typically had low values and/or were directed to a small number of recipients. The distribution of income from means-tested benefits will be discussed further below. In summary, transfer payments, whether provided on a universal or selective basis, made up much larger shares of the incomes of the aged in Germany, the United Kingdom and Sweden than they do in Australia and the United States. These consist almost entirely of universal benefits in Germany, Norway and Sweden. Selective benefits play a very large part in the incomes of the aged in Australia, and are also more important in the incomes of the UK aged than in other countries.

### **4.3 Degrees of Universality and Selectivity in Income Support**

Table 3 presents a typology of universality and selectivity in income support to the aged based on the type of income support system and the relative importance of means-tested transfers in the gross incomes of the aged. The classification of income support into basic, social insurance and mixed types follows OECD (1988a: 17) usage and reflects differences in the institutional character of income support arrangements. The patterns of coverage of universal and selective transfers discussed above broadly correspond to these types. The typology relates these to the average share of income from means-tested benefits in the gross incomes of aged couples and single females.

This typology identifies income support systems as more or less selective in terms of the importance of means-tested benefits in gross income. This gives an indication of the extent to which the aged depended on these benefits as compared with income from other sources, including universal benefits. It suggests that Australia stood apart from the other five countries in the selectivity of its income support arrangements. While the other five countries clustered together, they differed from each other in both the nature of their institutional arrangements and the relative importance of means testing. Among these, income support was clearly more selective in the UK than the other four countries, and for comparative purposes its arrangements might also be typified as substantially selective. The other four countries provide examples of universal income support on each of the social insurance and Scandinavian models.

### **4.4 Selectivity and Poverty**

Are selective income support arrangements more effective than universal ones in ensuring low levels of poverty? This question addresses the central claim made on behalf of selective benefits, that they direct resources to those in greatest need. This section of the report compares the incidence of poverty among aged couples and single females in the six countries.

Inter-country comparisons of poverty necessarily sacrifice some of the precision with which poverty measurement can be tailored to the way of life in a single country in favour of a general standard which can be applied to a number of countries. The LIS data set has been designed with this latter purpose in view. In particular, poverty is defined in terms of relative income

**Table 3: Typology of Universality and Selectivity in Income Support**

Share of Gross Income Subject to Means Testing	Basic Income Support	Social Insurance	Mixed Income Support System
<5		Germany	Norway
<10		US	Sweden
<20			UK
<50			
50+	Australia		

**Source:** OECD, 1988: 17 and Luxembourg Income Study database.

standards within countries, comparing the incomes of the poor with those of others in the same society. Inter-country comparisons thus involve assessments against the same relative standard. One consequence is that the actual levels of income used to define poverty vary from country to country.

In practice low income is defined as a fraction of median disposable income. Förster (1993, 11) argues that because it reflects the standard of living that is most widely shared in the society, median income provides a better reference point than average income. The sensitivity of the measure of poverty to the particular fraction chosen is determined by comparing the results of a series of poverty lines.

LIS data may be used to measure the significance of poverty in various countries with the use of both the 'head count' and 'poverty gap' methods (Mitchell, 1991). The first of these measures poverty by the number of individuals or families whose incomes fall below a given poverty line, while the second measures the aggregate shortfall of their incomes below the income necessarily for them to reach the poverty standard. This paper reports measures based on the head count method, counting the number of aged income units below a series of relative poverty lines. While these measures have the virtue of simplicity, they do not show differences among countries in the degree of poverty experienced by those counted as below a given poverty line. Because head count measures are often sensitive to the particular level at which the poverty line is drawn, estimates are presented for poverty lines drawn at a number of levels.

As indicated above, the analysis has been designed to compare income units with others of the same two types, aged couples or single females, in the six countries. Measurements of poverty among these units nevertheless require the use of equivalence scales to adjust for the differing needs of families of different size and composition in the wider population with whom they are to be compared. Because comparisons of low incomes are very sensitive to the measures of equivalence applied, and are especially so in the case of the aged (Buhmann *et al.*, 1988, cited in Mitchell, 1991, 23; Förster, 1993, 19), results are presented using two different equivalence scales. These are the OECD scale, which weights the first adult in an income unit more heavily

than other adults and adults more heavily than children, and a simpler scale taking account only of family size and giving successively less weight to each additional member of the unit.<sup>5</sup>

The standards conventionally used to define poverty in comparative studies using the LIS data are equivalent disposable (net) incomes of 40, 50 and 60 per cent of the median disposable income of all families in the same country, including the non-aged. While essentially arbitrary, these standards do bear some relationship to the income levels regarded as defining poverty in some of the countries under consideration. The first, at 40 per cent of median equivalent disposable income, is close to the United States poverty line, while the third, at 60 per cent of median equivalent income, approximates the Swedish existence minimum (Förster, 1993, 11).

Table 4 below shows the incidence of poverty among aged couples and single women at these three levels in the six countries. Figure 1 presents the same information in a diagram. The upper panel of the table and the two left quadrants of the figure present estimates based on the OECD equivalence scale, while the lower panel and two right quadrants of the figure contain those based on the family size scale. The difference in poverty levels associated with the choice of equivalence scale is immediately obvious. The family size scale gives generally higher estimates of the incidence of poverty, with the difference more marked among single women than couples and increasing as the poverty line is drawn at higher levels. As the diagram makes clear, the choice of scale has little effect on the pattern of comparison between countries in the case of couples but shapes the comparison somewhat differently in the case of single women. One reason for this is that changing the equivalence scale affects not only the measure of equivalent incomes of aged income units but also the measure of median equivalent income for all units and hence the low income line with which they are compared. The measure of poverty among single aged women in Norway and Australia is clearly very sensitive to the point at which the poverty line is drawn, suggesting that pension levels cluster near there in these countries.

These estimates correspond reasonably closely to others based on LIS data, with one important exception. The incidence of poverty among the UK aged is widely believed to be substantially higher than the results presented here suggest. Estimates based on the 'first wave' data for 1979 were considerably greater. Hedstrom and Ringen (1990) reported poverty rates (at 50 per cent of median equivalent income) of 16.2 and 22.0 per cent among those aged 65 to 74 and 75 and older respectively. Mitchell (1991) measured the incidence of poverty among the UK aged (also at 50 per cent of median equivalent income) as 15.6 and 17.8 per cent among single people and couples respectively. However, other estimates based on 'second wave' data for 1986 are considerably closer to those reported here. Rainwater (1992, cited in Whiteford and Kennedy, 1995) estimated the poverty rate among older people (aged 60 and over) in the UK (at 50 per cent of median equivalent income) as 8.6 per cent, and Smeeding, Torrey and Rainwater (1993) found rates (at 40 per cent of median equivalent income) of 0.4 and 0.9 per cent among single elderly women and elderly couples respectively.

In a review of these findings, Whiteford and Kennedy (1995: 14-25) attribute differences in measured poverty rates among the UK aged to a combination of factors. The incomes of older

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5 The OECD scale assigns a weight of 1 to the first adult, a weight of 0.7 to each subsequent adult, and a weight of 0.5 to each child in the income unit. The family size scale estimates the cost of additional members of the unit as the square root of the total number of persons in the unit. It assigns a weight of 1 to the first adult, of approximately 0.4 to a second person, and approximately 0.3 to a third.

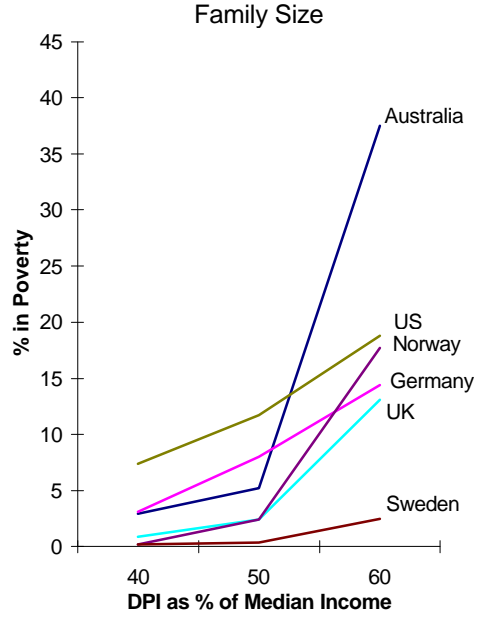
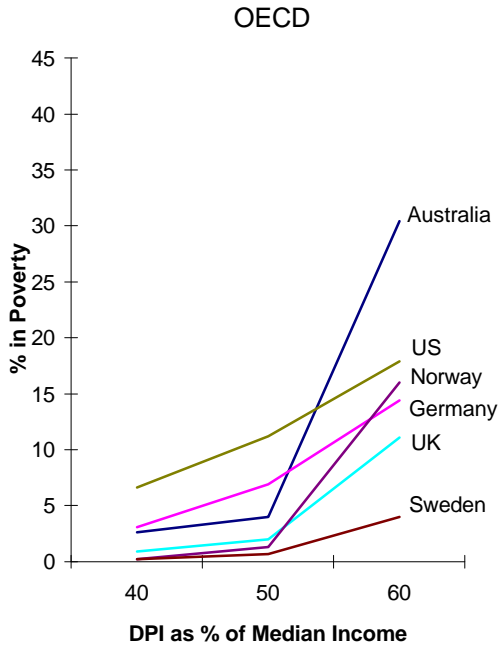
**Table 4: Poverty: Percentage of Couple and Single Female Units Below Poverty Lines of 40, 50 and 60 Percent of Median Equivalent Disposable Income, Two Equivalence Adjustments**

Country	Year	Percent of Median Equivalent Income					
		40 Percent		50 Percent		60 Percent	
		C	SF	C	SF	C	SF
<i>OECD Equivalence Scale</i>							
Australia	1985-6	2.6	1.3	4.0	3.5	30.4	43.5
(West) Germany	1984	3.1	1.9	6.9	5.9	14.4	13.6
US	1986	6.6	13.2	11.2	27.4	17.9	43.5
UK	1986	0.9	0.4	2.0	0.9	11.1	7.0
Norway	1986	0.2	1.7	1.3	4.5	16.0	34.5
Sweden	1987	0.2	1.6	0.7	2.7	4.0	11.9
<i>Family Size Equivalence Scale</i>							
Australia	1985-6	2.9	3.5	5.2	53.1	37.5	72.0
(West) Germany	1984	3.1	5.9	8.0	14.5	14.4	31.3
US	1986	7.4	25.7	11.7	45.0	18.8	57.0
UK	1986	0.9	0.7	2.4	8.7	13.1	28.7
Norway	1986	0.2	4.5	2.4	38.3	17.7	65.5
Sweden	1987	0.2	1.8	0.4	6.1	2.5	28.3
<b>Notes:</b>	Income units with heads aged 65 (67 in Norway) or more and living in households without other persons. Cases with negative or zero gross income have been excluded.						
<b>Source:</b>	Luxembourg Income Study database.						

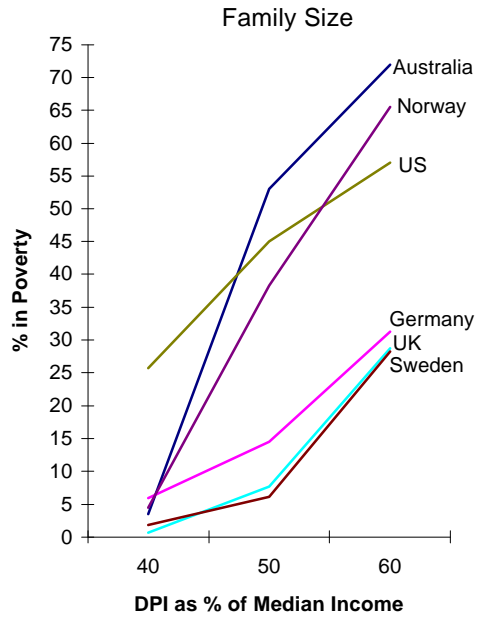
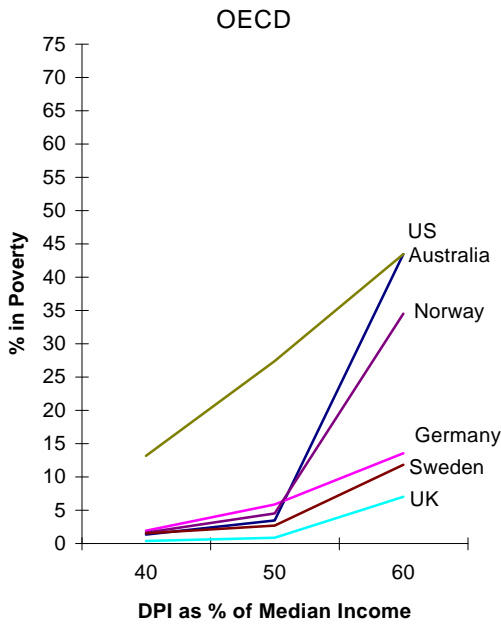
people in the UK had been rising over a long period, both in real terms and in the incomes of pensioners relative to those of non-pensioners. Hence, some part of the apparent fall in poverty represents an improvement in the economic circumstances of this group. Some is an artifact of differences in the way LIS data for the UK were constructed in the first and second waves. These concern the treatment of employee contributions to occupational pensions and tax relief for mortgage interest payments, both differences having the effect of increasing the apparent incomes of the aged relative to the rest of the population. Thirdly, Whiteford and Kennedy point out that these measurements are highly sensitive to variations in methodology, including the definition of the age group to be included, the choice of unit, the equivalence scale that is used, and the point at which the poverty line is drawn. Whiteford and Kennedy's own analysis shows

**Figure 1: Percentage of Couple and Single Female Units Below Poverty Lines of 40, 50 and 60 Percent of Median Equivalent Disposable Income, Two Equivalence Adjustments**

**Couples**



## Single Females



Based on Table 4.



similar proportions of aged persons having incomes below 40, 50 and 60 percent of average equivalent incomes in the UK and Sweden.<sup>6</sup>

Whichever equivalence scale is used, the income support systems of all six countries brought all but a small minority of aged couples to the lowest poverty line of 40 per cent of median income. Using the OECD scale, less than one per cent of aged couples in the UK, Norway and Sweden had equivalent incomes below this line, and 2.6 and 3.1 per cent in Australia and Germany respectively. At 6.6 per cent, this level of poverty was more than twice as common among couples in the United States than Germany. With the exception of American social security, the income support systems of these six countries also brought the equivalent incomes of most aged single women above 40 per cent of median income. Again using the OECD equivalence scale, fewer than two per cent had equivalent incomes below this level in all five countries, while the American figure was six times higher.

The levels of poverty among the aged in the six countries grow more diverse as the poverty line is drawn at successively higher levels. At 50 per cent of median income (OECD scale), the percentage of aged couples in poverty was below two per cent in the UK, Norway and Sweden, but was 4.0 and 6.9 in Australia and Germany respectively. At 11.2 per cent, poverty among aged couples was markedly higher in the United States. Among single women, fewer than one per cent (OECD scale) of those in the UK had equivalent incomes of less than half of median income, compared to between 3.5 and 5.9 per cent in Sweden, Australia, Norway and Germany. At this level more than one single aged women in four in the United States was in poverty.

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6 Using LIS data and the methodology of the UK Households Below Average Income measure, Whiteford and Kennedy (1995: 27-58) estimate that 1.0 per cent of single older people and 1.5 per cent of older persons in couples had incomes below 40 per cent of average equivalent income. They found much higher proportions of single older people (6.8 per cent) and older persons in couples (9.2) to have incomes below 50 per cent of average equivalent income, and the proportions at 60 per cent of average equivalent income (23.5 and 29.8 percent of single older people and older persons in couples respectively) far higher still. According to their measure, the proportion of aged persons living as couples having incomes below 40 per cent of average equivalent income was lower in Sweden than in the UK, but higher in Germany, Australia and the US. At 50 per cent of average equivalent income the proportion of persons living as couples was lowest in Sweden, higher in the UK and Germany, and highest in the United States and Australia. At 60 percent of average equivalent income the proportion of individuals living as couples was lower in Sweden than in any of the other five countries included in the present study, was substantially higher in Germany, the US and the UK, and highest by far in Australia. Whiteford and Kennedy's estimates for the five countries included in the present study are all significantly higher than those shown in Table 4.

**Percentage of Individuals Living as Single Persons and Couples Below 40, 50 and 60 Percent of Average Equivalent Income, Five Countries, Mid 1980s**

Country	40 Per Cent		50 Per cent		60 Per cent	
	C	S	C	S	C	S
Australia	5.9	6.0*	23.6*	39.4*	55.2	62.5*
Germany	3.4	4.8*	10.2	11.5*	17.3	19.1*
US	11.0	19.6*	17.4	34.0*	26.0	43.8
UK	1.5	1.0*	9.2	6.8*	29.8	23.5*
Sweden	0.3	1.8	2.0	8.2*	6.7*	24.2*

Note: \*Exceeds sensitivity limits.

Source: Extracted from Whiteford and Kennedy, 1995: 49.



At the highest of the three standards, levels of poverty among aged couples were markedly higher in all countries and the variation among countries far greater. Again using the OECD scale, levels of poverty among aged couples ranged from a low of 4.0 per cent in Sweden to a high of 30.4 in Australia. At this standard, levels in Australia had overtaken those in the United States, where 17.9 per cent of aged couples had equivalent incomes of less than 60 per cent of median equivalent disposable income. In the UK, Germany and Norway poverty among aged couples ranged from 11 to 16 per cent.

When the poverty line is drawn at 50 and 60 per cent of median equivalent income, the incidence of poverty among aged single women was far higher than that among aged couples in most countries. The main exception was the UK, where the measurement based on the OECD equivalence scale shows 0.9 and 7 per cent of single females to be in poverty at 50 and 60 per cent of median equivalent income respectively, compared to 2.0 and 11.1 per cent of couples.

While the choice of equivalence scale made little difference to the comparative picture of poverty among couples in these countries, it had a powerful effect on the estimation of poverty among aged single women. In the case of this group it has affected estimates not only of the level of poverty within countries but also the comparative relationships among countries. The difference between these pictures is due to different assumptions about the relative living costs of other family types in the calculation of equivalent incomes of the population at large. Because of this, the scales affect median equivalent income and hence the poverty line. In the case of Australia and Norway these differences have greatly increased the estimates of the number of single aged women whose equivalent incomes were below 50 per cent of median income.

Poverty among the aged is generally lowest in Sweden and the UK, and in Norway up to the 50 per cent of median income poverty line. Poverty is unambiguously highest in the United States except at levels above 50 per cent of median income, where it is high also in Australia and Norway. If the picture of single women given by the family size scale is set aside, there are two types of poverty profile over the range of poverty lines: in Sweden, the UK, Germany and the US the incidence of poverty rises slowly but steadily as the line is drawn at larger fractions of median income, while in Norway and Australia poverty is generally low below 50 per cent of median income but rises steeply at higher levels. This pattern stands out much more strongly when the profile of poverty among aged single women is drawn using the family size equivalence scale.

The answer to the question of whether selective income support arrangements do more than universal ones to minimise poverty is therefore 'not necessarily'. It is true that when the poverty line is drawn most austere the levels of poverty in Australia and the UK were low, but so also were those of the universalist Scandinavian countries. The UK, with comparatively strong selective elements, had low levels of poverty at higher poverty standards, but so also did universalist Sweden. The social insurance universalism of Germany and especially the United States were, however, associated with comparatively high rates of poverty among the aged across the range of poverty standards.

#### **4.5 Selectivity and the Redistribution of Income**

Much contemporary support for selective benefits rests on the general belief that in concentrating expenditure on those with fewest other resources arrangements of this kind do more than universal ones to redistribute income in favour of low income groups. This argument identifies them not only with the alleviation of poverty but with broader notions of social justice.

However, not all evidence supports this proposition. Mitchell found that while Australian selective income support was the most efficient of the ten she studied in directing income support payments to the pre-transfer poor, the universal systems also transferred the bulk of their social security expenditures to the pre-transfer poor (1991: 81-92). Saunders' (1994: 110-119) results contradicted the general proposition. He found that Australia's highly targeted transfer system and the relatively selective one of the UK were less effective in reducing poverty among the aged than the universal and mixed benefit systems of seven other countries. He also showed the Australian and UK pension systems to be less generous than others having substantial elements of universality.<sup>7</sup>

This section examines the way in which payments from universal and selective benefits affect the degree of inequality in the incomes of the aged in the six countries. It begins by describing the way benefit income from universal and selective transfers was distributed in relation to the gross incomes of aged couples and single women. It then turns to discussion of the role of universal and selective transfers in the redistribution of income among the aged. Finally, the section puts the discussion of redistribution through universal and selective transfers in the context of how much national governments spend on income support.

#### *The Distribution of Universal and Selective Benefits*

Table 5 below shows how the total amount of income received in (universal) social insurance benefits was distributed among its recipients. The table shows the proportion of income from social insurance transfers which was received by the members of each quintile of gross income. For example, US aged couples in the bottom 20 per cent of the gross income distribution received only 15.1 per cent of all the social insurance benefits received by aged couples, while couples in the middle quintile received 23.4 per cent and couples in the top 20 per cent received 18.8 per cent.

As Table 2 showed, social insurance is by far the largest component in the incomes of aged couples and single women, making up on average between 51 per cent (US couples) and 91 per cent (Germany, single females) of gross income.

The way in which income from social insurance benefits is distributed thus does much to shape the distribution of income among the aged. Income from social insurance transfers was not evenly distributed among recipients, even in countries whose benefit systems have strong bases in universality. Income from social insurance transfers was quite unequally distributed in both Germany and Sweden, despite the existence of a universal minimum benefit provided as a right of citizenship in Sweden. However, transfer income was very equally distributed in the UK, where there is a flat-rate minimum benefit and the wage-related tier above the minimum is very thin.

The table shows three different patterns in the distribution of social insurance benefits in these countries. In the UK benefit income was very evenly distributed, with each group in total income getting approximately the same share of benefit income. In the US social insurance benefits were distributed mildly in favour of middle income groups, at the expense mainly of the

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7 Mitchell's data, drawn from the first wave of the LIS database, relate to the period around 1980 and her samples include adults of all ages and children. Saunders uses first wave LIS data from the work of Smeeding, Torrey and Rein (1988) with data from the OECD (1988a).

**Table 5: Distribution of Income from Social Insurance Transfers among Quintiles of Gross Income, Aged Couples and Single Females**

Country	Year	Quintile of Gross Income					Total
		Lowest	Second	Third	Fourth	Fifth	
<i>Couples</i>							
Australia	1985-6	na	na	na	na	na	na
(West) Germany	1984	10.8	17.4	20.8	23.8	27.1	100.0
US	1986	15.1	20.5	23.4	22.1	18.8	100.0
UK	1986	18.2	19.9	20.5	21.6	19.8	100.0
Norway	1986	14.8	18.5	20.7	21.5	24.5	100.0
Sweden	1987	12.0	17.0	19.5	21.9	29.6	100.0
<i>Single Females</i>							
Australia	1985-6	na	na	na	na	na	na
(West) Germany	1984	10.1	15.6	19.2	23.0	32.1	100.0
US	1986	11.5	19.2	21.5	24.5	23.3	100.0
UK	1986	19.0	19.2	19.6	19.9	22.3	100.0
Norway	1986	16.5	18.4	18.9	21.6	24.7	100.0
Sweden	1987	12.8	13.9	16.1	19.7	37.5	100.0

**Notes:** Income units with heads aged 65 (67 in Norway) or more and living in households without other persons. Cases with negative or zero gross income have been excluded.

**Source:** Luxembourg Income Study database.

bottom quintile but also of the top quintile to some extent. In the other three countries income from social insurance benefits went disproportionately to higher income groups. This pattern was more marked in Germany and Sweden than in Norway.<sup>8</sup> In Germany, for example, the members of the lowest income group received only 10.8 per cent of total income from insurance transfers while those in the highest income group received 27.1 per cent (couples), almost three times as much. Differences among countries in the distribution of social insurance benefit income among aged single women were similar to but more pronounced than those among couples. In several countries the share of benefit income received by the top gross income quintile of women was markedly higher than that received by couples. This reflects the lower non-benefit incomes of single women as a group (see Table 2).

Although means-tested provisions had limited significance in the incomes of average recipients in most countries, the coverage measures shown in Table 1 show that receipt of a small amount of

8 It should be noted that in the first two of these countries income from private pensions is included with income from social insurance transfers.

income from such a benefit was much more common. That table showed that more than two UK couples in five had income from means-tested benefits, as did one Norwegian couple in six and one Swedish couple in eight. In all countries the receipt of means-tested benefits was much more widespread among single aged women, including one Swedish woman in two and one Norwegian woman in four.

In five of these countries means-tested benefits function as a safety net under other, primary systems of income support, covering groups excluded by qualifying rules and/or supplementing low levels of support. Only in Australia is means-testing the primary basis of income support. Table 2 above showed that on average means-tested benefits make up half the income of aged couples and three quarters of the income of aged single women in Australia. That table also showed that on average means-tested income also represented 18 per cent of the income of aged single women in the UK and 8 per cent of the income of aged single women in Sweden. In other countries means-tested benefits represented an average of five per cent of gross income or less.

The methods and stringency of targeting of these benefits differ a good deal from country to country, and the ways in which benefit income is distributed differ accordingly. Table 6 shows how the total amount of income received in social assistance benefits was distributed among the members of each quintile of gross income.

Australia, relying wholly on means-tested transfers, distributed them comparatively evenly through the lower four quintiles of gross income. As the quintile distribution suggests, the function of Australian means testing was less to direct benefits to those with little other income than to withhold them from those who have a good deal. While the largest shares of benefits went to the members of the bottom three quintiles of gross income, there was a mild bias towards middle income groups in the case of both aged couples and single women.

Interestingly, a somewhat similar distribution of means-tested benefits is shown for Norway, where means-tested benefits underpin relatively evenly distributed income from social insurance transfers. One reason for this, and for the comparatively high levels of poverty at levels above 50 per cent of median equivalent income, is the comparative immaturity of the earnings-related tier of Norwegian social insurance, with older age cohorts not yet having full entitlements.

At the opposite extreme in the distribution of means-tested benefits were those countries whose primary transfer systems are most strongly earnings-related. I refer here to the US, Sweden and Germany. Among couples in these countries more than 70 per cent of means-tested benefits went to members of the lowest quintile of gross income. This pattern was less clearly shown in the case of aged single women, where because of their lower incomes the distribution of means-tested transfers included women in higher quintiles of gross income received by this group. The distribution of means-tested benefits in the UK fell between these extremes. The largest share of means-tested benefits went to aged couples and single females in the middle deciles of gross income.

Universal and selective components are intended to work together in the income support arrangements of most countries. Table 7 takes account of this interaction, presenting an account of the way in which social transfers as a whole are distributed across the gross income quintiles in the six countries.

**Table 6: Distribution of Income from Means-tested Transfers among Quintiles of Gross Income, Aged Couples and Single Females**

Country	Year	Quintile of Gross Income					Total
		Lowest	Second	Third	Fourth	Fifth	
<i>Couples</i>							
Australia	1985-6	22.6	24.8	26.9	17.3	8.4	100.0
(West) Germany	1984	72.2	10.7	17.1	0.0	0.0	100.0
US	1986	78.0	16.1	5.9	0.0	0.0	100.0
UK	1986	18.5	39.3	32.0	9.8	0.4	100.0
Norway	1986	25.9	25.7	17.3	23.3	7.8	100.0
Sweden	1987	72.5	25.1	1.1	1.0	0.3	100.0
<i>Single Females</i>							
Australia	1985-6	20.3	21.6	22.2	20.2	15.7	100.0
(West) Germany	1984	32.6	30.9	13.7	9.8	13.0	100.0
US	1986	52.9	26.8	15.8	4.4	0.1	100.0
UK	1986	6.2	18.1	26.0	34.6	15.2	100.0
Norway	1986	2.3	26.0	28.9	37.6	5.3	100.0
Sweden	1987	15.4	33.8	37.4	13.4	0.0	100.0

**Note:** Income units with heads aged 65 (67 in Norway) or more and living in households without other persons. Cases with negative or zero gross income have been excluded.

**Source:** Luxembourg Income Study database.

As might be expected given the generally small proportions of means-tested benefits in gross income (Table 2), the incorporation of means-tested transfers did not make dramatic changes to the overall distribution of income from social transfers in most countries (Table 5). Means-tested transfers marginally increased the proportion of all transfers going to the lowest and second quintiles in most of the countries concerned. The main exception was the UK, where selective benefits were both more significant in size and more widely distributed. In the result, the shares of transfer income directed to the lowest two quintiles of couples were reduced. The broad spread of means-tested benefits in Norway was reflected in modifications of quintile shares across virtually whole distribution. This was most marked in the case of single women.

There were several patterns in the final distribution of transfers among quintiles of gross income recipients. Australia stood alone in distributing most transfer income to the first three quartiles of gross income recipients of couples and the first four quintiles of single females, and a smaller share to the members of higher quintiles. In several of the other countries the supplementation of social insurance transfers with means-tested benefits served to even the distribution of transfers, by boosting the share of the lowest quintile of gross income recipients. In the result, benefit income was spread relatively evenly across quintiles in the UK, Norway and the United States,

though the mild bias toward middle income groups in the US remained. As with social

**Table 7: Distribution of Income from Social Transfers (Social Insurance and Means-tested) among Quintiles of Gross Income, Aged Couples and Single Females**

Country	Year	Quintile of Gross Income					Total
		Lowest	Second	Third	Fourth	Fifth	
<i>Couples</i>							
Australia	1985-6	22.6	24.8	26.9	17.3	8.4	100.0
(West) Germany	1984	11.1	17.4	20.8	23.7	27.0	100.0
US	1986	15.7	20.5	23.3	21.9	18.7	100.0
UK	1986	16.0	19.0	21.0	23.3	20.7	100.0
Norway	1986	14.9	18.6	20.7	21.6	24.3	100.0
Sweden	1987	12.4	17.1	19.4	21.8	29.4	100.0
<i>Single Females</i>							
Australia	1985-6	20.3	21.6	22.2	20.2	15.7	100.0
(West) Germany	1984	10.5	15.9	19.0	22.8	31.8	100.0
US	1986	13.5	19.5	21.3	23.6	22.2	100.0
UK	1986	18.2	21.1	21.3	20.8	18.6	100.0
Norway	1986	14.9	18.5	19.1	21.9	24.2	100.0
Sweden	1987	13.0	15.4	17.6	19.2	34.8	100.0

**Note:** Income units with heads aged 65 (67 in Norway) or more and living in households without other persons. Cases with negative or zero gross income have been excluded.

**Source:** Luxembourg Income Study database.

insurance transfers alone, Germany and Sweden showed strongly income-related patterns of distribution in which the members of the lowest quintiles of gross income received markedly less than their quintile share and the members of the highest quintiles markedly more.

#### *Universality, Selectivity and the Redistribution of Income Through Benefits*

The model of income used in the study separates income into market and tax/transfer elements. It presents income as initially composed of wages and salaries, income from self-employment and cash property income, to which income from employment-related pensions is added to reach market income. Income from transfers may be added to market income to reach gross income, and payments of taxes and social security contributions subtracted to reach disposable or net income. The model makes it possible to identify the effects of transfers and taxes by comparing the distribution of market income 'before' transfers are received and taxes paid with the distribution of gross income and/or disposable (net) income 'afterwards'.

As has been noted, the use of this model to assess the role of transfers and taxes in redistributing income treats market income as the counterfactual, i.e. income as it would be in the absence of welfare state intervention. In reality, however, people's expectations about taxes and transfers feed back into the workings of markets for labour and investment. This is particularly important in the case of retirement income, where workers may perceive the existence of a generous public pension scheme as reducing the need for them to seek private pensions or to save privately. The counterfactual problem is greater the larger the scale of public pension provision, and is particularly serious with respect to large welfare states such as Germany and Sweden. This needs to be borne in mind in the comparison of redistribution achieved under different types of pension system.

Table 8 below presents information about the distributions of income among aged couples and aged single women in the six countries 'before' and 'after' the operation of the tax/transfer system. While taxes and social security contributions are not generally considered in the present report, it has been noted that benefits are taxable in some countries. Mitchell (1991: 128-130) has shown that though less important than benefits, taxes and social security contributions play a significant role in the redistributive impact of the total transfer system. It has therefore been appropriate to include them in comparative measures of redistribution through the benefit system. The table compares the Gini coefficient measure of inequality in the distributions of income before and after the receipt of social insurance and means-tested transfers and the payment of taxes and employee contributions. The third column of the table shows the percentage reduction in inequality of market and disposable income effected by transfers and taxes in the six countries.

Among couples the greatest reduction of income inequality took place in Sweden and Germany. However, it should be borne in mind that in the LIS data sets for these two countries income from private pensions is coded with income from social insurance transfers, and these measures are not strictly comparable to those of the other countries in this respect. The smallest reduction in income inequality took place in the US. Inequality was reduced by similar proportions in Australia, the UK and Norway. Among aged single women, the reduction of income inequality was greatest in the UK, Australia and Norway, but only slightly lower in Sweden and Germany. It was again least in the US. In both cases, the reduction of inequality was far smaller in the US than in any other of the five countries.

As the comparison shows, Australia's selective income support system did much less than the Swedish and German systems to reduce inequality among couples. It compares more favourably in the case of single females. Those countries whose income support systems have significant universal elements achieved as much and more redistribution. The pattern of redistribution in the UK was very similar to that for Australia, while income support arrangements in Norway and especially Sweden did much better. German social insurance was also effective in redistributing income. The US stood alone, its pension system doing far less to reduce inequalities of income among the aged than its counterpart in any of the other five countries considered.

#### *Redistribution and Benefit Expenditure*

The claims made for selectivity in income support are not simply that it is more effective in directing benefits to those with fewest other resources but that it does so at lower cost to the public purse. This has been a concern with respect to both longstanding arguments about the efficiency of the market economy and more recent political pressures to contain growth in public expenditure and taxes. Thus many contemporary arguments in favour of selectivity stress the

greater capacity of targeted payments to operate with comparatively low levels of social expenditure and minimal disturbance of the processes of the market economy. This section

**Table 8: Redistribution of Income Through Benefits, Aged Couples and Single Females**

Country	Year	Gini Market Income	Gini Disposable Income	% Reduction of Inequality
<i>Couples</i>				
Australia	1985-6	.644	.245	62
(West) Germany	1984	.864	.256	70
United States	1986	.615	.339	45
United Kingdom	1986	.647	.250	61
Norway	1986	.621	.214	66
Sweden	1987	.705	.174	75
<i>Single Females</i>				
Australia	1985-6	.804	.199	75
(West) Germany	1984	.893	.260	71
United States	1986	.730	.363	50
United Kingdom	1986	.757	.177	77
Norway	1986	.768	.181	76
Sweden	1987	.695	.195	72

**Note:** Income units with heads aged 65 (67 in Norway) or more and living in households without other persons. Cases with negative or zero gross income have been excluded.

**Source:** Luxembourg Income Study database.

discusses evidence bearing on these arguments. In particular, it focuses on the claims that selective income support arrangements minimise welfare state intervention and that they are comparatively more efficient in the sense of achieving greater redistribution of income than universal ones per public dollar spent on them.

Income support to the aged clearly occupies a smaller share of the national economy in those countries which rely substantially on selectivity in their income support arrangements. In the mid-1980s pension expenditure in Australia was only 4.9 per cent of GDP, while pension expenditure in Sweden and Germany represented 11.2 and 11.8 per cent respectively. Shares of pension expenditure in the UK, the US and Norway were between these extremes, occupying 6.7, 7.2 and 8.0 per cent of GDP respectively (OECD, 1988a: 140-141). This comparison is affected by demographic differences in the proportions of the aged in the total population in the six countries. The difference stands out even more clearly when this is taken into account. When considered in relation to its share in the national economy and the share of the aged in the total



population, spending on public pensions is lowest in the UK and Australia, and highest in Sweden and Germany.<sup>9</sup>

It is also true that selective arrangements may maximise the redistribution of income achieved at a given level of social expenditure. Some evidence for this can be seen in Table 9, which shows the relationship between the redistribution achieved by income support arrangements in the six countries and the importance of transfers in the gross incomes of the aged. The second column of the table reprints the percentage by which income from transfers reduced inequality in the incomes of the aged from Table 8 above. The third column, brought forward from Table 2, indicates the differing roles which transfers played in the gross incomes of the aged in these countries. Varying from 52 to 95 per cent of gross income, this measure serves as a proxy for the scale of public expenditure on income support in the six countries. The final column presents the ratio of the reduction of inequality to the share of transfer income in gross income, comparing redistribution achieved through transfers in terms of the resources devoted to them. This ratio shows the amount of redistribution achieved per dollar share of transfers in gross income.

This comparison does indeed highlight Australia's highly selective income support arrangements, which achieved greater redistribution per dollar spent than the income support system of any other of the other five countries relative to gross income.<sup>10</sup> The UK, whose arrangements also entail a substantial degree of selectivity, also achieved a high level of redistribution in relation to the amount spent. Interestingly, however, Norwegian arrangements achieved similar redistributive outcomes to those of Australia and the UK, and while these arrangements included selective elements with wide coverage they were also relatively economical in the share of gross income they involved.

#### 4.6 The Generosity of Benefits

The effectiveness of income support arrangements in alleviating poverty depends not only on the capacity to direct benefits to those who need them but also on the provision of benefits at high enough levels to bring income to an adequate standard. Critics of selectivity often claim that benefit levels are higher when middle income groups share in their receipt, the corollary being that benefits which go only to the poor are poor benefits.

While benefit levels may be compared in absolute terms, the measure presented here is a relative one, comparing the benefit incomes of the aged with incomes of the working population in the same country in the same year. The benchmark used is the average take-home pay of a single worker in manufacturing industry. Table 10 shows the mean value of income from transfers (including both social insurance and means-tested payments) as a percentage of the average

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9 Ratios of pension expenditure to GDP divided by the proportion of the total population aged 65 and over were UK 0.45, Australia 0.47, Norway 0.52, US 0.61, Sweden 0.66 and Germany 0.76. Population data from OECD, 1988a: 142-143, average of 1980 and 1990.

10 The average share of transfers in gross income has been used as a proxy for social expenditure, and this is subject to errors and biases in the reporting of income. It is arguable that more income may go unreported in means-tested than universal systems.

**Table 9: Redistribution of Income and Social Expenditure on Pensions, Aged Couples and Single Females**

Country	Year	% Reduction of Inequality (from Table 8)	Transfers as % of Gross Income (from Table 2)	Ratio of Reduction of Inequality to Share of Transfers in GI
<i>Couples</i>				
Australia	1985-6	62	52	1.19
(West) Germany	1984	70	87	0.80
United States	1986	45	52	0.87
United Kingdom	1986	66	67	0.91
Norway	1986	75	73	0.90
Sweden	1987	61	86	0.87
<i>Single Females</i>				
Australia	1985-6	75	78	0.96
(West) Germany	1984	71	95	0.75
United States	1986	50	70	0.71
United Kingdom	1986	77	81	0.95
Norway	1986	76	84	0.90
Sweden	1987	72	88	0.82

**Note:** Income units with heads aged 65 (67 in Norway) or more and living in households without other persons. Cases with negative or zero gross income have been excluded.

**Source:** Luxembourg Income Study database.

**Table 10: Mean Social Transfer Income and Mean Disposable (Net) Income as Percentages of the Average Take-home Pay of a Single Manufacturing Worker**

	Year	Social Transfer Income		Disposable (Net) Income	
		C	SF	C	SF
Australia	1985-86	31.9	29.0	80.5	43.1
(West) Germany	1984	106.3	65.2	130.0	73.4
US	1986	62.1	35.3	156.0	66.2
UK	1986	60.8	43.4	101.6	55.5
Norway	1986	105.6	54.0	137.4	64.3
Sweden	1987	166.6	78.7	140.3	63.8

**Notes:** Income units with heads aged 65 (67 in Norway) or more and living in households without other persons. Mean benefits calculated on an aggregate share basis. Cases with negative or zero gross income have been excluded.

**Source:** Luxembourg Income Study database; OECD (1988b), table titled 'The tax benefit position of a single person earning an amount equal to the average earnings of production workers in the manufacturing sector'.

take-home pay of a manufacturing worker.<sup>11</sup> Since market incomes play a substantial role in the incomes of the aged in some countries, the table also shows how the disposable incomes, including both market and transfer income, of the aged compare with that of a manufacturing worker in the same country.

Looking first at mean incomes from all sources (disposable income), the average relative incomes of aged couples were highest in the US, and were comparatively high also in Sweden, Norway and Germany. The average relative incomes of aged single women were highest in Germany, and high also in the Sweden, US, and Norway. The average relative incomes of both aged couples and single women were low in the UK, and were especially low in Australia.

Comparing income from social transfers, the average relative incomes of couples were lowest in Australia and in the UK and the US. They were highest in Sweden. The average income from transfers received by Australian couples was particularly low, reflecting the effect of means tests in reducing pensions below the maximum rate on account of income from investments and private pensions. The average relative levels of benefit income received by single females compared similarly except that average relative benefit incomes were higher in the UK than in the US.<sup>12</sup>

Average benefit levels go only part of the way to explain differences in the incidence of poverty among the aged in these six countries, shown in Table 4 above. Aged couples in both Sweden and Norway have comparatively high average benefit levels and low rates of poverty, while couples in the US receive comparatively low average benefits and are more commonly poor than their counterparts in other countries. Similar patterns are found among aged single women in these countries. However, in both Australia and the UK low average benefit levels are associated with low rates of poverty, while in Germany both rates of poverty and the average level of benefit are relatively high. This pattern applies in the case of both aged couples and single females.

## 5 Conclusion

The research reported here has focused on four questions. These provide a convenient basis for summarising its findings.

*What do universality and selectivity mean in practice in the income support systems of various countries?*

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11 The comparison worker is single and has no dependents. No equivalence scaling has been used in these calculations, hence it is not appropriate to compare the relative benefit levels of couples with those of single females.

12 This measure differs somewhat from the replacement rates conventionally used to compare the generosity of benefits in different countries, which are usually based on benefit levels at nominated points in the benefit structure. While the measure places the benefits to couples in the six countries in much the same rank order as found by Palme (1990b: 51), for example, it shows far wider differences in level between countries. See Whiteford (1995) for a discussion of the problems involved in using replacement rates in inter-country comparisons of benefit rates.

Though most often portrayed as a two-dimensional opposition of policy choices, the contrast of universality and selectivity is more helpfully understood as multi-dimensional. Income support systems typically combine selective instruments, mainly means-tested benefits and allowances, with universal ones, commonly one or both of flat-rate benefits based and wage-related social insurance. The issues raised in the choice between selectivity and universality in income support arrangements thus concern both the nature of instruments and the balance with which they are combined in a larger system.

The research presented a two-fold categorisation based on whether the income support system as a whole was of the basic, social insurance or mixed type and the average proportion of income from means-tested benefits. Categorised on this basis, Australia's income support system stood out from those of the other five countries, as basic and uniquely selective. It first differed from the other five in lower coverage rates, with one quarter of aged couples and one tenth of aged single females not covered by public income support. In addition, it made much larger parts of the income of the aged subject to means test: on average more than half of the income of aged couples and single females came from selective benefits. Coverage was far more universal in all of the other five countries, with almost all citizens receiving a public benefit of some kind. These differed, however, in the basis of entitlement. In Germany and the United States this was defined by membership in wage-related social insurance, with small numbers receiving a means tested benefit to replace or supplement insurance benefits. In the social insurance countries of Germany and the United States means-tested income played a comparatively small role, accounting on average for less than 10 per cent of gross income. Selective benefits were more important in Germany than the United States. In the mixed systems of Norway, Sweden and the UK there were minimum flat-rate benefits and an upper tier of social insurance, with means-tested benefits filling gaps in entitlement and supplementing benefit levels. Reliance on means-tested income support was markedly greater in the UK than in any of the other five countries. On average, means-tested benefits represented 18 per cent of the gross income of aged single women in the UK. On average these benefits made up a much smaller share of income in the aged in Norway and Sweden. They were least important in Norway.

*Are selective income support arrangements more effective than universal ones in ensuring low levels of poverty?*

The central claim made on behalf of selective benefits is that they are more effective than universal ones in minimising poverty because they direct resources to those who need them most. The research suggests there is some truth to this claim. At the most stringent poverty standard, poverty rates were very low in the two countries with the most selective income support systems, Australia and the UK. These rates are very much higher in the social insurance countries of Germany and the United States. The claim to effectiveness against poverty also applies to the mixed UK system at higher poverty thresholds.

At the same time, Australia's wholly selective income support arrangements allowed poverty rates to rise steeply at these higher thresholds. This occurs because incomes are very close to the lowest-level poverty line, and suggests some limit to the claim that selective income support is particularly effective in alleviating poverty. Poverty lines are arbitrary measures whose ultimate meaning lies in values and subjective judgements. When these lines are drawn at even slightly higher levels Australia's selective income support system compares with others far less favourably. Nor were the safety nets of Australia and the UK the only ones which were effective

in alleviating poverty among the aged. The mixed system of Sweden was equally effective, as was that of Norway at lower poverty levels.

Gaps in the safety net are greatest in Germany and US where social insurance arrangements afford inadequate protection to groups whose entitlements based on paid work were low. This raises issues about both minimum benefits and redistribution within social insurance schemes and the way in which entitlements accrued by a breadwinner are shared with a dependent spouse, especially after divorce or death of breadwinner. Poverty is especially high among single females in the United States.

*Is it true that selective income support arrangements concentrate social expenditure on those with least other income, and that in doing so achieve greater redistribution in favour of low income group than universal arrangements? And secondly, do selective income support arrangements achieve a given level of redistribution of income more efficiently than universal ones?*

The answer to the first of these questions is again ‘yes, but’ and ‘not exclusively so’. In addressing these questions it is necessary to collapse the distinction between universality in social insurance and mixed income support systems, and to examine the distributive outcomes of selective and universal components separately as well as in combination.

The first point to be made is that the distribution of benefit income through universal transfers is greatly variable. Universal transfers were very evenly distributed among the holders of gross income in some countries, most notably the UK, while in others they gave rather larger shares of total benefit income to higher income groups. This latter pattern was most pronounced in Sweden and Germany. As is to be expected, selective transfer income was everywhere concentrated in groups having lower gross income, but the extent of this concentration also varied a good deal. Means tested benefits were most widely distributed in countries where these benefits played a larger role in gross income, Australia and the UK, and were much more highly concentrated among those with the lowest gross income in countries where these benefits were a small part of a substantially universal system. These had most important role in filling gaps in social insurance systems, where gaps in social insurance entitlement not covered by universal lower tier. Norway was an exception to this pattern, however. Taken in combination, the distributive profiles of benefit income varied a good deal among the six countries. The most common pattern was for the share of each quintile in total benefit income to increase with gross income, with this pattern strongest in Germany and Sweden. With declining shares going to the highest gross income groups, Australia stands out from the other five countries.

On this evidence, it is not true that income support systems making substantial use of selectivity achieve greater redistribution in favour of low income groups than those with substantially universal arrangements. On the contrary, the reduction of income inequality was greatest in Germany and Sweden, and least in the United States. Redistribution achieved through the use of selective instruments in Australia and the UK stands between these extremes.

The research did provide support for the proposition that selective systems are more efficient than universal ones if efficient is taken to mean achieving redistribution toward low income groups and alleviating low-level poverty with minimal public expenditure. Australia’s selective income support arrangements stood apart from those of the five other countries on this measure, with those of the United Kingdom also comparing favourably. It should be noted, however, that these differences were greater among couples than single women, though it is among women that

selective arrangements are most important. It should also be noted that Norway's mixed income support arrangements showed themselves as comparatively efficient.

*Is it the case that benefit levels are lower under selective than universal income support arrangements?*

It does indeed seem that benefits earmarked for the poor are likely to be poor benefits. Average benefit income was compared with the average take-home pay of a single manufacturing worker in the same country. Benefits were especially low in Australia, where the means test serves to reduce entitlements of those claimants with private resources below the standard rate. In the UK the benefit incomes of single females, who most often depend on selective transfers, were also low. Once again, however, the relation of instruments and outcomes was not unvarying, as benefit levels were also low in the social insurance system of the United States.

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Contemporary questions about the relative merits of universality and selectivity in income support arrangements are not new, but the historical context in which they are asked has changed. The debates of the 1960s and 1970s took place at the end of a long period of welfare state expansion, while those of the present time come at a moment of constraint and potential reversal. The argument may be fundamentally different in this new conjuncture.

Pierson (1994) argues that the process of retrenchment differs from that of growth in welfare state institutions. In particular, he maintains that policy feedback and the existing structures of welfare state institutions play a much more important part in this process. This is because over the course of their development existing arrangements have created constituencies with interests in and attachment to them. This 'policy feedback' creates coalitions of program supporters who seek to resist cutbacks. In the result, the structure of programs shapes the possibilities for their retrenchment.

Pierson's own comparative study, of social policy in the UK and the US in the period of Thatcher and Reagan, did not show universal programs as more durable than means-tested ones. On the contrary, in both countries cuts were made to some means tested programs but not to others. Political structures mattered, with union and left power being less important and strategic capacities of government more so. The overarching picture was of stability, with retrenchments largely limited to the margins of the welfare state. Vulnerability depended more clearly on program area, with housing and unemployment insurance bearing the greatest brunt.

Yet if Pierson's (1994: 6-7) account does not support the usual argument, neither does it contradict it. One would not expect large-scale retrenchment in selective programs. As he points out, the weakness of selective programs was already reflected in their small size and vulnerable constituencies, and further cuts were likely to be visibly dysfunctional. Nor is it surprising that cuts were aimed at universal programs, for these were where the largest savings might be found. In the event, the universal components of aged income support were largely invulnerable during the lifetimes of the Thatcher and Reagan governments, with the significant exception of the income-related SERPS program. The most significant prospects for cutbacks to universal programs lay in the future, in tax measures implemented by the Reagan administration weakening the government's ability to finance welfare programs in the future. Finally, Pierson (1994: 170) concludes that the relationship between retrenchment and program universality is paradoxical: 'The same features that make universal programs politically strong

make them likely targets for major retrenchment efforts... knowing whether a program is targeted or universal by itself tells us relatively little about its political prospects in a period of retrenchment'.

Pierson's cases are drawn from the experience of neo-liberal governments in 'liberal' welfare states (Esping-Andersen, 1990). As such, the UK and the US are more likely to represent an extreme than the generality of retrenchment and restructuring. The influence of existing institutions and policy feedback may also take forms not reflected in these particular countries, and it is relevant to note that the increasing use of targeted benefits is only one of many kinds of measure being implemented across a broader range of social policy regimes and income support arrangements.

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