

# Targeting and Universalism in Poverty Reduction

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## Acronyms

<b>DAC</b>	Development Assistance Committee
<b>ECLAC</b>	Economic Commission for Latin America and the Caribbean
<b>GDP</b>	gross domestic product
<b>IFIs</b>	international financial institutions
<b>IMF</b>	International Monetary Fund
<b>NGO</b>	non-governmental organization
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PASIS</b>	Pensiones Asistenciales de Ancianidad y de Invalidez
<b>PRSPs</b>	Poverty Reduction Strategy Papers
<b>SHIR</b>	Subsidized Health Insurance Regime
<b>SIPO</b>	Sistema de Información de Población Objetivo
<b>SUF</b>	Subsidio Único Federal
<b>TANF</b>	Temporary Assistance for Needy Families

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## **Summary/Résumé/Resumen**

### **Summary**

For much of its history, social policy has involved choices about whether the core principle behind social provisioning will be “universalism”, or selectivity through “targeting”. Under universalism, the entire population is the beneficiary of social benefits as a basic right, while under targeting, eligibility to social benefits involves some kind of means-testing to determine the “truly deserving”. Policy regimes are hardly ever purely universal or purely based on targeting, however; they tend to lie somewhere between the two extremes on a continuum, and are often hybrid, but where they lie on this continuum can be decisive in spelling out individuals’ life chances and in characterizing the social order.

This paper is divided into two parts. In the first part, Thandika Mkandawire discusses the forces behind the shift from universalism toward selectivity in using social policies to combat poverty in the developing countries. In the second part, a review of the lessons from such policies, he considers the administrative difficulties of targeting in the poor countries, the political economy bases of policy choices, and the consequences of policy choices for individual incentive. Mkandawire pays special attention to cost-effectiveness, because advocates of selectivity in the fight against poverty raise it as the main argument in its favour.

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### **Résumé**

Pendant une grande partie de son histoire, la politique sociale a dû choisir quel serait le principe qui régirait essentiellement la protection sociale et se déterminer soit pour “l’universalisme”, soit pour la sélectivité par le “ciblage”. Lorsqu’elle opte pour l’universalisme, la population entière a un droit fondamental aux avantages sociaux et en bénéficie, alors que le ciblage consiste à limiter le nombre des bénéficiaires à ceux qui le “méritent vraiment” en fixant des conditions de ressources. Cependant, il n’est guère de politiques qui soient purement universelles ou purement fondées sur le ciblage; elles se situent généralement quelque part entre les deux extrémités de ce continuum et sont souvent hybrides, mais leur emplacement sur ce continuum peut être déterminant pour les chances des individus dans l’existence et marquer profondément l’ordre social.

Ce document se compose de deux parties. Dans la première partie, Thandika Mkandawire traite des forces qui incitent les pays en développement à appliquer des politiques sociales sélectives plutôt qu’universelles pour lutter contre la pauvreté sur leur territoire. Dans la deuxième partie, dans laquelle il passe en revue les enseignements de ces politiques, il considère les difficultés administratives liées au ciblage dans les pays pauvres, l’économie politique sur laquelle reposent ces choix politiques, et les conséquences de ces choix sur les incitations auxquelles répondent les individus. Thandika Mkandawire accorde une attention toute particulière au rapport coût-efficacité parce que c’est le principal argument avancé en faveur de la sélectivité par ceux qui la préconisent dans la lutte contre la pauvreté.

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### **Resumen**

Durante buena parte de su historia, la política social se ha movido entre las opciones de si el principio central que sustenta el suministro de servicios sociales es el “universalismo” o la selectividad por medio de la “orientación hacia un grupo específico”. Bajo el universalismo,

toda la población disfruta de los beneficios sociales como un derecho básico, mientras que bajo el enfoque selectivo, la elegibilidad para los beneficios sociales está sujeta a alguna forma de comprobación previa de medios de vida para determinar a los “verdaderos merecedores”. Los regímenes de políticas no son casi nunca enteramente universales ni netamente selectivos; tienden más bien a ubicarse en algún lugar entre los dos extremos de un “continuo”, y con frecuencia son híbridos; sin embargo, su ubicación en este continuo puede resultar decisiva para determinar las posibilidades de subsistencia de cada persona y para caracterizar el orden social.

Este documento se divide en dos partes. En la primera, Thandika Mkandawire analiza las fuerzas que impulsan el cambio del universalismo hacia la selectividad en el uso de las políticas sociales para combatir la pobreza en los países en desarrollo. En la segunda parte, al examinar las lecciones que han dejado estas políticas, el autor analiza las dificultades administrativas de la selectividad en los países pobres, las bases de la economía política en que se apoyan las decisiones de política y las consecuencias de esas decisiones para el incentivo individual. Mkandawire presta particular atención a la eficacia en función de los costos, dado que los defensores de la selectividad en el combate contra la pobreza enarbolan este factor como el principal argumento a su favor.

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## Introduction

For much of its history, social policy has involved choices about whether the core principle behind social provisioning will be “universalism” or selectivity through “targeting”. Under universalism, the entire population is the beneficiary of social benefits as a basic right, while under targeting, eligibility to social benefits involves some kind of means-testing to determine the “truly deserving”. Policy regimes are hardly ever purely universal or purely based on targeting, however; they tend to lie somewhere between the two extremes on a continuum, and are often hybrid, but where they lie on this continuum can be decisive in spelling out individuals’ life chances and in characterizing the social order. Indeed, how far a policy regime leans toward either of these options was a core feature of Esping-Anderson’s seminal typology of welfare regimes.

This paper is divided into two parts. In the first part, I discuss the forces behind the shift from universalism toward selectivity in using social policies to combat poverty in the developing countries. In the second part, a review of the lessons from such policies, I consider the administrative difficulties of targeting in the poor countries, the political economy bases of policy choices, and the consequences of policy choices for individual incentive. I pay special attention to cost-effectiveness, because advocates of selectivity in the fight against poverty raise it as the main argument in its favour.

## Shift to Targeting

While in the 1960s and 1970s, the leaning was toward universalistic policies, since the 1980s, the balance has radically tilted in favour of targeting in both developed<sup>1</sup> and developing countries. In the developed countries, this led to the shift from welfare to workfare states. In the words of Gilbert, “over the last decade [1990s] many social welfare policies have been redesigned to narrow the scope of recipients by targeting benefits through means tests, income tests, claw-back taxes, diagnostic criteria, behavioural requirements, and status characteristics” (Gilbert 2001: xviii). Even in the more resilient cases of the Nordic welfare states, observers spoke of the “flight from universalism” (Sunesson et al. 1998). In developing countries, the choice has been conditioned by the context of macroeconomic and aid policies, the centrality given to poverty in official discourse, and the unravelling of “social pacts” behind various forms of universalism and the consequent ideological shifts in both developed and developing countries.

### *Ideological shifts*

Ideologies play an important role in the choice of instruments used to address problems of poverty, inequality and insecurity. Each of the core concerns of social policy – *need*, *deserts* and *citizenship* – are social constructs that derive full meaning from the cultural and ideological definition of “deserving poor”, “entitlement” and “citizens’ rights”. Although in current parlance, the choice between targeting and universalism is couched in the language of efficient allocation of resources subject to budget constraints and the exigencies of globalization, what is actually at stake is the fundamental question about a polity’s values and its responsibilities to all its members. The technical nature of the argument cannot conceal the fact that, ultimately, value judgments matter not only with respect to determining the needy and how they are perceived, but also in attaching weights to the types of costs and benefits of approaches chosen. Such a weighting is often reflective of one’s ideological predisposition. In addition, societies chose either targeting or universalism in conjunction with other policies that are ideologically compatible with the choice, and that are deemed constitutive of the desired social and economic policy regime.

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<sup>1</sup> On the shift away from universalism in the developed countries, see Gilbert (2001) and van Oorschot (2002).

In the 1980s and 1990s the rise of the Right, which privileged individual responsibility and a limited role for the state, had a profound influence in some of the key industrial countries. Margaret Thatcher's insistence that "there is no such thing as community" touched on one of the most important ideological underpinnings of social policy—solidarity and citizenship. It is this neoliberal ideological position that has set the limits on social policy and underpins the preferences for "user fees", means-testing, market delivery of social services or "partnerships" in their delivery. This ideology has also eliminated the equity concerns that have been central to all the successful experiences of poverty eradication. And with ideologies of equality in retreat, policies pushing for universalistic policies, together with their accompanying redistributive measures, were bound to experience setbacks.

These ideological shifts in the North led to similar shifts in the South, where the attacks on the welfare state were extended to include the developmentalist ideologies with which it had strong conceptual and ideological affinities. In the name of developmentalism, socialist ideologies and nation-building, many Third World governments had tended to lean toward universal provision of a number of services, including free health, free education and subsidized food. For the aid-dependent or client state, ideological shifts reflected changes in the donor countries and international financial institutions (IFIs). Yet the ideological assault on universalism was not only externally driven but had internal drivers as well. Like the developed countries, many developing countries were themselves also undergoing their own ideological convulsions that tilted the balance toward targeting. The case of Chile under Augusto Pinochet is the most emblematic of this internal shift. In many other countries, the nationalist and populist pacts that had underpinned universalist policies were in disarray. Nationalist and populist ideologies had been undermined by both the mismanagement of national affairs by nationalists, some of whom had morphed into petty dictators and kleptocrats. Notions of solidarity and nation-building rang hollow in the face of increasing inequality and blatant self-aggrandizement. Technocracies that had arisen around these movements had been captured by both internal and external forces more inclined to liberal ideologies and their aversion for state provision. Current programmes on poverty reduction, such as the poverty reduction strategies and the associated Poverty Reduction Strategy Papers (PRSPs), are tethered to the neoliberal ideology which is premised on self-interest and a fundamental faith in the market.

### ***The fiscal constraint and the quest for efficiency***

One other driving force behind selectivity was the fiscal constraint of the late 1970s that led to the perception that there was a need for budgetary restraint and, perhaps more importantly, to the overriding of all other considerations in the choice among possible social policies. "Fiscal crisis" also provided an excellent opportunity for the ideologically driven shift toward targeting because it authorized the view that targeting was the most efficient and commonsensical thing to do under the circumstances. Politically, it is much more convenient to deploy the language of cost containment and efficiency that comes along with budgetary constraints than to embark on a frontal attack on the legitimacy of universalism and its morally appealing language of rights and solidarity. In addition, it was argued that global competition called for changes in tax policies and the need to reduce "social wages" represented by social transfers. Not surprisingly, many of the debates on targeting in the 1980s revolved around restricting public spending so as to allow tax cuts, especially on traded goods, and remove other taxes presumed to be "distortionary" and, therefore, the cause of poor export performance.

The formulation for the case for targeting goes something like this: In face of limited fiscal resources, it is better to target the resources to the "deserving poor". Governments are presented as if they were confronted with an exogenously given fiscal constraint and are enjoined to do their best under the circumstances. However, we should bear in mind the close relationship between the macroeconomic regime and the choices made in the social policy arena. The fiscal constraint is not always exogenously given. In many cases, it is an outcome of deliberate attempts to limit the state, on the assumption that one can attack poverty with less



money. As Besley and Kanbur (1990:2) observe, “Indeed, targeting has become a panacea in the area of poverty alleviation, whence it is suggested that policy makers can have their cake and eat it too—improved targeting means that more poverty alleviation could be achieved with less expenditure!” First, there is narrowing of the state’s mandate and capacity by way of what Paul Krugman (2005) terms “starving the beast”. Often the most widely applied taxes and the easiest to collect (for example, taxes on trade) are removed as part of adjustment policies.<sup>2</sup> This is then invoked to argue that, partly as result of the fiscal crisis and retrenchment, the state has less capacity for providing universal services and is better off targeting both its limited financial resources and its much-reduced capacity. The privatization of a whole range of social services, including education and health, was supposed not only to relieve the state of a heavy fiscal burden, but also to compel those who could afford to pay user charges to do so. In such markets, individuals would be induced to make the “right” investment in human capital, reflecting changes in demand in well-functioning labour markets.

### ***Shifts in aid***

A fundamental factor pushing social policy toward targeting in the aid-dependent economies is the changing perception of aid and the centrality of poverty in policy discourse. In many countries, aid plays an important role in shaping social policy. Aid policies are embedded in the overall policies of the donor countries. Not surprisingly, then, any shifts in the ideological underpinnings of social and economic policies in the donor countries were bound to spill over to principles of aid. First, many donor countries accepted the major premises of adjustment. The more critically inclined sought to give a “human face” to the adjustment process by providing funds that would be aimed at “mitigating” the “social consequences of adjustment”. Such programmes were to be palliatives that would minimize the more glaring inequalities that their policies had perpetuated. Funds were made available to ensure that a so-called safety net of social services would be provided for the “vulnerable” —but this time not only by the state (which had after all been forced to “retrench” away from the social sector) but also by the ever-willing non-governmental organization (NGO) sector. Second, one reason for the preference for targeting is that aid is nowadays understood not so much in terms of helping developing countries, but in terms of helping the poor. In the context of “aid fatigue” it has become politically necessary to demonstrate either that aid directly reaches the poor or, even if does not, that it enhances growth—which is good for the poor (the aid-growth nexus is not always so clear, though, so it is argued that at least aid restructures public expenditure in favour of the poor).

Here the World Bank, the bellwether in donor thinking, has advanced two somewhat contradictory positions. On the one hand, it has argued the need for a “pro-poor” policy stance, and for measures to shift resources in favour of the poor during the growth process and to mitigate the negative consequences of adjustment policies. This position is succinctly stated in the 1990 report on poverty: “A comprehensive approach to poverty reduction...calls for a program of well-targeted transfers and safety nets as an essential complement to the basic strategy” (World Bank 1990:3). On the other hand, the Bank has advanced the “the rising tide raises all boats” argument through the much-publicized work of David Dollar and Aart Kraay (2000), which, simply argued, is that “growth is good for the poor”. The corollary point to this latter position is that since the policies that the IFIs pursue ensure the requisite growth, there really is no need to pursue policies that directly address the issues of poverty. Although the second proposition was given considerable publicity by the World Bank, it is the former argument that eventually won political support and that underlies the choice of approaches for addressing poverty. Initially, safety nets and targeting were viewed as temporary, on the presumption that the need for them would be diminished by the high employment elasticity of growth putatively associated with structural adjustment programmes. However, over the years it became clear that these measures were insufficient for the problems thrown up by adjustment

<sup>2</sup> An International Monetary Fund study (Baunsgaard and Keen 2004) covering 125 countries over the period 1975–2000 shows that while high-income countries have recovered revenues with ease, middle-income countries have recovered only about 35–55 cents for each dollar of trade tax revenue that they have lost, while low-income countries have recovered essentially none. Nor is there much evidence that the presence of a value added tax has in itself made it easier to cope with the revenue effects of trade liberalization.

and that their short-term nature was based on unfounded expectations about the effectiveness of macroeconomic policies whose negative effects they were supposed to temporarily mitigate. With the persistence of the problems, new approaches have been adopted, but such approaches have had to be compatible with the exigencies of both the ideological predispositions and macroeconomic policies favoured by the IFIs and bilateral donors. In line with the “new consensus” on poverty, many donors now lean heavily toward targeting—directly through projects that are specifically aimed at the poor, or indirectly through support to sectors that are likely to benefit the poor more than the well-off. The PRSP process upon which many developing countries have embarked and to which most donors now contribute is squarely premised on targeting the poor.

And finally there has been the rediscovery of efficiency as a primary policy objective, leading to the so-called “New Managerialism” in which concepts derived from the private sector replace the traditional ideas of public administration. This New Managerialism accounts for the increasing willingness to delegate important policy-making powers to technocratic bodies that enjoy political independence, producing what has been referred to as the “contract state”. This has spilled over to the national aid agencies, leading to the emergence of new arrangements for providing aid as features of the contract state were reproduced in the aid business. Such administrative arrangements, which call for “partnerships” involving the private sector and NGOs, have tended to encourage “parcelization” and “projectization” of social policy (Tendler 2004). This approach insists on a clear relationship between inputs and outputs, which in turn calls for clear delimitation of tasks and of costs and benefits. These institutional arrangements have not only been driven by the new “targeting” approach, but have themselves foregrounded this policy option. Significantly, this rediscovery of efficiency has gone hand in hand with the downplaying of redistributive and transformative (or developmental) concerns.

### ***Crisis of universalism***

The shift toward targeting also reflected the crisis of “universalism” in many countries due to a number of factors. As I noted earlier, the fiscal basis of existing welfare regimes has been placed under severe strain since the 1980s. In the advanced countries, demographic shifts and widespread unemployment led to the realization that there might be fiscal limits to universal provision. In addition, in many countries political transformations had undermined the political coalitions and the social pacts behind universalistic policies. Perhaps one major political weakness of universalism was the gap between its universalist proclamations and the actual reach of its policies. In practice, universalism was stratified and tended to apply to social groups directly linked to the nation-building project (state functionaries, military) and to the industrialization project. Such stratification was most sharply drawn out in countries pursuing import substitution industrialization and was especially evident with respect to social protection.<sup>3</sup> Even prior to the crisis and the adjustment that undermined these policies, such “stratified universalism” was strongly criticized for urban bias and for creating “labour aristocracies” (Areskoug 1976; Arrighi 1973) while marginalizing large sections of the population. What had been touted as policies that would eventually encompass the whole society appeared as exclusive privileges “captured” by a few in privileged sectors bent on blocking the extension of these programmes to other sections of the population. This opened the doors to the Right-wing populism that treated these privileges as part of the rent-seeking that had wrought havoc on the policies of *dirigiste* states.

There are a number of observations that need to be made here. First, the factors that are said to have bedevilled universalistic policies are likely to rear their head even with targeting. As Figueira and Figueira note with respect to Latin America:

the problems of social policy in Latin America were not exclusively the result of centralism, the pretension of universalism, or statist and sectoral approaches. Thus, decentralisation, privatisation, and targeting are not their

<sup>3</sup> On Latin America see, for instance, Figueira and Figueira (2002).

automatic solution. The problem in the region has been centralised authoritarianism, general inequality, rent-seeking political elites, and the bureaucratic weakness of states in coordinating and distributing services. These problems have not disappeared and their structural bases seems more present than ever (Figueira and Figueira 2002:127–128).

Second, it should be recalled that the foundation of many of today's most successful universalistic welfare states was such "stratified universalism". In most "late industrializers" such as Germany and Japan, welfare entitlements were directed at those parts of the workforce that were most crucial for economic growth, best organized, and thus politically most powerful: that is, skilled industrial workers (Manow 2001:95). Thus, for Germany and Japan, rather than extending to all members of the community universal social rights to a minimum level of subsistence, the states came into existence by granting privileges to groups whose cooperation in economic modernization and nation-building was deemed indispensable by political and economic elites. "Universalization" took place through the gradual extension of the "performance/achievement" model—hence the importance of full employment as a labour market objective. The approaches were generally additive: that is, over the years new beneficiaries were added by specification of new eligibility criteria.

In general, late industrializers tended to climb the ladder toward universalism much faster than the "pioneers" of industrialization. The speed with which universalism spread was conditioned by the political regime in place. In democratic societies where labour was free, universalism was rapidly extended partly by the necessity of forming coalitions between workers and peasants, as was the case in the Nordic countries. The important thing to recall here is that the underlying rationale of social policy in these "successful cases" was universalistic so that the tendency was to extend initially exclusive social rights for the employed to the rest of the labour force. This is in sharp contrast to current trends where the main preoccupation of social allocation is narrowing the scope of the coverage of social welfare. Structural adjustment programmes and PRSPs, driven by a "targeting" rationale, begin by dismantling the exclusive rights of formal labour on the grounds that this will lead to greater labour market flexibility and will attract donor funds for "pro-poor" policies.

Another criticism levelled against universalism is derived from the post-modernist emphasis on difference and diversity. The charge is that universalism has been used to create a false sense of unity, which conceals the fact that it discriminated against certain social groups on grounds of gender and race and that, through tutelage, it imposed on new groups standards set by the dominant group.<sup>4</sup> With respect to developing countries, these arguments have been raised more specifically in the context of gender and discussions on cultural diversity where purportedly universal policies have turned out to be parochial and reflective of fundamental biases (for example, racial or gender bias). Implicit in most of these points of view is the need for selectivity that allows for "affirmative" action or measures designed for different groups. In its most extreme formulation, this perspective suggests solutions that would ultimately make any society incoherent because it sanctions something tantamount to unlimited relativism and thereby eliminates any hope of discovering an agreed-upon theoretical and moral foundation on which to base allocatory practices. Ellison suggests that this "not only risks anarchy of competing claims from a variety of combinations of subject positions while offering no means of deciding among them, but also raises questions about how one can deal with those who seek to maintain, or alter, distribution outcomes at the expense of others" (Ellison 1999:70). The post-modern approach runs into a *cul de sac* reminiscent of welfare economics which, by its insistence on the impossibility of interpersonal comparisons, was unable to say much that was useful in designing social policy. The most successful feminist movements have pursued a double-pronged approach by criticizing the false universalism behind male-biased arrangements while insisting on universalistic social policies for eliminating forms of inequality in male breadwinner logic societies (Sainsbury 1996). And we find the most "women-friendly" policies

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<sup>4</sup> For a useful discussion, see Ellison (1999).

in societies that based their social policies on notions of social citizenship and where universalism is also an integral part of social policies (Anttonen 2002; UNRISD 2005). This said, the criticism does point to dangers of totalizing categories and points to the need for a constant re-evaluation of the foundations on which universalism is built.

### ***Exit redistribution***

The earlier focus on poverty was due to growing awareness of the economic cleavages within developing countries and the rather discomfiting realization that only anaemic “trickle down” had occurred with economic growth. This realization led to the calls for “growth equity” strategies. Although current debates on poverty pay little attention to equity, it is at times evoked in support of targeting. Indeed, in its more populist form the current debate on the choice between targeting and universalism as modes of social allocation is couched in the language of redistribution. Targeting can be used as a means for flattening the distribution of income and as an administrative means to reach groups in society whose income falls below a defined level. One measure of universalism is precisely how flatly the income transfer is distributed across a population of different incomes. Indeed one of the criticisms levelled at universalism is that it is not redistributive.<sup>5</sup> In contrast, targeting is portrayed as quintessentially redistributive precisely because it is premised on the view that the social returns for a given level of transfers are higher for individuals or households at the lower end of the income distribution than at the upper end. However, in practice, the element stressed with respect to targeting is not its redistributive properties but its cost-effectiveness. Indeed, the ideologies driving it are often distinctly opposed to equity and are guided by a philanthropic principle at best and, at worst, a mean-spirited paternalism. In any case, levels of equality are higher in societies pursuing universalistic policies than those that rely on means-testing and other forms of selectivity. The point is not that there is some functional relationship between universalist policies and redistributive policies in other areas, but that there is an elective affinity between the preference for universalism and other measures, such as high progressive taxes. Thus non-redistribution in transfers is more than compensated for redistribution in taxation. As Korpi and Palme have argued, while targeted programmes may indeed be more redistributive *per unit of money*, other factors are likely to make universal programmes more redistributive. This is neatly illustrated by the example given by Rothstein (2001). As table 1 shows, while everyone received the same absolute amount in transfers, taxation is proportional to income. The consequence is a significant reduction in inequality between A and E from 5/1 to 2.33/1.

**Table 1: The redistributive effects of a universal welfare state**

<b>Group</b>	<b>Average income</b>	<b>Tax (40 per cent)</b>	<b>Transfers</b>	<b>Income after taxes and transfers</b>
A (20 per cent)	1000	400	240	840
B (20 per cent)	800	320	240	720
C (20 per cent)	600	240	240	600
D (20 per cent)	400	160	240	480
E (20 per cent)	200	80	240	360
Ratio between groups A and E	5/1	(=1200)	(=1200)	2.33/1

**Source:** Rothstein (2001).

Not surprisingly, in reality societies that lean toward universalist social policies have less inequality than those that prefer targeting. The argument advanced by Korpi and Palme is that institutions of welfare also act as intervening variables, shaping the political coalitions that eventually determine the size and redistributive nature of the national budget by defining interests and identities among citizens, the rational choices they make and the ways in which

<sup>5</sup> Thus in Denmark, Left-wing or Social Democratic parties often argue for more income- or means-tested benefits because they are more redistributive (Green-Pedersen 2003).

they are likely to combine for collective action. It is this that produces what they call the “paradox of redistribution”: “The more we target benefits at the poor only and the more concerned we are with creating equality via equal public transfers to all, the less likely we are to reduce poverty and inequality” (Korpi and Palme 1998:681).

Predictably, the main objection to universalism is often aimed at the redistributive policies that come along with it (such as tax structures and labour market policies). Stripped of these other redistributive measures, universalistic policies may actually be embraced by conservative governments, especially when, as is often the case, they are based on regressive taxation. This might explain why, even among the late industrializers, the push for universalism was not always made by radical movements but by conservative regimes concerned with social peace and nation-building à la Bismarck.<sup>6</sup>

Targeting itself almost by definition leads to segmentation and differentiation. In service provision, targeting leads to the creation of a dual structure – one aimed at the poor and funded by the state, and one aimed at the well-to-do and provided by the private sector. Or, as Amartya Sen argues, “Benefits meant exclusively for the poor often end up being poor benefits.” (Sen 1995:14). One reason why such an eventuality is not taken seriously is that in many countries in which targeting has been effectively implemented, income inequality is already high, so that the segmentation in social provision does not raise eyebrows. Geographical targeting often leads to horizontal inequality so that the poor in one area might benefit more than the poor in non-targeted areas – assuming, of course, that the rich in the targeted area do not capture the resources. Such inequality can be explosive politically and is often the basis of ethnic conflicts. In many countries where ethnic, religious and cultural space is coterminous with geographical space, such geographical targeting can lead to inequitable geographical selectivity.<sup>7</sup>

### ***The marginal role of social policy***

The shift from “development” to “poverty reduction” has impacted on how social policy is perceived in the context of developing countries and has contributed to the narrowing of the remit of social policies. The preference for targeting is thus often a reflection of the residual role assigned to social policy, which has come to be seen as merely an instrument for correcting some of the negative outcomes of macroeconomic policies. One implicit assumption is that social policy is only about poverty eradication, whereas in many cases it has other objectives, such as national or social cohesion, and equity. Most of the arguments assume that social policies only lead to consumption, which reduces long-term growth. Universalistic policies are treated as part of the welfare state as an end that is attained only after crossing a certain threshold of economic development. Consequently, it is argued, poor countries should await their turn before introducing such policies. Such a view is ahistorical. As Atkinson (1995) argues, expenditure that is considered poor targeting when judged solely by the objective of alleviating poverty may well be directed at other objectives of the social security system. Historically, social policy has been conditioned by a wide range of considerations, including citizenship, nation-building, judgements on the sources of poverty and the conduct of the poor, faith in the efficacy of the market, political ideologies, theories of human behaviour, bureaucratic capacities, overall economic strategies, and international pressures and considerations. Indeed, in a number of countries, the relief of poverty was not even the most

<sup>6</sup> Green-Pedersen notes that in Denmark Right-wing or bourgeois parties often push for more universal benefits because they are more market conforming than income- or means-tested benefits. Writing about the United States, Pamela Herd (2005) observes that after decades of Conservative attempts to scale back, Conservative critics are now wrapping pro-market “privatization” policy proposals in the popular universal framework of social security and medicare. While supporting key universal tenets, privatization proposals limit the redistributive elements of large social insurance programmes.

<sup>7</sup> A study (Jayne et al. 2001) on targeting in Ethiopia notes that the poor in the Tigray region of Ethiopia were treated more favourably than would be justified by the region’s known levels of poverty. The study then suggests that such discriminatory practices could be eliminated using predicted per capita incomes. This suggests a rather poor understanding of Ethiopian politics and the current relationship of the regime to the Tigray region. Another study (Glewwe 1990) shows that if one used the standard approach to indicator targeting, maximizing poverty reduction, given a fixed budget for urban Cote d’Ivoire, would give all the budget to households born in one region of the country.

important motive for the introduction of transfers.<sup>8</sup> In developmental contexts, social policy has typically had a multiplicity of objectives that have included equity, social inclusion, nation-building, and conflict-management human capital formation (Mkandawire 2005b). It was part of a broad agenda of economic development and social transformation.

In a manner reminiscent of the Gerschenkron thesis on industrial policies (Gerschenkron 1962), late industrializers adopted certain social policies and institutions at a much earlier phase of their development than their predecessors (Mkandawire 2001). Indeed, the experience of late industrializers—and low-income countries that have done relatively well in terms of social development—clearly suggests that universal provisioning of social services is an important ingredient (Vartiainen 2004). Many European countries, for example, introduced flat-rate pensions at a comparatively early stage of welfare state development, when these countries had the same per capita incomes that Latin American countries had in the 1980s and 1990s (Stephens 2002). And in these cases, social policies have served not only as an instrument of development, but also as a guarantee that the development process will ensure, contemporaneously, the wide range of “ends” of development and nation-building. A whole range of social policies can enhance long-term growth. The arguments include the “human capital” effects, such as better education and health. Policies such as land reform or targeted credit may enhance the performance of markets that produce both equity and efficiency, which are good for growth. Finally, the social inclusion that social policies produce may contribute to political stability, which is a robust determinant of long-term economic growth. This aspect is particularly important in late industrializers undergoing radical social transformation (Vartiainen 2004).

The narrowing of the goals makes current social policies singularly ineffective against poverty, their focus on poverty notwithstanding. In many ways they suffer from the same weaknesses as the liberal regimes from which they draw their intellectual and ideological inspiration. Goodin and associates note that compared to other welfare regimes, liberal regimes are “strikingly bad at combating poverty in every respect”. This, they consider “odd, given that it is liberals who are so utterly fixated upon the question ‘what do they do for the poor’” (Goodin et al. 1999:167). One consequence of the narrowing of the reach of social policy is the tendency to downplay the under-coverage of targeting. One well-known fact is that the policies that have the greatest impact on poverty are not necessarily the most narrowly pro-poor, targeted ones. Indeed, in many cases the focus on pro-poor policies has diverted attention from policies that have the most broad-based and sustainable effects against poverty. The success of the late industrializers of Northern Europe in conquering poverty was not by explicitly addressing it but by addressing a whole range of issues that positively impacted on poverty or impeded the poor from bettering their situation—economic development in a broad sense, investment in human capital and equity were crucial to rapid eradication of poverty. The issue was not targeting poverty, but aiming at what Amartya Sen has termed “unaided opulence”. Interestingly, Japanese economists close to the aid establishment have argued that the “pro-poor” focus detracts from the larger development projects, which alone can address the issue of poverty in a sustainable way. The Japanese argument partly stems from the view that the current PRSPs and their targeting the poor diverges significantly from the experiences of the East Asian “success stories” in combating underdevelopment and poverty.<sup>9</sup> A similar point is made by John Weiss when he states:

Some errors of targeting and some misappropriation are inevitable in any economic environment and more can be expected in low-income countries. Further, the very modest level of resources directed at the schemes would also limit their impact, even given far lower targeting errors. However the consistent picture, which emerges from the available evidence, is that while some schemes may have had a modest positive effect on the poor, in our case-study

<sup>8</sup> As Jallade notes with respect to France, “Social security was never primarily conceived as a tool to fight poverty. Security, in terms of protection against the risks and hazards of life, was its first, paramount objective” (Jallade 1988:248).

<sup>9</sup> Indeed, many new democracies have tended to pursue rather orthodox economic policies as compared to much older democracies. I discuss this elsewhere and suggest some explanations (Mkandawire 2005a).

countries trends in poverty reduction have been driven principally by macro-economic developments—the rate and pattern of economic growth—rather than by targeted interventions (Weiss 2004:10).

## Lessons Learned

### ***The problem of administrative and transaction costs***

The use of targeting involves some mechanism that discriminates between the poor and the non-poor. As such it always runs the danger of committing either type I errors, which occur when someone who deserves the benefits is denied them (underpayment, false positives), or type II errors, which occur when benefits are paid to someone who does not deserve them (overpayment, leakage). Thus the ability to measure poverty and identify the poor is essential for designing any targeted transfer programme. There is no absence of theoretical models for achieving this, but as even the champions of this approach avow, targeting is usually faced with formidable administrative hurdles.

Most of the administrative constraints on targeting apply in both poor and rich countries but are invariably compounded in the poor countries where most people's source of livelihood is in the informal sector, people's "visibility" to the state is low, and the state's overall capacity is low. Many studies clearly show that identifying the poor with the precision suggested in the theoretical models involves extremely high administrative costs, and that the required administrative sophistication and capacity tend not to exist in developing countries (Srivastava 2004). In a World Bank study (Coady et al. 2004b) of 122 targeted anti-poverty interventions in 48 countries, the authors conclude that while the median programme transfers 25 per cent more to individuals than would be the case with universal allocation, a "staggering" 25 per cent of programmes are regressive. Available figures show that the median targeting programme in sub-Saharan Africa transfers 8 per cent less to poor individuals than a universal programme (0.92) (Coady et al. 2004b).<sup>10</sup>

In recognition of the difficulties of implementing the kind of targeting implicit in the conceptual framework in its favour, there have been attempts to use other (less demanding) covariates of poverty through categorical targeting (geographic, demographic, gender, household and so on). Other selection arrangements have also been resorted to, especially self-selection and community-based targeting mechanisms. Many of these arrangements are very blunt instruments to achieve the much touted efficiency of selectivity, and they simply shift the problem from one level to another.<sup>11</sup> They often lead to quite high type I and type II errors, in the sense that both under-coverage and leakage tend to be quite high. Often attempts to reduce type II errors leads to increased commitment of type I errors. As van Oorschot notes with respect to experiences in the developed countries, "Basically...it is the 'tragedy of selectivity' that trying to target welfare to the truly needy inherently means that a part of them will not be reached" (van Oorschot 2002:182).

Analysis of geographic targeting schemes in Latin America and the Caribbean show very high levels of under-coverage (see tables 2 and 3). When the targeting is refined further for Mexico, the best that one get is from is the *localidad* level, where the leakage and under-coverage are both 37.3 per cent. The case of India, with its long history of interventions aimed at channelling

<sup>10</sup> Significantly, this study is cited as evidence that targeting works (Ravallion 2003).

<sup>11</sup> Ravallion's (2003:11) observation in this respect is worth citing at length: "Policy makers seem often to have over-optimistic views on how well they can reach the poor by administrative targeting based on readily observable indicators. Here there are some sobering lessons from empirical research. Even using a comprehensive, high-quality, survey, one can rarely explain more than half the variance in consumption or income across households. And while household consumption is probably not a random walk, it is difficult to explain more than one tenth of the variance in future changes in consumption using current information in a panel survey. Add to this the fact that one must base targeting on observations for the whole population—not just a sample survey—and that there will be incentives to distort the data when it is known why it is being collected, one must expect potentially large errors in practice when using indicator targeting to fight chronic or (especially) transient poverty."

resources to the poor, does not inspire much hope in targeting. According to Srivastava (2004), the impacts have been “very disappointing” presumably because of serious under-coverage, so many of the poor are missed, and serious leakage, so many of the better-off benefit from the schemes. Poor implementation and weak governance are given as the key explanations for the failure of these schemes.

**Table 2: Targeting in the Americas: The “success stories”**

Country	Name of programme	Targeting accuracy for poorest quintile	Under-coverage (percentage of poor not reached)
Brazil	Bolsa Escola	1.98	73
Chile	PASIS (Pensiones Asistenciales de Ancianidad y de Invalidez) (old-age benefits)	2.67	84
Chile	Subsidio Única Familiar (SUF) (cash transfers)	3.32	73
Colombia	Subsidized Health Insurance Regime (SHIR) (health social assistance)	1.68	26
Mexico	Oportunidades	2.9	40
United States	Temporary Assistance for Needy Families (TANF) (cash transfers)	3.31	About half of those eligible
United States	Food stamps	4.0	Around 50

Source: Peyre 2005.

**Table 3: Leakage and under-coverage for state-level targeting in three countries**

	Mexico	Venezuela	Jamaica
Leakage rate	59.3	61.3	53.7
Under-coverage rate	61.0	59.8	48.7

Source: Baker and Grosh 1994.

A sharper form of geographical targeting is community targeting, which presumably allows for better identification of the needy. However, community-based programmes also have their local political demands and prerequisites, their gender bias, their patronage and clientelism, and may run counter to the universalistic cultures of local communities.<sup>12</sup> They can exacerbate local differentiation, be captured by local elites who may traditionally sanction discrimination, and so on (Conning and Kevane 2000). In many cases, deliberate exercise of administrative discretion has led to the exclusion of women. It is in the nature of targeting that it vests a great deal of discretionary power in the hands of bureaucrats, who may use this capacity to manipulate the social and cultural entitlement aspects of targeted programmes.

Self-selection involves programmes, such as public works, in which the poor are more likely to participate than the non-poor. They are often accompanied by onerous and humiliating procedures often deliberately designed to discourage the “non-deserving”. The measures used include rationing of food or health subsidies by queuing or inconvenient location of distribution centres, subsidizing inferior food staples or packaging in ways that are unappealing to the non-poor. The assumption is that the resultant costs to the poor are inconsequential to the poor themselves. However, there is considerable evidence that stigmatization comes along with such methods, and as a result there are

<sup>12</sup> Thus, in some localities covered by an Indonesian rice subsidy programme, rather than limit the subsidized rations to poor households as the programme rules formally require, the community or its head chose to divide the ration equally among all households (Klugman 1999).



high levels of non-take-up, whereby people who are eligible for a benefit or service either do not receive it at all or, if they do, do not receive it in full. In addition, the use of such stigmatizing instruments skirts the important issue of how equally the state relates to all its citizens.

Many studies on targeting perfunctorily acknowledge that targeting is expensive, but then proceed, totally oblivious of the fact that targeting is never costless.<sup>13</sup> In order for this analysis to take on its full economic meaning, it will have to weigh targeting efficiency against economic efficiency that takes into account the total economic costs of a given amount of poverty relief. The few attempts at costing targeting confirm an Asian Development Bank study of experiences in six Asian countries, which concludes “With relatively high levels of leakage the expectation is that in practice most targeting measures have been high-cost means of transferring benefits to the poor” (Weiss 2004:9). Both Grosh (1994) and Gwatkin (2000) show that the average cost of administering individual targeting schemes (which shows the best success rates when discussing targeting) is 9 per cent, varying between 0.4 and 29 per cent of total programme cost. Other less efficient models (such as self-targeting and geographic targeting) are cheaper, for example, the geographic model by 6-7 per cent according to Gwatkin (2000), and by 7 per cent, according to Grosh (1994). The median costs of self-targeting schemes are 6 per cent of total programme costs. Rawlings et al. (2004) find that social fund expenses vary among countries by between 7 and 13 per cent. Coady et al. (2004a) suggest that corruption and theft contribute more to total programme expenses than do legitimate administrative expenses. In light of the high levels of under-coverage, in measuring the costs of targeting, it is not enough to only include the budgetary costs due to leakage; the cost of under-coverage must also be factored in. Targeting implies a criterion for inclusion, which maximizes some welfare function, which in turn involves a weighting of the two types of possible errors. Cornia and Stewart (1995) argue for a function that looks like this:  $Cost = \alpha(\text{overpayment}) + \beta(\text{underpayment})$ . They argue that in conventional measures, it is implicitly assumed that  $\alpha=1$  while  $\beta=0$ . They suggest instead that  $\beta > \alpha$  would be the weighting that attaches importance to the failure to reach the poor.

It would indeed seem that targeting is a “luxury” which only countries with sophisticated administrative apparatus and substantive state reach can enjoy.<sup>14</sup> For it does seem that, by the logic of the argument for targeting, countries that need targeting (given their limited fiscal resources) cannot do so, while those that can (given their wealth) need not do so. In many successful late industrializers, it became self-evident that where poverty was widespread, targeting would be unnecessary and administratively costly. Thus the universalism in many countries was in fact dictated by underdevelopment—targeting was simply too demanding in terms of available skills and administrative capacity. In countries such as Norway, one reason for adopting universalism was pragmatism: “the administrative costs of keeping the wealthy outside the system would eat up resources saved by income limits” (Kildal and Kuhnle 2002). A common feature of social policy in the success cases of late industrialization is a leaning toward universalism in which benefits and services are treated as “merit goods” available to everyone as a right or obligation (for example, compulsory education).

This, in a way, would be the conclusion that one would draw from the World Bank’s and the International Monetary Fund’s (IMF) neoliberal perspectives on development policy and state capacity in other areas. Indeed the preference for targeting by the Bretton Woods institutions is rather paradoxical, especially in light of their aversion to targeting in many economic activities, such as selective industrial policies or credit rationing in the financial sector. Advocates of industrial policy have argued that, given limited savings or access to foreign exchange in developing countries, it is necessary to prioritize allocation of resources through “comprehensive planning”, targeting, credit rationing and so forth. The World Bank’s dislike for such selectivity and targeting was partly based on the arguments that they would not be

<sup>13</sup> Thus one study on Ethiopia ends with the following observation “because information on targeting costs was unavailable, assessments of relative cost-effectiveness were beyond the scope of this article” (Jayne et al. 2001:908).

<sup>14</sup> Even middle- and low-income countries with higher gross domestic product (GDP) do better at directing benefits toward poorer members of the population (Coady et al. 2004b).

market conforming. Instead it proposed such “universalistic” policies such as “level playing fields”, lump sum transfers and uniform tariffs that applied to all. The more serious arguments deployed against targeting revolved around possibilities of *information distortion, incentive distortion, moral hazards and administrative costs, invasive loss and corruption*. It was asserted that governments did not have the knowledge to pick winners or to monitor the performance of selected institutions. In situations of asymmetric information, beneficiaries of such policies would conceal the information necessary for correct interventions. Selective policies and rationing of credit or foreign exchange produced perverse incentives, making it more rewarding to seek rents than to engage in directly productive activities. Furthermore, there was the ever-present danger of opportunism (moral hazard), and governments could not always guarantee reciprocal behaviour from those to whom they had extended favours. Developing countries were identified with weak administrative institutions, which could not be expected to manage the detailed requirements of selective policies. In addition to the purely technical problems, there was the question of the integrity of public institutions and the commitment of personnel. In such situations, the “targeting” of economic policy was an open invitation to rent seeking and corruption.

One would have therefore expected that, in the name of consistency, the World Bank would favour universalistic social policies because they are less bureaucratic, cumbersome and more market conforming.<sup>15</sup> And yet when it comes to social policy, such universalism is rejected on both equity and fiscal grounds. Instead, selectivity and rationing are recommended—apparently in total oblivion of the many arguments against selectivity raised with respect to economic policy. Suddenly, governments lambasted elsewhere for their ineptitude and clientelism are expected to put in place well-crafted institutions and be able to monitor their performance. And yet there is nothing to exclude the possibility that targeting in the social sector may be as complex and amenable to “capture” as targeting with respect to economic policy. It is definitely the case that the criteria for selection are at least as complicated, as controversial and as ambiguous as those for economic policy. Social indicators are extremely difficult to construct, and poverty has a multidimensionality that is far more complex than that of industrial structures. Amartya Sen (1995) has raised exactly the same arguments against targeting in the social sphere.

### ***The politics of targeting***

From much of the writing on targeting, there is often a perfunctory bow to the political nature of social policy, as the analysis proceeds with little consideration of the political economy of the choices involved. Targeting or means-testing is thus treated as an administrative method whose function is to allocate welfare to claimants on the basis of available financial resources. However, the choice between targeting and universalism is quintessentially a political economy problem: it involves the choice of instruments for redistributing resources in society and for determining levels of social expenditure. These political economy problems are particularly poignant in the context of shrinking budgetary resources—that is, the context often used as an argument for targeting (however much of the debate on targeting in many poor countries skirts this problem). Partly because the funds to be targeted often come from outside, as a fixed poverty reduction allocation, and are supposed to be disbursed by autonomous specialized agencies or NGOs, the tendency has been to conduct the discussion on poverty in a “non-political” or technocratic way. As a consequence, much of the time it concentrates on the problem of disbursing external resources (aid), and not on that of generating the resources required for the task. Thus such an approach does not deal with the relationship between targeting and the political economy of domestic resource mobilization, and rarely does it consider the variations in the budget that may actually be determined by the chosen method and pattern of distribution.

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<sup>15</sup> Indeed, the more consistent neoliberals have argued for universalism precisely on these grounds (Green-Pedersen 2003).

### Budgetary implications of targeting

The usual assumption is that the amount spent on subsidies remains the same after introducing strict targeting, and that the targeted groups will therefore receive more. But in most cases the total allocation to subsidies is reduced, and in most cases the switch to targeting leads to reduced effort. In situations where the focus has been on poverty alleviation, the level of efficiency in addressing certain aspects of poverty has outweighed efforts. Thus “effort” and targeting are negatively related: countries with higher “efficiency” due to targeting have traded a good part of this by reducing “effort” (Korpi and Palme 1998; Oxley et al. 2001). The “paradox of targeting” is that optimal targeting requires that an increase in the needs of some group be met by a reduction in the resources allocated to it (Keen 1992). Targeting tends to lead to reduced budgets devoted to poverty and welfare, so that “more for the poor mean(s) less for the poor” (Gelbach and Pritchett 1995). Thus the more countries target benefits to low-income categories, the smaller redistributive budgets they tend to have. Korpi and Palme observe:

Our paper suggests two empirically based conclusions. To paraphrase an old saying, if we attempt to fight the war on poverty through target efficient benefits concentrated at the poor we may win some battles but will probably lose the war. Universalism is not enough, however. To be effective universalism must be combined with a strategy of equality which comes closer to the preaching of Matthew than to the practices in Sherwood Forest (Korpi and Palme 1998:683).<sup>16</sup>

The experience in developed and middle-income countries is that universal access is one of the most effective ways to ensure political support by the middle class of taxes to finance welfare programmes. Indeed, one thing that emerges from the many studies of the “political economy of targeting” is that the optimal policy for the very poor is not necessarily a policy that targets benefits as narrowly and efficiently as possible (Gelbach and Pritchett 1995; Moene and Wallerstein 2001). And quite a wide range of political economy analyses, differing in assumptions about self-interest, altruism, distribution of risks, capacity of states and so on, reach the same conclusion, namely that “the optimal policy for the very poor is not necessarily a policy that targets benefits as narrowly as possible, once the impact of targeting on political support is taken into account” (Moene and Wallerstein 2001:22).

For years, this “political economy” approach has been considered to have little relevance in many situations of developing countries with authoritarian rule. Quite a number of authoritarian regimes, especially the “developmentalist” ones, have succumbed to the legitimation imperatives and pursued more or less universalistic policies.<sup>17</sup> Perhaps because of the view that in authoritarian contexts the pursuit of universalist policies depends very much on the ideological and idiosyncratic proclivities of the ruler, such a political economy analysis has not received much attention in developing countries. However, with a growing number of countries increasingly relying on the democratic process to choose their leaders, politics assumes great importance. The importance of political economy even in the developing countries is illustrated by the case of Sri Lanka: after the Sri Lankan government introduced a targeted food stamp programme, the real value of the food stamps fell sharply during periods of high inflation, as the interest of the middle class shifted to other issues, and public support for the programme declined (Anand and Kanbur 1991). In the late 1970s, the cost of a universal ration programme reached 5 per cent of the gross domestic product (GDP), and the government was forced to cut costs by replacing it with a food stamp programme that cost only 1.3 per cent of GDP.

Finally, we should bear in mind that, often, initial choices map out the path that countries eventually take by setting societies collective ideological predispositions and reducing institutional scope for manoeuvre. Choices made in the formative years can determine the future course of policies and practices (path dependence). Such choices entail institutions

<sup>16</sup> Korpi and Palme (1998) also show that countries with universal provision not only have higher budget expenditures, but also tend to have lower deficits than countries relying on means-testing.

<sup>17</sup> On Korea, see Kwon (1999).

toward which interest will gravitate, severely restricting room for other options—including those that may have been universally accepted as desirable in the foreseeable future, though not feasible in the short run. The initial choice between targeting and universalism can lead to a political and institutional “lock-in” that can make departure from these initial choices difficult (see Esping-Andersen 1990; Pierson 2001). As Evelyne Huber argues, one of the advantages of universalistic policies is that “they provide policy legacies that are more favourable for the maintenance of a redistributive and solidaristic thrust than particularistic and targeted schemes” (Huber 2002a:465).

#### The “empowerment” versus stigmatization argument

Much has been said about the importance of “empowerment” in poverty eradication. However, effective empowerment demands the politicization of both poverty itself and the means to combat it. In the words of David Mosse, “Making poverty a public, moral, and political issue is often the basis upon which the poor gain leverage by making power work to their advantage through enrolling elite interests, through pro-poor coalitions, and from competition between elite groups” (Mosse 2004:61). The debate on poverty in the 1990s was closely associated with notions of “empowerment” and “participation”. The World Bank, presumably influenced by the work of Amartya Sen which highlighted the need to give “voice” to the poor, included three elements in its fight against poverty—“opportunity, empowerment and security”. The Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) Guidelines on Poverty Reduction (OECD 2001) clearly highlights rights, influence, freedom, status and dignity as important components of well-being. However, the practice by most donors has not paid much attention to the fundamental implications of such guidelines for social policies, or the institutions for implementing such policies. Instead they have insisted on forms of social assistance that were likely to be disempowering and even humiliating. As discussed above, measures such as community targeting and self-selection produce results that should be of concern to those advocating empowerment of the poor. The much bemoaned paternalistic and clientelistic practices of bureaucracies in developing countries would be compounded in situations where local administrators wield power over matters of life and death, and where “minor potentates can enjoy great authority over the supplicant applicants” (Sen 1995). Abuse and humiliation may become common features of citizens’ interaction with the state, as in the unavoidable and insurmountable “procedural injustice” in certain administrative routines (Rothstein 2001).

Political scientists remind us that, through processes of feedback, policies not only have a mobilizing effect on citizens but may also affect the capacities of citizens for civic and political engagement (Pierson 1993). Sen has argued that “any system of subsidy that requires people to be identified as poor and that is seen as a special benefaction for those who cannot fend for themselves would tend to have some effects on their self-respect as well on the respect accorded them by others” (Sen 1995:13). The process of means-testing or identifying the “deserving poor” is often invasive and stigmatizing. Indeed, in some cases, relying on self-targeting in the design of programmes actually serves to increase their *disutility*. Given the growing attention now being paid to self-respect and empowerment, the danger of stigmatization inherent in targeting is an important policy issue.

While the literature on welfare policies in developed countries pays considerable attention to issues of justice and dignity, this does not seem to be the case in the literature on developing countries. The possibilities of stigmatization are widely acknowledged but quickly passed over. In the context of extreme deprivation it is tempting to subscribe to a “full belly thesis”: that people do not eat dignity or democracy. However, there are serious issues of justice that must be taken into account in a poverty eradication programme that accepts John Rawls’s argument that self-respect is “perhaps the most important primary good” on which a theory of justice as fairness has to concentrate (Rawls 1971:386). Rothstein (2001) distinguishes between substantive justice (which seeks to answer the question, are the goals of a particular social policy just?) and “procedural justice” (which seeks to answer the question, can welfare policy be carried out in a

fair manner?). He argues that selective programmes present serious problems of procedural justice because they allow administrators a wide field for discretionary action. This breeds bureaucratic abuse of power and opportunistic behaviour on the part of the clients.

Literature from political science also reminds us that “public policies can define the boundaries of political community, establishing who is included in membership, the degree of inclusion of various members and the content and meaning of citizenship” (Mettler and Soss 2004:61). We also learn from political science that “any policy that sets forth eligibility criteria for benefits or rights, or established guidelines for citizen participation, implies that certain individuals are fully included within the polity and others are not, at least not to the same degree” (Mettler and Soss 2004:61). In addition, not only do policies express mobilizing or pacifying messages, they enhance people’s skills to play an active role in society. These features of sociopolitical arrangements are of great salience in new democracies, and especially in ethnically diverse new states.

### ***The “perverse incentive” effects argument***

Ever since Thomas Malthus, there has always been a concern over the effects of social provision on people’s work habits and independence. A major criticism of the welfare state is that it breeds dependence of individuals on the state. In terms of both intellectual and ideological affinity, PRSPs draw on the liberal welfare regime whose primary goal is “alleviation of poverty”, at least for the “deserving poor”. The PRSP approach is preoccupied with “target efficiency” and the avoidance of creating “dependence” on welfare, which is seen to blunt incentives to work and therefore as inimical to overall economic welfare. However, targeting does not escape the problem of incentives. Indeed, one cost that is widely recognized in the literature is that of *perverse incentives* created by changes in people’s behaviour in attempts to become beneficiaries of welfare policies, especially through perverse incentives on the labour supply of the poor. Individuals may avoid activities that may so improve their incomes that they are no longer eligible for public support. The high marginal effective tax rate can act as disincentive to getting out of the “poverty trap” “through its disincentive effects, means-testing tends to be dysfunctional with regard to social policy’s broader aims of doing away with poverty and dependency” (van Oorschot 2002:178). Universal benefits, on the other hand, do not damage market incentives to take a job or save for one’s own pension.

There is a second source of negative incentive of targeting that can be derived from broader notions of poverty, which include vulnerability as a key feature of being poor. One implication of taking vulnerability seriously is that in measuring the efficacy of social provision programmes, it is important that the gains are weighted by the probability of their actually being received. Most of the measures on the efficiency of targeting are *ex post*, and if one of the objectives of poverty reduction strategies is to reduce the uncertainty that constitutes a major concern of the poor, it is important to consider the *ex ante* features of such programmes. This is particularly significant in light of the recognition of the importance of reducing the vulnerability of the poor. This welfare consideration builds on the concept of the “certainty equivalent of income” from the risk-aversion literature, which argues that households will prefer a steady stream of income to a variable one with the same mean. The poor, who are often risk averse, might prefer lower variability for a given value of expected future prospects. As Stefan Dercon argues, what is essential “for any formal safety net and for any risk reduction policy, is that such a policy needs commitment and credibility. It should be permanent and transparent; moreover: it should be highly predictable” (Dercon 2001:68). As we have seen, targeting typically involves uncertainty about whether rights to the ration will in practice be met or not, especially in situations where there is a high probability of being excluded even when one is among the “deserving poor”. Targeted public provision implies serious risks faced by households to transform income and assets into outcomes, such as health and education. In addition, we should bear in mind that high consumption variability comes at a cost, not just in terms of current welfare but also in terms of long-term poverty alleviation: the choices made by households *ex ante*, and shocks *ex post*, may result in the poor

being locked into low-welfare equilibria. Universal policies, on the other hand, try to reduce their vulnerability *ex ante*.

## **Conclusion**

One remarkable feature of the debate on universalism and targeting is the disjuncture between an unrelenting argumentation for targeting, and a stubborn slew of empirical evidence suggesting that targeting is not effective in addressing issues of poverty (as broadly understood). Many studies clearly show that identifying the poor with the precision suggested in the theoretical models involves extremely high administrative costs and an administrative sophistication and capacity that may simply not exist in developing countries. The story of both the political and administrative difficulties of targeting is repeated so many times that one wonders why it is still insisted upon. Indeed, from the literature it is clear that where poverty is rampant and institutions are weak, what may be wrong is not the lack of appropriate data but targeting *per se*. It is definitely the case that in many countries, the shredding of the state apparatus has left it singularly incapable of effective targeting in the social sector. Most of the proposed refinements of targeting methods are likely to compound the problems that are often cited as constraints on it. An interesting phenomenon is that while the international goals are stated in international conferences, in universalistic terms (such as “education for all” and “primary health care for all”), the means for reaching them are highly selective and targeted.

The need to create institutions appropriate for targeting has, in many cases, undermined the capacity to provide universal services. And in the most aid-dependent economies, the shift of funds from state institutions and ministries to “projects” run by a motley assortment of non-state actors has immediately led to the unsustainability of activities that the state may have supported in the past or might wish to support now. We should also bear in mind that once institutions are set to implement policies, “political capture”, bureaucratic inertia and hysteresis can generate a dynamic of their own that may eventually rule out alternatives.

Social policies not only define the boundaries of social communities and the position of individuals in the social order of things, but also affect people’s access to material well-being and social status. This follows from the very process of setting eligibility criteria for benefits and rights. The choice between universalism and targeting is therefore not merely a technical one dictated by the need for optimal allocation of limited resources. Furthermore, it is necessary to consider the kind of political coalitions that would be expected to make such policies politically sustainable. Many countries are undergoing democratic transformations. Consequently, the main political economy questions that may have been obviated by authoritarian rule were taken off centre stage. On the assumption that poverty alleviation is a straightforward and well-defined social objective, it should be easy to argue that given budgetary constraints, resources should be concentrated on those in need. However, both the objectives and the constraints are not as straightforward as is suggested. They are both subject to political processes that determine what is to be allocated and to whom and for what reasons.

The current emphasis on targeting draws very little from historical experience both in terms of what is political and administratively feasible, and of what have been the most efficacious ways of combating poverty. This is partly a reflection of the distance between development studies and the study of welfare policies in the developed countries. Consequently, there is a lot of reinvention of the wheel, and wasteful and socially costly experimentation with ideas that have been clearly demonstrated to be the wrong ones for the countries in which they are being imposed. There is ample evidence of poor countries that have significantly reduced poverty through universalistic approaches to social provision and from whose experiences much can be learnt (Ghai 1999; Mehrotra and Jolly 1997a, 1997b).

Although we have posed the issue in what Atkinson calls “gladiator terms”, in reality most governments tend to have a mixture of both universal and targeted social policies. However, in the more successful countries, overall social policy *itself* has been universalistic, and targeting has been used as simply one instrument for making universalism effective; this is what Theda Skocpol has referred as “targeting within universalism”, in which extra benefits are directed to low-income groups within the context of a universal policy design (Skocpol 1990) and involves the fine-tuning of what are fundamentally universalist policies.<sup>18</sup>

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<sup>18</sup> A point well stated by the Economic Commission for Latin America and the Caribbean (ECLAC): “Since the lack of universal coverage mainly affects the poorest sectors, selectivity should be seen as a tool, or a set of tools, for guiding action, particularly in the allocation of subsidies aimed at ensuring access for the poor to social services and guarantees. That is why targeting, or selectivity, is not a social policy as such, but rather a method, which, if properly applied, enhances the effectiveness of universal social programmes. The fact that the principle of universality is translated into priority access to basic protection for the poor does not mean that selectivity, as a tool, represents ‘the’ social policy. Targeting the allocation of subsidies to the poorest population, although essential for equity, does not work against the principle of universality, unless universal coverage is conceived as the uniform allocation of public subsidies across the board, independently of households’ economic means” (ECLAC 2000:78–79).

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