Designing social policies to sustain public support for poverty reduction. INRICH conference
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- The conference has discussed policies of child poverty reduction, the economics of poverty reduction, and specific policies to reduce inequalities in health, especially among children.

- But what about the political foundations of redistribution?

- In this presentation, I discuss the political economy of redistribution, based on my previous work and on an overview of the literature, with a special focus on public opinion dynamics.
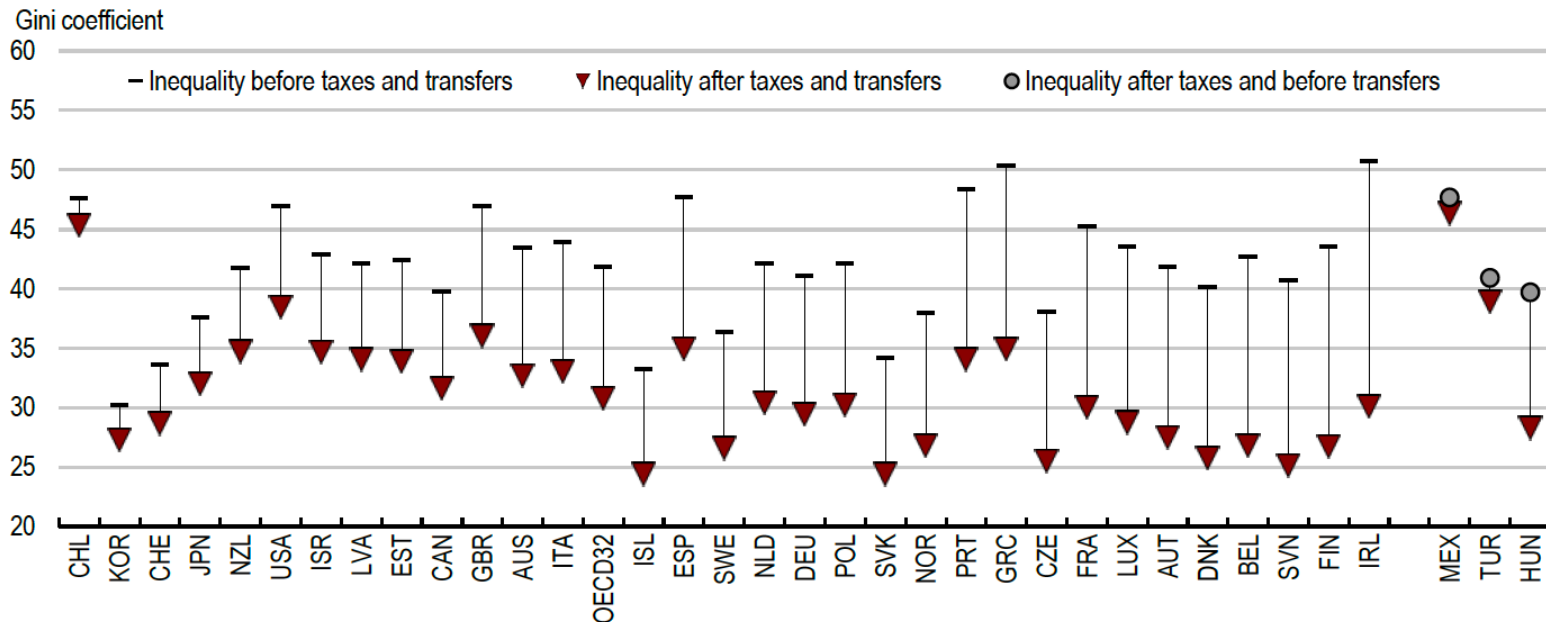
- Sorry if I don't talk much about children!

■ Plan:

- Four levels of redistribution

- How to spend the money: the paradox of redistribution and the logic of universalism
  - Is pro-poor universalism possible?

- How to get the money: tax levels and tax progressivity.

- Redistribution and poverty reduction are very strongly related.

- Redistribution is the difference between market income inequality and disposable income inequality (after taxes and benefits).

- Redistribution= transfer rate * targeting + tax rates * progressivity
  - The size and progressivity of social services and benefits
  - The size and progressivity of taxes

- Generally based on benefits, hard to measure services (underestimation)

Four levers of redistribution

- The components are related.
  - Ex: A government cannot achieve high levels of social expenditures without high levels of taxes
  - There are functional and political trade-offs between components

- Effects of size and progressivity:
  - Size matters more than progressivity
  - Countries that redistribute the most tend to maintain to have high size of both taxes and benefits;
  - They do not achieve high redistribution with the progressivity of taxes and benefits.
- Why?

Conventional wisdom:

In theory, for each dollar spent in social spending, making sur that the poor receive more than the rich is more efficient to redistribute income.

Many organizations, scholars and pundit consider that universal programs are a waste of money.

Redistribution should focus on targeting towards the poor

- However, the transfer rate (size of benefits) has much more impact on inequality than the degree of targeting (Causa and Hermansen 2017; Guillaud et al. 2019)

- Even if benefits, services and taxes are proportional to income (ex: 30%), the disposable incomes of the poor are increased considerably more than those of the rich while the benefits are considerably more paid for by the rich.

- Countries that achieve more redistribution and reduce poverty the most do so with universal benefits more than with targeting the poor (Korpi and Palme 1998; Jacques and Noël 2018).
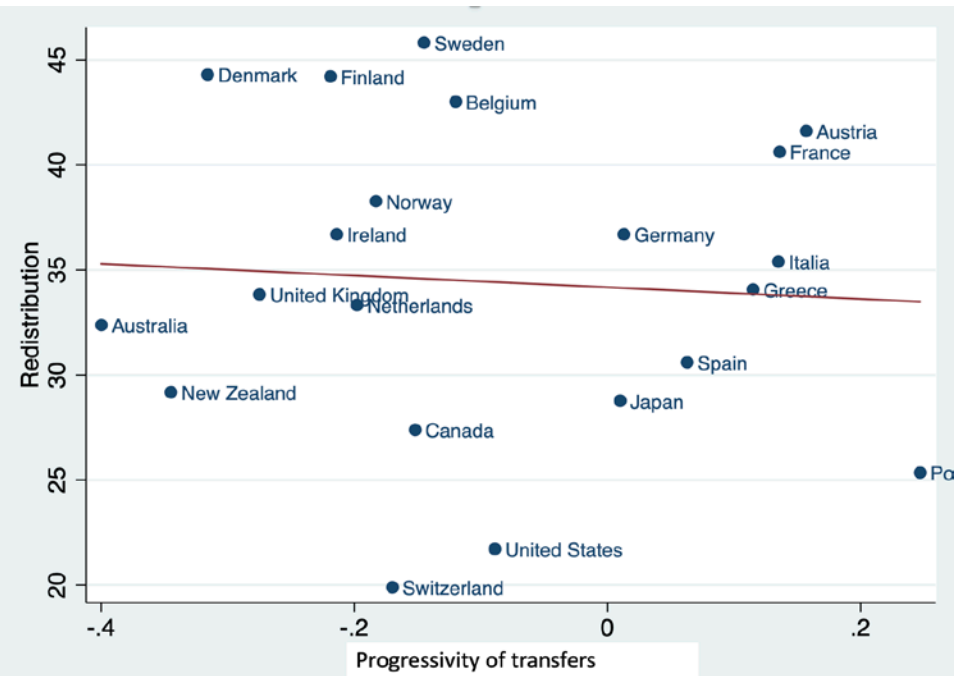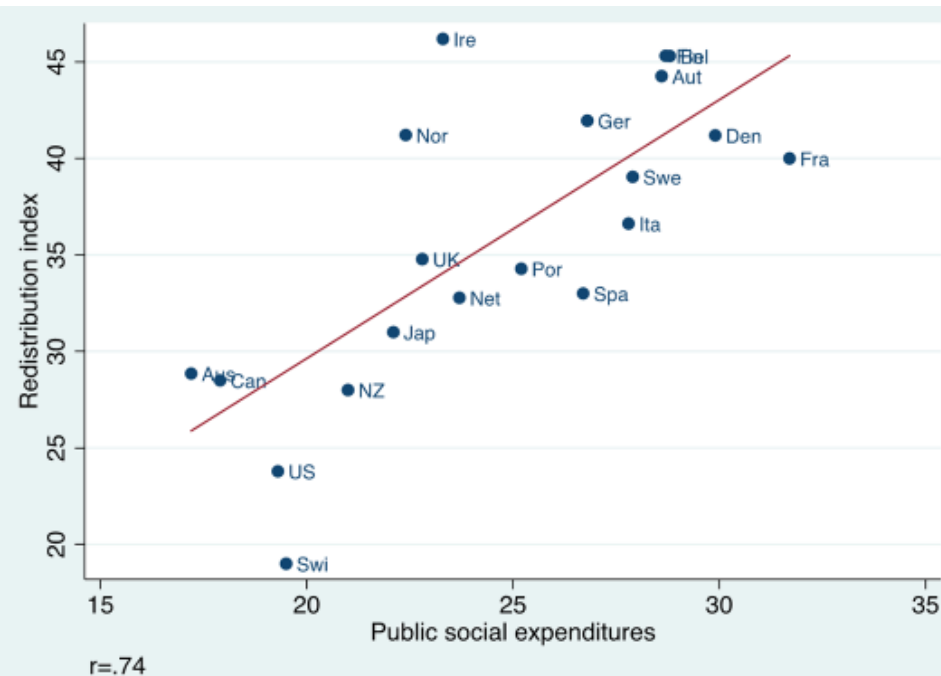
THE PARADOX OF REDISTRIBUTION

- There would be a trade-off between the size and progressivity of benefit, as progressivity reduces size (Korpi and Palme 1998; Jacques and Noël 2018).

- Smaller budget= smaller redistribution.

- Effective redistribution, results less from a Robin Hood logic — taking from the rich to give to the poor — than from a broad and egalitarian provision of services and transfers.

- A country obtains more redistribution when it takes from all to give to all than when it seeks to soak the rich to help the poor.

THE PARADOX OF REDISTRIBUTION

- Citizens are more willing to sustain redistributive policies with their taxes when they also saw themselves or their relatives as present or future beneficiaries.

- In the liberal welfare regimes (like Canada), the limited benefits offered to the middle class encourage it to turn to private insurance for social protection, and make it less likely to support a large redistributive budget.
  - Use of private services = reduce support for public provision (Busemeyer 2014; Lindh 2015)

- By contrast, in the universal welfare state, generous universal benefits and public insurance programs that offer good replacement rates for the middle class crowd out private insurance and ensure solid support for redistribution.

- Welfare states targeted to the poor cannot sustain middle class support.

- "Programs for the poor are poor programs" – Amartya Sen

- Targeting = zero-sum conflict between low-income households receiving benefits and middle-income citizens financing them; discourages broad coalitions in support of the welfare state

- Targeting fosters public discussions on the worthiness, neediness and deservingness of beneficiaries (amalgamation with race in the USA) (Larsen 2008). Even among beneficiaries, means testing creates a negative experience,

- = lower public preferences for redistribution

- Targeting has clear effects on public opinion:
  - Reduces support for redistribution (Brady and Bostic 2015)
  - Increase polarization between high and low-income citizens about redistribution (Beramendi and Rehm 2016)
  - Reduces support for taxation (Berens and Gelepithis 2019)
 - Targeted benefits are less resilient to austerity (Jacques 2023a)

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Example: universal vs. targeted child care

- Universal child care in Quebec, implemented in 1998.
  - Every parent pay 5$ a day (changed since then)
  - Any child can be included
  - Political consensus= change of government does not dismantle the program; resilient to austerity.
  - But, rich parents also benefit from the program; some pro-rich effects
- Other examples that did not work in provinces
  - British Columbia NDP expands child care for the poor in 2001.
  - Ontario Liberal do the same in 2018.
  - Change of government = repeal of the program.
- Federal government child care program in 2023 is more universal;
- but will parents see a change before a change of government?
- Is funding level adequate?

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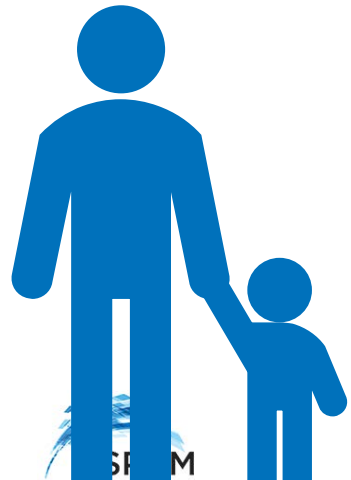
Figure 1. Universalism and targeting, OECD, mid-2000s
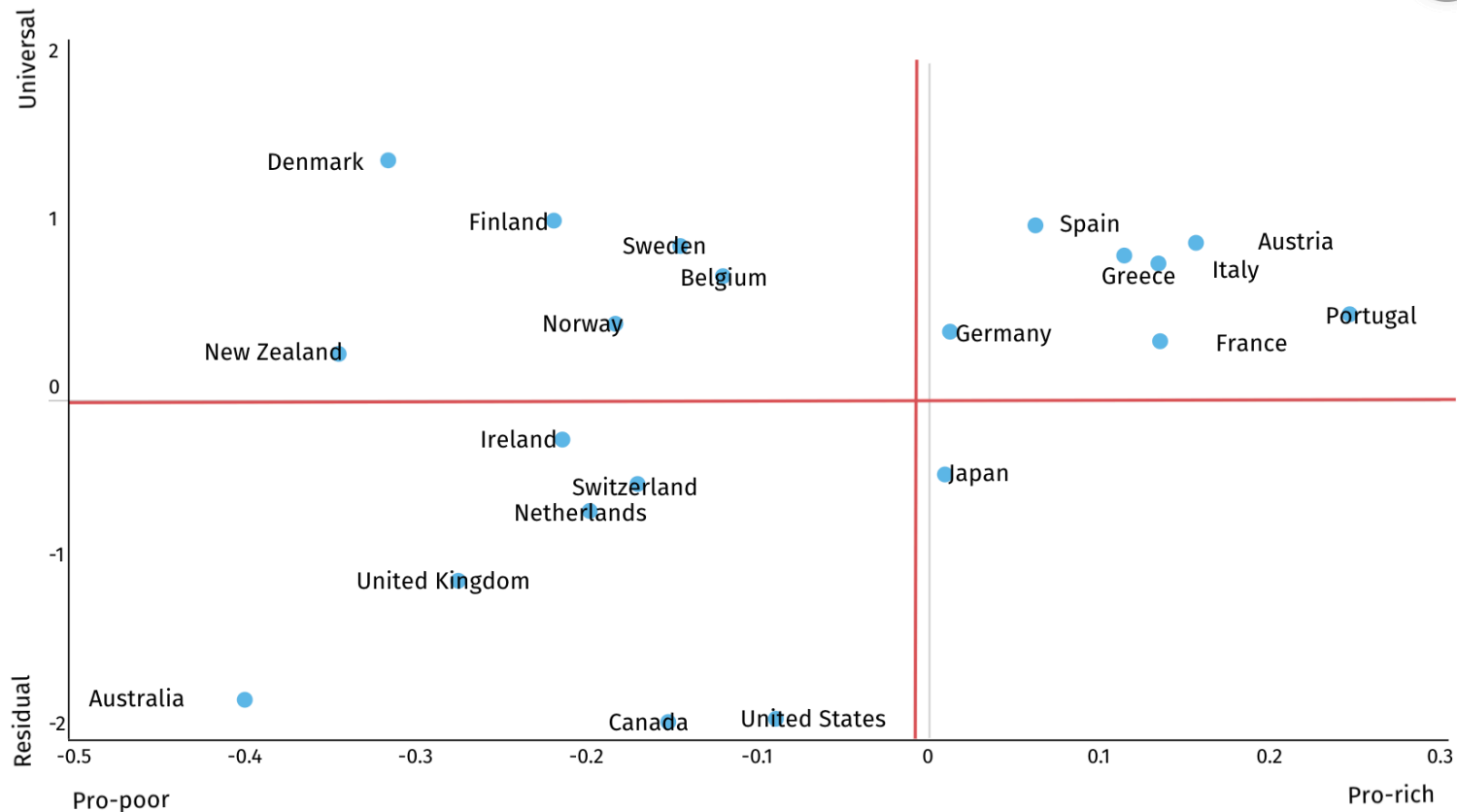
Note: Higher scores on the index of universalism indicate a smaller proportion of means tested benefits and of private social expenditures. Pro-poorness measures a concentration coefficient of public transfers ranging from −1 (when all transfers go to the lower income category) to 1 (when all transfers go to the higher income category).

Source: Jacques and Noël, 2021.

IS PRO-POOR UNIVERSALISM POSSIBLE?

- Targeting within universalism is best achieved when there are limits to earnings-related pensions, which are pro-rich by design, and more efforts to support working-age families.

- Employment insurance, for instance, is not explicitly targeted, but a generous program primarily benefits people with precarious or unsteady jobs, who are usually not among the high earners.

- Increasing the generosity of the employment insurance system would target within universalism

- Targeting within universalism can also be achieved with policies that offer more benefits to the poor than to the rich but give access to all (or most) Canadians.

- The Canada child benefit for instance, fits within this category since poorer parents receive large sums of money, while richer parents do not receive much.

- Measures aimed at specific categories of the population are not necessarily inimical to universalism if they are cast in a broadly universalist framework.

- Because high levels of social benefits matters the most for redistribution and poverty reduction, sustaining citizens' willingness to pay (WTP) to maintain level of taxation is crucial.

- Because taxes sustain benefits (and are generally progressive), lower taxes involve less redistribution

- Factors associated with more WTP (Jacques 2023b):
  - Trust in government; perception of quality of public services
  - Education
  - Ideology
  - Contributory funding
  - New research: the role of income growth (Jacques, Vlandas and Weisstanner 2024)

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- Large welfare states are generally funded by social security contributions, value added taxes on consumption and broad-based taxes.
  - These are not particularly progressive

- Trade-off between average tax rate (level) and tax progressivity (Guillaud et al. 2019; Prasad and Deng 2009; Verbist and Figari 2014).
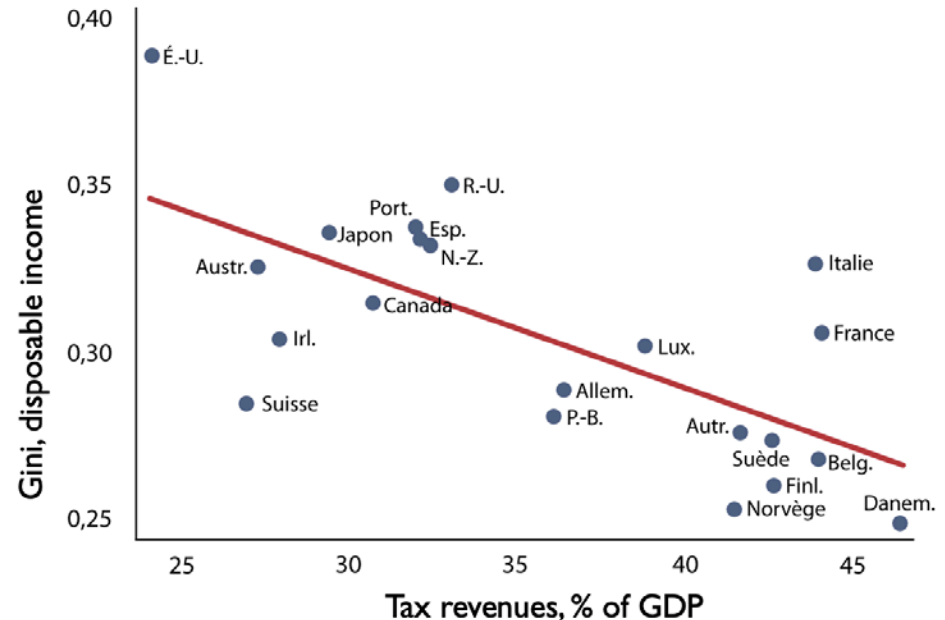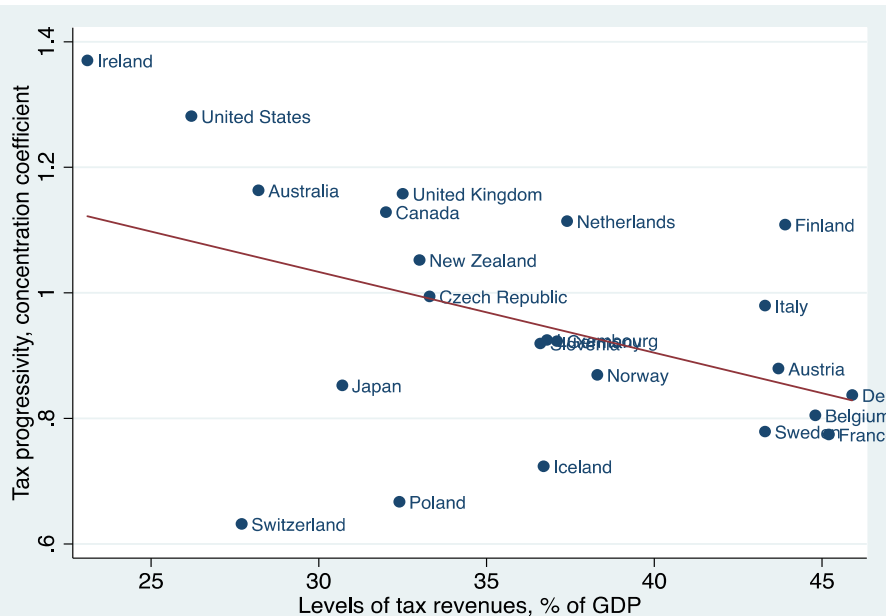
FOUR LEVERS OF REDISTRIBUTION: TAX PROGRESSIVITY

- Most progressive taxes taxes are on corporations, capital and high-income earners

- Public support for taking from the rich is driven by self-interest and by perceived fairness of market distribution
  - High support for taxing the rich during wars or economic crises (Scheve and Stasavage 2016; Limberg 2020)
  - Since they target rich voters, and voters tend to believe they are in the middle class even if they are objectively in the top of the distribution (Cansunar 2021).

- Taxes on the rich are quite popular, therefore potentially politically easier to raise… But:
  - Preferences stated in surveys may not reveal strong preference that would resist to a pollical debate (Fastenrath et al. 2022).
  - Do not generate very high levels of revenues because of avoidance possibilities in an era of capital mobility and tax competition (Lindert 2004).
  - Collective action problem; few richer voters organize against tax increases targeted on them vs. general interest of other taxpayers.

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KEY TAKEAWAYS

- A sustainable child poverty reduction strategy should not forget the logic of universalism and the paradox of redistribution.
  - Involve to accept some degree of economic inefficiency to achieve political efficiency
- Importance of size of taxation and sustaining WTP to sustain generous social benefits and universal services;
- Still, because increasing the size of the state is hard, governments must prioritize between policy fields;
  - importance of targeting within universalism
- Current perception of crisis of public services (Jacques and Perrot 2024), lack of trust in government and rise of populism are not good news for WTP.
- Taxing the rich is not a simple solution to fund the welfare state

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Additional slides

THE PARADOX IN ACTION

Persons	Market income	Income ratio with lowest quitile	Tax rates	Tax revenues	Universal transfers	Disposable income	Post tax and transfers income ratio
A	1000	5	40	400	200	800	2.22
B	800	4	35	280	200	720	2.00
C	600	3	30	180	200	620	1.72
D	400	2	25	100	200	500	1.39
E	200	1	20	40	200	360	1.00
Total	3000			1000	100/5		

Persons	Market income	Income ratio with lowest quitile	Tax rates	Progressive taxes	Progressive transfers	Disposable income	Post tax and transfers income ratio
A	1000	5	25	250	80	830	2.441
B	800	4	20	160	110	750	2.206
C	600	3	20	120	120	600	1.765
D	400	2	15	60	140	480	1.412
E	200	1	10	20	160	340	1
Total	3000			610	610		

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TABLE 1.
Annualized lifetime health care costs and payments in relation to income

| Annualized Lifetime	Q1 (low)	Q2	Q3	Q4	Q5 (high)	Ratio Q5 / Q1
Average income ($)	17,500	31,400	43,900	60,100	114,900	6.6
Tax payments to healthcare ($)	1,020	1,910	2,780	3,960	8,650	
Tax payments to healthcare as a percent of income (%)	5.80%	6.10%	6.30%	6.60%	7.50%	
Healthcare costs ($)	4,220	3,820	3,650	3,650	3,350	
Healthcare costs as a percent of income (%)	24.10%	12.20%	8.30%	6.10%	2.90%	
Net gain or loss (healthcare costs-taxes) ($)	3,200	1,910	870	-310	-5,300	
Net gain or loss as a percent of income (%)	18.30%	6.10%	2.00%	-0.50%	-4.60%	
Average disposable income* ($)	17,370	28,400	37,830	49,740	89,220	5.1
Average disposable income* + healthcare cost ($)*	21,590	32,220	41,480	53,390	92,570	4.3

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TAXING THE RICH DOES NOT GENERATE MUCH REVENUES

Projected revenue yield of different taxes changes, Quebec
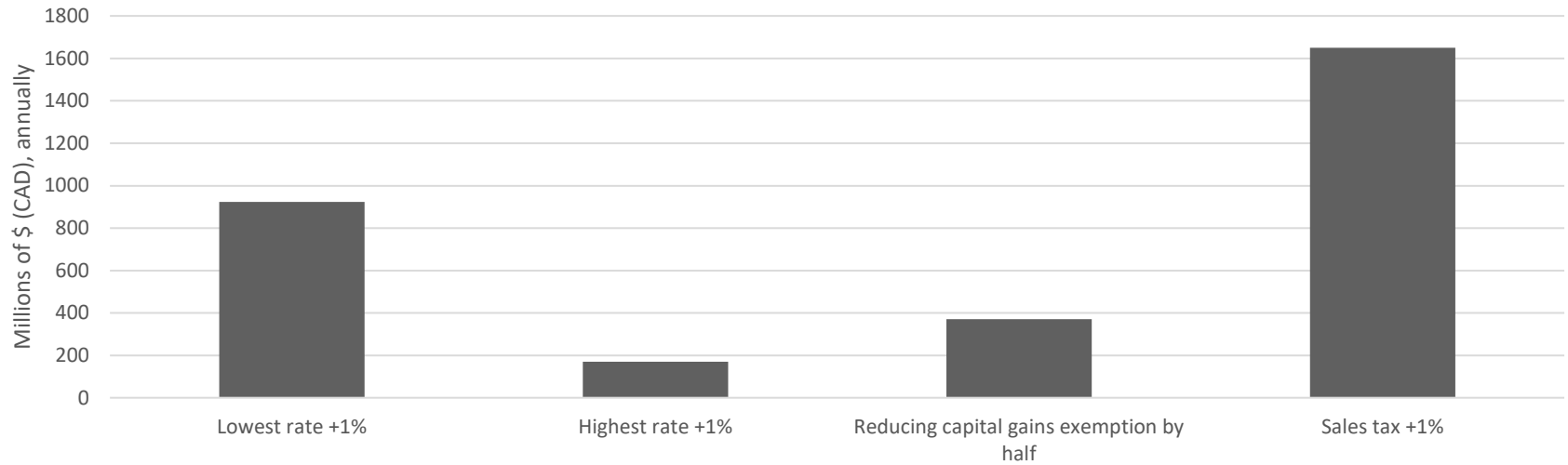
Source : CFFP, simulateur fiscal; CBO

Estimated annual revenue in 10 years for different tax policies for the US federal government

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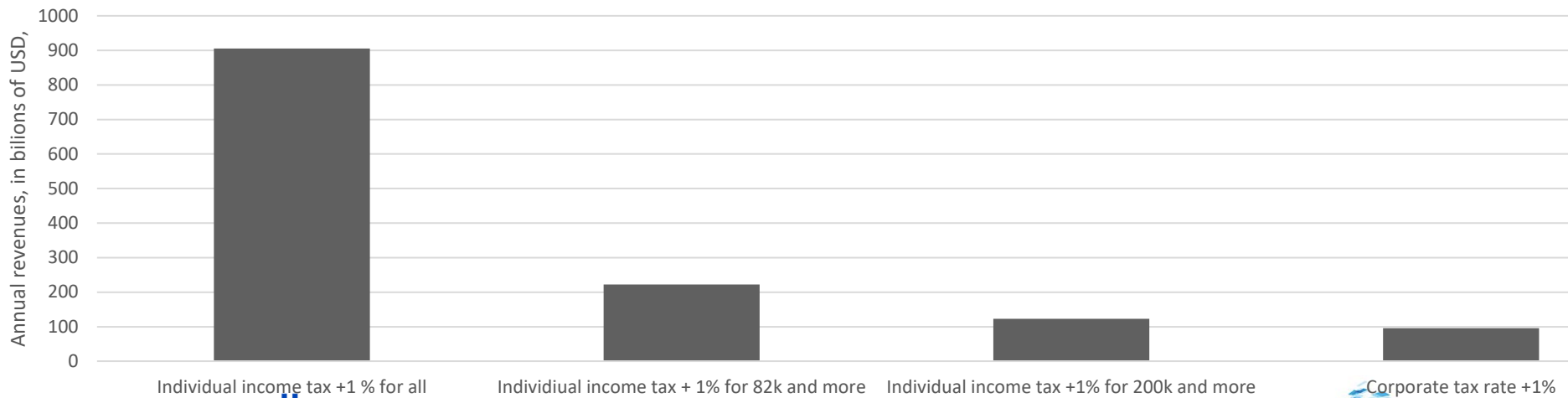
HIGH SUPPORT FOR TAXES ON THE RICH

Perceptions of taxes on different groups, ISSP 2016, 19 OECD countries