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Targeting and universalization as instruments for the reduction of inequalities

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1. Introduction

There is an extensive ongoing debate in Brazil¹ on the subject of inequality. In spite of abundant controversies, five objective data speak for themselves. The first of these is that the degree of inequality in terms of income in the country is extremely high, and is among the greatest in the world. What is surprising is that Brazil spends annually more than 20% of national income on social policies, which theoretically would be more than enough to eradicate poverty. In spite of the substantial social expenses, the degree of inequality has remained stable throughout the last few decades. Even without being able to reduce inequality, Brazil has succeeded in terms of fighting poverty in the last ten years.² Finally, the fifth and last point is related to the large impact that small reductions in the degree of inequality may have on the fight against poverty and especially extreme poverty, which motivates the search for manners of reducing the enormous degree of inequality.

If, on one hand, most people agree at least as to these five points, on the other hand, there is substantial divergence with respect to the extent to which public policies can indeed be effective in reducing inequality. Above all, there is a great debate as to which public policies would be more effective in fighting inequality, the main issues of which are the targeting and universalization of expenses and social programs. Targeting adepts defend their strategy as the most efficacious for reducing inequality and poverty, whereas universalization adepts argue that theirs is the most efficacious strategy.

¹ See, for instance, Henriques (2000) and Lessa (2004).

² What is curious is that, in spite of Brazilian social policies being unable to reduce the degree of inequality, there is evidence that these policies have been largely responsible for the reduction of poverty in the last ten years, especially in rural areas.

The targeting vs. universalization debate takes place throughout Latin-America, from countries such as Chile and Colombia – whose social policy agendas tend to be dominated by targeting strategies – to Costa Rica, where social policies tend to favor universalization. An important lesson to be extracted from these diverse experiences is that perhaps what prevents a consensus in this issue are not ideological differences or different conceptions of distributive justice, but a certain degree of confusion in terms of concepts and fundamentals.

In the recent study, we attempt to contribute to clarify the discussion of targeting and universalization by analyzing fundamental theoretical, ethical, analytical, and empirical concepts involved. We believe that by precisely defining these concepts we may also contribute to the development of more effective social policies for fighting inequality and poverty. More specifically, in this study we explore the relationship between targeting, universalization, and the effective combat of inequality.

We made efforts towards maximizing balance in the discussion of the advantages and limitations of targeting and universalization. Nevertheless, the reader may ultimately perceive, in the study, a certain tendency towards favoring targeting. If this occurs, it should be regarded much more as a result of our inability to completely balance the analysis than as an attempt to convince the reader of the superiority of targeting.

In order to accomplish this challenge, the present study was organized in five parts. The first part is dedicated to an analysis of the relationship between social policies and reductions in the level of inequality. We begin by discussing the relative neutrality of markets in the generation of inequality and justify the need for social and tax policies. Next, we reinforce the notions that there are different forms of inequality and that the design of the most effective social policy will depend on the type of inequality to be combated. Finally, we indicate that, although both universalization and targeting are capable of reducing inequality, targeting generally tends to be more effective.

In the second part we deal with the immediate determinants of the effectiveness of social policies in combating inequality and relate them to targeting and to universalization. More precisely, we show that in order for a social policy to be effective, it must satisfy three criteria: it must be efficient, efficacious, and must benefit

people by observing their deficiencies and by evaluating how much these deficiencies may be improved by intervention.

The third part is dedicated to deepening the concepts of targeting and universalization, as well as their complementarities and conflicts. Particularly, we attempt to clarify that there is no single concept of targeting and universalization, but a number of them. In this part we illustrate, particularly, the possibility of complementarity between the two ideals, showing how universal rights may be perfectly compatible with free access to basic goods and social services in a targeted fashion.

In the fourth part we turn our attention to the demand for targeting. We begin by emphasizing that, given that targeting is nothing more than an instrument for reducing inequality, the demand for targeting is derived from the demand for equality. Obviously, the demand for targeting also depends on its costs and on the dimension of the available programs. We thus attempt to identify the major costs involved in targeting and argue that, since these are fixed costs, targeting tends to be less recommendable for small social programs and for situations in which poor populations are less heterogeneous. Moreover, since the goal of targeting is to discriminate between social groups, its utility is also limited when the society seeks – and the available resources allows – to tend to the needs of the majority of the population. We finish by discussing the issue of whether, in the Latin-American context, targeting must be seen solely as a transitory instrument, necessary given the current limited availability of resources, or as a permanent instrument, important for combating inequality regardless of level of development.

Finally, in the fifth part of the study, we attempt to identify the main sources of bad targeting. We shall see that targeting problems can appear both during design and during implementation. Program design may hinder targeting due to an inappropriate choice, be it implicit or explicit, of target population. For example, if the aim of the program is to offer a service that will have impact only on the wealthier population, who have higher levels of schooling, targeting becomes unviable. Regarding implementation, we argue that the degree of targeting will depend on how national resources are shared between different localities and on how beneficiaries are selected locally. As the Brazilian evidence indicates (see Barros, Carvalho, Carvalho, and Franco (2003)),

leakage in any one of these cases may lead to serious failures in the targeting of social programs.

Part 1: Institutions and the responsibility for the promotion of inequality

2. The market and the promotion of inequality

When we shift from a scenario in which individuals do not interact economically to another in which there are exchanges, profits in terms of well-being are generated. A number of different institutions may allow for the concretization of these exchange profits, the market being only one of them.

The main advantage of the market in the generation and sharing of exchange profits is that it ensures a free and impartial process. In other words, when markets are operating, the bargaining power of its agents is balanced, since these agents take prices as given, thus preserving freedom of exchange.

Therefore, the degree of inequality in the final distribution of well-being produced by the free operation of the market will depend on two factors: (a) the degree of inequality present in the initial distribution and (b) the degree of inequality observed in the distribution of exchange profits. Given that the market lacks any intrinsic judgment of value, one cannot blame its free operation for the greater degree of inequality in final distribution in relation to initial distribution. Consequently, one cannot expect the market alone to be able to generate a more or less equal final distribution.

In the present study, we understand that any intervention aimed at promoting equality may be considered as a social policy. Social policies may seek to interfere with market operation itself, so that it can generate more equal distribution, or it may allow the market to operate freely and correct the results *ex post*.

Social policies are responsible for the alteration of current levels of inequality. Since this is their goal, social policies are accountable, whether the results observed correspond or fail to correspond to what the society believes to be fair.

3. Social policies and equality: what equality?

As we have seen, in the present study, the goal of social policies is to reduce inequalities. But what type of inequalities should these interventions reduce?

Inequality of results is the prevailing type in the final distribution generated by any process of sharing exchange profits, the market being one of them. To act upon this inequality of results is the goal of compensatory social policies, which, not intending to transform individual productive capacities, simply prevent poverty from having more serious consequences on the well-being of the population. In cases where it is not possible to rely on a transformation of productive capacities and opportunities, compensatory policies must be drawn into action after a certain period.

In market-based societies, inequality of results depends on the initial endowments of agents, which reflect both differential access to productive resources (education, credit, inputs, equipment, etc) and innate differences (talents, physical strength, physical deficiencies, etc). Structural social policies are aimed at altering initial endowments, reducing inequalities in access to productive resources and opportunities, and thus rendering people more capable of achieving better results for themselves. In contrast to compensatory policies, the 'emancipation' promoted by structural policies allows the latter to assume a more transitory character, which obviously does not mean that social investments must not be undertaken on a permanent basis.

The extent to which a social policy must reduce inequality of results or of opportunities is a decision which must be made by each society. It should be emphasized that there are interactions between the effects of compensatory and structural policies. That is, all compensatory policies are capable of generating a certain level of structural impact, just as all structural policies may reduce inequality of results to a certain extent. For instance, a traditional minimal income program, primarily aimed at combating inequality of results, may generate structural effects insofar as families decide to use the additional income to invest on the family members themselves rather than on financing consumption. As to structural policies, it is always desirable that increases in the equality of opportunities reflect themselves on an increase in equality of results. In a land distribution program, for instance, the intention is to promote greater equality in the access to productive resources, which, upon utilization by the poorer population, may increase equality of results.

Despite being aware that the impacts of compensatory and structural policies have retro-feeding effects, there are certain objective reasons for which a society favors one type of policy to the other. A combination between a reasonable volume of available

resources and a high degree of inequality makes it ethically urgent that part of the social resources be spent on compensation. This is the case in certain Latin-American countries, such as Brazil and Panama. The logic here is that it takes time before investments can be harvested, and, given that resources are available, why allow part of the population to suffer privations in the present, until the investments begin to produce effect?

On the other hand, when we consider societies with few available resources and a high degree of inequality – as is the case in countries such as Bolivia, Nicaragua, and Honduras –, the insufficient resources for social policies require external help even for the concretization of structural interventions.

4. How to achieve greater equality? Universalization *versus* targeting

Social policies, be they compensatory or structural, may seek to promote greater equality by means of two fundamental strategies, namely universalization and targeting.

Universalization means guaranteeing the entire population free access to a given service or good, be it an investment or a compensation. Targeting involves the prioritizing of certain social groups. The rule used for prioritization must take into consideration both the beneficiary's degree of need and the benefit that the program may bring to this beneficiary, i.e., program impact. With compensatory policies, since intervention impact tends to be uniform, the groups prioritized are usually the more needy. This is not the case when dealing with structural policies. When social investments are undertaken, it is necessary to consider the return these investments will yield. And, depending on how the program was designed, the poorer population may not always yield sufficient return. We shall deepen this discussion in sections 7 and 8. For now it will suffice to clarify that, in the specific case of targeting, it is very important to differentiate between compensatory and structural interventions, for, depending on the type of policy, one may arrive at very distinct target populations.

4.1. Equality of results: universalization *versus* targeting

With universalization, all individuals have access to the same benefit. Since this benefit is sure to represent a larger proportion of the income of poor individuals than of non-poor ones, there is a reduction in the degree of inequality of results.

The targeting of a compensatory program, on the other hand, must prioritize the poorer population, and consequently will concentrate benefits exclusively on this group, which, by definition, reduces the degree of inequality of results.

Considering a program with a given level of resources, keeping all other variables constant, the reduction in the inequality of results will be greater through targeting than through universalization.

4.2. Equality of opportunities: universalization *versus* targeting

This is true also in the case of structural policies; targeted interventions are more efficacious in reducing inequality of opportunities than universal interventions, since, if all available resources are destined to the poor, the reduction in inequality will be more marked than if the same resources are equally shared among the entire population.

Notwithstanding, there are certain situations in which universalization may generate greater equality of opportunities than targeting. Since universalization guarantees equal access to all, it frequently occurs that the quality of the services provided fulfill only the demands of the poor, whereas the non-poor prefer to resort to the private sector. This difference in quality between the public services to which the poor have access and the private services used by the non-poor has a serious impact on the equality of opportunities.

A way of avoiding this problem is to attract the non-poor to public services so as to annul the difference in the quality of services to which the two groups have access. In order to attract this new group, it is necessary to increase the quality of the services supplied to the extent that it would no longer be interesting for the non-poor to pay for the greater quality of the private sector. Obviously, keeping everything else constant, the financing of such an enterprise requires an increase in taxes, and implicates in the destruction of the markets that offer such services privately.

In this scenario, poor and non-poor would have access to exactly the same services, which would guarantee the equality of opportunities, at the expense of an increase in inefficiency, since the quality of the service finally obtained by the non-poor would be inferior to that which they would obtain were they to resort to the private sector. Likewise, the quality of the service to which the poor have access is inferior to that to which they would have access if the program were targeted. In spite of both

groups having access to a service of lower quality than that to which they could otherwise, universal provision leads to a sharper reduction in the degree of inequality of opportunities than targeted provision.

Universalization may be inefficient in fighting the inequality of opportunities not only due to problems in the quality of services offered by the public sector, but also because of the possibility of variations in program impact according to the beneficiary's level of income. Hence, whenever there are increasing returns of scale, i.e., when impact increases along with the amount of the benefit received, it is true that the impact on the non-poor will be greater than on the poor. For instance, consider that the impact of the second professional training program to which an individual has access is always greater than that of the first, and that the impact of the third program is greater than that of the second, and so on. In this case, with the universal provision of a training program, the non-poor, who are more likely to have attended prior training programs, will be more benefited than the poor, who are very likely to be attending such a course for the first time.

5. Instruments of social policies

Compensatory and structural policies employ classical instruments to promote the indented reductions in inequality. In this section we shall discuss some of these instruments and show that, at times, it may be difficult to make these instruments compatible with targeting strategies.

5.1. Instruments of the compensatory policy

We may classify the instruments capable of reducing the degree of inequality of results into basically two categories: (a) regulatory instruments and (b) redistributive instruments. Regulatory instruments act upon the operation of the market itself, promoting a distribution of results with the desired degree of equality. Examples of this type of policy are the minimum wage and the control of prices of basic goods and services.

Redistributive instruments, on the other hand, allow the market to freely produce its own distribution of results in order to later promote a more equal redistribution. These comprise basically the transferring of resources, goods, and services directly to

families or by subsidizing consumption. Resources for these transfers/subsidies are obtained from taxes or tax deductions.

Both types of instruments – regulatory and redistributive – generate economic inefficiencies, be it by leading the final result away from what would be an optimal allocation, be it because the promotion of inequality may generate inefficiencies such as those described by Arthur Okun, i.e., it may increase administrative costs and modify work incentives. But, if both instruments suffer from the generation of inefficiencies, additional limitations can make one category preferable to the other.

The main inconvenient of regulatory instruments is the recurrent lack of transparency in terms of who pays and who benefits. A minimum wage program, for instance, has effects not only on the formal workers in the labor market, but also on the informal labor market, on the beneficiaries of social programs whose benefits are linked to the minimum wage, etc. Ultimately, it is difficult to compute all these effects, and to know how much each individual has paid or received. Price control policies are therefore hard to target.

As to redistributive instruments, it is assumed that the degree of results will depend primarily on the volume of resources transferred and on the progressiveness of taxes. It will also depend on the degree of targeting and on the effectiveness of expenses. Effectiveness is here understood as *how much of the resources are actually being able to reduce the degree of inequality*. Section 6 will be entirely dedicated to discussing the determinants of effectiveness.

5.2. Instruments of the structural policy

Social investments comprise all measures aimed at increasing the productive capacity of individuals. In principle, one could imagine that, by guaranteeing a certain level of income to all individuals, as long as there are markets for all kinds of goods and services, each person would be responsible for investing in what he or she considers more relevant, and in the amount deemed most appropriate.

Currently, however, we observe that, in a series of circumstances, the State not only provides minimal income to individuals but also guarantees access to certain goods and services for which there are fully developed markets. For example, it is common for the state to offer public services in the fields of health and education, instead of simply

ensuring that people have sufficient income to consume such services in the market. Why does this happen?

A first explanation is that these goods whose consumption one desires to encourage are *merit goods*. If there is reason to believe that, even with sufficient income, people tend to under-invest in certain goods or services that substantially affect their well-being, then the State may find room to intervene. Thus, by knowing which are the investments that substantially affect people's well-being and how much it is recommended to invest, it is possible to provide adequate incentives to these people. Of course, the choice of which are the *merit goods* involves a certain arbitrariness, or some degree of paternalism.

A second explanation for the State providing specific goods and services instead of simply guaranteeing income to the population is the degree of externality involved in these investments. For example, vaccinating a child generates positive externalities to the community, in the same way as educating a person also generates positive externalities to those who live with him or her. Hence, it may be desirable to encourage vaccination and education to an extent beyond that which would be accomplished naturally by these individuals were they to rely solely on their private expense decisions.

Finally, it should be noted that, regardless of the instrument employed by the structural policy (income, merit goods, goods with high externality), targeting is always possible.

Part 2: The effectiveness of social policies

6. Components of effectiveness: efficiency, efficacy, and targeting

As we have seen, effectiveness is related to the extent to which the resources spent are able to reduce the current degree of inequality, be it of results or of opportunities. Therefore, effectiveness is doubtless a desirable quality in any social policy.

The effectiveness of social policies does not depend exclusively on how much is spent, but depends also on how it is spent. Overall, we may divide effectiveness into three determinants: (a) the efficiency when conceding the benefit, (b) the efficacy of the benefit itself, and (c) the degree of targeting.

6.1. Efficiency

To be efficient means that, given a certain volume of resources, it is not possible to benefit more people without reducing the quality of the service offered. If, maintaining the program's resources and quality standards, it still is possible to benefit more people, this means the program is inefficient. Likewise, if it is possible, with the same volume of resources, to increase program quality without reducing the number of beneficiaries, this also means the program is inefficient. Therefore, efficiency is necessary in order to ensure that the available resources are transformed into the greatest possible volume of benefit for the population.

6.2. Efficacy

Efficacy is the power of the social policy to transform the lives of its beneficiaries, especially by providing poor families with the opportunities or resources they need in order to overcome poverty. An efficacious social program is not necessarily a program with a large volume of resources; rather, it is a program actually capable of inducing the desired changes.

It should be noted that the efficacy of a program may vary between the poor and the non-poor. The greater its efficacy among the poor, the greater the effectiveness of a given social policy in reducing inequality. In fact, the greater impact of a program on the poorer population can increase the progressiveness of social expenses, even in universal

programs. This occurs because, in spite of different social groups being allocated equal shares of the total expense, the greater impact on poorer groups will concentrate a greater share of the total impact on this population.

Likewise, if the program has greater impact on the richer population, the degree of inequality may actually increase. There are programs that, although universal, require that the beneficiary spend complementary private resources in order to enjoy the benefit. For example, if the benefit at hand is the subsidized access to electricity, the richer groups, since they have more electrical/electronic appliances, may ultimately benefit much more from the subsidy than poorer groups. The same logic can be applied to higher education. For this level of education, the children of non-poor groups are able to prepare themselves for professions that are generally better paid, and which require full-time education. The children of poorer groups, on the other hand, ultimately choose typically less well-paid professions – which require less intensive education, often offered in shorter, night-time courses – so that they may work and study simultaneously.

6.3. Targeting

Combating inequality requires that social programs be not only efficient and efficacious, but also that they be directed towards those that will benefit the most from them. We have seen that, for compensatory policies, the target population must be composed of the poorest individuals, whereas this is not necessarily the case for structural policies.

When designing social policies, it is necessary to observe not only the family's level of poverty, but also the rate of return of the individual. Surely, a child living in a rich family environment, with plenty of stimuli and other investments, has greater chances of yielding a higher rate of return than a child coming from a poor family environment dominated by high levels of parental ignorance. We shall discuss this issue in greater detail in Section 8. For now, it is important to attend to the fact that we are determining what would be the rate of return in terms of the *public* investment. In our example, given that the rich child would have had access to the service regardless of it being public or private, the rate of return for the public investment would be null. Thus, for the rich, free access to a given service may not increase its consumption, but merely

cause the substitution of a free public service for something which was previously financed by private resources, in a phenomenon known as ‘crowding out.’

Other examples of this phenomenon occur with free high-quality higher education or with free high-complexity healthcare services. In the absence of public services, the rich would still have access to these services in the private sector, using private resources.

On the other hand, the poor would not have access to higher education or complex healthcare services unless these were offered free of charge. In this scenario, the impact of public investments on the poor may not only be greater than on the non-poor, but also may differ substantially within the poor group.

Part 3: The conceptualization of targeting

7. The two concepts of targeting and the conflict with universalization

In principle, there are two different notions of targeting. The first one is highly intuitive, and is not necessarily contradictory to the ideals of universalization. The second notion is more restrictive about how large the public sector should be and is therefore in conflict with the idea of universalization.

We define the first notion of targeting as *giving priority to the poorest*, which does not intrinsically oppose the goals of universalization. Targeting, in this sense, simply means that the population will be arranged in a line according to their degree of need, the neediest individual occupying the first position and the least needy, the last. The logic is to assist individuals respecting their order in the line, until the available resources finish. If there are enough resources to benefit the entire population, one will be promoting a universal policy while simultaneously respecting the ideals of targeting.

The definition of targeting simply as ranking individuals for the concession of benefits is known as the ‘weak’ notion. In this context, a failure in targeting is detected whenever a group which has not received the benefit occupies a position ahead of other groups which have received it. The fact that certain prioritized segments may not be receiving the benefit cannot be interpreted as a failure, provided that all segments being benefited be of even higher priority. Likewise, the benefiting of certain non-prioritized segments may also not constitute a failure, provided that all higher-priority segments be already included. For this ‘weak’ notion, what is important is to respect the line, regardless of which is the last social segment to receive the benefit.

The second – or ‘strong’ – notion of targeting, on the other hand, is based on *assisting only* the most needy. This notion includes the weaker definition presented above, but does not allow the entire line to be benefited by the social policy, which is restricted to the prioritized segments. In this case, there will be a failure in targeting whenever the program is extended to cover also non-prioritized groups, even if the line is respected. Therefore, by this definition, targeting means that public resources must benefit only prioritized groups, which obviously contradicts the principles of universalization.

Maybe the best way to visualize the ‘universalization *versus* targeting’ dilemma is to follow the process of expansion of a social program. Let us imagine a program that provides free public services of inferior quality to that of similar services provided by the private sector. Furthermore, this program is poorly targeted, in the sense that there are certain excluded segments that are of higher priority than other segments which are included in the program. The first step would be to organize the line, that is, to improve targeting by including the higher-priority segments. Once the line and obedience to it are reestablished, targeting in its weak sense will have been fulfilled entirely.

An eventual increase in the volume of resources allocated to the program will create a dilemma as to how these additional resources should be spent: whether by expanding the population benefited (advancing towards universalization), or by improving service quality for those already being benefited (advancing towards targeting).

A possible solution for this dilemma is opting for strong targeting, thus limiting public assistance to the prioritized population. In this case, non-prioritized groups must resort to the private sector. A second solution, still along the lines of strong targeting, is to expand the public services to non-prioritized groups without the need for additional public resources. For such, it would be necessary to charge members of non-prioritized groups whenever they use the service. In both these cases the program would remain targeted in both the weak and the strong senses. Finally, a third alternative is to allow the program to be expanded to non-prioritized groups, financing this expansion by increasing the program’s budget, which would require either a reshuffling of social expenses or an increase in taxes. In this case, one would be opting for universalization. Notice that the notion of weak targeting remains applicable despite the option for universalization.

Assuming that, given the need to increase the program’s budget, the resources involved in reshuffling would not be taken from services provided to the prioritized population – or else there would be a transfer of resources from prioritized to non-prioritized groups – in all three scenarios above, the non-prioritized groups will ultimately pay the bill for the services from which they benefit. In the case of strong targeting, non-prioritized groups pay directly for the services upon using them, whereas

with universalization, these groups transfer to the state, as taxes, the resources necessary for the provision of services which they may use for free whenever they wish.

8. Targeting and the definition of rules of priority

We have seen in the previous sections that the weak notion of targeting, which corresponds simply to “arranging a line of beneficiaries in order of priority,” does not contradict the principles of universalization. Therefore, weak targeting is a matter of common sense, which predicts the definition of rules of priority in a manner such that, in case the available resources are not sufficient for the entire population, it be possible to identify the groups with higher priority. It should be noted that whenever, in the present study, we discuss the matter of targeting, we are referring to this weak notion.

The definition of a rule of priority must be treated with care, essentially for two reasons. Firstly, because people’s needs are multidimensional. When comparing two potential beneficiaries, one of them might have greater needs in terms of education, whereas the other in terms of health. There is, therefore, no single ordering for the needy population, since it is a heterogeneous group. It is recommended that each program generate its own line, depending on the need it wishes to combat. A practical alternative for programs that seek to act upon several distinct needs is to construct a synthetic indicator capable of consolidating in a scale these different needs.

Finally, as mentioned above, the rule of priority employed in a program must be defined with extreme care also in order to obey the program’s compensatory or structural aims. When making social investments, the rule of priority should not consider only the level of need of potential beneficiaries. It is necessary also to observe the beneficiary’s scope for being assisted by the program. In the present section we attempt to clarify how exactly must the rate of return be considered in order to define the target population of a structural program.

Ideally, the rule of priority should be defined based on the combination of two effects that may be computed as the product of (a) the impact of the program on the beneficiary’s productive capacity or resources and (b) the impact of the changes in productive capacity or resources on the beneficiary’s well-being. The first factor – *the impact of the program on the beneficiary’s productive capacity or resources* – captures how, for instance, the program affects the beneficiary’s education, income, health, etc.

The second factor – *the impact of the changes in productive capacity or resources on the beneficiary's well-being* – computes the extent to which the beneficiary's well-being is affected, for example, by changes in his or her education, income, health, etc. In case the program is designed to act upon different needs, one can simply add the products obtained for each need.

It should be emphasized that, when rules of priority are defined based on these principles of efficiency, less needy populations are often chosen as program targets. For example, professional training courses that require a certain degree of proficiency in reading and writing will certainly not be appropriate for illiterate workers, even though individuals in this group have a much higher probability of being poor than workers who can read and write. Therefore, extreme care is necessary when designing such programs so that they are truly appropriate for the poorer population.

9. Targeting does not imply reducing total social expenses

For some critics of targeting there is a sort of logical commitment between increases in targeting and a reduction in total social expenditures. This would take place due to the ability of targeting to achieve, with lesser resources, the same level of impact on equality as a non targeted policy.

The objective of this section is to demonstrate that, even though it is true that greater impact can be obtained with lesser resources through targeting, this is not necessarily an apologia for reducing the total volume of resources destined to social policies, since spending additional resources in a targeted fashion yields the greatest possible impact in the reduction of inequality.

To illustrate this point, one can imagine two extreme alternatives for reaching similar reductions in inequality. In the first scenario, the volume or resources allocated to social policies would be increased, and the degree of program targeting and/or the progressiveness of taxes would remain unchanged. In the second scenario, the volume of resources allocated to the policies would be maintained, but the degree program targeting and/or the progressiveness of taxes would be increased.

It is hence possible to simultaneously reduce inequality and total social expenditures, provided that the degree of targeting and/or the progressiveness of taxes is

increased. Likewise, it is possible to reduce the progressiveness of taxes and the degree of inequality, provided that there is a sufficient increase in targeting.

Although these conclusions are true, it is clear that any argumentation in favor of targeting of expenses is not, in any way, logically linked to reductions in total social expenditures or in the progressiveness of taxes.

Therefore, targeting should not be treated merely as a substitute for increases in public expenditures or in the progressiveness of taxes. It is, above all, an additional and independent instrument, capable of reducing inequality whatever the level of public expenditures and the degree of progressiveness of taxes.

In this study, in particular, we argue that a higher level of targeting could bring about significant impact on the reduction of the degree of inequality, given a certain level of social expenditures and progressiveness of taxes. It is not our aim to propose targeting as a substitute for increases in social expenditures or for a greater progressiveness of taxes.

10. Rights and targeting

In this section, we attempt to show that there is no potential conflict between the universality of rights and the targeting of social programs. Actually, it is perfectly possible to combine the targeting of social programs with the universality of rights.

The conflict is not about universalization; rather, it involves the public provision of rights. There is a great difference between guaranteeing the entire population access to a given service or good and providing this given service or good on a universal basis. If what is important is the access to certain goods and services, there is no problem in the fact that the non-poor ensure their access through their own resources so that public resources may be concentrated on benefiting the poorer population, who would not have access by their own means.

In this case, targeting resources to poorer populations will provide access to the good or service for all: the poorer population will have access through public resources, the richer population by their own means, and the intermediate population by private resources complemented by public resources.

For example, the universal right to food does not implicate that the State should necessarily provide all families with a monthly allowance of food; rather, it means that it

is the responsibility of the State to provide such an allowance to those that, by their own means, are not able to consume this amount of food.

Part 4: The demand for targeting

11. Demand for targeting derived from the demand for equality

We have seen that targeting is merely a means in attempting to reduce the degree of inequality. Thus, the demand for targeting is ultimately derived from the demand for equality. The more intense the demand for equality, the stronger will be the demand for targeting.

Understanding why societies demand more or less targeting, therefore, involves an investigation of why these societies demand more or less equality. Let us consider that there are two fundamental reasons for demanding equality. The first is related to equality being a value, or an *end* sought by people or societies. When this occurs, we say that there is a direct demand for equality. The second reason for demanding equality occurs when this equality is a *means* to an end. For example, we know that equality is a means for reducing poverty, infant mortality, childhood labor, and other problems. Thus, if, for instance, we value a society without poverty, there may be a demand for equality due to its ability to reduce poverty. In this case, the demand for equality is said to be 'derivative.' The intensity of a derivative demand depends on the society's preferences in terms of the ends which may be achieved with the help of equality, and on how efficient equality is in achieving these ends. For example, the derivative demand for equality in order to reduce poverty will be more intense the stronger the preference of the society for combating poverty and the more efficacious equality is in reducing poverty.

In order to illustrate in further detail the determinants of the demand for equality, and, consequently, of the demand for targeting, consider two countries: one in which per capita income and the degree of inequality are high, and another in which both are modest. As we have shown in Barros, Carvalho and Franco (2003), the efficacy of equality in fighting poverty will be greater in the first country, where per capita income and inequality are high, than in the second country. This occurs because, although the high degree of inequality is empirically of little importance in ensuring a greater or lesser efficacy of the promotion of equality in reducing poverty, the greater wealth is decisive. In Barros, Carvalho and Franco (2003), we show that the higher the per capita income of a country, the more efficacious will the promotion of equality be in fighting

poverty. Therefore, the derivative demand for equality, and consequently for targeting, should be more intense in the wealthier, more unequal country.

On the other hand, when we compare two countries with the same per capita income but with different levels of inequality, we know that, given that the initial level of inequality practically does not affect the efficacy of the promotion of equality in fighting poverty, it follows that, at least in principle, both countries should be expected to have similar derivative demands for equality. However, if we assume that, in the country with greater levels of poverty, the preference for eradicating this problem is stronger, then the country with greater inequality (which, if the per capita income of both countries is the same, will also be the one with greater poverty) will show the greatest derivative demand for equality.

12. The demand for targeting depends on its effectiveness

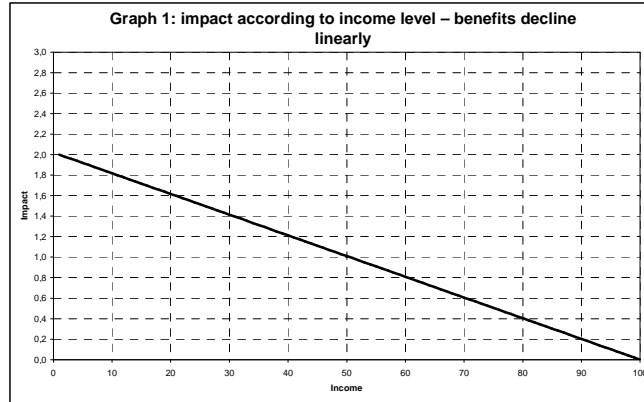
The demand for targeting, even though it is derived from the demand for equality, depends also on the effectiveness with which targeting is able to reduce inequality. For a given demand for equality, the more effective targeting is in reducing inequality, the stronger will be the demand for targeting.

The effectiveness of targeting depends on a number of parameters. We will consider two of them – namely, the program’s degree of coverage and the willingness of the society to pay for targeting – and their interrelation. Targeting will certainly not be important to programs with few resources and a low rate of coverage, nor to quasi-universal programs, which include almost the entire population. As to the willingness to pay for targeting, it is equivalent to the difference between the overall impact of the program on the well-being of the population if targeting is employed, and the overall impact if program benefits were to be distributed randomly. The greater this difference, the greater will be the demand for universalization. Notice that we are considering the impact on well-being, which corresponds, as we saw in Section 8, to the product of the impact of the program on productive capacity and the impact of the changes in productive capacity on the level of well-being.

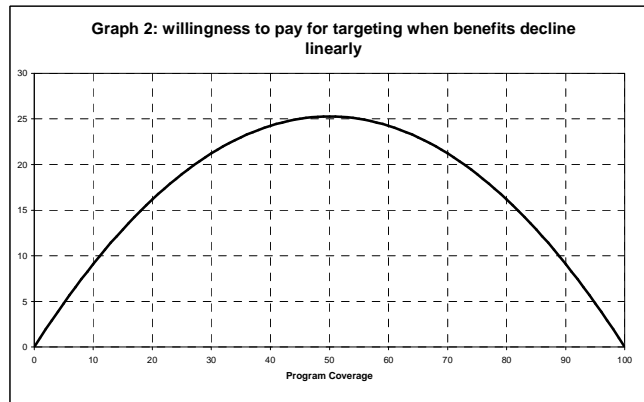
By simultaneously analyzing the importance of the degree of coverage and the willingness to pay for targeting, we arrive at three different scenarios, which create distinct demands for targeting:

Case 1: The impact of the program on well-being declines linearly

Graph 1 illustrates a scenario in which the social benefits of a hypothetical program decline linearly when we move from poorer to richer groups.



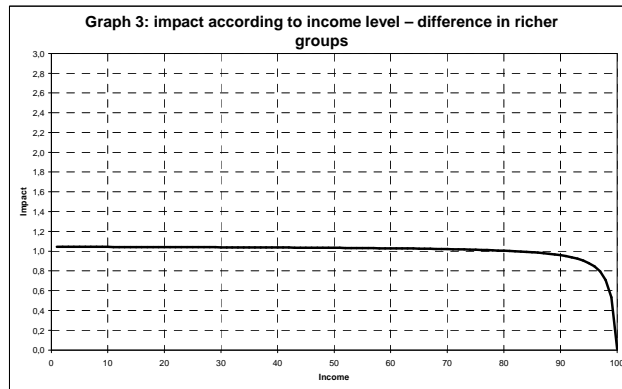
Thus, as program coverage increases, individuals for whom the program will generate less impact in terms of well-being begin to be included. In this first case, the willingness of the society to pay for targeting increases until the program reaches 50% of the population, for, up to this point, the impact of the program when targeted is greater than when benefits are randomly distributed. After half of the population is included, the difference in impact generated by targeting becomes less important. Graph 2 shows the willingness to pay for targeting when benefits vary linearly according to income levels.



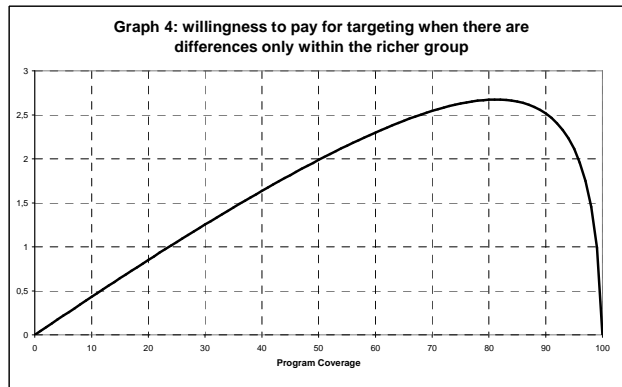
The relationship between the importance of targeting and the degree of coverage produces a symmetrical inverted U-shaped curve, indicating that targeting is most important precisely in programs whose coverage is close to 50%.

Case 2: Program impact is higher among the rich

Let us now imagine a scenario in which the impact of the program is very similar across all groups, declining markedly only in the last hundredths of the distribution (see Graph 3). When there is little difference among the poorer population, targeting loses importance, especially when the degree of coverage is low or intermediate.

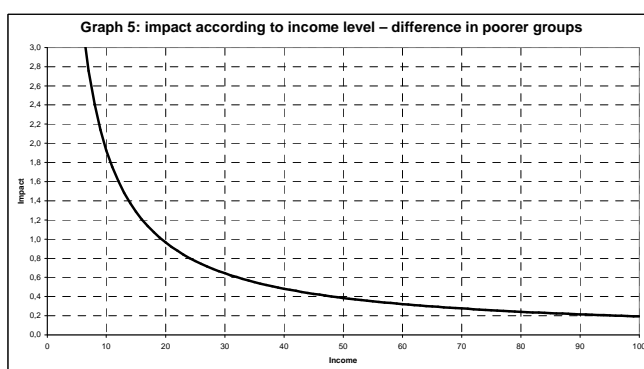


The willingness to pay for targeting, plotted in Graph 4, shows that, although the relationship between the importance of targeting and the degree of coverage maintains its inverted U shape, symmetry is now lost, and the curve becomes skewed towards greater levels of coverage, since greater differentiation occurs only within the richer population.

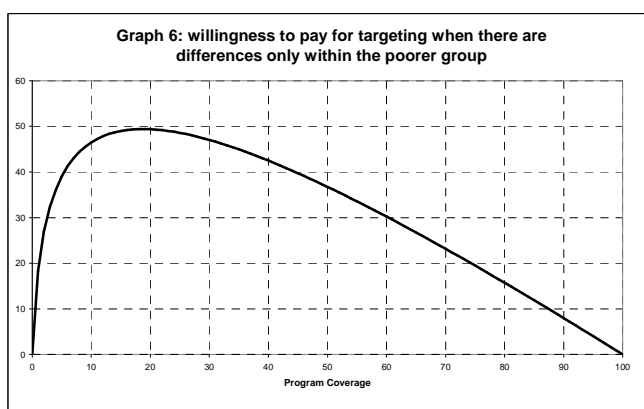


Case 3: Program impact is higher among the poor

Unlike the previous scenario, let us now suppose that the benefit declines steeply among the poor and remains more or less constant among the rich. When there is a high level of differentiation within the poorer group, targeting becomes especially important in programs with low or intermediate coverage (see Graph 5).



The relationship between importance of targeting and degree of coverage maintains its asymmetrical inverted U shape, but now the curve is skewed towards lower levels of coverage, i.e., towards the poorer groups, who show greater differentiation (see Graph 6). In this case, targeting is of maximal importance in programs whose coverage is below 50%.



13. The demand for targeting depends on its cost

Every system of targeting involves costs and, therefore, in order for targeting to be useful, it is necessary that the benefits yielded by it surpass these costs. Generally speaking, there are four major costs involved in targeting: disincentives, errors of classification, administrative costs, and invasion of privacy.

In order to avoid a reduction or suspension of benefits due to an increase in autonomously generated family income, families are encouraged not to prosper. Moreover, when it is possible to declare false information concerning family income without incurring in greater costs, there is an incentive for under-declaration. These two incentives generate an increase in costs, either because the possibility of under-declaration calls for an increase in the complexity of the administrative process in order to obtain true declarations, or because opting for not prospering generates inefficiency.

However, the production of such perverse incentives is not exclusive of targeting. If one wishes to redistribute resources based on the progressiveness of taxes, the same difficulties will arise. That is, families, in order to avoid paying more taxes, are encouraged not to prosper and, in order to have improper access to social benefits, to under-declare their income.

Furthermore, intentional and random mistakes in estimating the degree of poverty of families lead to errors of classification, which may cause the exclusion of more prioritized groups while less prioritized ones are benefited. Such errors must be included in estimates of the cost of targeting and considered whenever the choice between targeting or not a social program has to be made.

Therefore, given that targeting – like increasing the progressiveness of taxes – involves administrative costs, leads to inefficiency-generating disincentives, and is prone to errors of classification, it follows that the social optimum is not the perfect focalization of social programs or of tax progressiveness. Thus, decisions as to the level of targeting to be adopted will depend on the other factors that affect the demand for targeting, such as the country's level of development, the magnitude of social expenditures, etc.

It is also important to realize that certain factors may reduce the administrative costs of targeting. In particular, the more poverty is spatially segregated or concentrated

in certain social groups – such as blacks, the unemployed, or youngsters –, the less costly will targeting be.

Finally, every redistributive system requires a certain degree of invasion of privacy. In case redistribution is based on progressive taxes, it is the privacy of richer groups that will tend to be violated. The implementation of an efficacious fiscal monitoring system requires knowledge of the various sources of income of the richer groups, as well as of how this income is employed, at least in terms of how much is dedicated to consumption and to savings.

When, on the other hand, redistribution is based on focalized social expenses, it is the privacy of poorer groups that is violated. In this case, one needs to have detailed knowledge not only of the needs of this group, but also of the impediments for overcoming these needs.

Although in both cases privacy is invaded to some extent, progressiveness of taxes implicates in an investigation of the sources of success and, inevitably, of the extent to which this success was achieved licitly. Targeting, by contrast implies identifying the social and economic impediments at the origin of the population's needs. During this process, however, unsuccesses and failures are bound to become explicit.

14. Demand for focalization: is it a temporary or a permanent issue?

Economic and social development leads to the elimination of a number of the population's basic problems, such as hunger, insufficient schooling, and poor health conditions. If the aim of social policies is to guarantee the population access to certain specific goods and services that fulfill certain absolute needs, then, as the economy and the society develop, social policies, and consequently targeting, decline in importance.

But, on the other hand, if needs are relative, changing with time as societies reach different levels of development, there will always be room in the world for social policies. Likewise, targeting will continue to be permanently necessary in order to guarantee the fulfillment of the needs of less privileged populations, which, historically, will not always remain the same.

Part 5: Sources of bad targeting

We have seen that the concept of targeting adopted in the present study is equivalent to the organization of a population in a line following a given criterion of priority. Thus, bad focalization may arise in basically two scenarios: (a) there may be problems in the definition of the rules of priority used for organizing the line, and/or (b) the rules of priority, although well defined, may not be being obeyed.

15. Problems in the definition of rules of priority

When the cause of the problem is the inadequate definition of the rule of priority by which the line is organized, there will be an inadequate specification of the target population to be benefited by the program, preventing the first positions in the line from being occupied by the most needy. In this case, one needs to reformulate the *design of the program*.

16. Problems with the nonobservance of rules of priority

When, by contrast, bad targeting is caused by nonobservance of the rules of priority, it is necessary to identify in which stage or stages of the process this is taking place. Generally speaking, we may divide this process into two stages: a macro-targeting stage, related to how the resources are geographically distributed, and a micro-targeting stage, related to the local choice of beneficiaries.

16.1. Geographical targeting

Nonobservance of the rule of priority may occur during the spatial/geographical distribution of the program's resources. In Brazil, for instance, a large proportion of taxes are collected at the federal level, whereas program execution takes place at the local level. In this scenario, the *mechanisms of distribution of federal resources between states and municipalities* has a major impact on targeting. If the spatial distribution of resources is not in agreement with the spatial distribution of needs, the final degree of targeting achieved by the program may be quite precarious, even if targeting during a second, local stage is appropriate.

16.2. Local choice of beneficiaries

On the other hand, the final degree of targeting achieved may still be precarious even if there is an agreement between the spatial distribution of resources and needs. In this case, the problem may arise from difficulties in *identifying the poor population at the local level*. In Brazil, for instance, in former programs such as the *Bolsa Escola*, *Bolsa Alimentação*, and *Auxílio Gás*, federal resources were, in principle, distributed to states and municipalities in amounts strictly proportional to their degrees of need. However, local mechanisms for the identification and selection of beneficiaries, based on the *Cadastro Único* and comparable databases, were, and continue to be, dependent on self-reported information, which is of limited reliability.

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