The Political Economy of Safety Nets

For Protection and Promotion: The Design and Implementation of Effective Social Safety Nets
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Lant Pritchett
Harvard Kennedy School
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Four simple points

• Actual “budget response” functions versus assuming budgets are “fixed”
• “What price insurance”? Bundled goods and the genius of “grand bargains”
• Fairness
• Institutional mission and mandate and labor creating programs
A Risky Political Process

Budget available for “safety net” program

Initial budget, B

Initial targeting, $t_0 = 0$ (uniform to every HH)

New level of targeting ($t_1$) (non-poor get less) just such that poor are “protected”

Degree of targeting ($t$) (higher is more “pro-poor”)

Step 1: Budget falls (across the board cuts) to $B'$

Step 2: What about targeting?
With lower amount $B'$—suppose you “protect the poor” by increasing targeting

Step 3: What is the political “budget response function”
how does targeting affect the available budget?
Is it really invariant to how the program is targeted?
A Risky Political Process

Step 3: Given the budget and the targeting there is a political process to determine the program’s budget for the next period. What is the political “budget response function”? Is it really invariant to how the program is targeted (horizontal)? What if it is downward sloping ($B(t)$)? Budget is $B''$ (less than $B'$)

Step 4: Well meaning but politically naïve Technocrat takes budget level $B''$ and “protects the poor” again, increasing targeting so that the poor have the same amount at $B''$ as at $B'$ Leading to $t_2$

Step 5: At targeting level $t_2$ political process gives budget $B'''$

Budget available for “safety net” program

Degree of targeting ($t$) (higher is more “pro-poor”)
Cautionary tale: “More for the poor is less for the poor”

• It is easy to construct models in which well meaning but politically naïve technocrats act to “protect” the poor by improving targeting and end up doing exactly the worst thing for the poor (e.g. Gelbach and Pritchett 2002).

• But the deeper point is that the budget available for programs depends on their political attractiveness—however constructed and assuming one can act on targeting as a “policy design” feature while dB/d (design)=0 is naive
Second Point: What price insurance?
Figure 4a: Probability of household participation in OPK program by quintiles of level and changes in expenditures

Figure 4b: Probability of household participation in employment creation programs by quintiles of level and changes in expenditures

Static Incidence: w.r.t. level of income
Figure 2: JPS Participation Incidence versus benefit incidence of education, health, kerosene subsidy
Figure 4a: Probability of household participation in OPK program by quintiles of level and changes in expenditures

Dynamic Incidence: wrt changes in expenditure
Bundling of insurance and redistribution is the key to “grand bargain” politics

• Social programs charge taxes and bundle “insurance” (good states to bad states with fair actuarial value for the same person) with “redistribution” (richer people to poorer people)

• An increase in targeting is an increase in the price of insurance—decreases the demand or willingness to pay

• Unbundling can easily lead to worse outcomes for the poor depending on the elasticity of the demand.
The “win-win” of governments' ability to force bundling

Price of insurance (consumption smoothing)

Compulsory purchase highly targeted

Private supply of insurance (with market failures)

Compulsory purchase with modest targeting

Actuarially fair Value (Expected Payments=Expected Payouts)

Quantity of insurance
Is poverty a “condition” or a “characteristic”?

- Having a cold is a condition—impermanent, shifts a lot
- Being left-handed is a characteristic—permanent to a person, never shifts
- Targeting to characteristics is pure re-distributional fight (which politically one might want to fight and win)
- Targeting to conditions can be “win-win” as the “compulsory purchase price” is less than private cost at which individuals would have willingness to pay
- High risk aversion, high market failures in markets (due to adverse selection, moral hazard) increases the scope for “win-win”
- “Grand bargain” of high “tax” take but politically untouchable.
Poverty is a condition not a characteristic (ten year mobility rates from community ladder exercises)

<table>
<thead>
<tr>
<th>Study region</th>
<th>Average households ranked in CMM per village</th>
<th>Mobility index: movers up plus movers down (%)</th>
<th>Movers up (%)</th>
<th>Movers down (%)</th>
<th>Net upward movement: movers up less movers down (%)</th>
<th>Churning index: ratio total movers to net upward movement (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>54</td>
<td>72.9</td>
<td>38.1</td>
<td>34.8</td>
<td>3.3</td>
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<td>Senegal</td>
<td>68</td>
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<td>43.0</td>
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<td>16.5</td>
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<td>44.4</td>
<td>32.2</td>
<td>12.2</td>
<td>20.1</td>
<td>2.2</td>
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<tr>
<td>Uttar Pradesh</td>
<td>153</td>
<td>36.9</td>
<td>25.1</td>
<td>11.8</td>
<td>13.3</td>
<td>2.8</td>
</tr>
<tr>
<td>Philippines—Bukidnon</td>
<td>71</td>
<td>30.0</td>
<td>25.2</td>
<td>4.8</td>
<td>20.4</td>
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<tr>
<td>Average (all)</td>
<td>109</td>
<td>52.6</td>
<td>38.0</td>
<td>13.2</td>
<td>21.0</td>
<td>2.6</td>
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</tbody>
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Fairness and “sharp technocratic” targeting are hard to reconcile.

Suppose people’s mental account “bins” people by their “socio-economic status” (not continuous)

“Observational equivalence”: at what threshold are people “really” in a different grouping (e.g. weather)

“Horizontal equity” says to “treat like like likes” (treat the same the same)

Technocratic targeting near the mode potentially maximizes perceived inequity (number of “the same treated differently)
In rich countries—sharp targeting is possible

Observational equivalence inequity: people “the same” as the poor that did not get it
In very poor countries—sharp targeting produces massive OEI (observational equivalent inequity).

**Observational equivalence inequity:** people “the same” as the poor that did not get it (same with as previous)

The targeted
Institutional mission and mandate

- Organizational adaptability is limited

- Mission and mandate: one (non BS) sentence (e.g. “we build stuff”, “fly, fight, and win”)

- Organizational dynamics can block, delay, or increase cost of Safety Net implementation