Political Economy of Social Safety Nets

SSN Core Course, December 11, 2012
Three elements of policy design (Pritchett 2005)

- Technically Correct
- Achievable Gains
- Administratively Feasible
- Politically Supportable

Sometimes, a dialog between the technocrats and the politicians
1. Attitudes and perceptions matter

2. Electoral politics and the interplay of central and local governments

3. Safety nets and social contracts
   1. Political crises: the case of North Africa

4. Organizational politics
   1. Within an organization
   2. Between organizations

5. Politics and the evolution of safety nets
1. Attitudes and perceptions matter
Who should provide safety nets?

- Wide variability across countries about
  - Extent of collective responsibility for individuals and households who are unable to provide for themselves
  - Attitudes about distribution of opportunities and government’s role in equalizing opportunities and outcomes

- US and LAC / Europe
  - World Value Survey “Why are there people in this country who live in need’ and four possible responses:
    1) because they have been unlucky,
    2) because of laziness and lack of will power,
    3) because there is much injustice in our society,
    4) it’s an inevitable part of modern progress.
  - US/LAC 36 percent say lack of effort is a major cause of poverty – Sweden 16 percent
Do countries need more productivity growth or more redistribution?

Response will depend on economic past and development of social welfare institutions.

*Source: Graham, 2002.*
Who deserves assistance?

- Larsen (2008) 5 criteria:
  1) Control (less in control of neediness, higher deservingness).
  2) Need (greater need, higher deservingness).
  3) Identity (higher degree of group belonging, + deserving).
  4) Attitude (more grateful, docile and compliant, + deserving).
  5) Reciprocity (higher previous or future payback, + deserving).
Who deserves assistance? (2)

- These will come into play when thinking of:
  - Programs narrowly vs broadly targeted to the poor/lower middle class (how close are they?)
  - Regional disparities: regional concentration of poor may mean political invisibility
  - Racial diversity
  - Welfare and workfare
Some key categories across the world

- The deserving poor? Working poor vs. unemployed
  - The working poor
  - Long-term or youth unemployed (Europe /MENA)
  - Other behaviors: US and drug-testing

- When the poor don’t fit the categories:
  - Nuclear/extended families,
  - «Nomads» (the Rom in Europe) and migrants,
  - Children-headed or women-headed households

- The poor, the vulnerable, and the middle class:
  - When the State is not trusted, the social contract is based on basic transfers and favors. Targeting would change those relationships
  - MENA experience in attempting to reform subsidies
  - The renewed call to protect the lower-middle class, the vulnerable

Source: Kenya CT-OVC
What does public opinion care about?

- Bolsa Familia in Brazil

The press paid more attention to inclusion errors in electoral periods.

Source: Lindert and Vincensini, 2010
2. Electoral politics and the interplay of central and local governments
How is the budget for redistribution determined?

- Targeting is optimal if the budget is fixed
- BUT
- Targeting decisions influence the size of the budget
  - Desire for lower taxes
  - Narrower constituency for the transfers
- Leakage to non-poor may be OK to increase political support

In Colombia, an existing food subsidy was first transformed into a targeted food stamp program and was subsequently eliminated. The distinction between the technocratic and political economy approaches is illustrated nicely by the World Bank’s (1994) assessment of the Colombian policy shift: “Although the program seemed effective and well targeted … it lacked political support and was discontinued.” The analysis here suggests the possibility that the program’s loss in political support may have occurred because, rather than in spite of, the effectiveness of its targeting. We
Pro-poor technocrat and fiscal conservatives

- Pritchett (2005)

<table>
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<tr>
<th>Beliefs about the Budget Reaction Function</th>
<th>Pro-Poor Technocrat (&quot;left&quot; - concerned about welfare of poor)</th>
<th>Fiscal Conservative (&quot;right&quot; - concerned only about level of taxation)</th>
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<tbody>
<tr>
<td>Flat &quot;unresponsive&quot;</td>
<td>Favor Targeting</td>
<td>Oppose Targeting</td>
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<td>Steep &quot;responsive&quot;</td>
<td>Oppose Targeting</td>
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- Indonesia crisis programs (1998): better than uniform distribution but not sharply pro-poor
- India NREGA program
Central and local governments

- Local knowledge vs. Clientelism
- Who pays the bill/taxes (incl. donors)?

- Progresa/Oportunidades: started very centralized (targeting and payments) to signal a break from the past, now bringing states and municipalities back in for the jobs agenda
- Bolsa Familia: decentralized targeting based on allocations (payments centralized). Targeting costs largely borne by municipal governments and alignment of incentives. Lately bringing in states
- CTs in Africa: combination of targeting with community-based targeting. Make local discretion explicit
Central and local governments

- Considerations of fairness, transparency
- Mechanisms for grievance redress

<table>
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<th>Table 5a: Centralized targeting formula</th>
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<tr>
<td>Benefits</td>
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<td>Stronger funding</td>
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<td>Avoids “races to the bottom”</td>
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<td>Protects local disadvantaged</td>
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<th>Table 5b: Completely decentralized targeting</th>
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<tbody>
<tr>
<td>Benefits</td>
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<tr>
<td>More responsive to regional differences</td>
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<td>Better monitoring (benchmark)</td>
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<td>Local internal constituencies</td>
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Local governance and votes

- **Bolsa Escola (Janvry et al. 2005)**
  - Study of 260 municipalities in the Northeast
  - Confusion about the roles of municipalities => heterogeneity of implementation
  - Greater electoral support if social councils existing, larger program coverage, low leakages to non-poor

- **Corruption and votes (Ferraz and Finan in Brazil)**
  - Report of corrupt violations (CGU) decreases probability of re-election
3. Safety nets and social contracts
Political viability of targeting

- **Fairness** and horizontal equity
  - «Like be treated alike»: introducing discretion may mean that similarly situated persons are treated differently. Should more disadvantaged given more (gender, religion, ethnic minority)?

- **Process and administrative fairness**
  - Appeals at different levels (reassurance against local capture)
  - Process to update eligibility (periodic or on-demand) if circumstances change

- **Effectiveness** and results
  - Narrow targeting may yield less results (e.g. Long-term unemployed vs. Recently laid-off)
  - Importance of M&E and results dissemination
  - Managing expectations (donors, staff, gvt, public opinion)
Corruption undermines all 3

Corruption is extremely damaging to targeted safety nets because it subverts

- Equity
- Fairness
- Effectiveness

However, in contexts where the government's ability to credibly deliver public goods is uncertain, citizens may prefer politicians to deliver private, or clientelistic, goods (Sacks in SSA, Indonesia)
3.1. Safety nets reforms in MENA
The Arab Spring and a new social contract?

- Traditional redistribution system through universal subsidies (food and fuel) and public employment
- Hard to sustain and disempowering:
  - Subsidies spend 6 percent of GDP
  - Non-subsidies SN 0.7 percent of GDP but they reach only 23 percent of the poorest quintile (LAC 59 %)
- BUT
- New surveys in Egypt, Jordan, Lebanon and Tunisia show:
  - 90 percent think government should provide SN
  - Perceptions that present SN regressive
  - Low awareness
  - Preference for poverty targeting and cash
Morocco and the reform of SN

- High cost of universal subsidies, high youth unemployment
- Rural poverty pockets and urban slums, rising inequality
- Social SN assessment showed fragmentation (some risks completely not covered: early childhood, unemployment), duplication and overlap.
- Misalignment of central and local targeting in the past

- Successful implementation of geographical targeting (CCT Tayssir) and individual targeting in health insurance (RAMED) albeit with implementation delays
- New government identified with social programs
- Increases prices of fuel (diesel) but not cooking gas
- Planning unified registry with concern for vulnerable (and poor)
- Employment programs
- Gradualist approach
3.1. Safety nets and economic crisis
Opportunity or obstacle to reform

- Building a complement to informal safety nets: Korea 1997 unemployment insurance

- or providing perverse incentives to potentially productive individuals: Europe now?
Balancing priorities

- Protecting the old, including the youth, investing in children?

China

Who votes (SN bring votes)?
Who are politicians afraid of?

International donors and domestic priorities (RPS Nicaragua)

Tanzania TASAF

Brazil BFP
4. Organizational politics
Organizational fit:

- Fit between the program and the implementing agency
  - Ministry of Public Works in Indonesia in 1998 and labor-intensive building programs (quality of the works of the unskilled labor) vs. BULOG subsidized rice to half of Indonesia’s households in 6 months
  - Moving RPS in Nicaragua from FISE to Ministry of Family

- Heterogeneity of competencies
  - Wage levels (idealists or need another job to survive)
  - Non-monetary compensation, training

- Lack of competition
  - Beneficiaries can not walk away
  - Street-level bureaucrats key: who is their allegiance to?

- Dealing with corruption
  - Simplifying program operations, automation
  - Increasing cost of corrupt activities to corrupt individuals
    - Audits and controls
    - Exposure and votes
Organizational fit (2)

- Fit between the program and the institutional framework
  - Central vs local administration in low capacity environments
  - Strong interest groups (organized labor) may require adapting to their concerns

- Expectation management
  - Conditions in (C)CT as a way to build political support for transfer programs
  - (Workfare)-cum-nutrition as a way to build political support for nutrition interventions when employment is seen as more pressing
  - (Workfare) for women with children in PJH in Argentina in 2001
  - Role of public sector in ECA (compared to EAP)
Politics across organizations

- Who implements can affect public support
  - Social Funds in LAC as a way to:
    - cut through bureaucracy and
    - ensure credit for the President from existing benefits
  - Moving Bolsa Familia from President office to MDS in 2006
  - Caisse de Compensation (subsidy funds) under Prime Minister and social programs under weak social ministries or powerful Ministries of Interior (MENA)
  - Ministries of Labor or Social Assistance

- Placing a new program is an important decision and can affect political support (weigh pros and cons of options)
Politics of reforms

- **How fast to move?**
  - Constitutional changes: South Africa, Brazil (Rights-Based SN) and paced implementation
  - Consensus on goals and commitment: US 1996 welfare reform, Colombia health insurance reform 1990s (with new push with Right to Health)
  - Entrenched controversy: pilot, evaluate and scale-up if successfull while building political support:
    - Progresa 1997,
    - MENA 2013?
    - Africa CTs (with remaining questions about domestic ownership)
5. Politics and the evolution of SN
In the long-run:

- Rise in per capita incomes
- Expansion of the right to vote
- Increase in taxation for wide-base social safety nets
- Expansion of SSN (except maybe in ECA?)
- Universal services + insurance (good to bad states)

Lindert 2004 and Pritchett 2005

Social transfers as a percent of GDP, OECD, 1930-1995
After the crisis

- High unemployment, calls to reduce government expenditure (quality and coverage of public services), low household capacity to absorb shocks
- Examples from LAC, EAP and ECA
- If losing a job means losing health insurance, access to education, housing and retirement => Social exclusion
- Social conflicts, polarized politics and collapse of elected governments
- Czech Republic, Hungary, Latvia, Romania in 2009
- Greece, Italy in 2012?
After the crisis (2)

- More democracy and open economies, more pressure to spend
- Link with macro-economic policies
- Build on what exists: public or private
- Welfare to workfare to counterbalance inequality from globalization (jobs for women and low-income youth): high quality, early education, ALMP, retraining
From Poverty to Vulnerability

High volatility of incomes
- Churning between the poor: good/bad crops, income shocks
- Many households around the poverty line
- Ageing and change of family structure threaten the informal safety net

SN help individuals and societies manage risk and volatility and protect them from poverty and destitution—through instruments that improve resilience, equity, and opportunity.
- Trade-offs between the poverty and risk objectives in terms of targeting
- Renewed focus on jobs
Conclusions

Every society has its own values about

- The deserving poor
- Who is responsible to support them

> Policy-makers need to be attuned to them to run successful safety nets and navigate
  - Politics of budget
  - Inter-organizational politics
  - Bureaucracy and organizational dynamics
  - Public opinion expectations

- The first best technical solution may not be the best fit
More information

  - Incentives and provision of SN – SP Discussion Paper 0226
  - Public attitude matters – SP Discussion Paper 0233
  - Political economy of targeted Safety Nets – SP Discussion Paper 0501
  - Social Policy, Perceptions and the Press – SP Discussion Paper 1008

- Sustaining SSN. Crucial for Economic Recovery (Foxley, 2010)
Thank you!