



The Political Economy of Safety Nets

Protecting The Vulnerable: Design And
Implementation Of Effective Safety Nets

December 2002

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Five Areas

- “Electoral” Politics I: Targeting
- “Electoral” Politics II: Levels vs. Risks
- “Electoral” Politics III: Perceptions
- Local vs. Central
- “Internal” Politics of Implementation



Electoral Politics I

- Basic technocratic (“naïve”) approach to targeting
- N : for a fixed budget (B)
- Choose the structure of targeting (mapping from observables to transfer) to maximize gain in objective function (e.g. reduction in $P(a)$)



Electoral Politics I

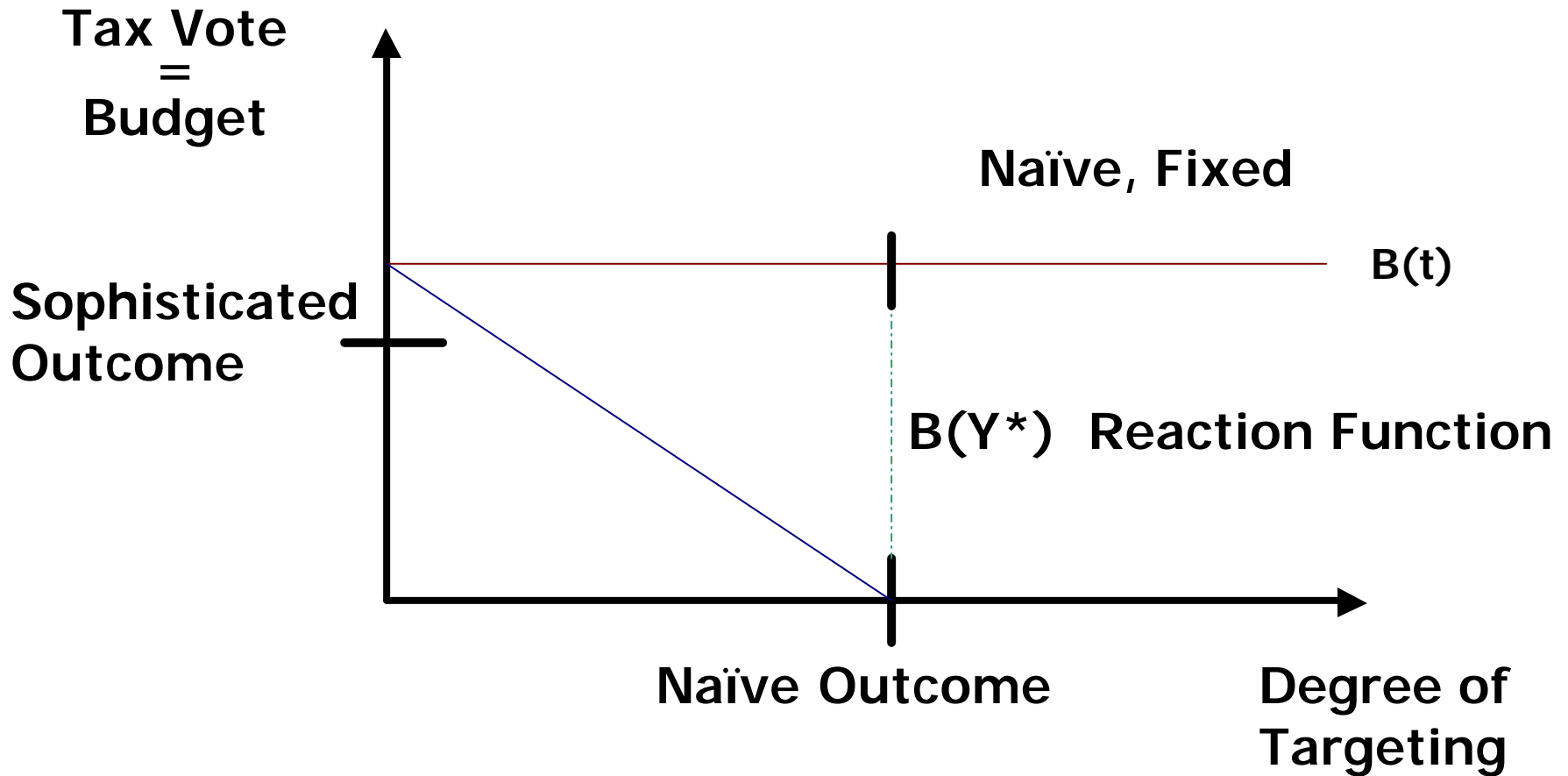
- Now suppose there is a vote in the simplest model of three groups: Poor, Middle, Rich.
- Suppose the middle group is decisive.
- Universal Targeting: N to each person
- Full targeting: transfer only to poor.



Electoral Politics I

- One can construct a very simple model in which:
 - (a) a poor-middle coalition can maintain a tax-uniform transfer
 - (b) the “naïve technocrat” produces the worst possible outcome for the poor

Electoral Politics I





Electoral Politics I: A Scary Tale

**Pro-Poor
Technocrat**

**Fiscal
Conservative**

**Beliefs about
the budget**

Flat

**Favor
Targeting**

**Oppose
Targeting**

**Reaction
Function**

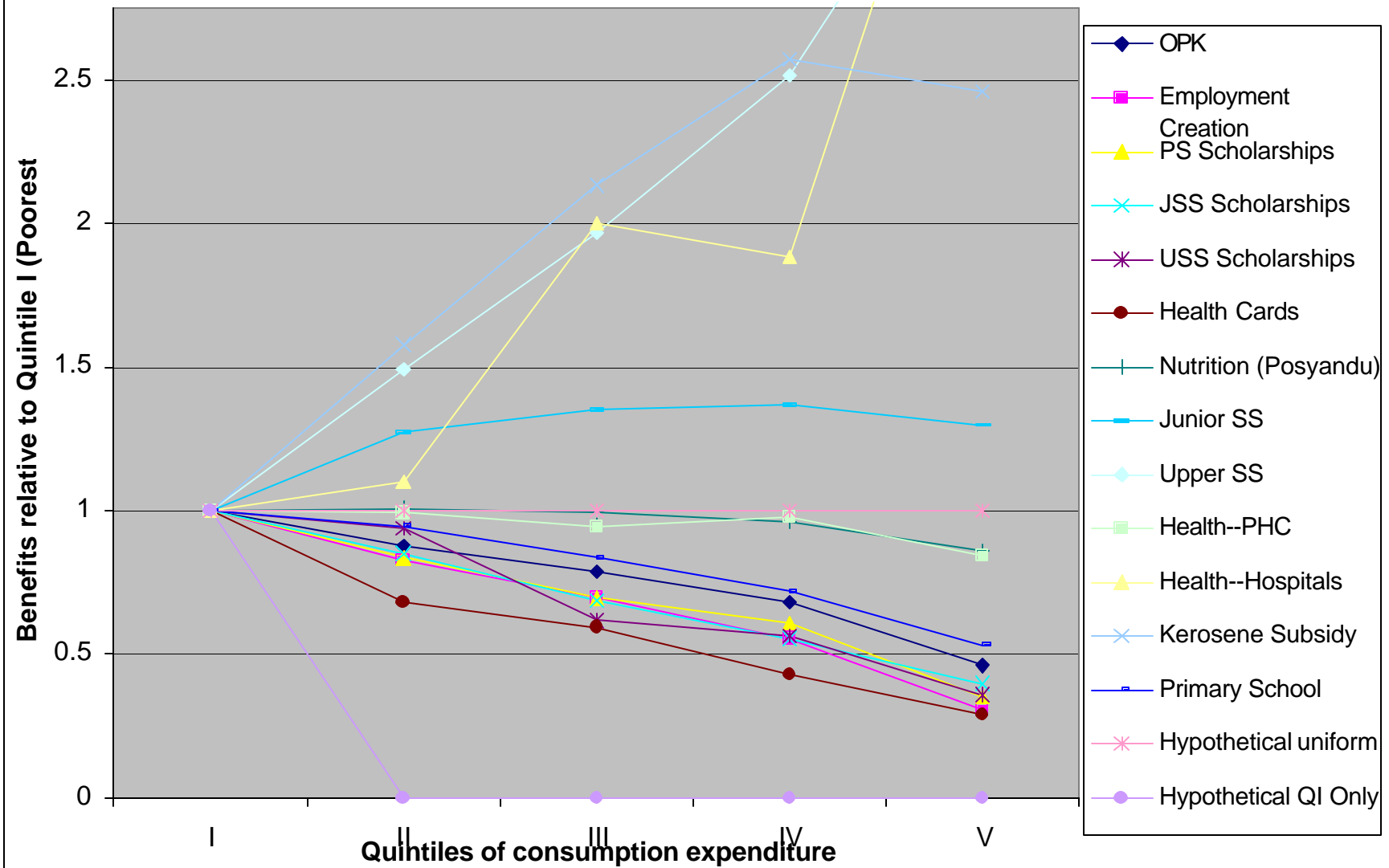
Steep

**Oppose
Targeting**

**Favor
Targeting**

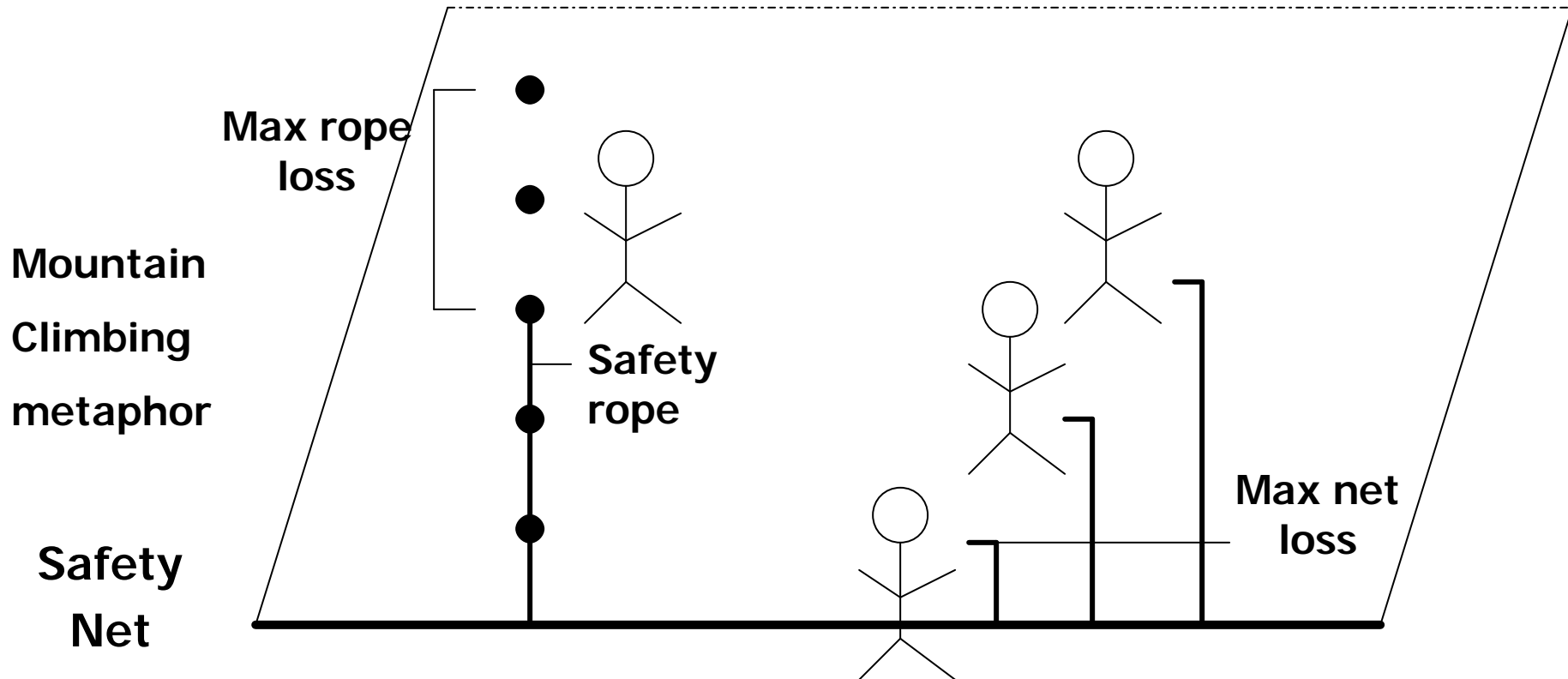
		Favor Targeting	Oppose Targeting
		Oppose Targeting	Favor Targeting

Figure 2: JPS Participation Incidence versus benefit incidence of education, health, kerosene subsidy



Electoral Politics II: Ropes vs. Nets

or "levels" vs. "changes" or "poverty" vs. "risks"





Electoral Politics II: Alternative "Big Picture"

	NETS	ROPES
MARKET FAILURE	Equity	Insurance
POSITION MODEL OF GOV'T	Benign SWF	Responding to middle class demand
TARGETING	To Poor	To shocked



Electoral Politics II

- Static Targeting Performance
 - Static benefit incidence
 - Leakage from poverty
 - Poverty gain
- Dynamic Targeting Performance
 - Dynamic benefit incidence
 - Leakage from shocked
 - Variance reduction

Figure 4a: Probability of household participation in OPK program by quintiles of level and change in expenditure

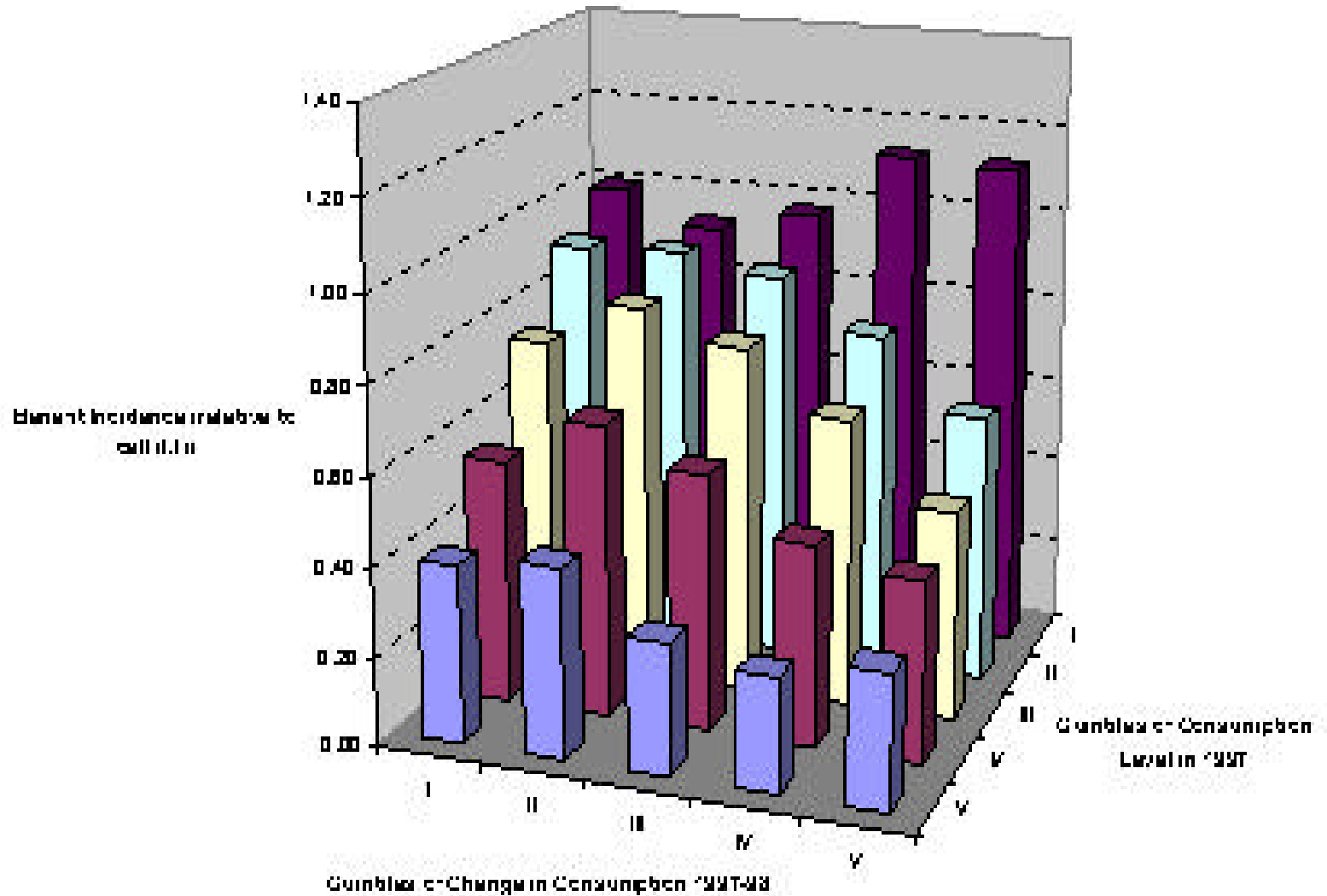
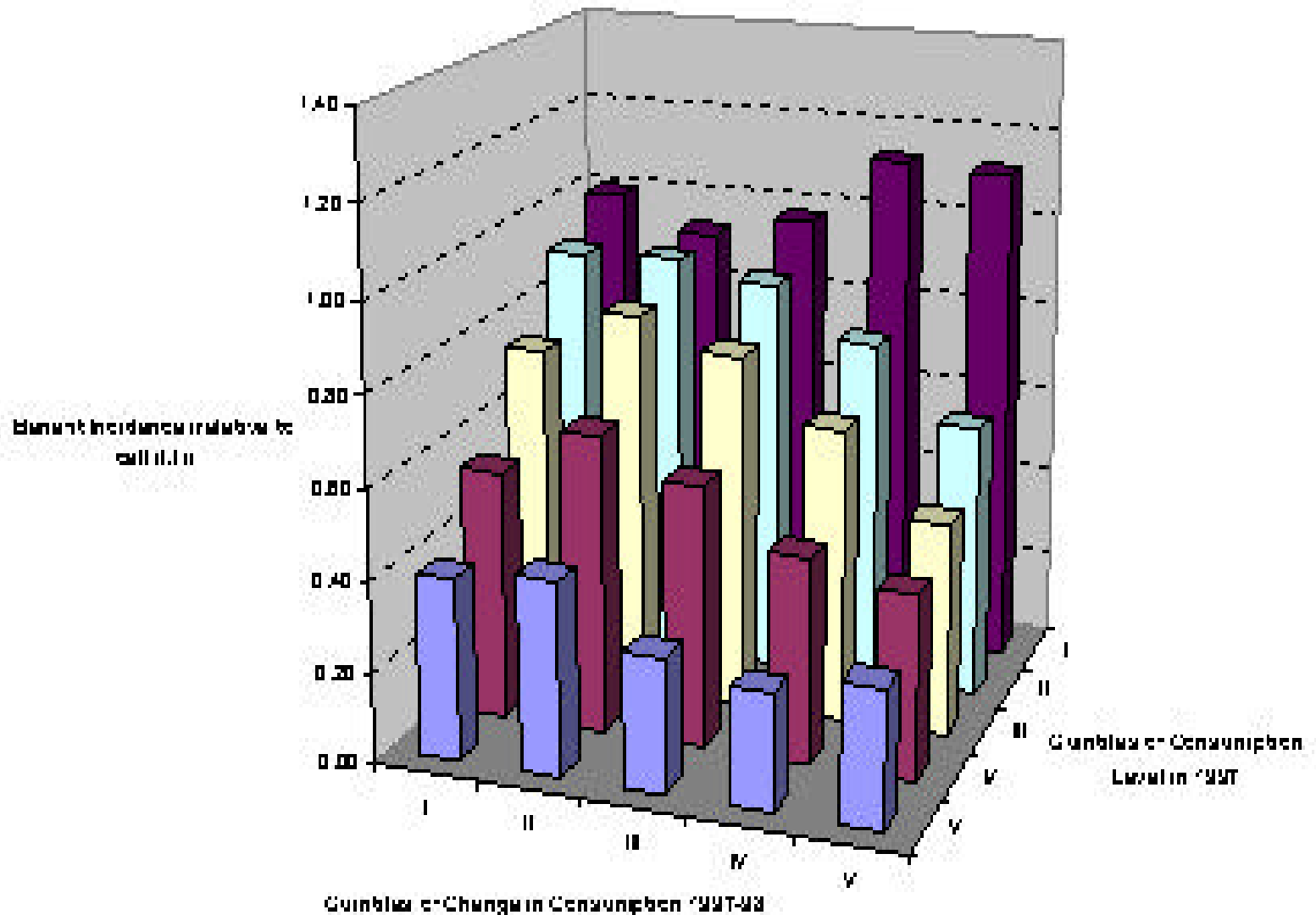


Figure 4a: Probability of household participation in OPK program by quintiles of level and change in expenditure





Electoral Politics II: Attitudes

- Fair treatment: horizontal equity
- Process fairness: decision making, appeals, flexibility
- Framing: could a person like me benefit
- Effectiveness: do the programs “work”



Electoral Politics I, II, III: Summary

- To first order, zero altruism over C
- Politics works mostly against the poor
- Risk conversion: is asymmetric and large (fear of falling)
 - Universal services
 - Shock/risk based transfers with mild tilt (floor)



Local versus Central

- Top down: national programs with uniform criteria
- Decentralized: “block” or “matching” grants with decentralized implementation
- Top down – Bottom up: national program that stipulates local process not outcome



Decentralized

Benefits

- More responsive to regional differences
- Better monitoring (benchmark)
- Local internal constituencies

Risks

- Local preferences not benign
- Local politics less pro poor than national
- Races to the bottom
- Uncertain funding



Top Down

Benefits

- Stronger funding
- Avoids “races to the bottom”
- Protects local disadvantaged

Risks

- Criteria perceived unfair/unreasonable
- Demands little discretion
- No internal support locally



Top Down – Bottom up

Benefits

- Insists on process but allows local knowledge
- Funding

Risks

- Local capture
- Disconnect with local government
- No institutional base for sustainability



Internal Politics

- Within agencies
- Across agencies



Examples from Indonesia SSN

- Logistic agency comfortable with role
- Public works wanted to
 - Protect core constituency
 - Create infrastructure
- Education
 - Resented overall budget cuts
 - Subverted program implementation