On the Design of Social Safety Nets

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ABSTRACT

This paper outlines a conceptual framework for use in the design and assessment of social safety net programs. The framework allows for the comparison of program outcomes based on country-specific objectives and constraints. A typology of objectives and constraints are outlined and discussed. Objectives are divided into four kinds: economic growth (which is concerned with the overall improvement in living standards); political stability (this involves developing political institutions, managing the losers from reform, and containing expectations); poverty relief (which is concerned with the improvement in living standards for the least well-off members of society); and distributional issues (income, gender and ethnic inequality). Constraints are also divided into five kinds: institutional constraints (adverse initial conditions, an unhelpful regulatory structure, and an unstable economic environment); capacity constraints (the level and dispersion of income in the economy, fiscal tightness); governance and politics (the efficiency of political institutions, rule of law, credibility and consistency of politicians); administrative constraints (the quantity and quality of inputs such as human resources and physical capital); inadequate management (the efficiency with which the various administrative inputs are used); and finally, social constraints (structure of family, social attitudes, gender and ethnicity).

These typologies are then summarized in a matrix to show how social safety net programs can be tailored to country-specific conditions. The potential of employing this framework in the design of safety net programs is then discussed, outlining further areas of research.
ON THE DESIGN OF SOCIAL SAFETY NETS

1 THE APPROACH

1. This paper forms part of the input into the conceptual chapter of a social assistance best practice paper. The discussion which follows is therefore deliberately concerned more with concepts than with empirical evidence.

2. If we believe that the economic theory we use is (broadly) valid, then it should be valid in all circumstances. If successful outcomes are different in different parts of the world, it is either because objectives differ or because constraints differ.

3. The different objectives of policy, discussed relatively briefly in section 2, are a well-mined field. The focus, deliberately, is mainly on economic objectives such as output growth and distributional goals. Some important political goals, such as democratic government, are not included. The range of constraints is much greater, and merits further study. The discussion in sections 3 - 6 embraces not only obvious constraints like fiscal tightness and institutional capacity, but also broader matters such as the political and social environment. In those sections, constraints are divided into four types: economic, political, administrative and social. In many ways they shade into each other like the colours of the rainbow, but it helps exposition to divide them into those four heads. The intention is to make the list of constraints as exhaustive as possible (and, to the extent possible, mutually exclusive). Clearly not all constraints will apply to all countries. Indeed, the more advanced the country, the fewer the constraints it faces and the less tight is each constraint.

4. To illustrate the approach, Chile (which privatised its pensions in the early 1980s) and a number of the high-performing Asian economies (with only minimal formal income transfer systems) had a single objective, economic growth, which was given priority over all other objectives including social solidarity. In addition, they were in important respects less constrained than many other reforming countries.

- They faced fewer economic constraints than (for example) the post-communist economies of central and eastern Europe: they have long-established market systems, a sophisticated banking system, highly-developed capital markets, and relatively stable prices; and they need no substantial restructuring (and hence have a relatively undistorted skills mix). In addition, the Chilean reform was introduced at a time of budgetary surplus.

- So far as political constraints are concerned, the high-performing Asian economies, and also Chile at the time its reforms were introduced, had a régime of political stability, in which government was able to carry through its programme. Such political stability contrasts

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2 On the fiscal surplus and a more general assessment of pensions in Chile, see Diamond and Valdés-Prieto (1994).
sharply with the turbulent, almost revolutionary politics of central and eastern Europe during the early transition.

- Institutional capacity constraints were much less binding, particularly in East Asia, than is true, for example, in Africa or much of Asia.

- Finally, the extended family played a significant role in the high-performing Asian economies, correspondingly reducing the need for formal transfer systems.

The policy implication is that the Chilean and East Asian solutions work for those countries because they are appropriate to the context of those countries, but cannot mindlessly be transferred to other countries. This does not mean that those approaches will not work elsewhere; merely that they will not necessarily work elsewhere. One of the major purposes of this paper is to offer guidance as to when particular policies are likely to be effective, and when not.

5. The approach outlined below offers three sorts of information.

- **Country typologies.** If countries are classified by the pattern of constraints they face, it might be possible to develop a typology which facilitates policy design.

- **Recognising constraints.** The approach can act as a warning device against potential policy failures which would result if important constraints were ignored. To take a specific example, the decentralised system of health finance in Germany is, by and large, effective in Germany. But it is effective only because (a) Germany possesses enormous institutional capacity, and (b) because social responsibility is an important German characteristic. Attempts to mimic the German system in central and eastern Europe are ill-advised because neither (a) nor (b) applies -- the CEE countries, quite apart from their other constraints, have very limited institutional capacity; and rampant individualism, at least in some countries, is an understandable reaction to its suppression under the old régime.

- **Relaxing constraints.** As well as recognising the various constraints in the design of any particular policy (reforming a system of social assistance, for instance), policy should be concerned also with relaxing key constraints. Some (mountainous terrain) are unalterable. Others (low institutional capacity) can to some extent be relaxed over time. The discussion below opens up the possibility of a sequenced programme to relax the most critical constraints. The starting point is to ask (a) which of the mutable constraints is the most damaging, and (b) what are the costs of relaxing the different constraints? The answers to these questions show which constraints are the most cost-beneficial to tackle, and in which order.

These various lessons are touched on in section 7, though only briefly, as a marker for future research.

2 **OBJECTIVES**

6. Table 1 gives a bird’s eye view of the major objectives and constraints. At their most basic, objectives relate to (a) material well-being, and (b) individual freedom. The objectives which follow, though they have implications for (b), are concerned more directly with (a). This is not to downplay
individual freedom; but, the problem of improving material well-being is difficult enough to merit separate consideration. The following discussion looks at three sets of objectives: growth; political stability; and distributional goals.

7. **Economic growth** is concerned with living standards. What matters is not the growth of GDP *per se*, but the growth of consumption per head. Population growth is thus immensely relevant. Excessive population growth is a potential constraint, discussed below; deficient population growth may also be a constraint, for instance in the context of pension finance.

8. **Political objectives** can be legion. So far as economic growth is concerned, however, there is only one primary political objective, *political stability*, which is necessary if government is to be able to pursue a longer-term reform programme. Put another way, the objective is to achieve sufficient consensus to make the policies necessary for economic growth politically possible. Political stability is compatible with both authoritarian and democratic government. It does not imply complete *stasis*, but sufficient continuity that government is able to govern (see Crawford and Thompson, 1994). The primary objective of political stability implies a number of sub-objectives:

- *Developing political institutions* which have a permanence and legitimacy which outlast changes in particular governments.
- *Managing losers*, by ensuring that reform does not produce too many losers or losers who are politically too powerful to ignore.
- *Containing expectations* by attempting to ensure that they are broadly in line with reality. Political unrest is much more a result of disappointed hopes than of poor outcomes *per se*.

9. **Poverty relief** relates to the living standards of the least well-off members of society, i.e. it is concerned with a *minimum*. For the purposes of this paper, the objective relates to short-run poverty relief (e.g. through transfers) rather than long-run poverty relief (e.g. through improved educational opportunities), which are subsumed in the growth objective.

10. **Distributional objectives** are also legion. This paper concentrates on three.

- *Reducing income inequality* is concerned not with a minimum, but with the overall distribution of income. Though primarily an equity issue, there may be a tradeoff with efficiency. A reduction in inequality may increase efficiency, for example if reduced inequality is associated with an improvement in the living standards of the poor, enabling them to increase their investment in human capital. On the other hand, a reduction in inequality is not always welfare improving. In central and eastern Europe, for example, an objective might be to *increase* the dispersion of earnings to assist the efficient allocation of labour.

- *Reducing gender inequality*. The western view is that the desirable relationship between men and women is one of equality. That view is not held everywhere.

- *Reducing ethnic inequality*. The view that the desirable relationship is one of equality, again, is not held universally.
3 ECONOMIC CONSTRAINTS

3.1 Institutional Constraints

11. Economic institutional constraints are usefully discussed under three heads: adverse initial conditions, an unhelpful regulatory structure, and an unstable economic environment.

Adverse initial conditions

12. **Low quantity/quality of inputs** contributes very directly to low economic capacity.

13. **Inadequate human capital.** Labour may be scarce, first, because there are few people of working age (as prospectively in much of the industrialised world). Second, in the specific context of the former-communist countries, the problem is less of too little human capital than of the wrong type. Third, and most frequent, is the case where there is too little education/training of too few people. All these problems can be exaggerated by poor health, arising out of unhealthy living and working conditions, unhealthy diet and lifestyle (e.g. heavy smoking), and inadequacies in basic health care.

14. There are important interactions between deficiencies in human capital and other constraints. It is argued for example that the effectiveness of birth control programmes is greatly enhanced by improved basic education for girls (to give young women an understanding of the issues) and by better basic health care (to reduce infant and child mortality, thus reducing the pressure to have larger families to ensure that at least some children survive to become adults).

15. **Poor physical capital** is a result of low quantity or quality of past investment. A major example in poor countries is a lack of clean drinking water. Other examples are lack of irrigation, bad roads and poor telecommunications.

16. **Poor quality land** can sometimes be improved, e.g. irrigation can make some deserts fertile. In other cases the constraint is binding (e.g. five-sixths of Japan is mountainous).

17. **Geographical constraints** can arise in at least two ways.

18. **Lack of well-defined borders** can be a major constraint, particularly if the region has a turbulent history. At the opposite extreme, a country which is an island has well-defined and fairly unambiguous borders.²

19. **Diversity of climate and terrain.** Greater diversity can make both policy design and its implementation more difficult. The larger the area, the greater the likely need for regional variations in policy, e.g. higher benefits are needed in very cold parts of a country. Larger size also affects implementation: centrally controlled implementation will have communication problems, and devolved administration (as distinct from locally administered central policy) will have problems of

² Even then, disputes can arise, for example the so-called 'cod war' in which the UK and Iceland disputed the size of UK territorial waters.
uniform application. Working in the opposite direction, diversity can act as a form of insurance against drought or other weather shocks.

20. **Excessive population growth.** Excessive population growth has a direct effect on living standards. If output rises annually by 2 per cent and population by 3 per cent the effect is inexorable. The interaction between population growth and education and health has already been noted.

21. **Limited size of the formal sector.** Taxable capacity depends not only on real per capita GDP, but also on what fraction of that GDP is produced in the formal sector. At a given level of real per capita GDP, a smaller formal sector leads to a smaller tax base. Thus government has either to manage with lower tax revenues or must impose higher tax rates, with the accompanying risk of lessening the incentive to work and save.

22. A second implication is that a formal system of income transfers will be inadequate for workers in the informal sector. They will typically not have a contributions record, causing problems for social insurance; and income-tested social assistance faces major problems, since income in the informal sector is notoriously difficult to measure. Because of these difficulties, the application of formal income transfers to the informal sector is usually sketchy or non-existent.

23. **Sectoral distortion.** The inherited economic structure of many countries is distorted. In the case of central and eastern Europe, for example, the shape of the economies which emerged from the communist era was very different from those in the West: the structure of ownership was heavily weighted towards the state; the structure of production was strongly biased towards heavy industry and agriculture; and the structure of trade was distorted, particularly by overspecialisation and the consequent giganticism of production units. On the last point, the buses for much of the communist world were made in Hungary. A more graphic example is the concentration of chemical and nuclear industries in Ukraine.

24. The result of such sectoral distortions is inefficiency and a consequential lack of international competitiveness (in some countries in central and eastern Europe the inefficiency was so great that for some products total value added was negative). Large numbers of workers need to move to more productive jobs; but often the skills mix, like the sectoral mix, is distorted, aggravating the human capital constraint.

25. The greater the inherited distortions, the greater the change in relative prices restructuring is likely to bring about, and hence the greater the need for offsetting poverty relief to protect those who are disadvantaged by the changes in relative prices. Since restructuring tends to be accompanied by a stabilisation strategy, this action is hindered by fiscal stringency (discussed below).

**Unhelpful regulatory structure**

26. **Economic distortions** are one of the sources of the sectoral distortion just discussed. Labour market rigidities are an important example: there may be excessive wage controls, or a segmented labour market to protect the small, powerful formal-sector labour force. There may be rigidities in the market for land, either for rental or purchase. A third type is distortion is price subsidies, for example in the case of food. There is sometimes a case for such subsidies as a targeting device. But very often they exist for political reasons and do little to benefit the poor. Fourth, there may
be distortions from political causes. Examples include the wish to have a large military sector, or the wish to be self-sufficient in food. These may or may not be economically rational.

27. **Inadequate legislation underpinning market activity.** The previous constraint arose out of too much intervention. Constraints can arise also where there is too little. The efficient operation of private markets rest on two sorts of legislation:

- basic laws regulating the ownership and transfer of property, corporate law, the law of contract, etc., without which market relations are impossible;
- regulations designed to cope with market imperfections, of which two common manifestations are (a) imperfect consumer information and (b) unequal power.4

28. In some circumstances state intervention in the form of regulation can increase efficiency, important examples being laws connected with food hygiene, and the testing and sale of drugs; the regulation of financial markets; and labour market legislation. The major function of such legislation is to increase efficiency. It may also have an equity effect by benefiting the poor, for example where consumer information has a significant socioeconomic gradient or where (as is frequently the case) unequal power disproportionately affects the poor. The trick is to design legislation to increase efficiency, while avoiding regulatory "capture", leading to the type of economic distortions discussed above.

29. **Unstable economic environment.** External shocks can arise in at least three ways. Irregular shocks, for example an external oil shock or a stabilisation shock, cannot generally be predicted long in advance. These contrast with regular (and fairly predictable) phenomena such as monsoon failure or floods. A third type of shock is war.

30. Such shocks reduce both personal income (aggravating poverty) and government revenue (aggravating the fiscal situation). In addition, the sharp decline (i.e. rate of change, as opposed to level) of both variables makes the politics of poverty more difficult.

3.2 Capacity Constraints

The level and distribution of income

31. **Low level of income.** The relation to poverty is obvious. As just discussed, rapid declines also aggravate the politics of poverty.

32. **A wide dispersion of the income distribution** can hinder reform. Conversely, lower income inequality is helpful. Examples cited include East Asia, and some of the high growth/low poverty Indian provinces such as Punjab and Gujerat. In such cases, lower inequality means that fewer resources are needed for poverty relief, thereby relaxing fiscal constraints, and lower poverty improves the political viability of reform.

33. In contrast, for a given mean level of income, the more people with income above the mean and the further they are above it, the more people there will be with income below the mean and the

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4 For fuller discussion, see Barr (1993, Ch. 4)
further they will be below it. Other things being equal, a wider dispersion aggravates poverty. Thus countries with highly unequal income distributions require transfers on a large scale, but the scope for redistributive taxation is limited because even draconian taxation of the rich will not have a high yield (to say nothing of its incentive effects). If a highly unequal distribution is bimodal (i.e. people are either fairly rich or very poor, with few in between), targeting is made easier. Again, rapid change may create political problems.

Fiscal tightness

34. **A tight fiscal situation** hinders the ability of an economy to address poverty and growth simultaneously. Where there is a rapid deterioration, e.g. because output falls sharply as the result of an external shock, both the economic and the political problem are even worse.

4 CONSTRAINTS CONNECTED WITH GOVERNANCE AND POLITICS

Problems with the machinery of government

35. Problems with the machinery of government can arise through inappropriate constitutional arrangements, lack of important political institutions, unhelpful division of power between the centre and localities, and a lack of rule of law.

36. **Constitutional arrangements** relate to the 'rules of the game'. Problems arise where the rules are not clear, where the rule are clear but not conducive to effective government, or where the rules are not enforced.

37. **Unclear division of power and responsibility.** The respective powers and responsibilities of the legislature and executive may not be clear and explicit; or where they are clear they may work badly. In the early days of the reforms in Russia, for instance, it was possible for Presidential decrees and legislative Acts to be in direct conflict, with no constitutional rules for establishing which took precedence. As an example,

'Russian Economics Minister Andrei Nechaev told Interfax ... that the government has ordered the Central Bank to reverse its decision canceling debts owed by enterprises. But in Izvestiya, Central Bank Chairman Viktor Gerashchenko defended his controversial instructions ... He conceded that the debt forgiveness had disadvantages "but what other alternative do we have?"... The Central Bank answers to parliament, and it is not clear what the government, which is split on this issue can or will do if the bank holds firm' (Radio Free Europe/Radio Liberty *Daily Report*, No. 148, August 5, 1992).

In Ukraine, similarly, the Prime Minister 'accused ... parliament of interfering in the cabinet’s work and said that if a clear delineation of powers between the government and parliament was not established, his government would resign' (*Wall Street Journal, Europe*, 6 July 1992, p. 7). In such cases, the judiciary may not yet be in a position to resolve the dispute.

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5 For more general discussion of the politics of reform, see Bienen and Gersovitz (1986) and Graham (1994).
38. **Fragmented parliamentary representation.** The electoral régime may yield indecisive results. The first democratic election in Poland was conducted under a system of proportional representation with no threshold, leading to a legislature with a fragmented party structure, hindering the formation of a stable coalition.

39. **Lack of enforcement.** The powers of the executive might be clear, but the executive might not be able to enforce them, particularly where administrative structures lack the capacity to enforce the law.

40. The relevance of these problems is that government cannot make decisions or, if it makes a decision, cannot necessarily implement it. A particularly important example is where government loses the ability to control the budget.

41. **Lack of political institutions.** Effective government requires not only rules which allow it to govern but also the necessary institutions.

42. **Lack of political parties.** In a democracy, coherent policy rests on coherent support. This generally requires effective political parties, preferably not too many in number, and sufficient party discipline to make the notion of a party real. The importance of parties is as a device to channel demands from society to the state, and also to transmit messages (and sometimes also services) from the state to the electorate. Parties which are too rigid may contribute to polarisation; if they are too fragmented, they hinder effective government. The causal link between strong parties and successful reform has yet to be fully established. In Latin America, for example, major reforms are being implemented and sustained in countries with weak parties systems (Bolivia and Peru), as well as in those with strong ones (Argentina, Chile). It may be that strong executive power is the critical factor, at least during the early stage of reform, harking back to earlier discussion of constitutional design.

43. **Lack of management.** Political institutions may not allow proper design of a legislative programme, creating the potential for legislative overload. This can arise, for example through the inclusion of excessive detail in primary legislation. In the early days of the reforms in central and eastern Europe, for example, the level of benefits such as pensions and unemployment benefit were frequently included in primary legislation, so that changes in benefit (e.g. because of inflation) required extensive Parliamentary debate. The combined effect of large numbers of new laws and of the amount of detail in each can be a legislative bottleneck, slowing down reform.

44. **Division of power between the centre and subsidiary levels of government.** As the history of central planning in central and eastern Europe shows, too much power at the centre harms adaptability and hence hurts economic growth; it also hinders political development. Equally, however, it is possible to have too little power at the centre. This can be the result of (a) constitutional arrangements, (b) lack of administrative/enforcement capacity, or (c) abdication by the centre of its responsibilities. In Russia in 1992, for example, the central authorities experienced difficulties in persuading localities to remit tax revenues to the centre. The problem exists on a smaller scale in other countries. In Hungary, the pressures for decentralisation made it difficult for the central authorities to require localities to adopt a common code for categorising pharmaceuticals.

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6 To deal with this problem, Poland introduced a threshold in 1993 of 5 per cent of total votes for single parties, and 8 per cent for coalitions. The purpose of the threshold was to reduce the number of political parties in Parliament.
45. The problem can be particularly acute in federal countries, where macroeconomic stabilisation policies are implemented by central government, but lower levels of government have the responsibility, both fiscally and administratively, for protecting the poor from the short-term adverse results of stabilisation. In India, for example, 85 per cent of spending on the social sectors derives from state budgets. The picture is broadly similar in Brazil and Nigeria. The fiscal problems which this raises are difficult enough at the best of times, and are greatly aggravated where the central government is controlled by one party and a lower level of government by another.

46. Where the centre does not have enough power, it may not be able to implement its policies. In the context of poverty relief, it is vital, if redistribution between regions is part of the agenda, that power is concentrated at a level of government high enough to achieve that effect. In a country such as Hungary, where local jurisdictions are small, and with substantial differences in income between localities, redistribution will have to be organised in large measure by central government. In a country with larger localities (e.g. the Oblasts in Russia), a significant amount of redistribution could be organised at the Oblast level, as between richer and poorer smaller local areas. Weak higher levels of government, or political conflict between higher and lower levels of government, will compromise redistributive activity.

47. Lack of rule of law. Laws need to be well-designed, i.e. achieving the policy intention with as few unintended consequences as possible. In addition, the authorities require the means to implement and enforce them. Problems can arise in a variety of ways.

48. The government may lack legitimacy, as was the case prior to the reforms in Central and eastern Europe.

49. The laws may lack legitimacy. A law may be unenforceable because it lacks the consent of the citizenry (e.g. Prohibition in the USA in the 1930s). There may be too many laws, e.g. hundreds of regulations which apply to the opening of a grocery store.

50. Lack of enforcement capacity. It may not be possible to ensure that laws are enforceable, enforced, and seen to be enforced. Enforcement may be undermined by a culture of corruption (discussed below under Administration)

51. The lack of rule of law is relevant, first, for political reasons. The lack of enforcement can lead to disrespect for the law, to general distrust of government, and to widespread corruption. This can become so pronounced that, according to the then Bulgarian Prime Minister early in his country’s reform process, it undermined the moral values of a civil society.

'By imposing a great number of impractical and often illogical restrictions and limitations that were inevitably and routinely breached or disregarded, [the communist authorities] also cultivated in the individual a feeling of being an offender.... This served to blur the line between the permitted and the forbidden.... Honest and moral people would think nothing of stealing from the state or cheating the authorities' (Dimitrov, 1992).

52. More anecdotally, when a scuffle broke out between two parliamentarians in the Russian Duma in early 1994, one of the participants was quoted as saying that, should he become President, his first act would be to imprison the other.
53. The problem is more general than post-Communist reform. In South Africa, for example, the boycotts of municipal rents were a central part of the liberation struggle. One of the many challenges facing the new government is to address the resulting habits of thought and the knowledge that, if non-compliance is sufficiently widespread, government may be unable to enforce payment.

54. The lack of rule of law, alongside its political effect, creates an important economic constraint: market systems rely heavily on the rule of law because decision-making is decentralised and economic relations founded on the principle of voluntary exchange. Individuals undertaking exchanges need to know that promises have a contractual basis, which provides some guarantee through the courts that the exchange will take place on the terms originally agreed to, or that the party in breach of the contract will be penalised. A clear definition and enforcement of rights and obligations is a precondition for a well-ordered competitive environment, particularly one intended to attract foreign investment.

55. At an administrative level, the lack of enforcement can lead to 'leaky' systems of tax collection. Lack of enforcement capacity also restricts administrative options. Much of the administration in a modern social security system, or any administrative system, is based on a measure of trust between the provider (the government) and the user (the public). That trust is reinforced by explicit laws and by penalties for avoiding or abusing those laws. Without good enforceable laws it is difficult to take the first step on the road to trusting the public to be honest in their dealings with government.

Problems with the political players

56. Political constraints arise not only from the rules of the political game, but also from problems with the players.

57. **Lack of skills.** Politicians may be committed to reform, but may lack experience, and hence may not know how to 'do' democratic politics. Good government communication is central to the implementation and sustainability of reform. Lack of awareness of this basic point is a frequent problem, and one whose importance is often overlooked not only in the countries concerned, but also by those who offer advice.

58. **Lack of credibility.** Politicians may be committed to reform, but not be credible with the citizenry, either individually or collectively, because the individual politicians have a tarnished personal or political past, or because the government collectively has a poor record.

59. **Lack of policy consistency.** This problem can manifest itself in two ways. First, at point in time, the government may pursue inconsistent policies, e.g. attempts to contain wages through an incomes policy while simultaneously expanding the money supply. Second, there may be a lack of consistency over time, i.e. a lack of political will, in that politicians may not really be committed to reform.

60. Both a lack of political skills and a lack of credibility reduce the ability of government to 'sell' policies, such as restructuring, which (a) have a long-run payoff but short-run pain, and (b) create some long-run losers. Specifically, the problem reduces the ability of government to explain such things as liberalised food prices, the importance of targeting, etc. Any of the three constraints undermines the ability of political leaders to give coherent leadership.
5 ADMINISTRATIVE CONSTRAINTS

61. **Low quantity/quality of inputs.** The problem arises most obviously because of a shortage of human capital in administration, either because too few people are recruited, or because the quality of recruitment too low. The latter has two different causes: there may be too small a pool of skilled people from whom to recruit (too few skills or outdated skills), or inappropriate selection procedures (e.g. nepotism and other forms of corruption, discussed below). The problem is aggravated in economies undergoing major reform, because the skills of the past (mainly implementation and control) are not the skills of the future, which relate more to change, development and adaptation. Further constraints arise where there is a shortage of physical capital, e.g. buildings, computers, telecommunications, and the like.

62. **Inadequate management** relates to the way in which the various administrative inputs are used.

63. **Lack of modern management skills.** Management is not just about administrative technology (e.g. computer networks rather than carbon paper), nor is it only about control. It is a dynamic process. In centrally planned economies management consisted of controlling a largely static organisation to meet externally imposed targets. Increasingly, there is a need for management to be responsive to the changing needs of the economy. Managers will have to set targets, monitor them and adjust their policies to suit the outcomes. Such tasks require very different skills. The whole process of change is in some cases new. The management of change itself is a particular skill which many managers lack.

64. **Excessive compartmentalisation.** Problems arise where policy is developed in isolated compartments, for instance with one ministry designing a policy which conflicts with, or replicates, the policy of another. Most countries in central and eastern Europe, for example, have between three and five payroll tax collection agencies, with little coordination between them. The result is additional work for enterprises, and the ideal opportunity for enterprises to play one agency against another to avoid payment. Similarly, most countries have different agencies working in the benefits area. The result, frequently, is poor targeting, with gaps in coverage for some groups and leakages of benefits to other groups for whom coverage was never intended.

65. **Undervaluation of implementation skills.** A particularly important example of bad management is the tendency to design policy without taking advice from the people who will have to implement it. An anecdotal but illustrative example was the flag of one newly-independent country, whose initial design was so complicated that it proved impossible to manufacture by machine and had to be amended. Similarly, the initial Speaker in one newly-elected parliament had to be replaced when it became clear that someone with a severe hearing problem was not best-suited to the job. Of greater importance, the time scale for increasing the levels of complex cash benefits could be unrealistic. As an example, the Russian Supreme Soviet announced at the end of the first week of April 1992 that all pensions would be revalued with effect from 1 May 1992. The revaluation involved recalculation (non-computerised) of the pension of each individual, based on his/her earnings record over the previous ten years indexed by a complex formula. In addition, some pensioners, by submitting additional documentary evidence, could count as pensionable service periods which had previously been ineligible. Those in charge of implementing the decision

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estimated that the task would realistically take at least six months. Similar problems arose with health care reforms, which could be too complex for effective implementation within a reasonable time scale.

66. **Culture of corruption.** The problem can arise in part because of low public-sector pay, and weak incentives to effective performance. For these and other reasons, corruption is frequent and in many countries deeply embedded in its *modus operandi*.

67. All the administrative constraints discussed here lead to a lack of capacity to design and implement policy. Poorly-designed policy is a recurring theme. A frequent problem is policy which is too complex to be implemented effectively. All these problems are exaggerated if enforcement capacity is limited (see Lack of rule of law). Specific examples include the lack of ability (for example) to administer an income test, and 'leaky' systems of tax collection.

### 6 SOCIAL CONSTRAINTS

#### 6.1 Institutional Constraints

Social fragmentation

68. **Fragmentation of the extended family** has already occurred in many countries, including the reforming communist countries. Even in countries with a Chinese heritage (e.g. much of East Asia), the extended family is coming under pressure as increasing numbers of young couples form separate households and increasing numbers of married women join the labour force (see much of the discussion in Phillips, 1992).

69. **Fragmentation of the community** is another frequent accompaniment of industrialisation.

70. The constraint which results from both tendencies is a greater burden on formal systems of income transfers (see Jimenez and Cox, 1992).

#### 6.2 Attitudes

71. Unhelpful attitudes arise through hostility to reform, through problems arising out of the balance between the individual and the collectivity, and from behavioural constraints.

**Hostility towards reform**

72. **Hostility towards the market mechanism** can arise for two reasons. Experience with 'basic' markets (e.g. food) or 'complex' markets (e.g. financial markets) may be limited. Second, attitudes to the market mechanism will be shaped by cultural values about private property. In the West we do not like to have markets for babies; in other cultures the list of prohibited items can be longer.

73. The relevance of these attitudes is that they can hinder public acceptance of liberalisation of the markets for labour or land, or such policies as liberalising food prices.
74. Resistance to change may be more general. Change can be resisted by the public, because of fear, or to protect cherished values; or by the civil service, because of fear and/or to protect their privileges.

75. Both types of attitude will create political resistance to change. In addition, the civil service can subvert reform. Note that such subversion may involve the entire civil service protecting itself, or may take the form of the senior civil service embracing reform, which is then subverted by subordinates. Defensiveness within the civil service should not be underestimated. Economic and political difficulties are often 'solved' by reorganisation, which can be used to hide failure. Thus there is fear of reform and a tendency to distrust anything new. While the managers of social insurance institutions seek to computerise their activities, their staff hampers the installation and operation of the new equipment.

The individual and the collectivity

76. Unhelpful attitudes towards pluralism and dissent. Issues arise such as the treatment of political losers (do you kill or enslave political losers, or continue to accord them full rights of citizenship?), and of attitudes towards freedom of expression (free press or secret police at midnight?). In the West, freedom of expression is regarded as beneficial (though, as under communism, support may be no more than lip service). In other cultures, free expression may be regarded as inimical to the collective good or to the achievement of religious objectives.

77. The relevance of this issue is that democracy is possible only where the electorate is prepared to trust that the losers will not be excessively abused (something which required careful explanation before the South African elections of 1994). Suppression of debate can hinder the development of public understanding of the issues, which is vital to the political viability of restructuring in a democratic economy.

78. Unhelpful balance between individualism and social solidarity. Social solidarity, on the face of it, is not a constraint but a possible objective. It can, however, become a constraint if there is either too little solidarity or too much.

79. Too much individualism. The assumption by individuals of too much individual freedom can hinder the development of political and social consensus; for that reason, loyalty is the major civic virtue in Japan. Indeed, in some countries (East Asia and China have been suggested) the lack of individualistic attitudes makes it possible, at least to some extent, to re-educate people's attitudes. Viewed from that perspective too much individualism can be a constraint.

80. Individuals may choose individualistic behaviour, or they may have it thrust upon them. An excessive belief in self-reliance may lead the political elite to underestimate the importance of poverty relief. This will lead to suffering and may undermine the political viability of any long-term reform programme such as restructuring. Similar problems arise where social solidarity is important but is ignored or overridden, e.g. by excessively strong conditionality which takes insufficient account of the sensitivities of local cultural/political attitudes.

81. Too much social solidarity. Though too much individualism may be a constraint so, perhaps, can too little. If there is too much social solidarity, it can be difficult to develop political consensus for the income differentiation necessary for wages to perform their efficiency function in a market system. Along different lines, a study sponsored by Boeing (Washington Post, August 21, 1994, p.
A8) showed that countries with less individualism had higher rates of airplane accidents. These are uncharted waters, so the issue is raised more as a question than as a conclusion.

Behavioural constraints

82. **Lack of cultural and ethnic cohesion.** Examples are sadly legion, Bosnia and Rwanda being only the most recent. The absence of such cohesion, at its most minor, makes government more difficult; at its worst it calls into question the existence of a nation state.

83. **Religion.** Examples are legion. In some religions, women have a very restricted range of freedoms. And attitudes towards birth control can have a very strong religious element.

84. **Attitudes towards gender.** These may be religious or social. Until the end of the nineteenth century married women in the UK were not allowed to own capital (any capital they possessed prior to marriage became the property of their husband). Historically in Rajastan, women were allowed to work only in partnership with their husbands. In some Latin American countries, women are barred by law from doing night shifts in some industries (e.g. the railways). This is supposedly meant to 'protect' women, but ends up in discrimination in hiring and wages.

85. **Attitudes towards ethnicity.** Throughout central and eastern Europe, there are strong strands of anti-semitism, and hostile attitudes towards gypsies. In India there has been heated discussion of 'reserving' some job and/or transfers on the basis of caste, the argument being that such positive discrimination would benefit the most disadvantaged. Such policies may interfere with effective poverty relief in two ways: benefits may fail to reach the poor who are not members of the favoured castes; and the benefits may be hijacked by the more powerful (and less disadvantaged) members of the favoured castes.

86. The relevance of these constraints is considerable in terms of their effects on economic efficiency (quite apart from their equity implications). They restrict women's labour supply and/or labour mobility; and they may be inimical to attempts to reduce population growth.

7 APPLICATIONS

87. This brief concluding section, shows how the preceding analysis might be applied. It is intended as an agenda for future research.

88. **Country typologies.** It would be instructive to complete Table 1 for a fairly large number of countries to see what pattern emerged. It might be the case that countries clustered into a relatively small number of patterns.

89. The usefulness of such a country typology is twofold:

- it is based on a very general collection of constraints, and is therefore based on an overall picture; and

- it gives rise (at least potentially) to economies of scale in designing reform strategies; if countries have similar objectives and similar constraints, then presumably their policy strategy should be similar.
Help for task managers: recognising the constraints. Overlooking constraints is a common cause of badly-designed policy, for example, suggesting the introduction of widespread income testing of family allowance in a country with insufficient administrative capacity for the task. A second use of the approach, therefore, is to give task managers a list of questions, the answers to which ought to be a critical part of the input to sector work. Clearly, not all the questions will be equally relevant to all countries, and some will be totally irrelevant to some countries. In central and eastern Europe, for example sectoral distortion is an enormous constraint, but excessive population growth is not; in other countries the reverse might be the case; in yet others (India in the past) both could be significant.

Since many of the constraints are not primarily economic, it would be useful if task managers put together teams with expertise wider than economics narrowly defined. Political economists have important skills in terms of diagnosing (and relaxing) political constraints. Only people with administrative constraints can really discover where all the administrative bodies are buried. Sociological and/or anthropological expertise is necessary to uncover some social constraints whose manifestation may be subtle, but whose economic effects can be significant.

As an example of the previous point, there appears to be some agreement that the individual is less likely to subordinate him/herself to the general good in Poland than in the Czech Republic. This may be part of the explanation of Czech economic performance. The point is not one about the Czech specifics, but about how a rather subtle difference in social constraints may have important economic effects. Much more needs to be known about such things.

Designing projects: relaxing the constraints. Some constraints (mountainous terrain) are pretty much binding (i.e. the cost of relaxing them is effectively infinite). In other cases, the constraint can be relaxed at a non-infinite cost. In principle, then, the issue is to identify the constraint whose relaxation would have the highest benefit: cost ratio. Clearly there are horrendous measurement problems in tacking this question, particularly if benefits are interpreted broadly, e.g. to include political benefits. Nevertheless, the approach at least gives guidelines for deciding which areas are the most promising candidates for technical assistance or (more likely) project work.

Much work has gone into projects designed to relax economic constraints (hydroelectric schemes, telecommunications, roads, training programmes and the like). Less has been done on the more sensitive issue of relaxing political constraints. It has been argued (see Barr, Gomulka and Tomeš, 1994) that lack of political capacity is one of the key constraints on the reforms in central and eastern Europe. What is needed are policies which strengthen political institutions, particularly those which enable democratic government to be effective (analogous to economic policies to strengthen economic institutions, particularly market institutions). The design and operation of government is thus, at least in part, a policy lever. The area is difficult and tendentious. That does not mean that it should be ignored.
### TABLE 1: MAJOR OBJECTIVES AND CONSTRAINTS

#### OBJECTIVES

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Economic</th>
<th>Political</th>
<th>Poverty</th>
<th>Distributional</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reducing</td>
<td>Reducing</td>
<td>Reducing</td>
<td>Reducing</td>
<td>Income gender inequality</td>
</tr>
</tbody>
</table>

#### CONSTRAINTS

**ECONOMIC**

- **Institutional Constraints**
  - Adverse initial conditions
    - Low quantity/quality of land, labour, capital
  - Geographical constraints
  - Excessive population growth
  - Limited size of the formal sector
  - Sectoral distortion
  - Unhelpful regulatory structure
    - Economic distortions
    - Inadequate legisl’n underpinning market activity
  - Unstable economic environment
    - External shocks
    - War

- **Capacity Constraints**
  - The level and distribution of income
  - Fiscal tightness

**GOVERNANCE AND POLITICS**

- Problems with the machinery of government
  - Constitutional arrangements
  - Lack of political institutions (e.g. political parties)
  - Division of power between the centre and localities
  - Lack of rule of law

- Problems with the political players
  - Lack of experience
  - Lack of credibility
  - Lack of policy consistency

**ADMINISTRATION**

- Lack of capacity to design and implement policy
  - Low quantity/quality of inputs
  - Poor management
  - Culture of corruption

**SOCIAL**

- Institutions
  - Social fragmentation
    - Fragmentation of the extended family
    - Fragmentation of the community

- Attitudes
  - Resistance to reform
  - The individual and the collectivity
  - Behavioural constraints
    - Lack of cultural and ethnic cohesion
    - Religious
    - Attitudes towards gender
    - Attitudes towards ethnicity
    - Local custom and practice

- Achieving sufficient consensus to make economic growth possible
REFERENCES


