

**Re-thinking aid and subsidies in urban contexts**  
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***A popular introduction to Conditional cash Transfer tools and their possible applications to local welfare policies***

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**The context: inequality and welfare**

In the last 30 years, the share of income got by the top 1% of citizens has doubled in the US from 10 to 20% and roughly the same has happened in other countries, not excluded the egalitarian Sweden. Gini coefficient is raising in the last decades<sup>1</sup>. Notwithstanding, internal growing inequality, globally speaking the world is less unequal because poorest countries grow at a faster pace than richer ones.

Therefore, nowadays it is inequality within borders that raises political concerns and ask for welfare policies that, at the end of the day, are mainly enforced at local level.

Under the ideological / political point of view, we are between two extremes:

- We witnessed a long phase of wide State intervention that led to the welfare state as we know it today
- We went through a wave of deregulation (proposed and/or implemented), coming in particular from the Anglo-Saxon world.

Between these two extremes, some intermediate ideological / political approaches emerged, i.e. compassionate liberalism, a very useful formula to convey political messages, but maybe less effective in proposing concrete actions.

What impressed me the most is a survey recently made in the UK on the perception of the public opinion toward aid to poor people. The survey highlights that in these years after the economic crisis people's attitude changed. The number of people declaring to be in favor of aid to poor people significantly decreased as compared to the "pre-crisis" times. A sentiment of re-thinking the welfare is spreading and it is not really in favor of the beneficiaries of subsidies and aid.

A phenomenon that we are monitoring and studying is related to the fall-outs of the crisis of the welfare in terms of growing demand toward private richness accumulated in corporate or family foundations, or bank foundations.

Public agencies are worldwide trying to shift the burden of public goods and services to philanthropy: in Italy too we spot, here and there, exhortation to Foundations of Bank Origin to take responsibility for managing functions of the public sectors, mainly grounded on the historic origin of the Foundations' assets. This historical origin seems indeed more appropriate to requests for intervention in the welfare sector compared to situations where richness has not a community origin.

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<sup>1</sup> Gini index measures the extent to which the distribution of income or consumption expenditure among individuals or households within an economy deviates from a perfectly equal distribution.

This aspect is worrying managers of Foundations because it does not seem strategically sustainable to rely on these subjects to face the ongoing crisis of public welfare.

### Conditional cash transfers: a very short introduction

I continue now with some aspects that approach the topic of Conditional Cash Transfer (CCT). In simple words, CCTs consist in giving aid conditioning such aid to some forms of reaction or change in behavior by beneficiaries, in terms of e.g. professional capacity, health care for the beneficiaries themselves and their families, etc.

I propose you some theoretical considerations that might be useful to interpret problems connected to giving aids to poor people.

I quote Banerjee and Duflo when they say that the three main reasons aid is ineffective are *“ideology, ignorance and inertia”*. *“Precisely because [the poor] have so little,” they write, “we often find them putting much careful thought into their choices: They have to be sophisticated economists just to survive.”*

Assumptions on people behavior, or expected results, that drive help are normally untested, more frequently there are no assumptions at all, just an anthropologically understandable reaction of the like *“we should do something”*.

Often aid and subsidies – this is not the case of the programmes that will be presented later – are given as such.

### Aid as “quasi-market”?

Let’s try to think about aid as a “quasi-market”, even if it may sound hasty. If aid is a quasi-market, we can say that donors are the offer-side and beneficiaries are the demand-side. And what if we reverse this hypothesis? When the donor is an institution established to provide aid, this institution shall produce a result (aid), therefore it becomes a demand actor, and it needs eligible beneficiaries who can be recipients of its aid. On the other side, needy people, applicants, if eligible to the donor’s aid, may offer the opportunity to add a result to the donor’s activity. This hypothesis, if verified and verifiable, has interesting consequences on the incentive mechanism for those who give and those who receive, and could make aid less effective.

### Information

Other two aspects are related to information in the sense of knowledge of the characteristics of those who ask for aid and those who give.

We can find two big critical aspects linked to information when talking about aid to people:

1) when we select beneficiaries, the selection mechanism may not be the best (e.g. the mechanism does not select people who react to the aid and therefore it is not effective). In this case we talk about **adverse selection**, which appears when we do not analyze how to find a mechanism to attract beneficiaries that may do the best use of the aid. This is a problem that has been deeply analyzed in the auction sector – e.g. in TELCO auctions. I mean, is it possible to transform the famous sentence, by Milgrom (1997), *“putting licenses in the hands of those who value them the most”* into *“giving aid in the hands of those who will, probably, create more personal/family assets, in terms of education, working capabilities and opportunities, training, care of the children and so on...”*?

2) **moral hazard**: when giving aid to people and asking for a change in their behavior I cannot monitor if the beneficiary concretely implements such changes and engages him/herself in the commitment taken with the donor. People act in an opportunistic way and being in the domain of private behaviors, it is difficult for donors to monitor them.

In these two domains the distance between the results of academic research and concrete policies at local level is incredibly long and this is what we see, as Turin School of Local Regulation, when we meet local policy makers also in other sectors – e.g. in regulation of local services like water and waste, where policy makers could really benefit of a structured thinking about mechanism leading people's and firms' behavior.

### **What could help us in better designing CCTs to poor and disadvantaged people?**

For sure the study on **game theory** and **mechanism design** can support us because we are analyzing situations where the result of an activity or a policy does not depend on what we intend to do (intentions are always positive), but on the relation and interaction with other actors.

To go back to information, I want to highlight other two crucial aspects for those who give aid: **information endowment** (from the aid agency side) and **information extraction** (from the applicants). In local contexts, with rich social networks, the first can be rich, and the proximity of aid agents with the poor should further enlarge it. As to information extraction, asking information about private behavior can result in a downplay, or exaggeration, depending on who is asking, and what is at stake: one of the first CCT programmes implemented in Mexico observed how beneficiaries tend to under report some goods (satellite TV, mobile phones, perceived as not essential) and over report others, due to embarrassment (concrete floor, toilets, plumbing).

Moreover, experiments show (Banerjee, Duflo, 2011) that people is more willing to donate to specific, individual situations than for general catastrophes. If the power of the "specific" is then so strong to move millions in charitable donations, then, in another contexts, individually speaking, there is a strong incentive to "present"/put at stake one's personal situation, problem, children.... To obtain a personal contact with charities' workers and to make "saying no" very costly, to exit what a friend called the "marmalade" of mass application.

This aspect stimulates further thinking on the ways aid is designed and given.

### **Conclusions**

There is a big work to do to extract from the experience of voluntary organizations and aid agencies useful information, data, anecdotes, statistics, but also to transfer to daily life and local policies the study and the research made at academic level on human behavior, interaction mechanisms, reactions and strategies of individuals and organizations, and this is the mission of the Turin School of Local Regulation. This is also the mission of this conference, where we try to apply this knowledge to the concrete case of CCTs. Some very interesting experiences will be presented, starting from Torino, with the presentation of the experience of Ufficio Pio, to continue with New York, France and Bangladesh, this last with the aim of highlighting potential lessons for industrialized countries.