



RESEARCH BRIEF #3: POLICY MAKER AND FARMER PREFERENCES

Decision Making, Poverty and Vulnerability: An Interdisciplinary Approach to Policy

Individuals make decisions both about allocating their own resources, and to varying degrees, about allocating collective resources. Our interest is in whether there are systematic differences in decision making between policy makers who are regularly involved in allocating public resources for development, and the poorer individuals who are more frequently the intended recipients. Our motivation is that a better understanding of patterns in decision making may help to explain the often unexpected outcomes of development policy interventions aimed at poverty reduction. Policy interventions, program designs, and the creation of incentives may be premised on the preferences and decision making – risk attitudes, risk perceptions, self-efficacy, inequality aversion - of the policy maker, which can differ from those of the intended recipients.

Country/Sample: Vietnam, Bac Can province. 40 relatively poor farmers (mean monthly income \$53) and 47 middle and high level professionals involved in allocating public resources to this community.

Sample Questions:

1. You need some new seed for your own fields or for the fields of someone you know. The vendor has three varieties that differ in the taste of the product, its yield, and its resistance to pests and disease. An extension officer provides the scores out of 10, given below, for each variety in the three categories, but doesn't know which score goes with which attribute. Circle the variety you would choose:

Variety 1 – 4, 5, 9

Variety 2 - 6, 6, 6

Variety 3 - 10, 10, 0

This question was repeated asking to choose a local loan officer and medicines for one's child.

2. On a scale of 1=none, 2=a little, 3=medium, 4=a lot, 5=total, please indicate the responsibility for (repeat for: control over and experience with) what productive or income earning activities you will do (repeat for: what help will be given to others less fortunate in the commune and priorities for public services, infrastructure in the commune).

3. An aid shipment containing 12 bananas and 12 papayas is to be distributed between 2 people in a remote village: Nguyen and Viet. The following information is known to all:

- Nguyen derives 100 units of vitamins from each banana eaten, and 0 from papaya.
- Viet derives 50 units of vitamins from each banana and 50 from each papaya eaten.
- Both Nguyen and Viet care only about the vitamins in the fruit, nothing else.
- Nguyen and Viet live too far apart to trade.

How should the fruit be divided between Nguyen and Viet if the division is to be fair?

Main Results:

1. In general, farmers are more risk averse as measured by standard coin toss flips and stated risk preferences, but more optimistic about the future than are policy makers.
2. On choices for seed, job candidates, and medicine,, however risk taking farmers were more likely to choose the high variance option than risk taking policy makers. For seed, risk averse farmers were more likely to choose the high variance option than risk taking policy makers.
3. Overall differences between policy makers and farmers were greater in the domains that differ by professions -- seed and job candidates – than in the more common medicine domain.
4. Productive activities: Individuals who felt a *greater* sense of experience and control, but a *lesser* sense of responsibility over decisions on their own productive activities were more likely to be policy makers than farmers.
5. Public service priorities: Individuals who felt a *greater* sense of experience and control, but a *lesser* sense of responsibility over decisions on public service priorities were more likely to be policy makers than farmers.
6. Helping the less fortunate: No significant difference between the two groups.
7. Fairness: Individuals who chose to allocate fruit to either equalize the pieces of fruit or equalize the vitamins rather than to maximize vitamin effectiveness, were more likely to be policy makers than farmers.

Policy Implications:

Decision making is influenced by innate preferences, ability, effort, socialized factors, such as education, training, and exposure, and the constraints faced by individuals. We cannot completely unbundle these, nor can we establish causality, but in many cases the differences emerging between farmers and policy-makers are striking: tendencies to make mean-variance tradeoffs, sensitivities to risk, computational outcomes, what is viewed as fair, and the degree of control, responsibility, and experience that respondents feel over decision making. Additional survey questions indicated that given control, farmers and policy-makers would allocate funds in quite different proportions, with farmers allocating much more to healthcare and policy-makers to the financial sector. Policy makers would allocate more money to subsidized seed, while farmers would allocate relatively more to subsidized medicine and subsidized credit.

Policy makers convey broad ideas, directions and priorities, and thereby a flow of resources to intermediary groups - government agencies, quasi or non governmental organizations (NGOs), or members of the private sector - for program design and implementation. These intermediaries convert policy statements into a set of rules that represent constraints and opportunities. Hence decisions at each level allocate resources and frame the decisions for the group that follow.

Understanding and accounting for decision making biases along the policy chain is essential to constructing incentives that elicit the desired response from target populations – particularly in domains where familiarity differs. Participatory methods attempt to represent these diverse preferences, but just as there is some self selection into policy making positions, we can also expect self-selection into these representative roles. Unobservable attributes that lead individuals to assume these positions at all levels may be common to those individuals, but at odds with the larger population. Random sampling of local target populations is one option. To be scaleable, however, requires establishing patterns of unobservable decision traits, such as risk, fairness and self-efficacy, that differ along observable dimensions, such as gender, age, and livelihood.

Sources:

Anderson, C. Leigh, Alison Cullen and Kostas Stamoulis. “Variability Along the Policy Chain in Vietnam,” *Journal of Socio-Economics*, forthcoming.