Presentation Overview

Introduction
Scope and country coverage of the review

Framework
Evaluating the distributional impact of fiscal policies on inequality

Policy impacts on inequality
Impact of taxes and spending (transfers) on inequality in Asia-Pacific countries

Examples
Highlights of policies and reforms that can reduce or increase inequality

Conclusion
Balancing trade-offs; Considering evidence; Other considerations
Fiscal Policy Choices and Inequality

• **Taxes and transfers (spending)** have a redistributive impact on household incomes

• **Public investments** build physical and human capital to benefit future generations

• **Regulations** influence access to finance, labor markets, industrial production factors
Review of Country Assessments

Commitment to Equity (CEQ) Studies

- Systematic analysis of the distributional impact of taxes and public spending that are comparable across countries
- Uses information from household surveys and granular fiscal data to analyze fiscal incidence at a household level
- Evaluates the impact of the overall fiscal system and the marginal contribution of each policy intervention during a given year

Public Expenditure Reviews (PERs)

- Non-standard assessments of government budgets conducted by the World Bank and other institutions
- Topics, scope, and analysis varies depending on the policy questions that the PER seeks to inform
- Can include an analysis of efficiency and effectiveness of fiscal policies, expenditure trends in sectors, and equity analysis
- Findings are not comparable across countries, but provide context for fiscal policy choices and recommendations for reforms
## Countries Covered in the Review

<table>
<thead>
<tr>
<th>Country</th>
<th>CEQ (Fiscal/Survey Data Year)</th>
<th>PER (Year of Publication)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Armenia</td>
<td>2011</td>
<td>2014</td>
</tr>
<tr>
<td>Cambodia</td>
<td></td>
<td>2010, 2019</td>
</tr>
<tr>
<td>China</td>
<td>2013</td>
<td></td>
</tr>
<tr>
<td>Georgia</td>
<td>2013</td>
<td>2015, 2017</td>
</tr>
<tr>
<td>Indonesia</td>
<td>2012</td>
<td>2020</td>
</tr>
<tr>
<td>Iran</td>
<td>2011-2012</td>
<td></td>
</tr>
<tr>
<td>Mongolia</td>
<td>2016</td>
<td>2018</td>
</tr>
<tr>
<td>Philippines</td>
<td></td>
<td>2018, 2020</td>
</tr>
<tr>
<td>Russian Federation</td>
<td>2010</td>
<td></td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>2009</td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>2016</td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td>2014</td>
<td>2017</td>
</tr>
</tbody>
</table>
Redistribution from taxes and spending

Impact on Inequality

Size

Progressivity

Composition
## Types of Fiscal Policies (Taxes and Spending)

<table>
<thead>
<tr>
<th>FISCAL POLICIES</th>
<th>DIRECT</th>
<th>INDIRECT</th>
</tr>
</thead>
</table>
| SPENDING        | • Social protection  
|                 |   ▪ Social safety net (family, child, sick leave, cash transfers)  
|                 |   ▪ Universal basic income  
|                 |   ▪ Pension or social security  
|                 | • Other benefits and transfers  
|                 |   ▪ Student stipends, scholarships  
|                 |   ▪ Housing subsidies  
|                 |   ▪ Disaster relief  
|                 | • Social welfare programs (public works, training, school feeding programs)  
|                 | • Generalized subsidies (fuel, fertilizer, water, electricity, transport, food)  
|                 | • Health spending  
|                 | • Education spending  
|                 | • Agriculture spending*  
|                 | • Public infrastructure*  |
| TAXATION        | • Personal income tax (PIT)  
|                 | • Pension or social security contributions  
|                 | • Corporate tax*  
|                 | • Property tax*  
|                 | • Value added tax (VAT)  
|                 | • Excises  
|                 | • Import duties |
Overall impact of fiscal policies reduces inequality

Impact of Overall Fiscal Policies on Inequality, CEQ Studies

- Russia (2010)
- Georgia (2013)
- Turkey (2016)
- China (2013)
- Iran (2011)
- Armenia (2011)
- Mongolia (2016)
- Sri Lanka (2009)
- Indonesia (2012)

Change in Gini Index (scale 0-100)

-25  -20  -15  -10  -5  0

- Pensions as Transfers
- Pensions as Deferred Income
Size of the public budget impacts the potential redistributive impact

Total government expenditures and GNI per capita in 2016
As compared to other regions, Asia-Pacific has several countries with large pension programs that reduce inequality, but also more revenues from indirect taxes that increase inequality.
The impact of contributory pensions for reducing inequality is far less significant when pensions are treated as deferred income rather than a transfer.
Health and education spending can reduce inequality significantly, especially in countries with higher rates of spending.
Examples of Policies that Reduce or Increase Inequality

**Broad health coverage**
In China, programs to support wider access to health insurance in rural areas has made spending highly effective at reducing inequality.

**Pension programs**
In Armenia, Georgia, and Russia, large or generous pension programs have a significant impact on inequality, but may also have fiscal sustainability risks.

**Tobacco excises**
Taxes on tobacco in Armenia, Indonesia, Sri Lanka, Turkey, both increase poverty and inequality, despite their aims to promote better health.

**Higher education**
Tertiary education spending tends to benefit wealthier groups and increases inequality in Armenia and Turkey, however spending on lower education levels reduces inequality.
Considering Reforms

- Regressive indirect taxes can ultimately result in reduced inequality, as part of the overall fiscal system, if revenues are used effectively for transfers and benefits for low-income groups
- Reducing or eliminating tax exemptions and tax breaks can increase revenues, but the impact on inequality is not yet known
- Ineffective subsidy programs can be replaced with more targeted transfers to low-income groups
- Large pension programs can be effective at reducing inequality but may also create long-term fiscal obligations and public expectations, these may require incremental reforms over time
Conclusions

Overall, fiscal policies reduce inequality
Larger budgets have more impact

Health and education spending is universally effective at lowering inequality
However, more analysis is needed to understand the impact of the quality and effectiveness of spending

Direct transfers are also effective, but remain a small share of spending in Asia-Pacific
Social protection programs can be effective at reducing inequality when well-targeted

For many countries, raising additional revenues to increase public spending is key
Direct taxes are preferable to indirect taxes for reducing inequality, but impacts from indirect taxes can be offset

When considering reforms, CEQ studies and PERs can provide evidence on the potential impacts of policies on inequality
Expanded availability of data and analysis also creates opportunities for tracking progress over time
Thank you

What are your questions?

Feedback and follow-up questions welcome.
Please send to: storbert@gmail.com