



Review of the Evidence on Inequality and Fiscal Policies

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December 2, 2021

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

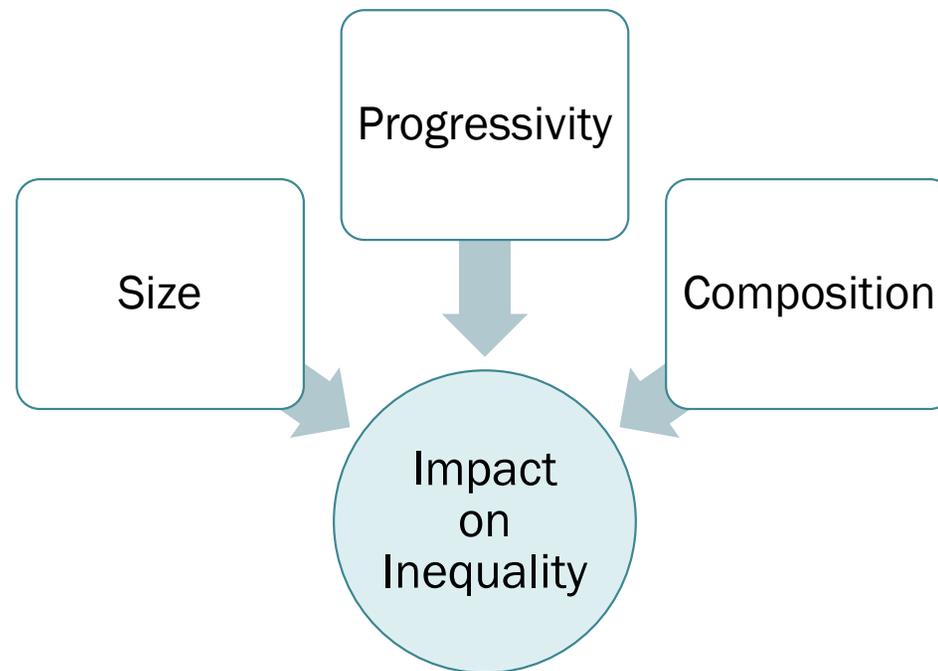
Public Expenditure Reviews (PERs)

- 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

Country	CEQ (Fiscal/Survey Data Year)	PER (Year of Publication)
Armenia	2011	2014
Cambodia		2010, 2019
China	2013	
Georgia	2013	2015, 2017
Indonesia	2012	2020
Iran	2011-2012	
Mongolia	2016	2018
Philippines		2018, 2020
Russian Federation	2010	
Sri Lanka	2009	
Turkey	2016	
Vietnam	2014	2017

Redistribution from taxes and spending



Types of Fiscal Policies (Taxes and Spending)

FISCAL POLICIES	DIRECT	INDIRECT
SPENDING	<ul style="list-style-type: none"> • Social protection <ul style="list-style-type: none"> ▪ Social safety net (family, child, sick leave, cash transfers) ▪ Universal basic income ▪ Pension or social security • Other benefits and transfers <ul style="list-style-type: none"> ▪ Student stipends, scholarships ▪ Housing subsidies ▪ Disaster relief 	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Personal income tax (PIT) • Pension or social security contributions • Corporate tax* • Property tax* 	<ul style="list-style-type: none"> • Value added tax (VAT) • Excises • Import duties

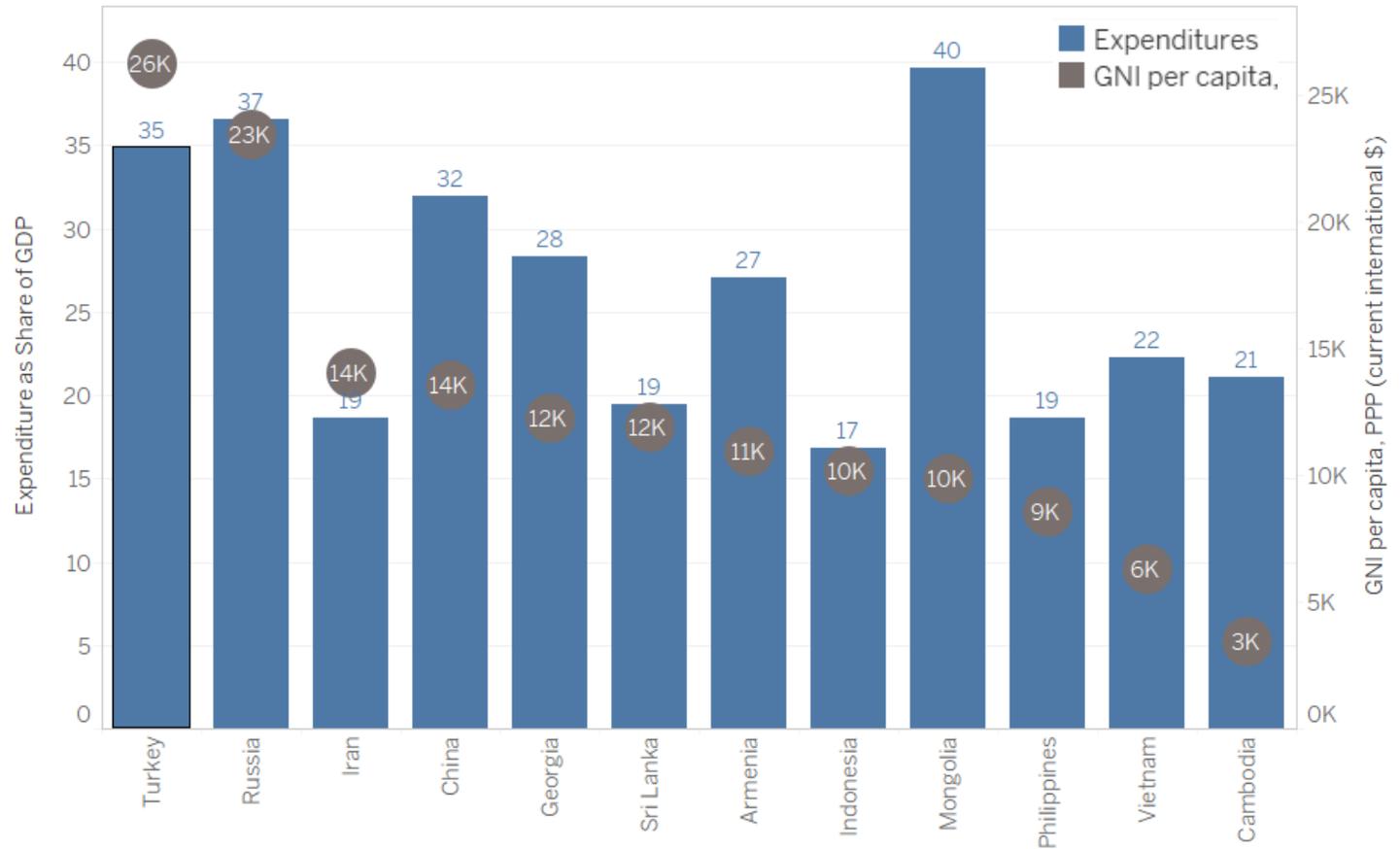
Overall impact of fiscal policies reduces inequality

Impact of Overall Fiscal Policies on Inequality, CEQ Studies



Size of the public budget impacts the potential redistributive impact

Total government expenditures and GNI per capita in 2016



Marginal contribution of fiscal policies on inequality - Pensions as government transfer

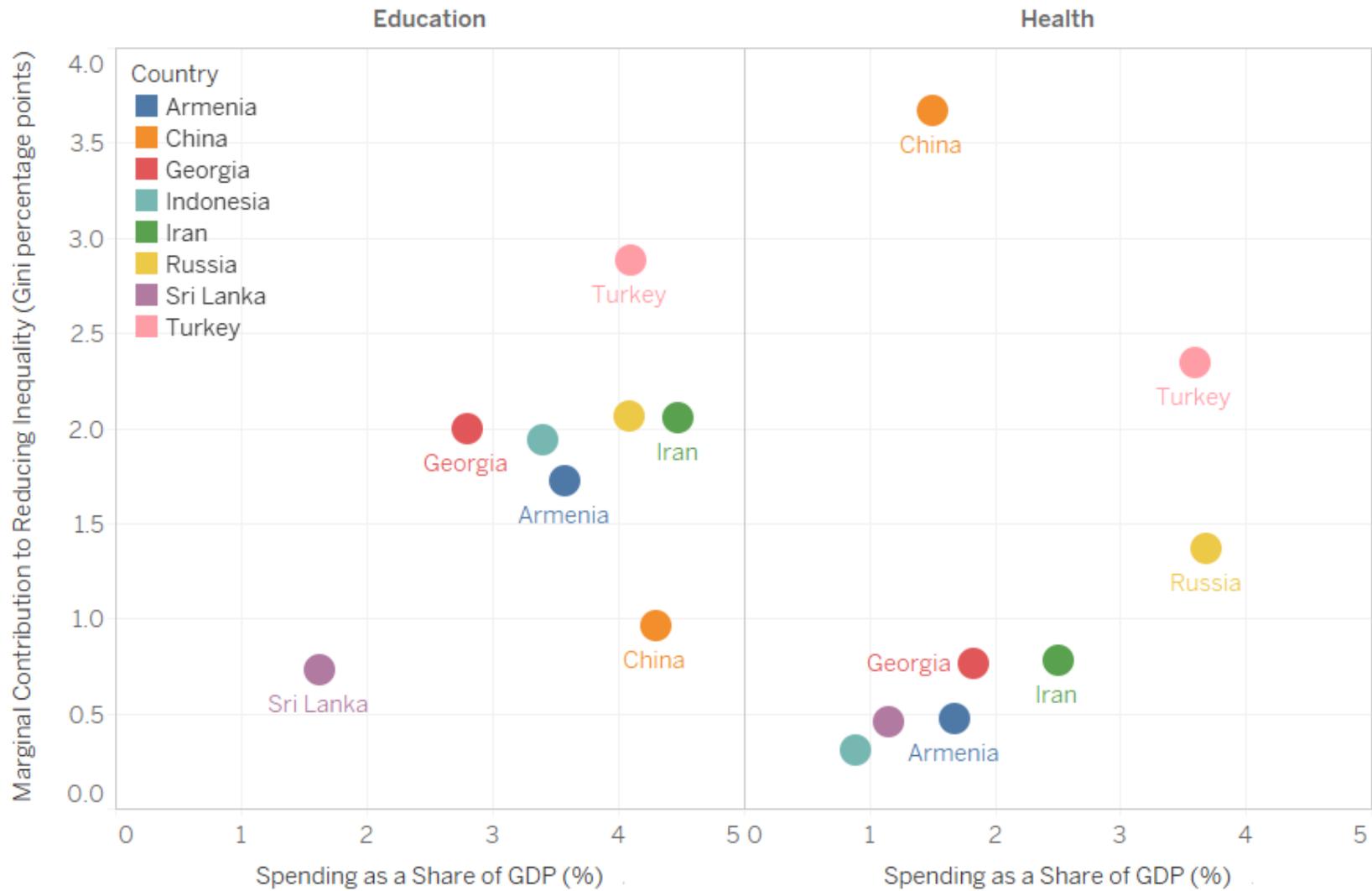


As compared to other regions, Asia-Pacific has several countries with large pension programs that reduce inequality, but also more revenues from indirect taxes that increase inequality

Marginal contribution of fiscal policies on inequality - Pensions as deferred income



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

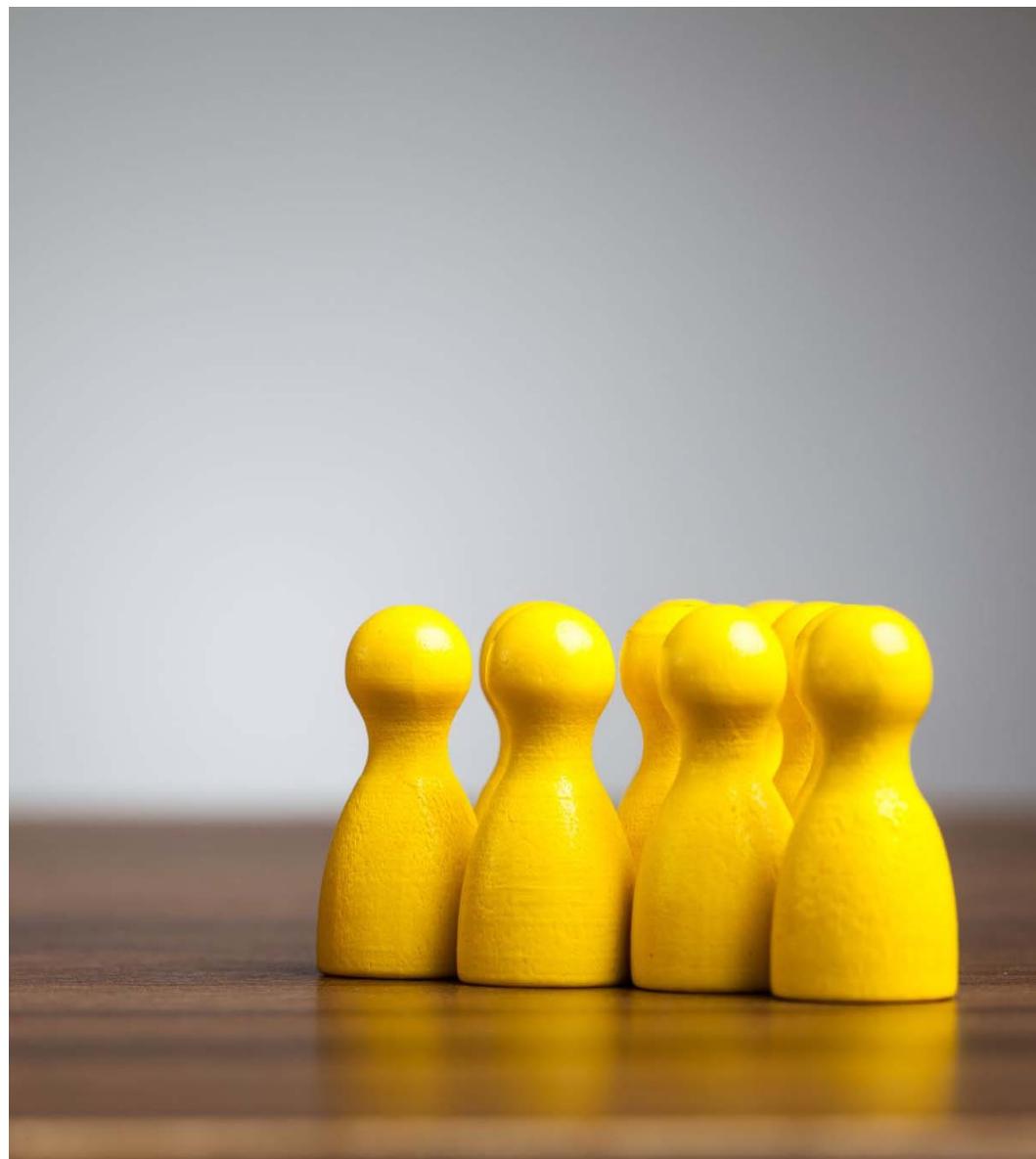
Taxes on tobacco in Armenia, Indonesia, Sri Lanka, Turkey, both increase poverty and inequality, despite their aims to promote better health

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