

Inequality and Fiscal Policy

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Building Forward Fairer – Economic Policies for an Inclusive
Recovery and Development

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Overall Consideration

- Goals, target, and policy tools
 - A holistic approach
 - Policy target group (age, gender, etc)
 - A big picture
- Effective?
- Sustainable?

Inequality → Holistic approach is needed

Opportunity, Generation

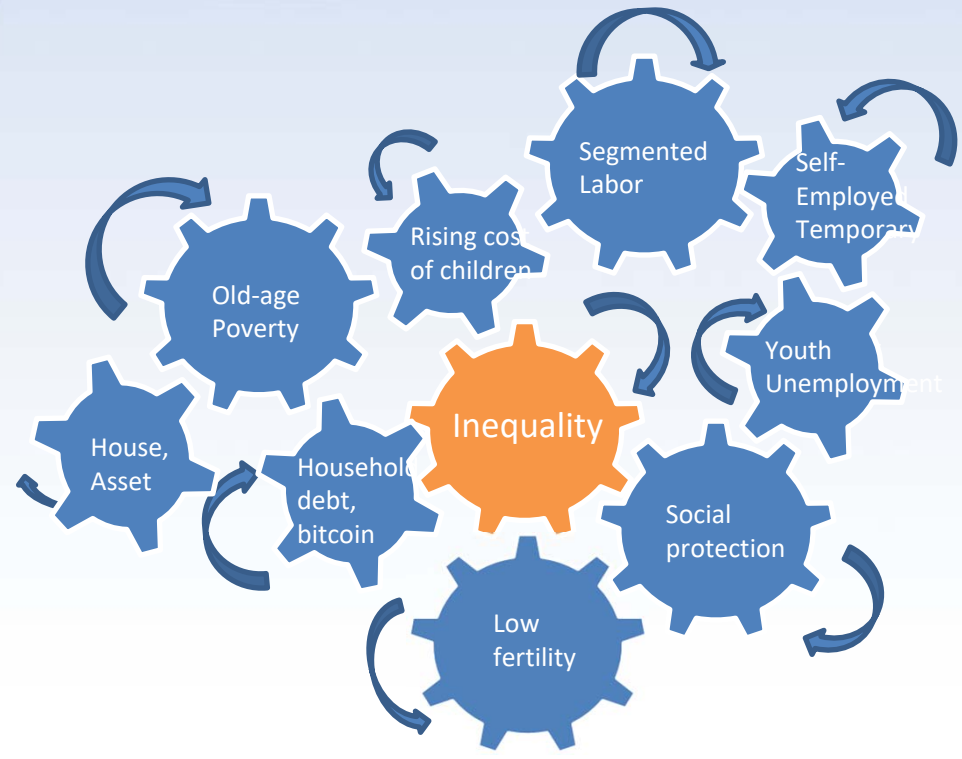
Industrialization → IMF → Post-IMF → Post COVID-19

High growth → Low Employment → Less

Family → Individual

Labor → Capital, Asset

Inequality (Generation, job, house, education..)



These gears are closely linked to each other → Covid-19 has brought huge challenges.
* Negative linkage vs. Positive linkage

Finding the target group

- The effect of the pandemic is very different across generations
 - Employment, labor income, private consumption, budget deficit have been affected similarly.
 - Public pensions and healthcare have not decreased.
 - Based on basic assumptions, the employment effect will be larger for people ages 20s and 30s (those who rely more on labor, less on government), health effect is larger for older people.
 - Government overall deficit will increase dramatically.
- The recovery should be a platform on which to build a better nation → A bigger picture is needed.

Big picture: Evolution of support system

Assets / Saving

Capital-based transformation

Social welfare transformation

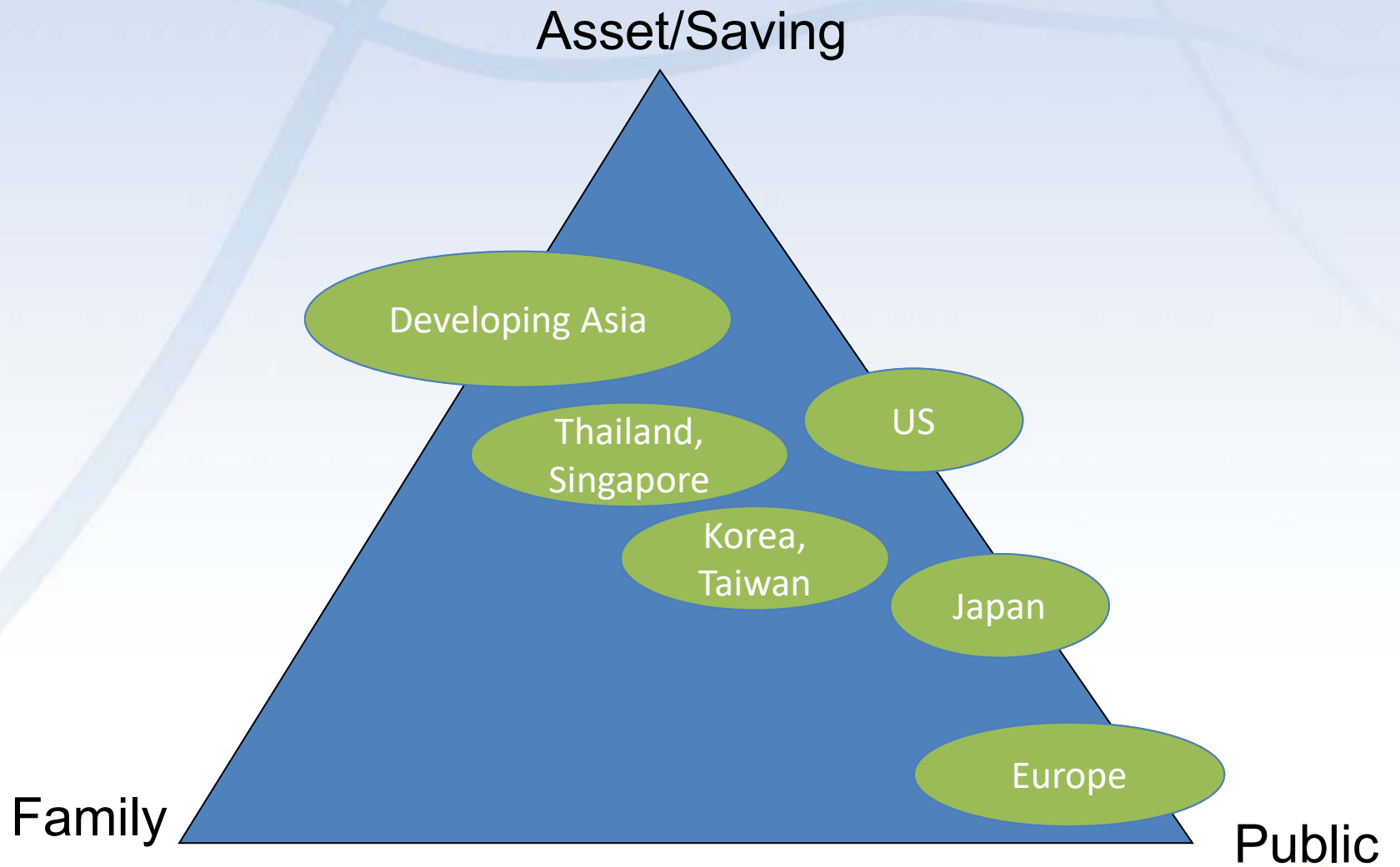
Traditional society?

Family Transfers

Public Transfers



Countries are all different



Source: ntaccounts.org database.

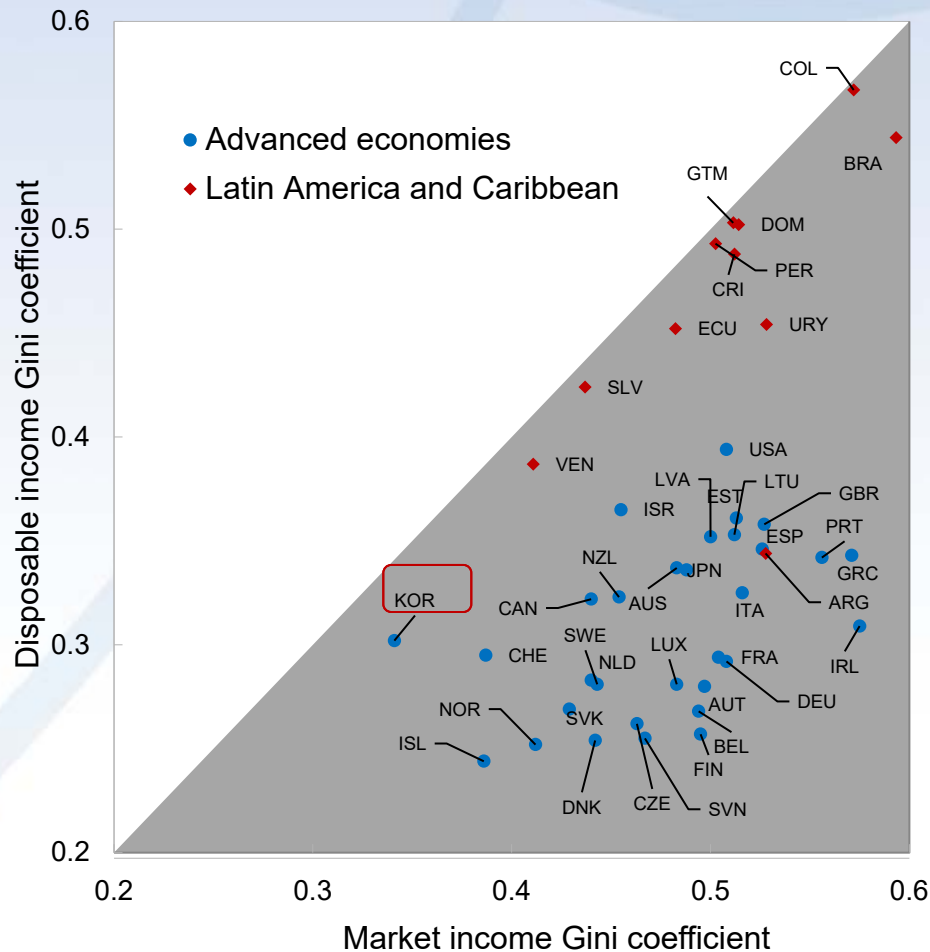
A bigger picture: Policy options (1)

- Encourage and support work?
 - Appropriate and inevitable. But not sufficient available jobs to meet the challenges (short term vs. long term)
 - Quality (decent jobs) vs. quantity (labor force participation)
 - Issue on labor market structure.
- Encourage family transfers?
 - Family transfers have been important support systems in Asia (important during the pandemic). But it is deteriorating.
 - Singapore stresses this more than the others in Asia
 - May not be sustainable (decline in fertility, women's lfpr, urbanization, consensus, etc.)

Policy options (2)

- Increase public transfers? → Fiscal Policy.
 - Inevitable for most countries.
 - Rising inequality and poverty
 - COVID-19 may have long term effect
 - Public health and education can also reduce inequality (but takes long time, failing public education is an issue)
 - Sustainability (issues on fiscal space + mismatch between taxpayers and beneficiary → intergenerational equity)
- Relocate or reduce public transfers and more reliance on saving for some groups?
 - Pension reform (including from PAYGO to funded system)
 - Save and relocate public transfers.

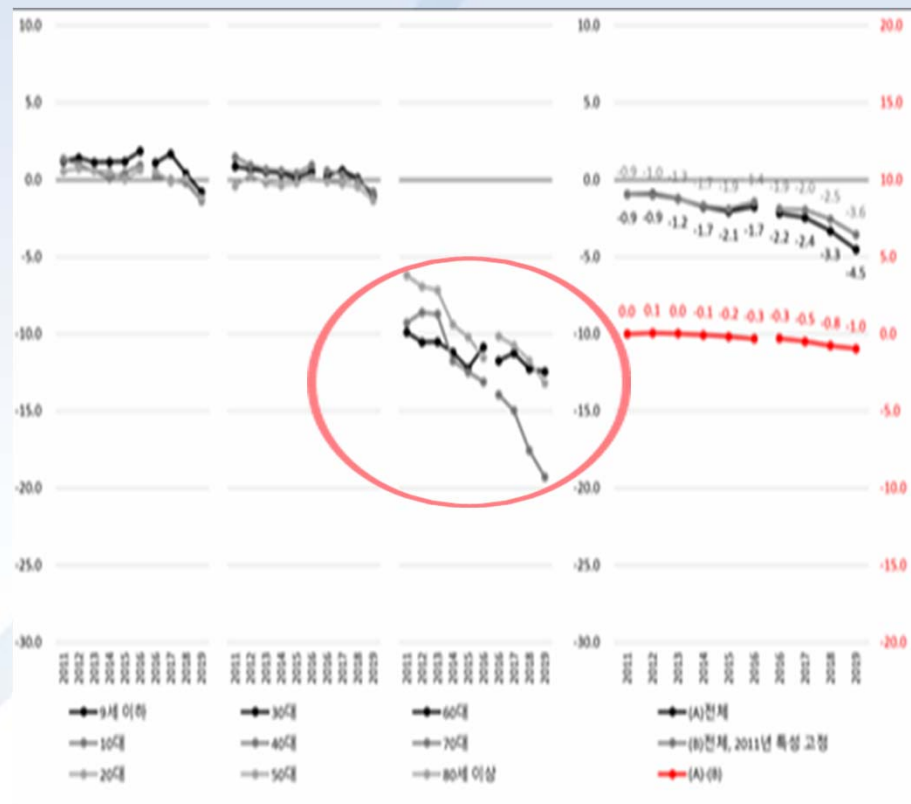
2. Effectiveness of Fiscal Policy on Reducing Inequality



We need to rely on evidences and countries are all different!—but also should be interpreted with caution.

Source: IMF, 2017. IMF Fiscal Monitor: Tracking Inequality www.imf.org

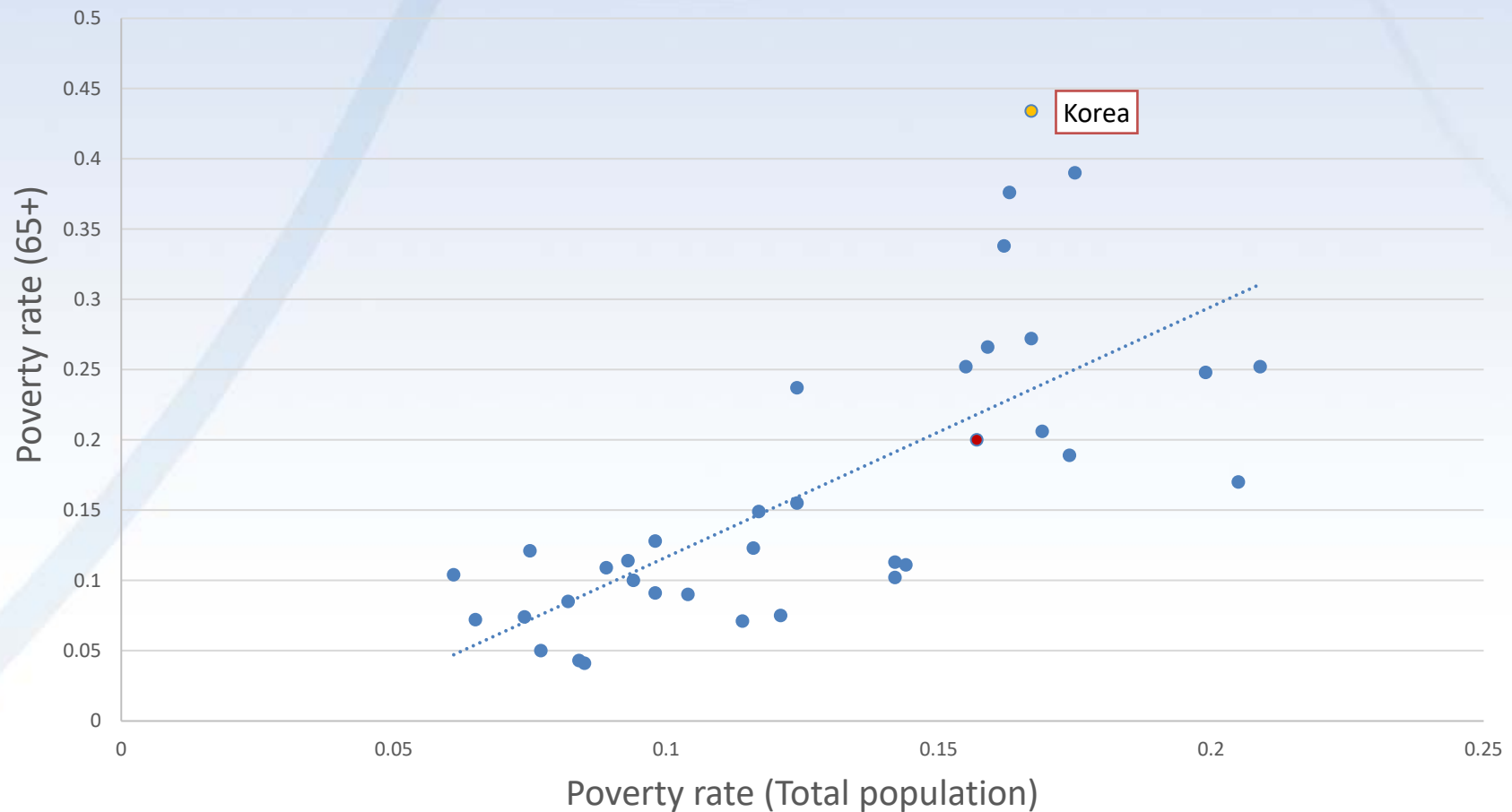
Effectiveness of Fiscal Policy on Reducing Poverty by Age: South Korea



Measure the poverty rate by age using market income vs. disposable income →
very effective tool for poverty reduction for older people in S. Korea

Source: Korea Institute of Health and Social Affairs

Poverty rate of pop. 65+ vs. total

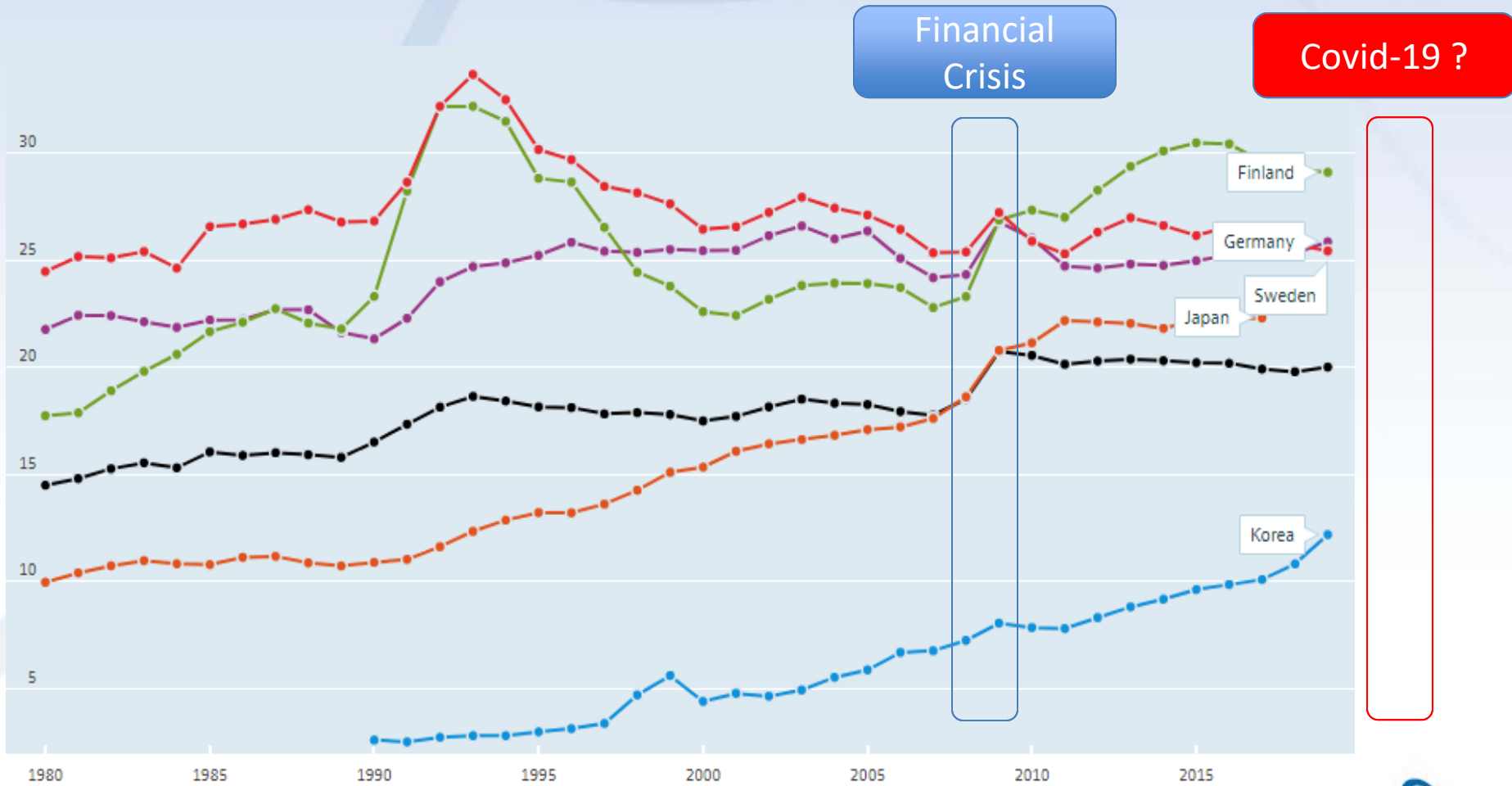


Source: OECD data portal. www.data.oecd.org, Accessed November 22, 2021



3. Sustainable?

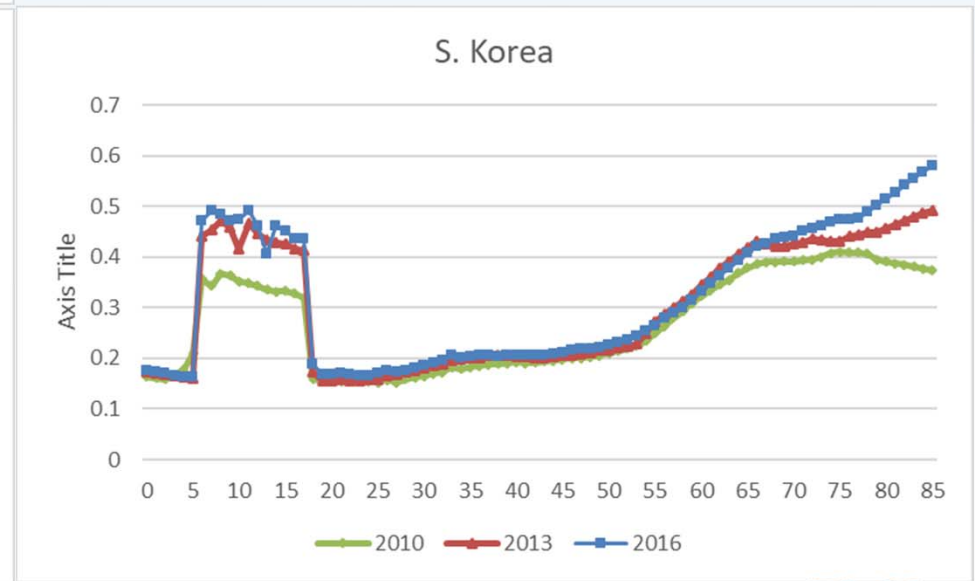
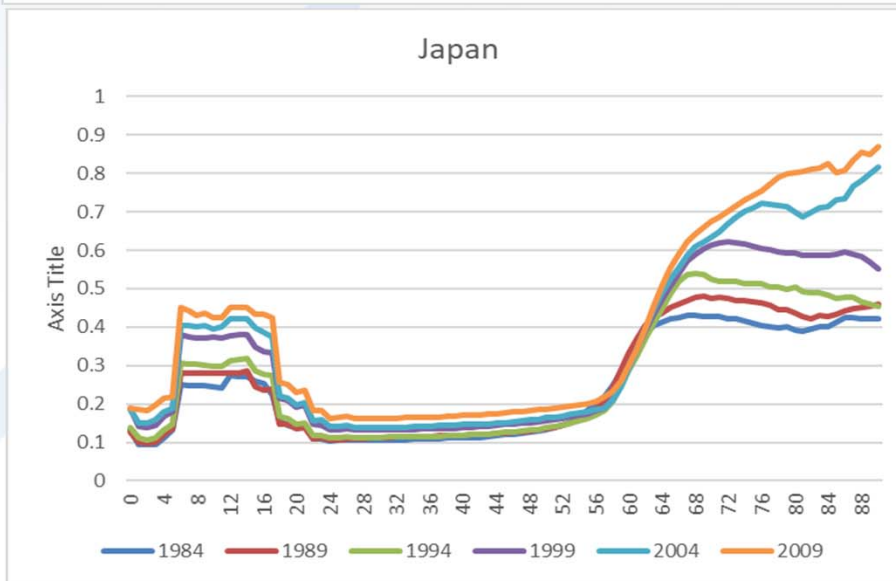
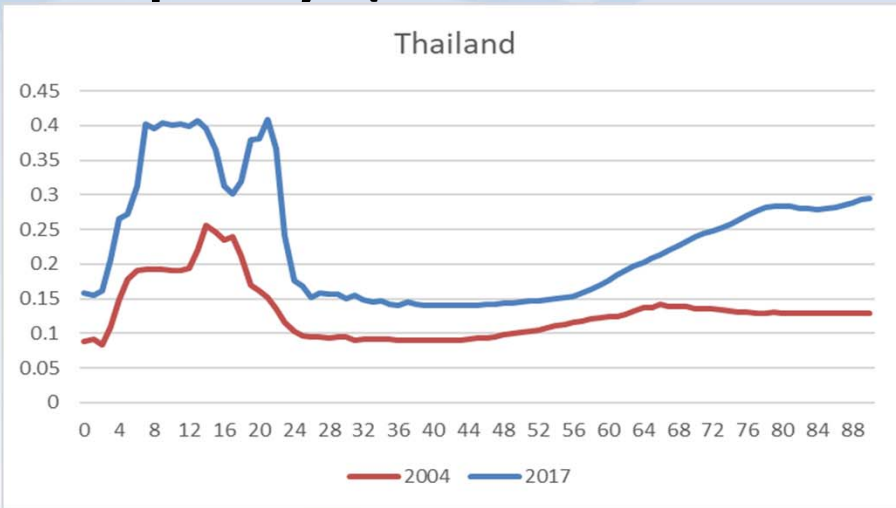
Social welfare spending as % of GDP (1980-2019)



Source: OECD data portal. www.data.oecd.org



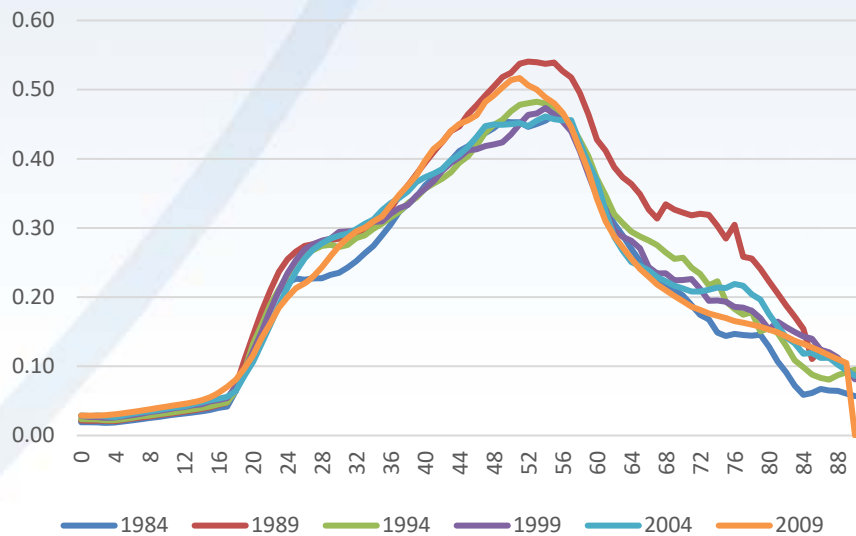
Per capita government transfers has increased rapidly (as ratio of labor income ages 30-49)!



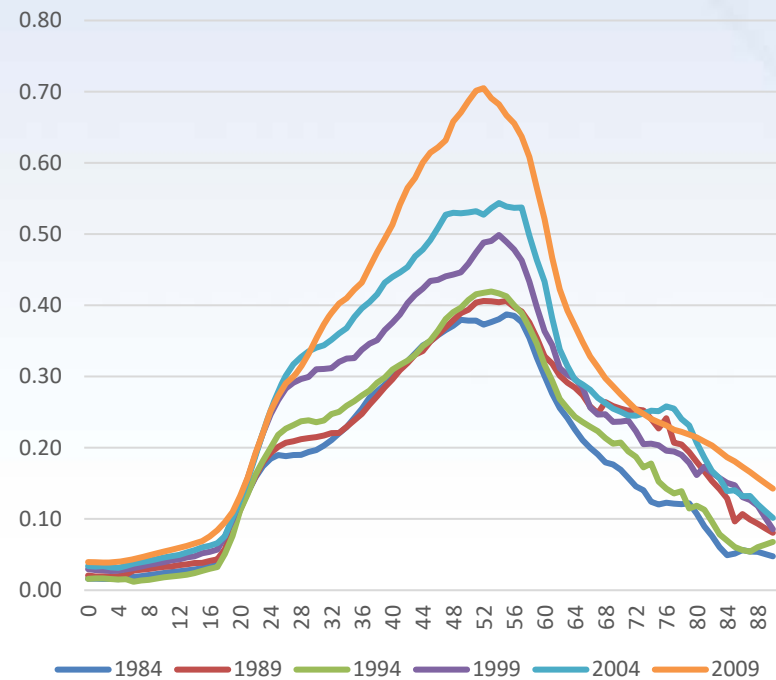
Source: ntaccounts.org database.

Countries do not increase taxes as much as an increase in expenditure

Japan's actual tax profiles as ratio of average labor income of 30-49



Should have been this to make fiscal balance



Source: ntaccounts.org database.

Concluding Remarks

- Goals, target group, and tools
 - A holistic approach
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 - A big picture
 - Effective?
 - Sustainable?
- Evidence driven policies are important (no silver bullets).

Inequality, Inclusive Growth, and Fiscal Policy in Asia

Edited by Donghyun Park,
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