

FISCAL MONITOR

A Fair Shot

2021
APR



FISCAL AFFAIRS

IMF-OAP AND FAD SEMINAR

A Fair Shot

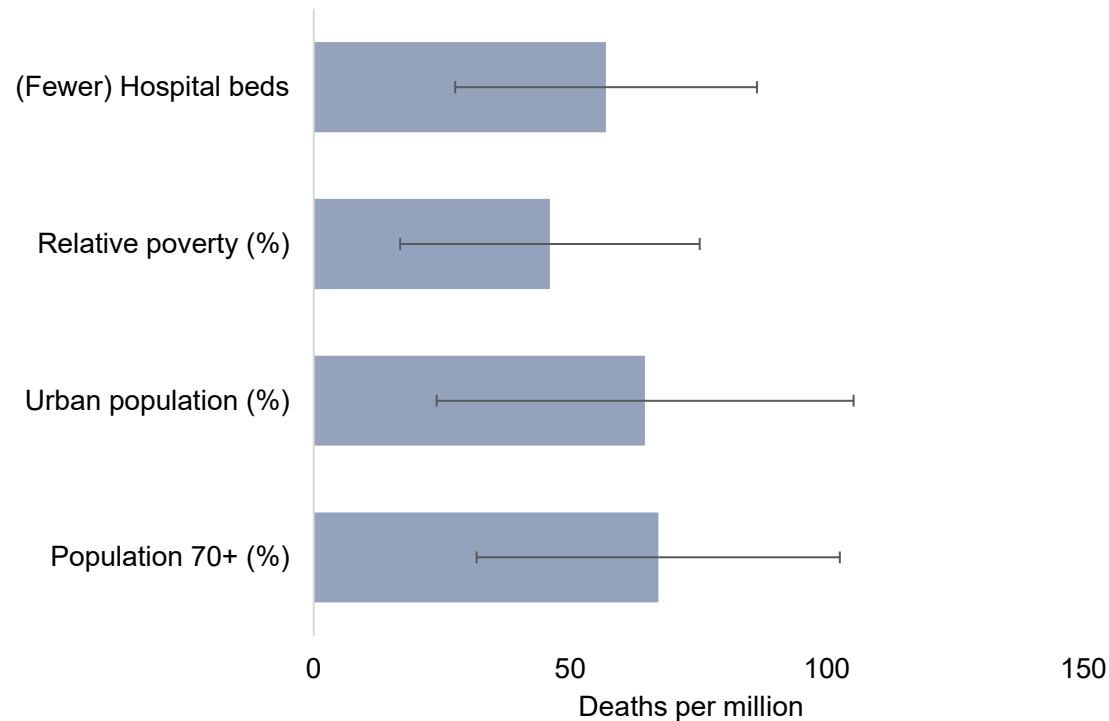
JUNE 15, 2021

David AMAGLOBELI
Jean-Marc FOURNIER
Fiscal Affairs Department

- 1** *COVID-19 and Inequality*
- 2** *Inequality before COVID-19*
- 3** *Policies to Tackle Inequalities*
- 4** *Mustering Support for Policies towards Fairer Societies*
- 5** *Conclusions*

Inequalities Made COVID-19's Impact Worse, COVID-19 Escalates Inequality

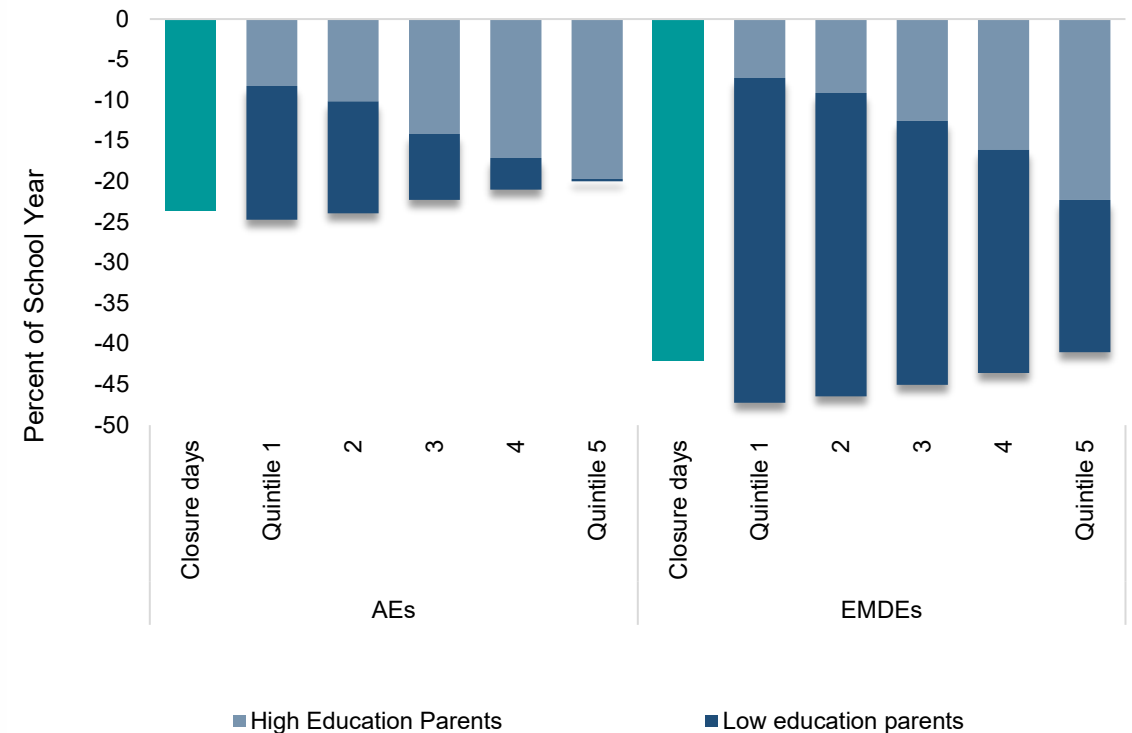
Fewer hospital beds, relative poverty, shares of the elderly and of the urban population are associated with more COVID-19 deaths



Average impact of one-standard deviation increase in respective factors on the number of COVID-19 deaths, based on cross-country regression estimates controlling for government containment measures, the number of cases and log GDP per capita.

Sources: *Our World in Data, OxCGRT, World Bank, and IMF staff calculations.*

Education losses are higher for children from lower-income families and from developing economies

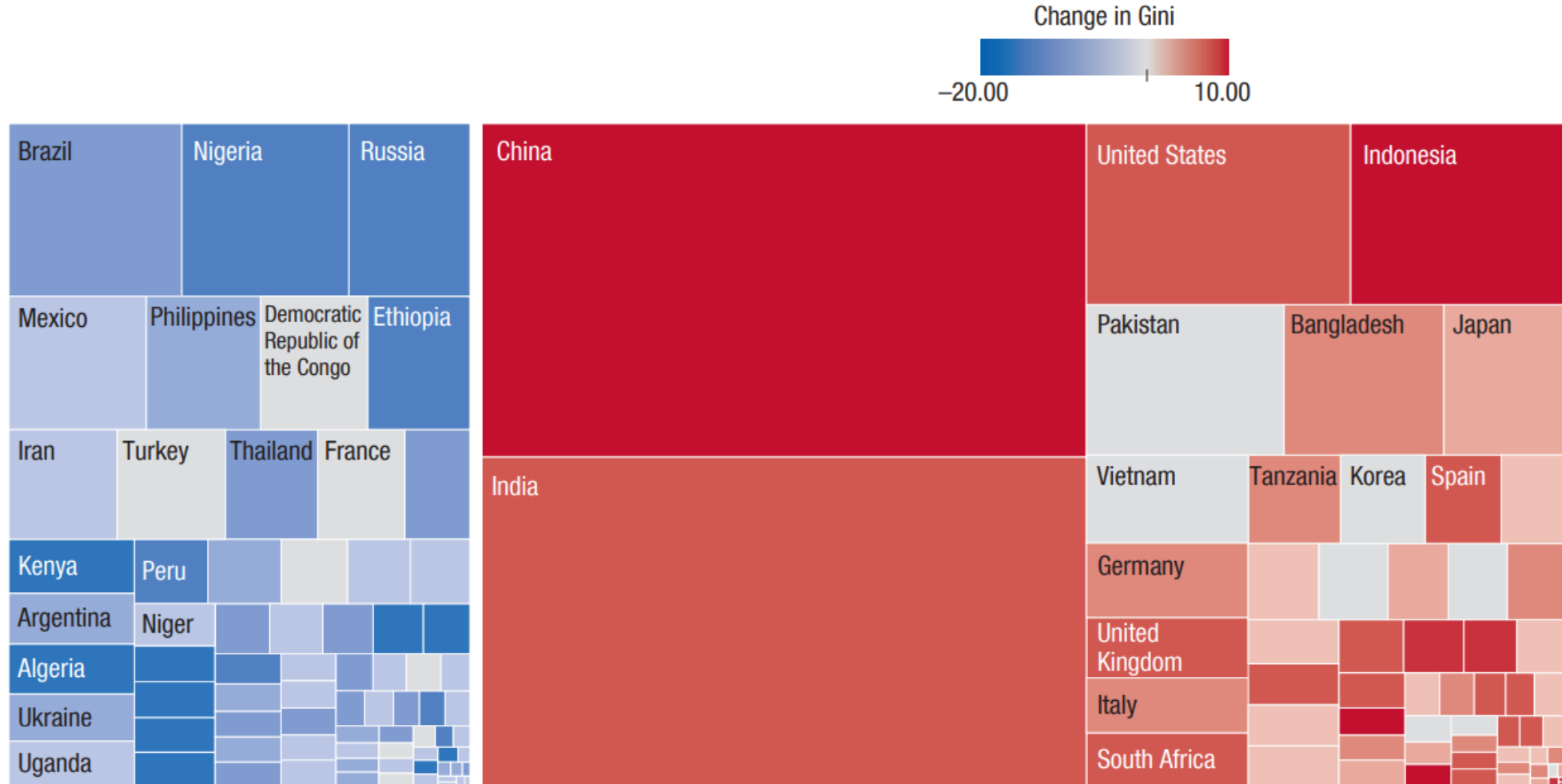


Average education losses by quintile based on estimates of the efficiency of learning determined by parents' education. "Low education parents" refer to parents whose highest level of education is lower secondary school. The loss of education refers to the estimated gap in standardized test scores due to school closures during March-December 2020, relative to students' usual progress while learning in classrooms.

Sources: *Engzell and others (2020), OxCGRT, UNESCO, WDI, WIDE and IMF staff calculations.*

High and/or Rising Inequality Was a Concern Before the Pandemic

Inequality increased in most AEs and large EMEs over the last three decades

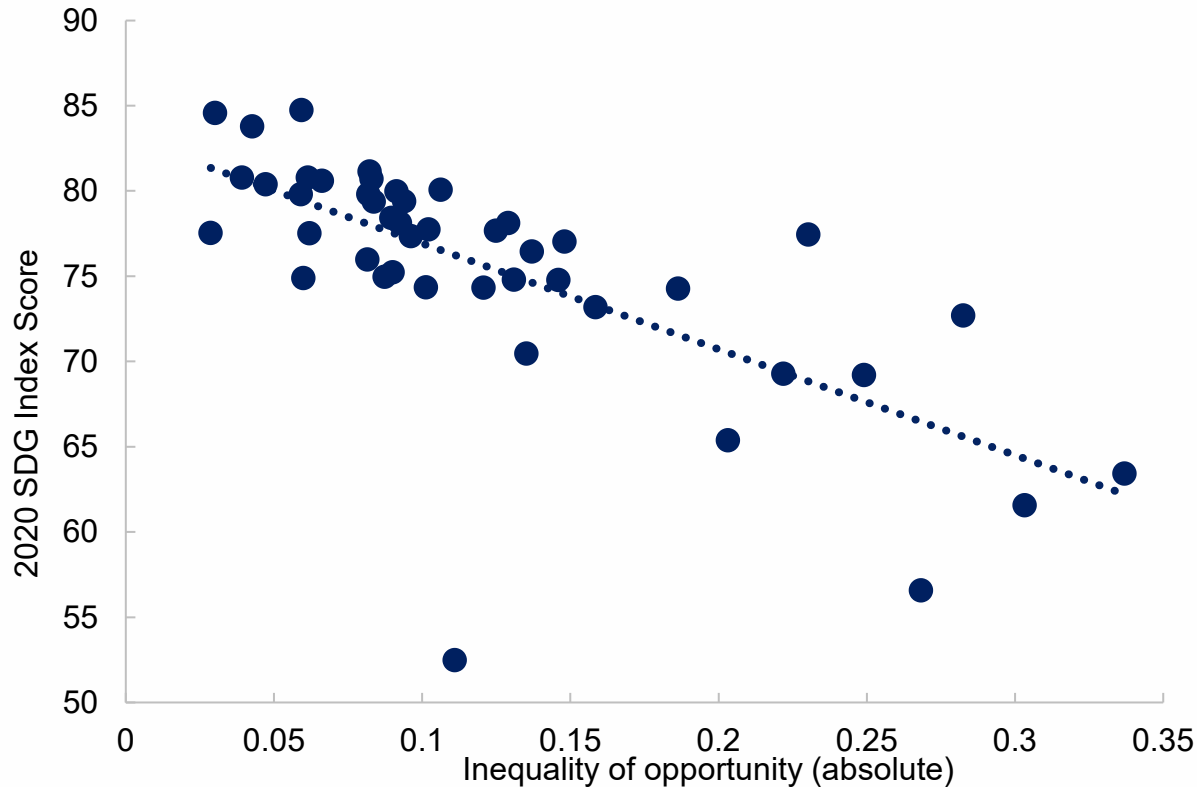


Changes in Gini between 2019 or the latest year available) and 1990s. Orange/green color denotes increase/decrease in Gini points, while grey color points to little change. The size of each box corresponds to the population size of the country.

Sources: Sources: IMF Income Gini Database; and World Economic Outlook.

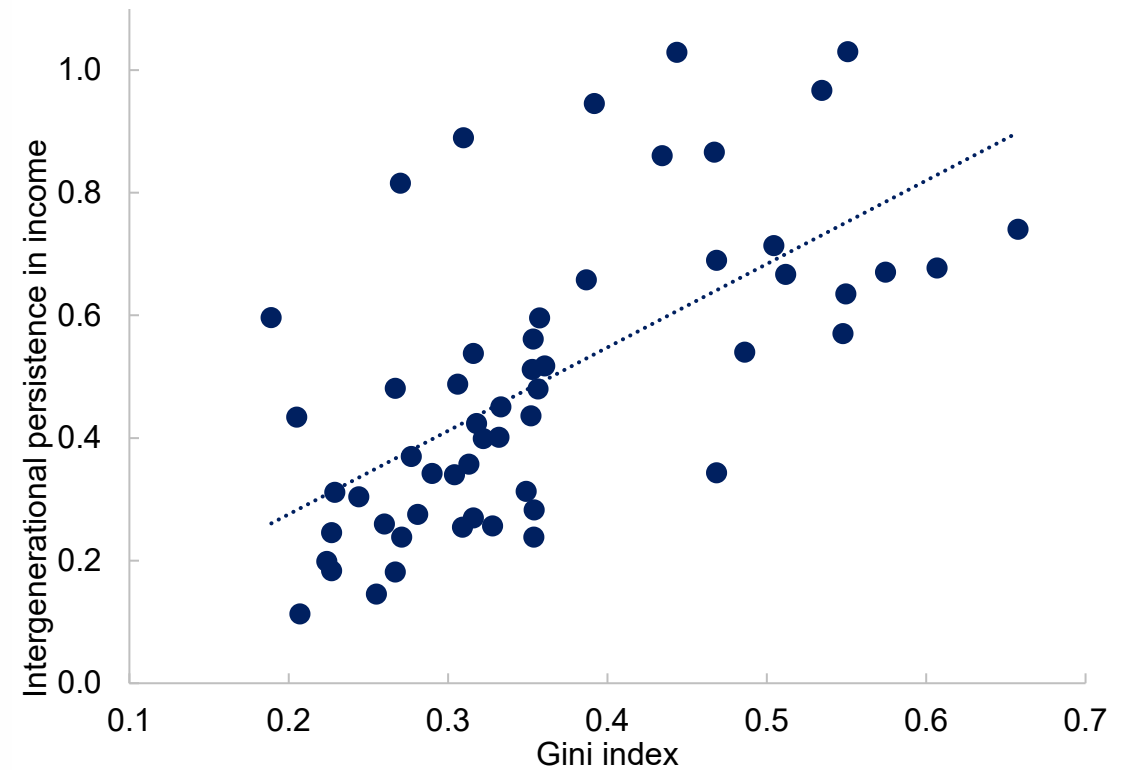
Vicious Circle of Inequality

Various aspects of inequality are closely related and mutually reinforcing



Covers 45 countries of all income levels. The SDG index tracks country performance to achieve 17 goals and signifies a country's position between the worst (0) and the best or target (100) outcomes. Inequality of opportunity is measured as Gini index of mean incomes of "circumstance-homogeneous" groups. Circumstances normally include gender, race, nationality, family background, birthplace.

Sources: Sachs and others (2020), and the World Database on Equality of Opportunity and Social Mobility.

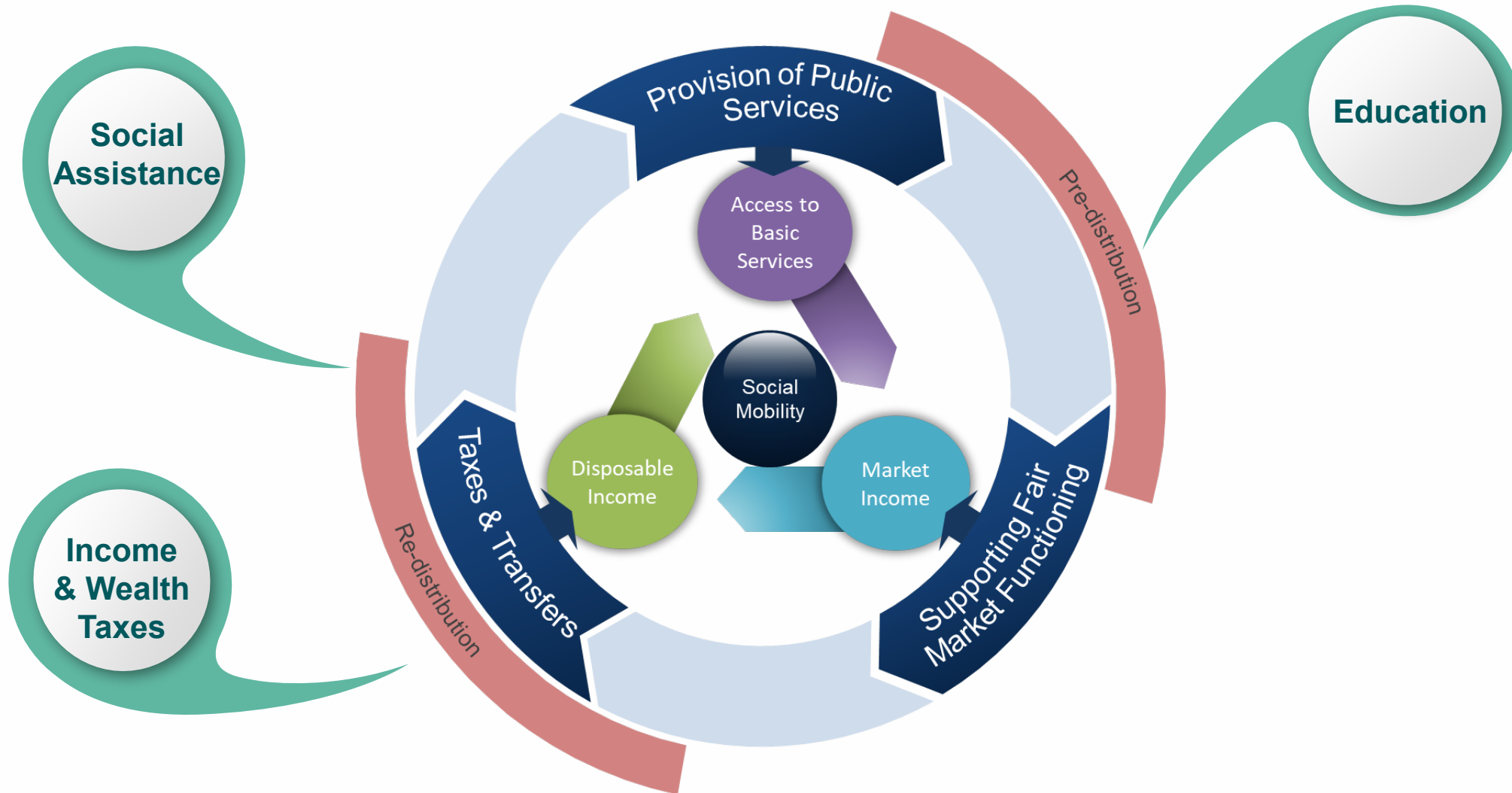


Covers 55 countries of all income levels. The first available income (or consumption) Gini is from 1965–85, and intergenerational persistence of income is for the 1960 or 1970 cohort, whichever is available.

Sources: World Bank Global Database of Intergenerational Mobility 2018; and IMF Gini database.

Pre-distributive and Re-distributive Policies

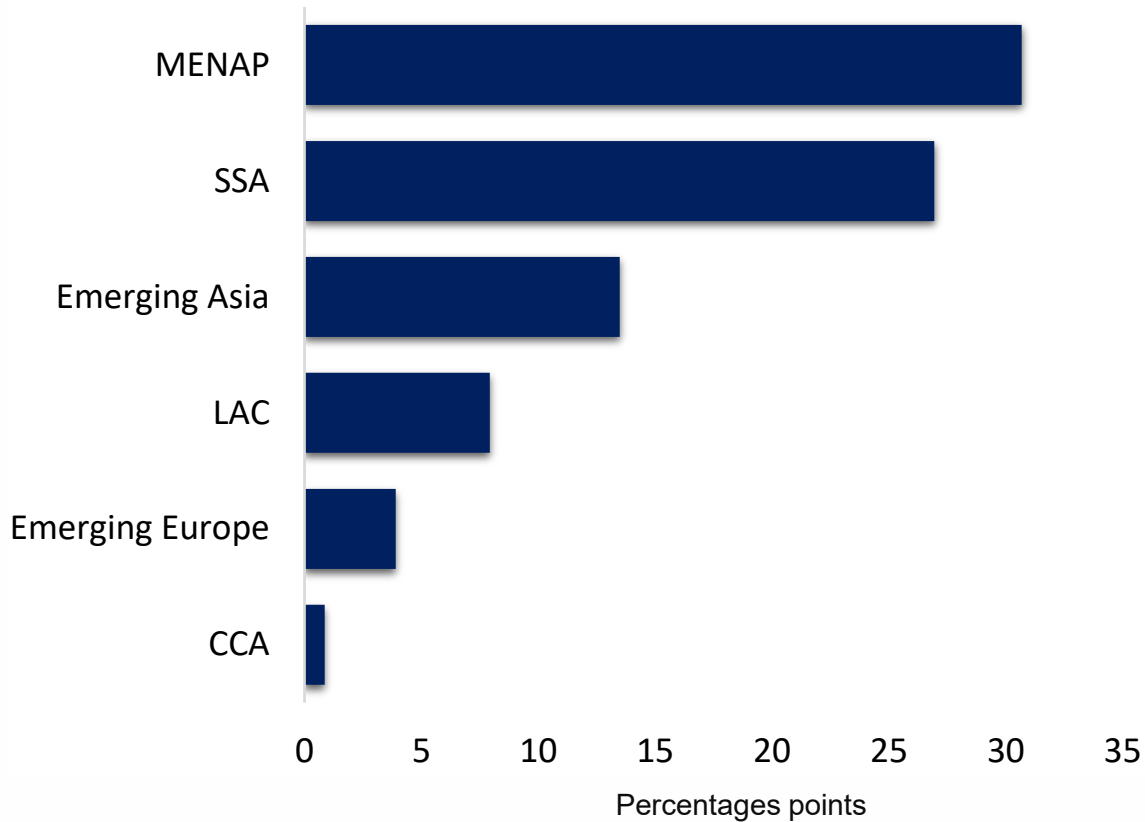
Public policies can create a virtuous circle



Source: IMF staff.

Spend More and Better on Education

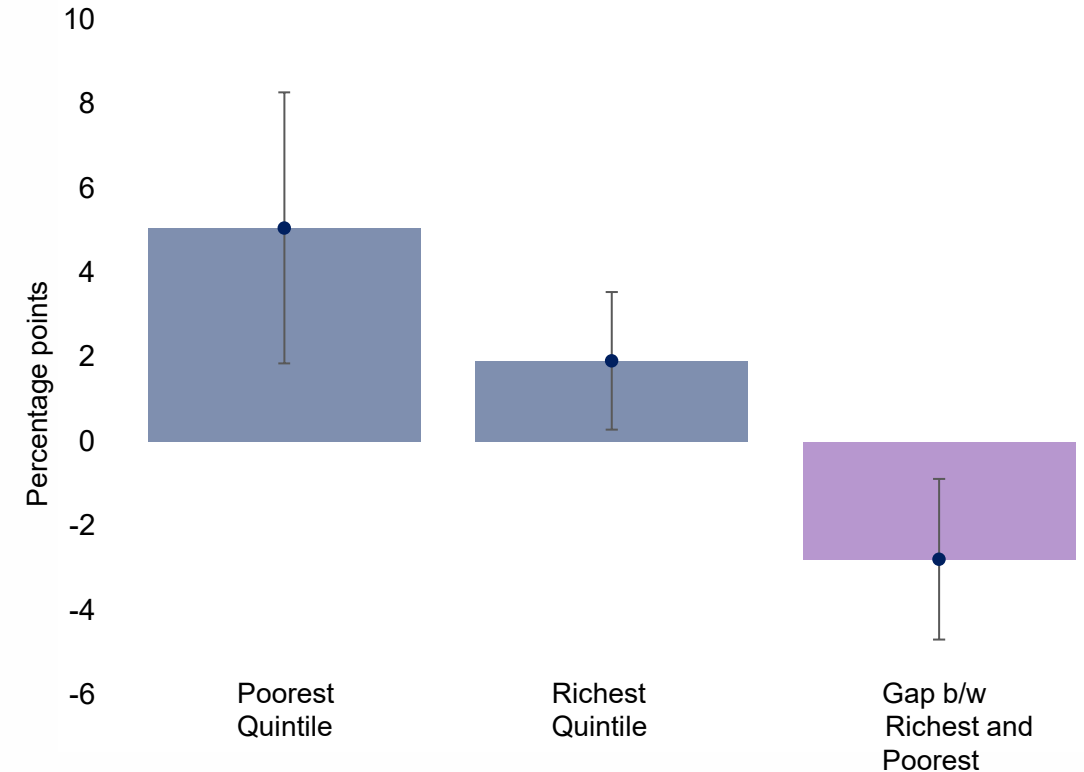
Gaps in school enrollment rates for children between the richest and poorest quintiles remain substantial in many countries



Average differences in secondary school enrollment rates between households in the top and bottom quintiles in 2010s.

Sources: UNESCO and World Bank.

Higher spending on education increases enrollment, especially for children from households in the bottom quintile

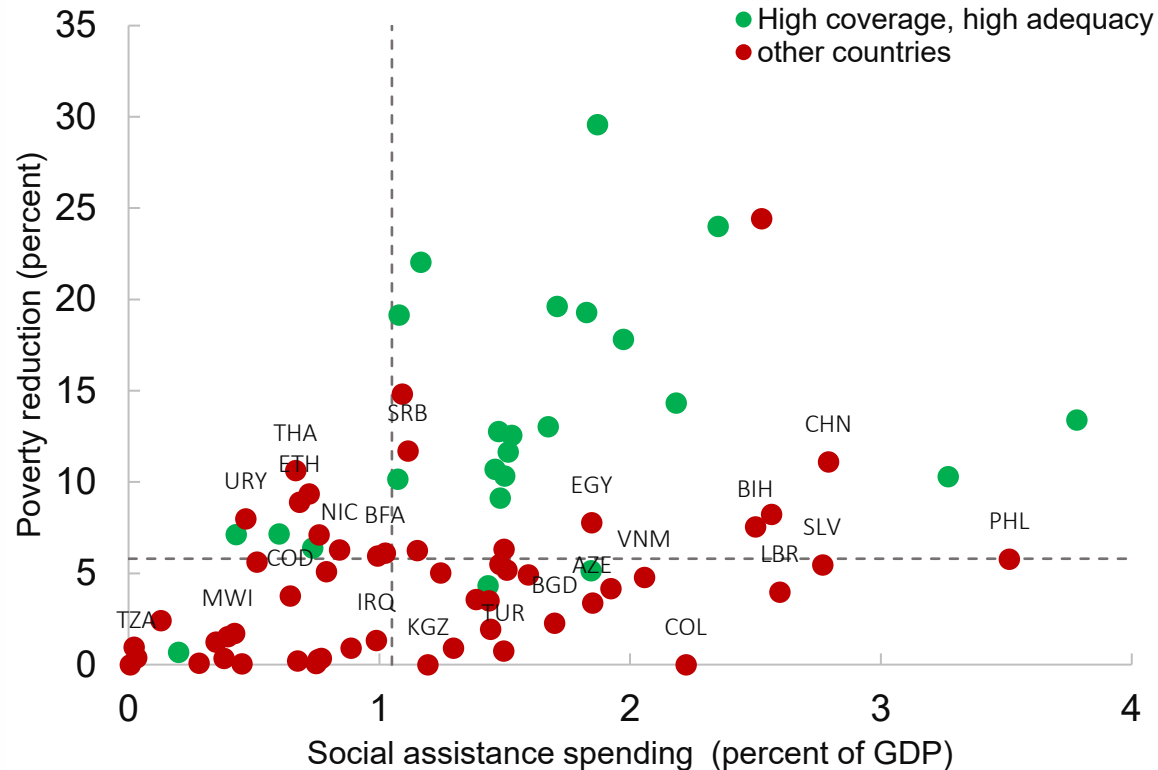


Estimated coefficients from panel regressions with country fixed effects of school enrollment rates for households in the bottom and top quintiles of income distribution as well as differences in enrollment rates between these two income groups on government spending in primary education (as a share of GDP). Data cover 38 emerging market economies over the period 2000-18.

Sources: Patrinos and others (2018); UNESCO; and IMF staff estimates.

Spend More and Better on Social Assistance

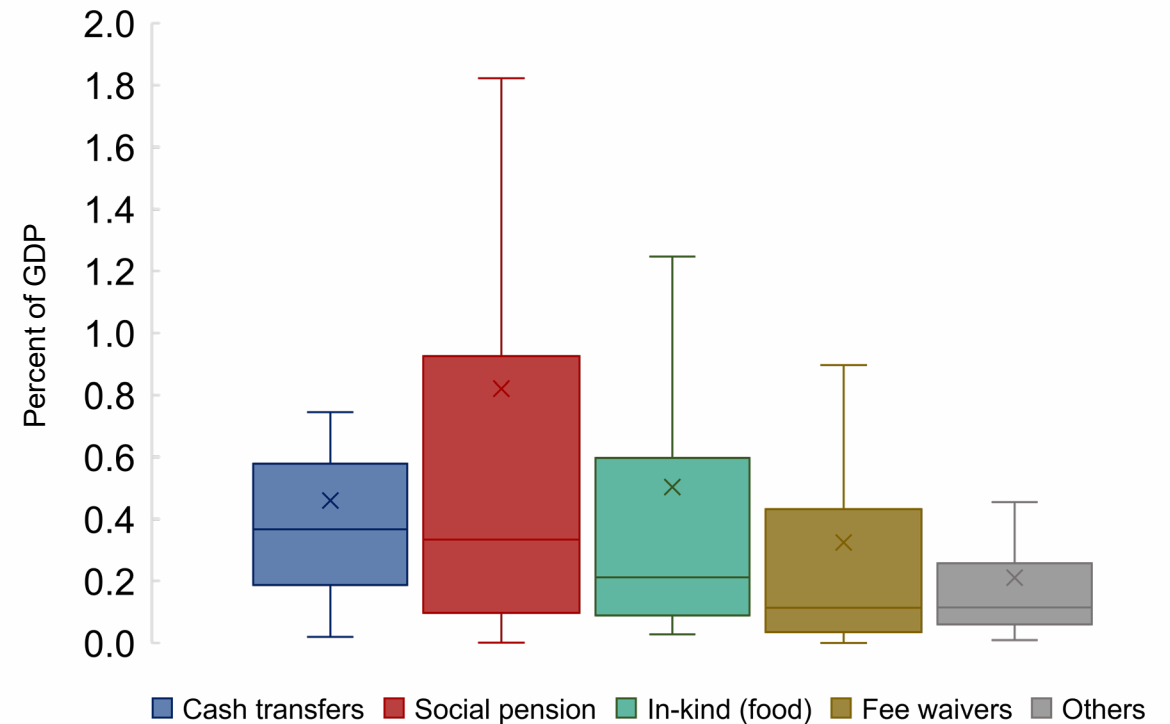
Social assistance spending with high coverage and adequacy is effective in reducing poverty



Poverty reduction is defined as the difference between poverty headcount after and before transfers divided by poverty headcount before transfers. Green dots represent countries where coverage and adequacy are above medians. Coverage is defined as the share of low-income households who benefit from social assistance. Adequacy is defined as the ratio of social assistance benefits relative to an individual's pre-transfer income. Data from most recent year, ranging between 2008-18.

Sources: World Bank ASPIRE database; and IMF staff estimates.

While cash transfers have the largest impact on poverty, spending is not always allocated in line with its best use

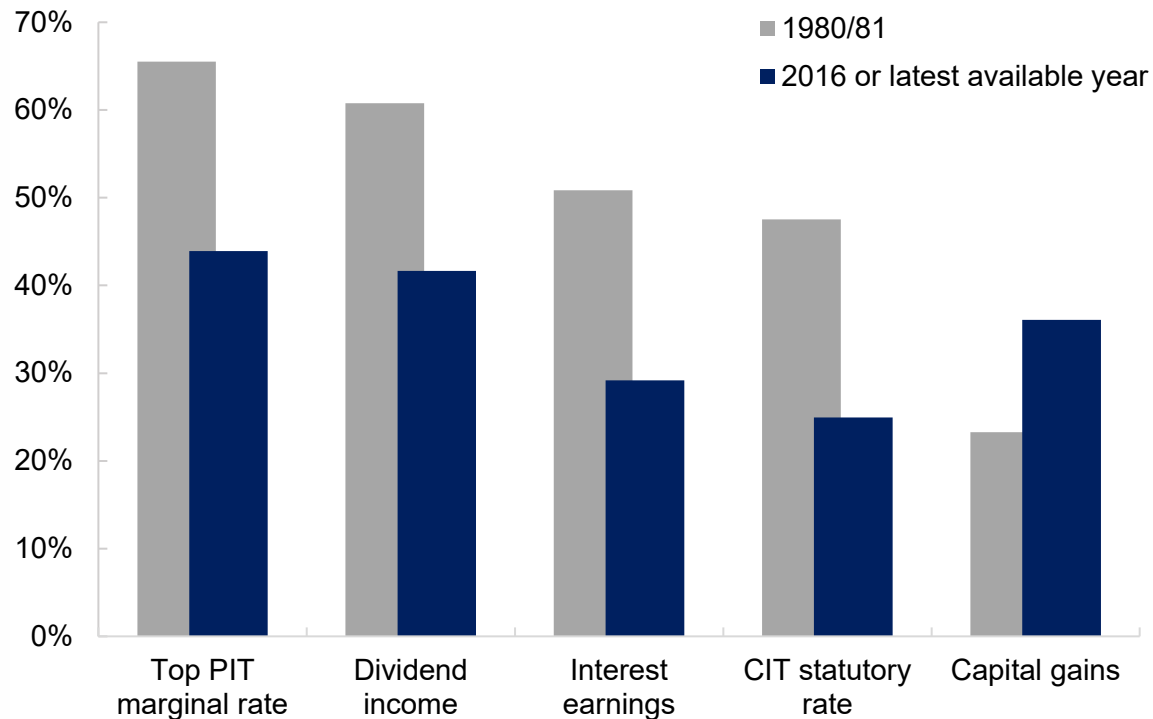


Public spending in percent of GDP by type of social assistance program.

Sources: World Bank ASPIRE Database and IMF staff calculations.

Tax Reforms Needed to Finance Access to Basic Services

Tax policies have become less progressive including due to declines in top marginal labor and capital taxes



Several tax policy measures can foster inclusive growth

Raise Tax Progressivity

- ❖ Raise top PIT rates, if feasible
- ❖ Consider temporary progressive surcharges
- ❖ Eliminate loopholes in capital income taxes
- ❖ Expand CIT and VAT bases
- ❖ Increase excises and carbon taxes
- ❖ Raise property tax rates and expand its base
- ❖ Strengthen inheritance and gift taxes

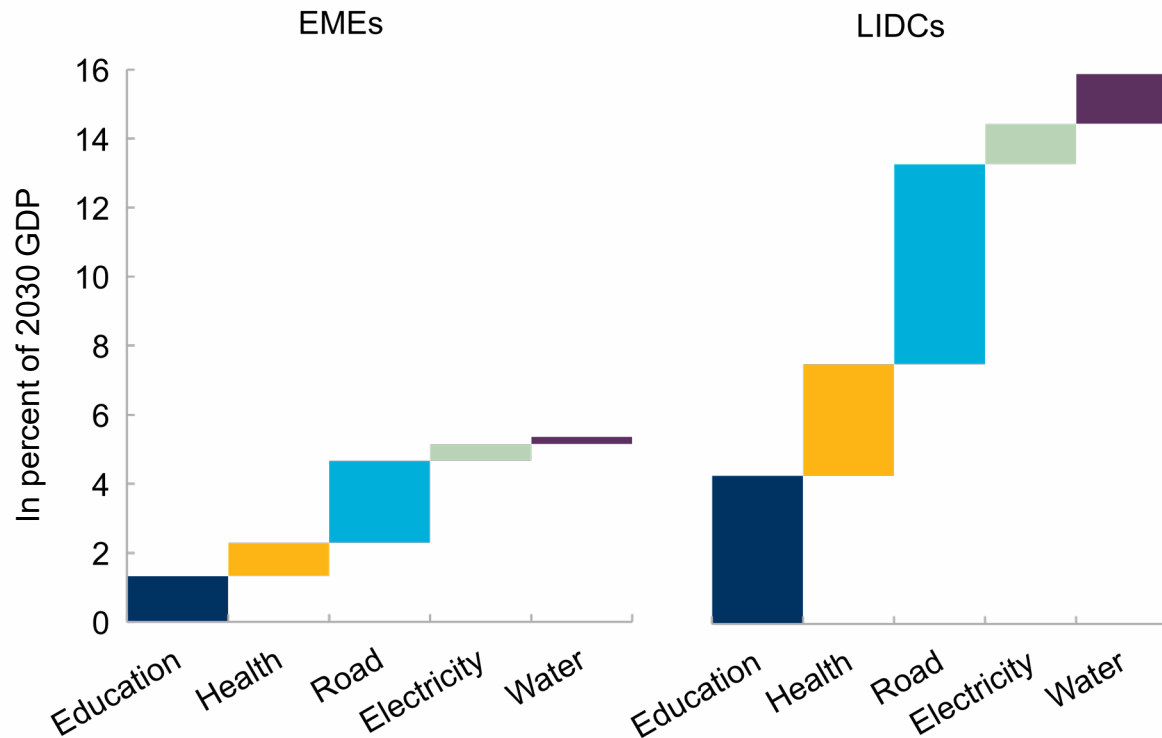
Strengthen Overall Tax Capacity

A snapshot of top tax rates on labor and capital incomes in 1980/81 and 2016 or latest available year for a group of OECD countries.

Sources: Harding and Marten (2018); and Carey and others (1993).

More Spending and Greater Efficiency for the SDGs

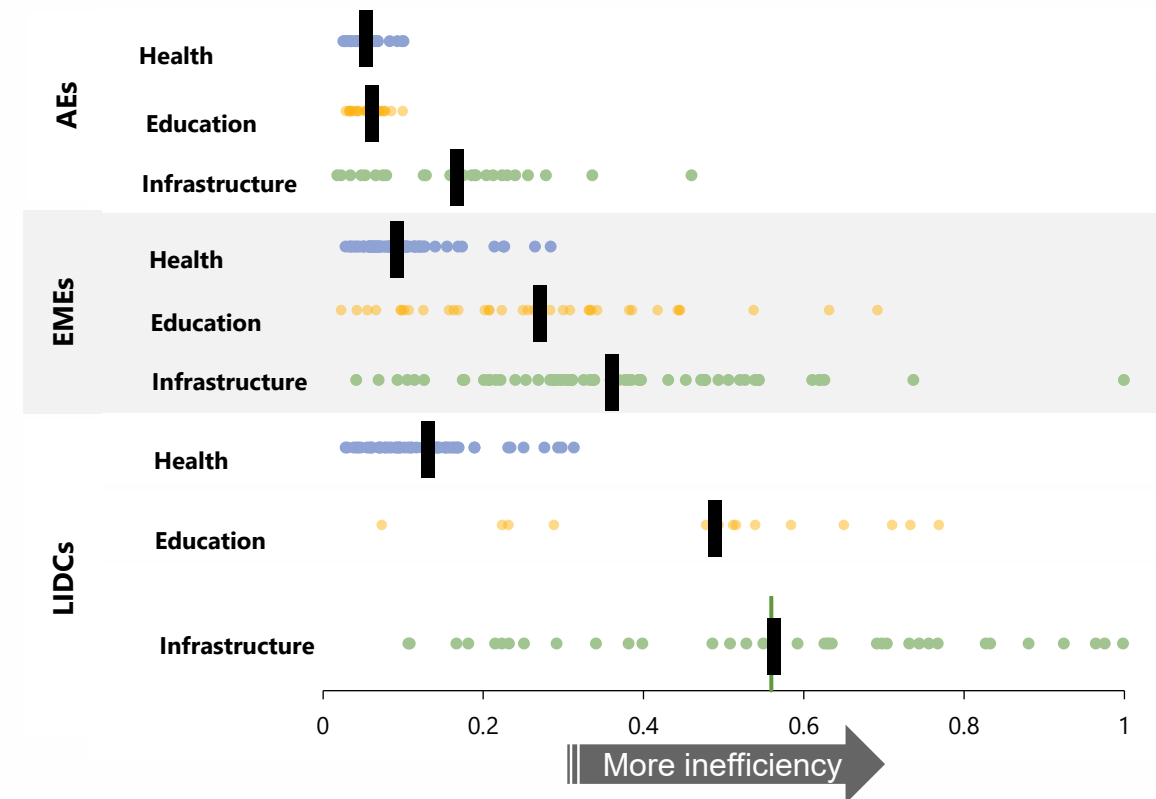
Additional spending required to meet SDGs by 2030 are large in health, education and infrastructure



Updated estimates of Gaspar and others (2019). Apart from updating the key input variables with more recent data, some methodological refinements were made including the development of a new education SDG performance index with recently developed education quality indicators, incorporating newly available rural access index, and systematic treatment of infrastructure depreciation and maintenance.

Source: IMF Staff Estimates.

Governments should reduce large sectoral spending inefficiencies

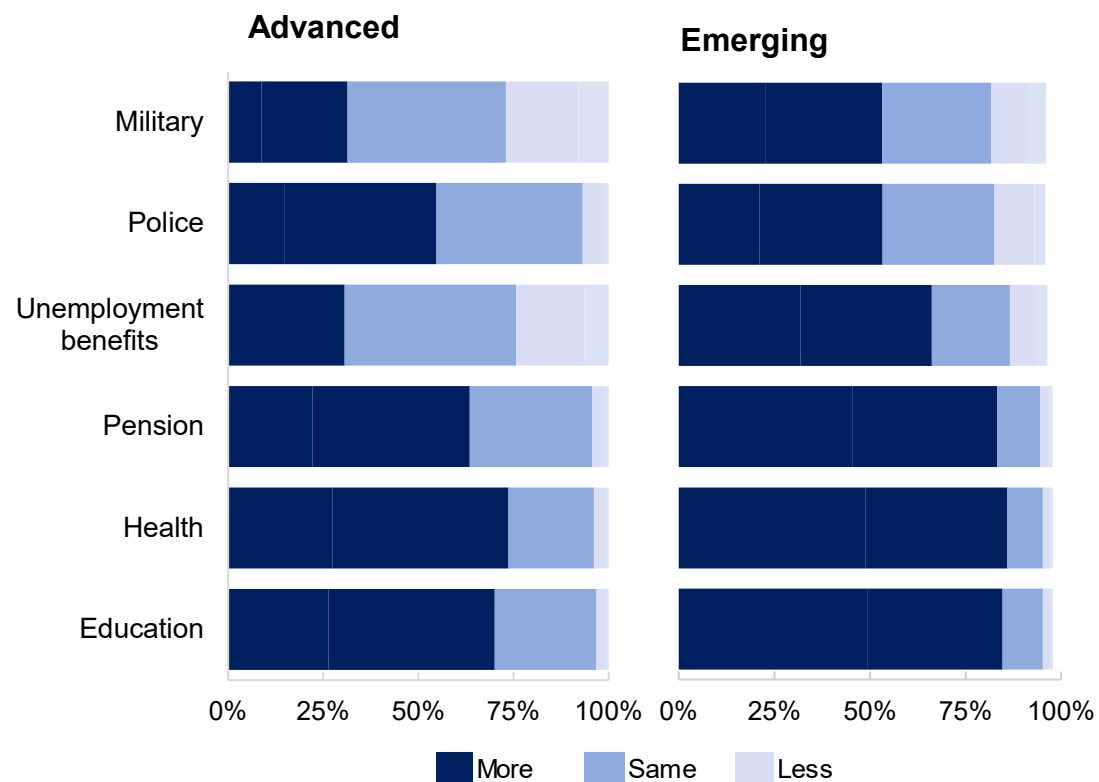


Inefficiency estimates using Data Envelopment Analysis; for health, the output variable is life expectancy, and the input is total per capita health expenditure; for education, outputs are test scores and net enrolment rates and the input is public education spending per student (in PPP terms). For infrastructure, output is the volume and quality of infrastructure and input is public capital stock and GDP per capita.

Sources: Garcia-Escribano and others (forthcoming), Baum and others (2020), and IMF staff estimates.

Surveys suggest preference for basic services and progressive taxes

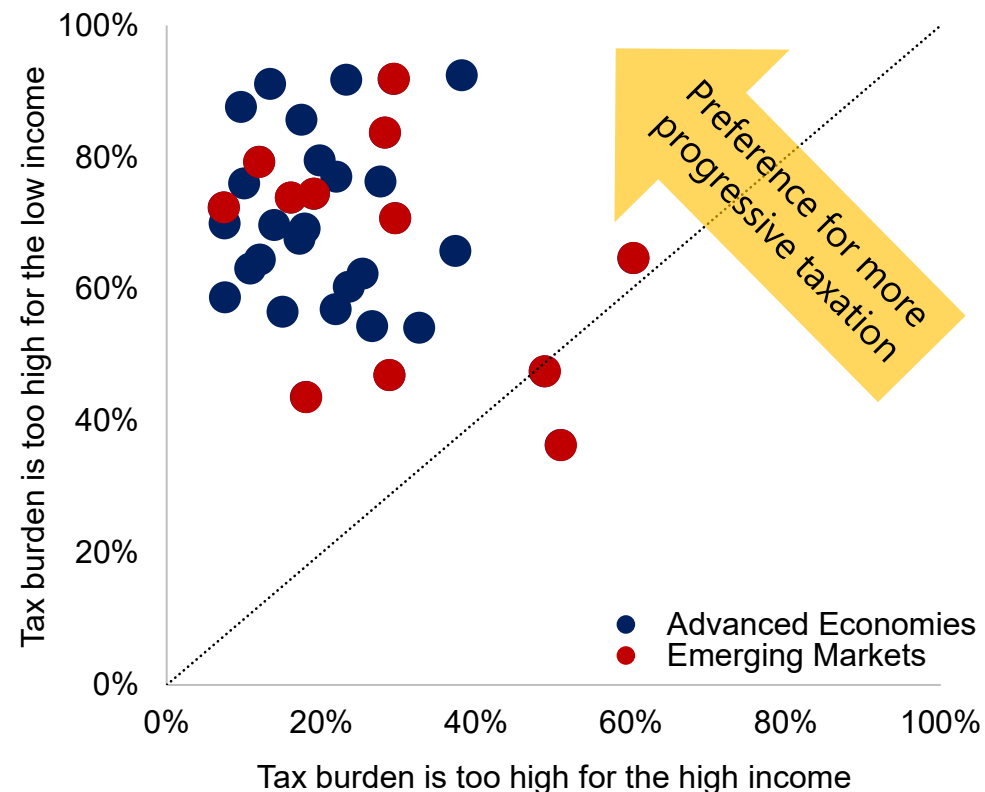
Majority of survey respondents prefer more tax-financed spending on education, health and pensions, especially in emerging market economies



Shares of respondents' answers to the question on whether they would like to see more/same/less government spending in each of the six areas. Based on individual-level data for 23 advanced and 12 emerging economies.

Sources: ISSP (2016); and IMF staff estimates.

Most survey respondents in most countries believe that tax burden is too high for low-and middle-income than for high-income households

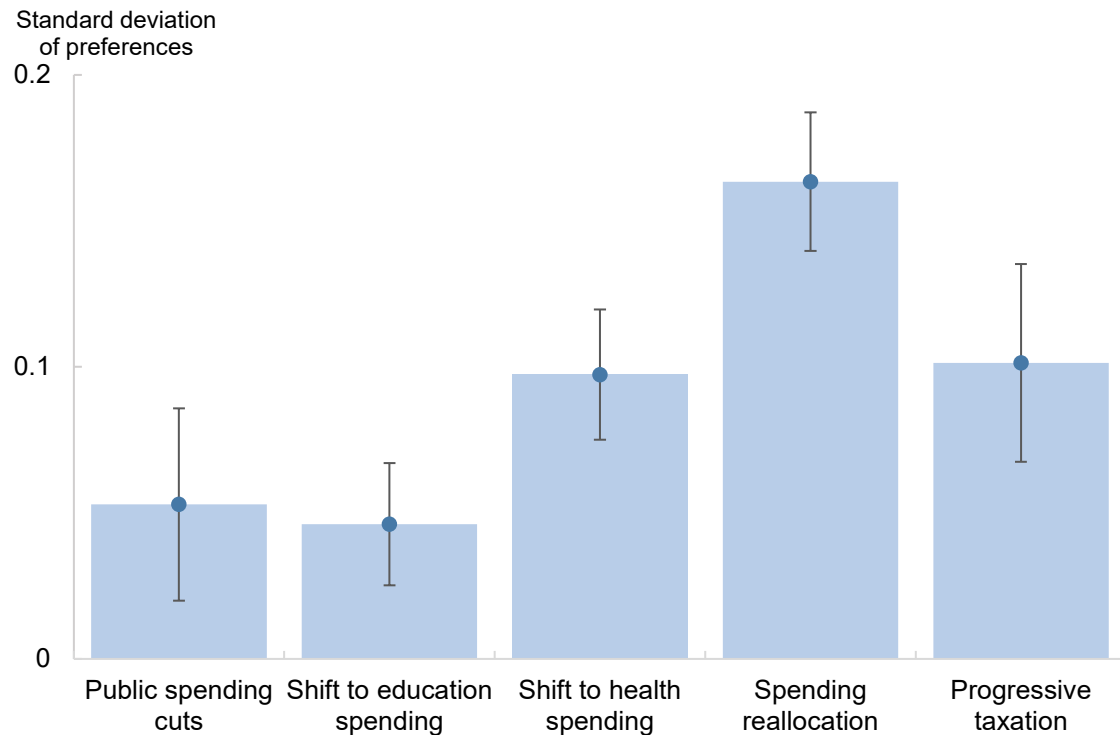


The shares of respondents in each country who describe taxes being high for the high income and high for the low-income households. Based on individual-level data for 23 advanced and 12 emerging economies.

Sources: ISSP (2016); and IMF staff estimates.

Trust in Government Matters for Preferences for Public Services

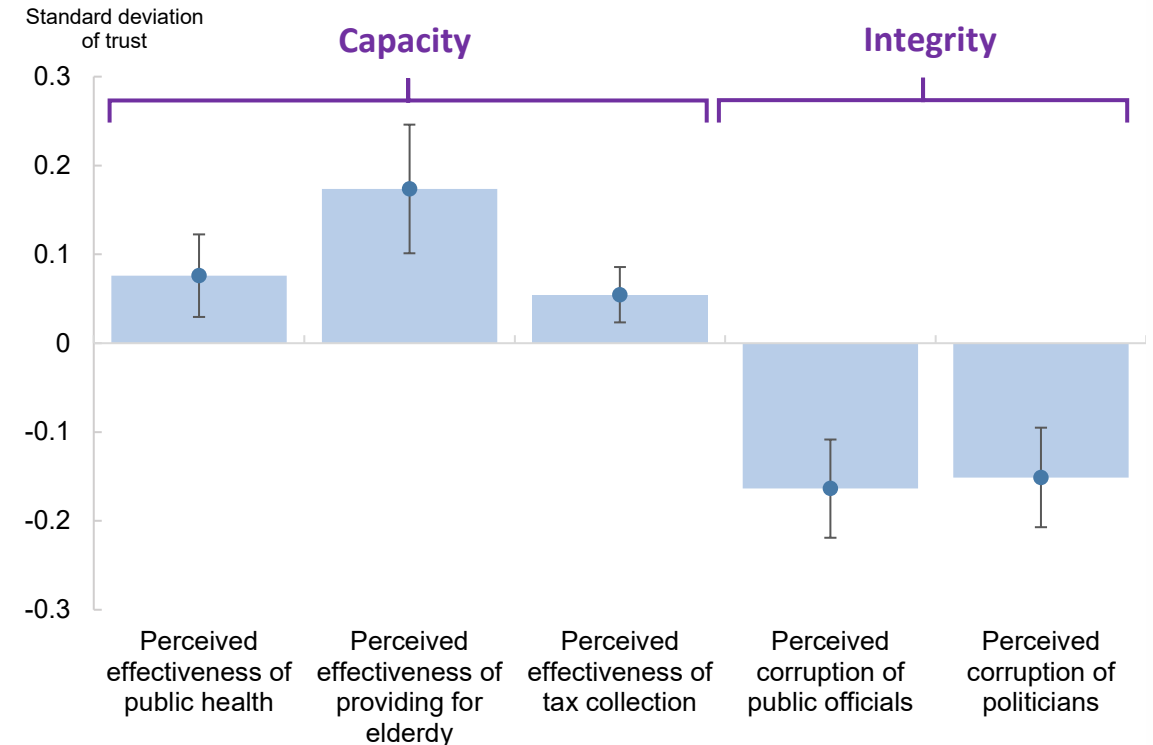
Unmet basic needs are associated with mistrust in government



Estimated effects of one-standard deviation decline in trust based on individual-level data from 23 AEs and 12 EMEs. Whiskers show 95 percent confidence intervals. 'Shift to education/health spending' is defined as the difference between the preference for more education/health spending and the average preference for more spending in all (eight) areas. 'Spending reallocation' is an individual-level standard deviation across answers to questions about spending more in eight areas. 'Progressive taxation' is defined as the difference between an individual's assessment that taxes on low-income are high/low and taxes on high-income are high/low.

Sources: ISSP (2016); and IMF staff estimates.

Respondents' perceptions of the capacity of government and of corruption are related to trust in government

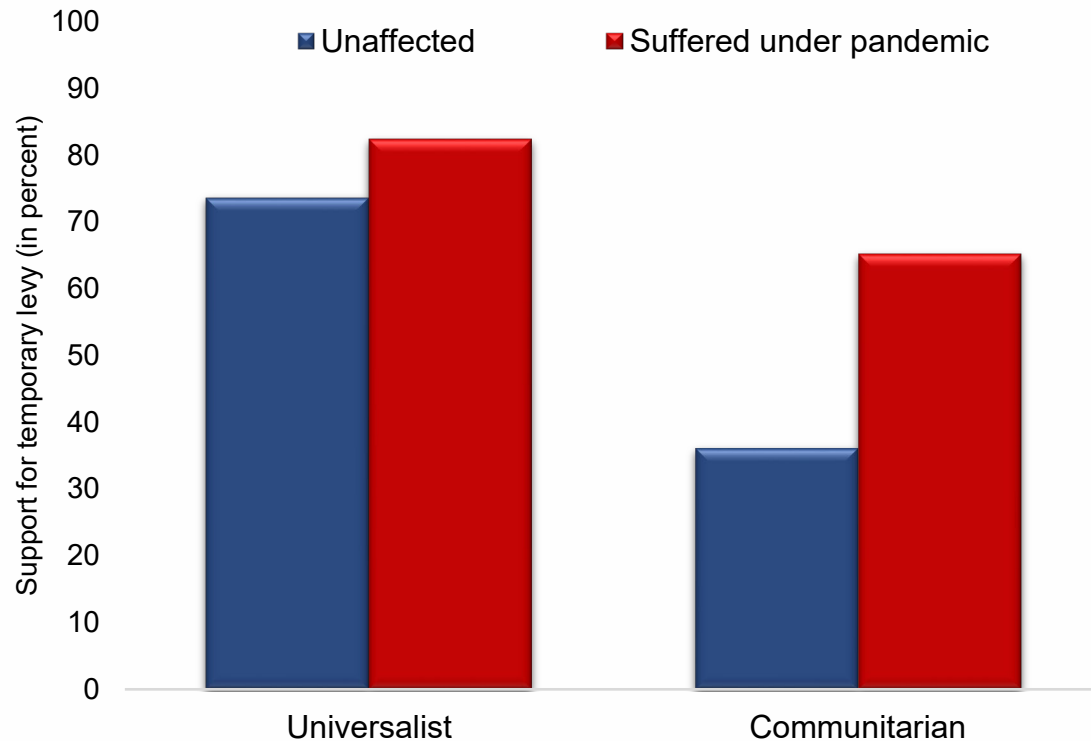


Coefficient estimates of capacity and integrity variables on trust in civil servants. Whiskers show 95 percent confidence intervals. Based on Individual-level data from 14 AEs and 9 EMEs. Perceived effectiveness is derived from respondents' assessment of how successful governments are in providing services and perceived corruption is derived from respondents' opinions about the involvement of politicians/public officials in corruption.

Sources: ISSP (2016); and IMF staff estimates.

Support for More Progressive Taxation is Likely Rising

Support for progressive taxes is higher for households directly affected by pandemic in the US



Shares of respondents who support temporary income tax levy. Survey conducted in the US in October 2020. Universalists (communitarians) are equally (less) altruistic with people outside their own community. "Suffered under pandemic" means respondent or a relative lost employment or became seriously ill with COVID-19.

Source: Klemm and Mauro (2021).

Caveats

- Not known for how long this effect will last
- Similar analyses are needed in other countries
- Not known whether unfavorable views about progressive taxation have become more entrenched

Conclusions

- Both pre-distributive and re-distributive policies can break the vicious circle of inequality, which has become stronger after the pandemic.
- People's preferences for access to basic public services and for progressive taxation is strong and likely rising after the pandemic
- Governments need to provide better access to basic services (including vaccines) and social safety nets, while strengthening transparency, accountability and efficiency; failure to do so could erode trust and lead to more divided societies