

Fiscal Policy, Income Inequality & Inclusiveness

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Structure of the presentation

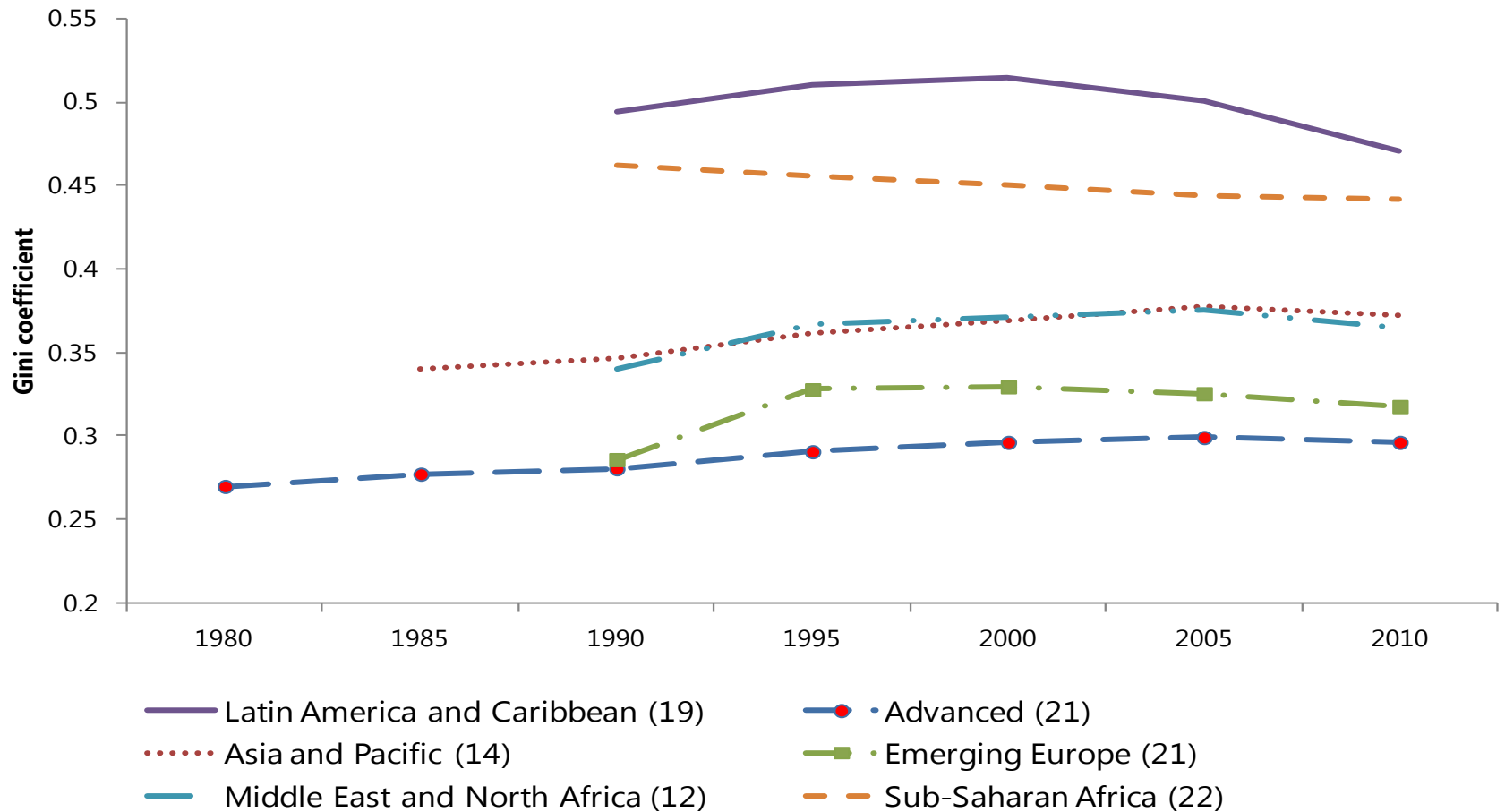
- ❑ Trends in inequality**
 - ❑ Including inequality of income and wealth
- ❑ Redistributive role of fiscal policy**
- ❑ Design of efficient redistributive fiscal policy**
 - ❑ Basic principles for designing fiscal redistribution
 - ❑ Design of spending measures (cash and in-kind transfers)
 - ❑ Design of tax measures (direct and indirect taxes)

I. Trends in Inequality

Inequality has been increasing in most economies



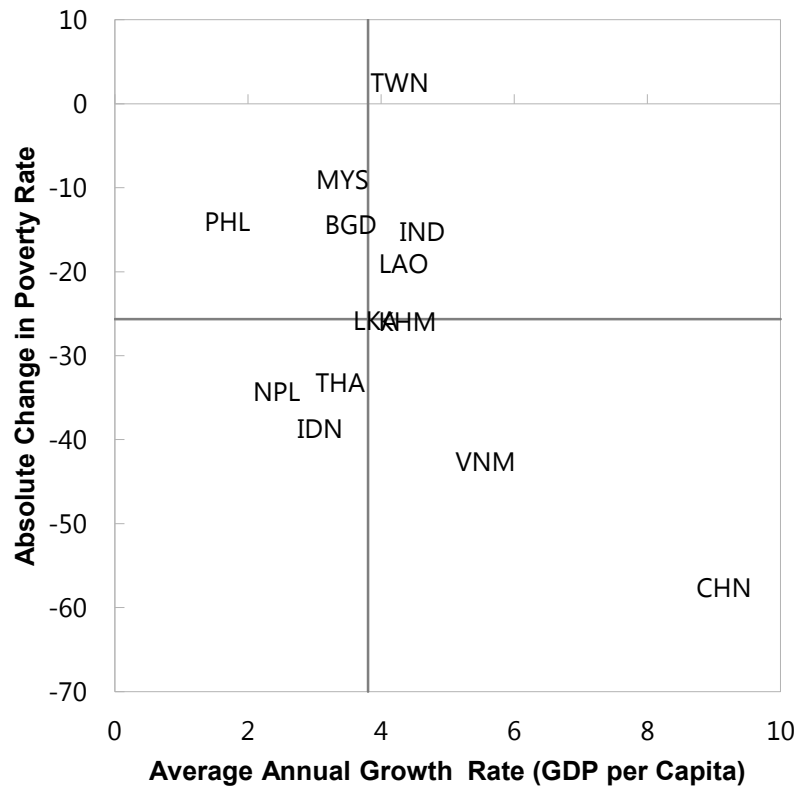
Disposable Income Gini Coefficient



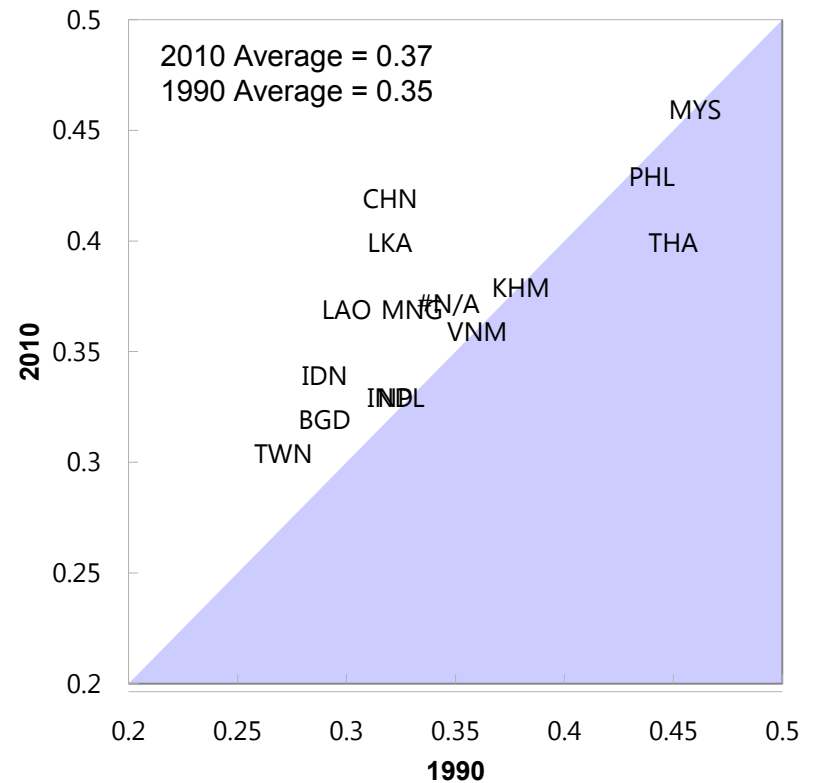


Although poverty has decreased substantially, income inequality has increased

Poverty (\$2/day) and Growth 1990-2010



Gini Coefficient

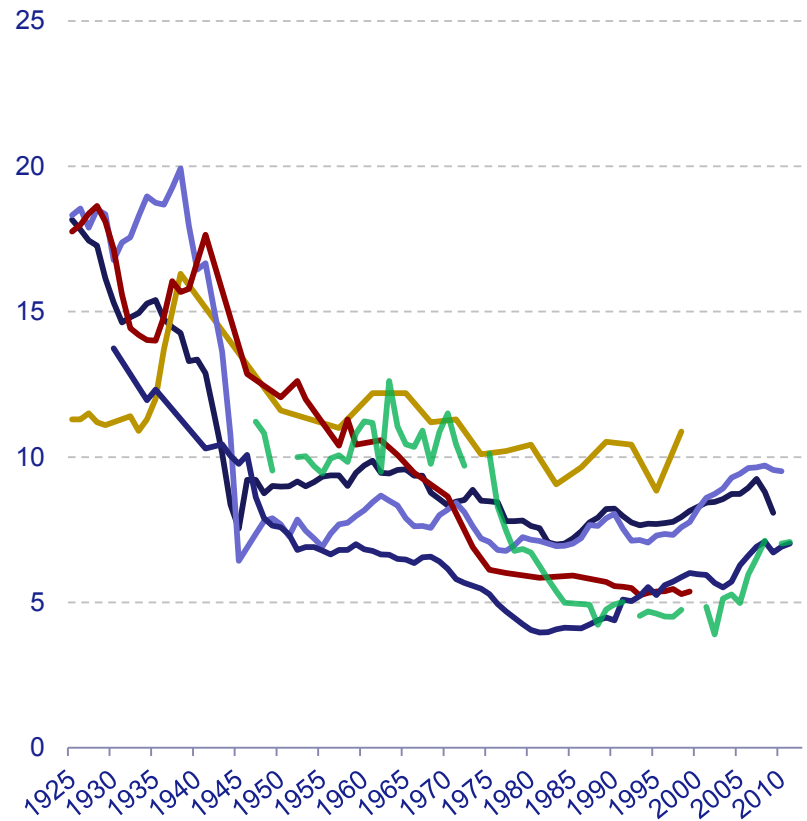
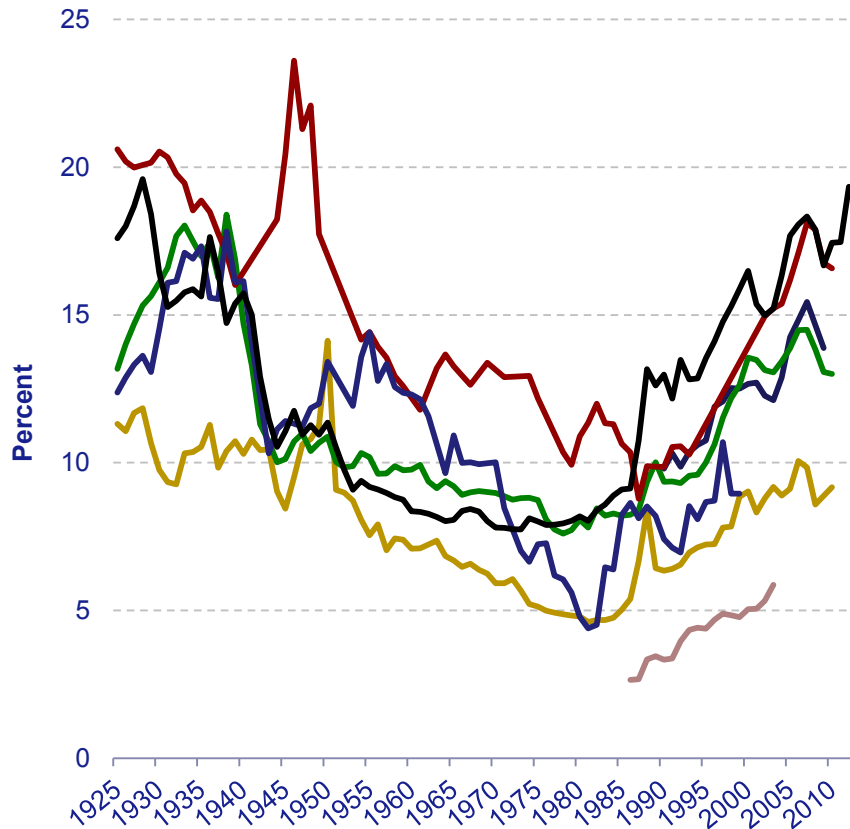


Countries included: BGD=Bangladesh; BTN=Bhutan; KHM=Cambodia; CHN=China; FJI=Fiji; IND=India; IDN=Indonesia; KIR=Kiribati; KOR=Korea, Republic of; LAO=Laos; MYS=Malaysia; MDV=Maldives; MHL=Marshall Islands; MNG=Mongolia; MMR=Myanmar; NPL=Nepal; PNG=Papua New Guinea; PHL=Philippines; WSM=Samoa; SLB=Soloman Islands; LKA=Sri Lanka; THA=Thailand; TON=Tonga; VUT=Vanuatu; VNM=Vietnam; PAK=Pakistan.

More recently, the focus has been on the rising income share of top income earners



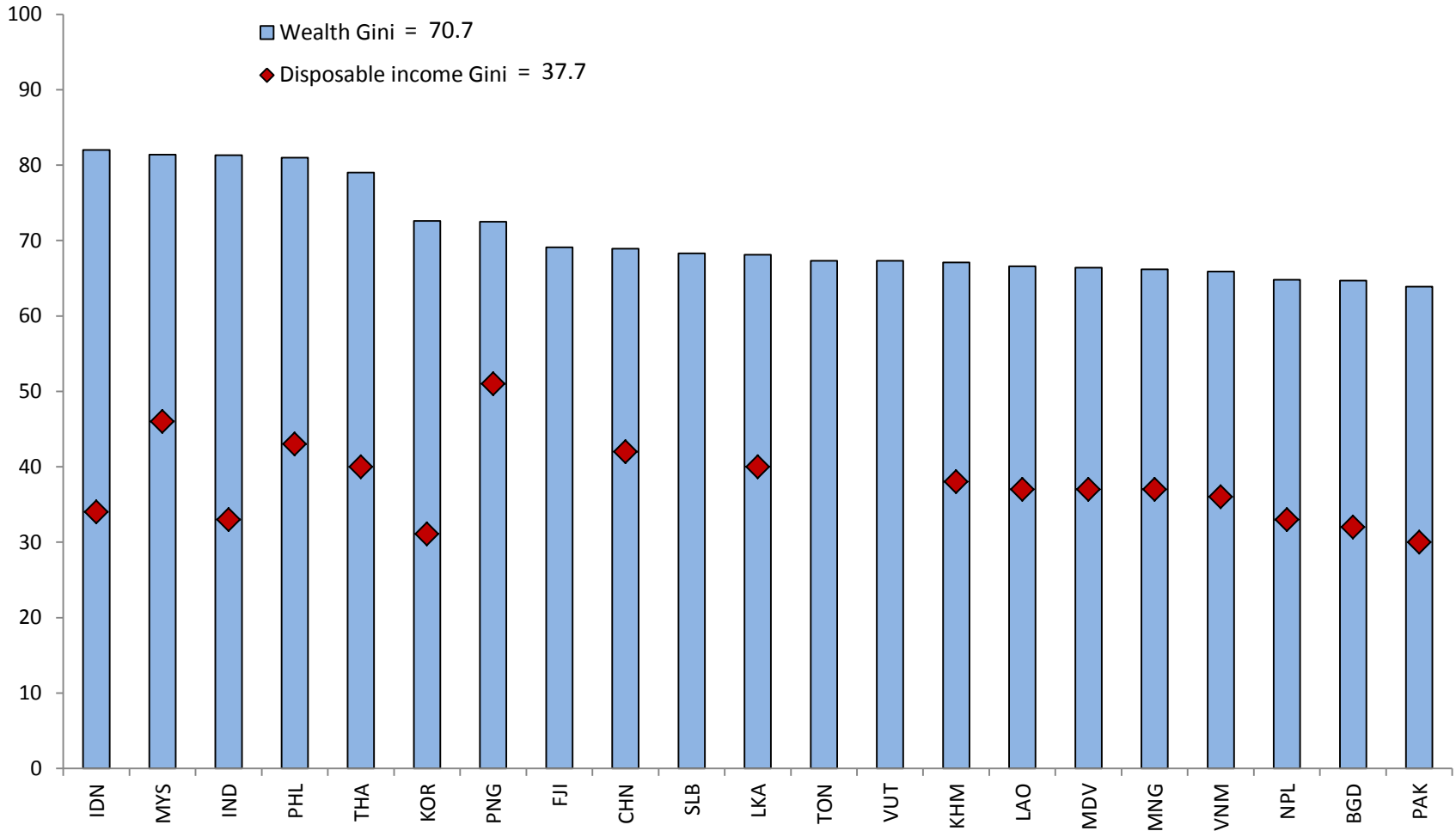
Gross Income Share of Top One-Percent in Selected Advanced and Developing Economies, 1925–2012



- United Kingdom
- South Africa
- Australia
- India
- Canada
- United States
- China

- France
- Netherlands
- Germany
- Sweden
- Japan
- Mauritius

Wealth is even more unequally distributed

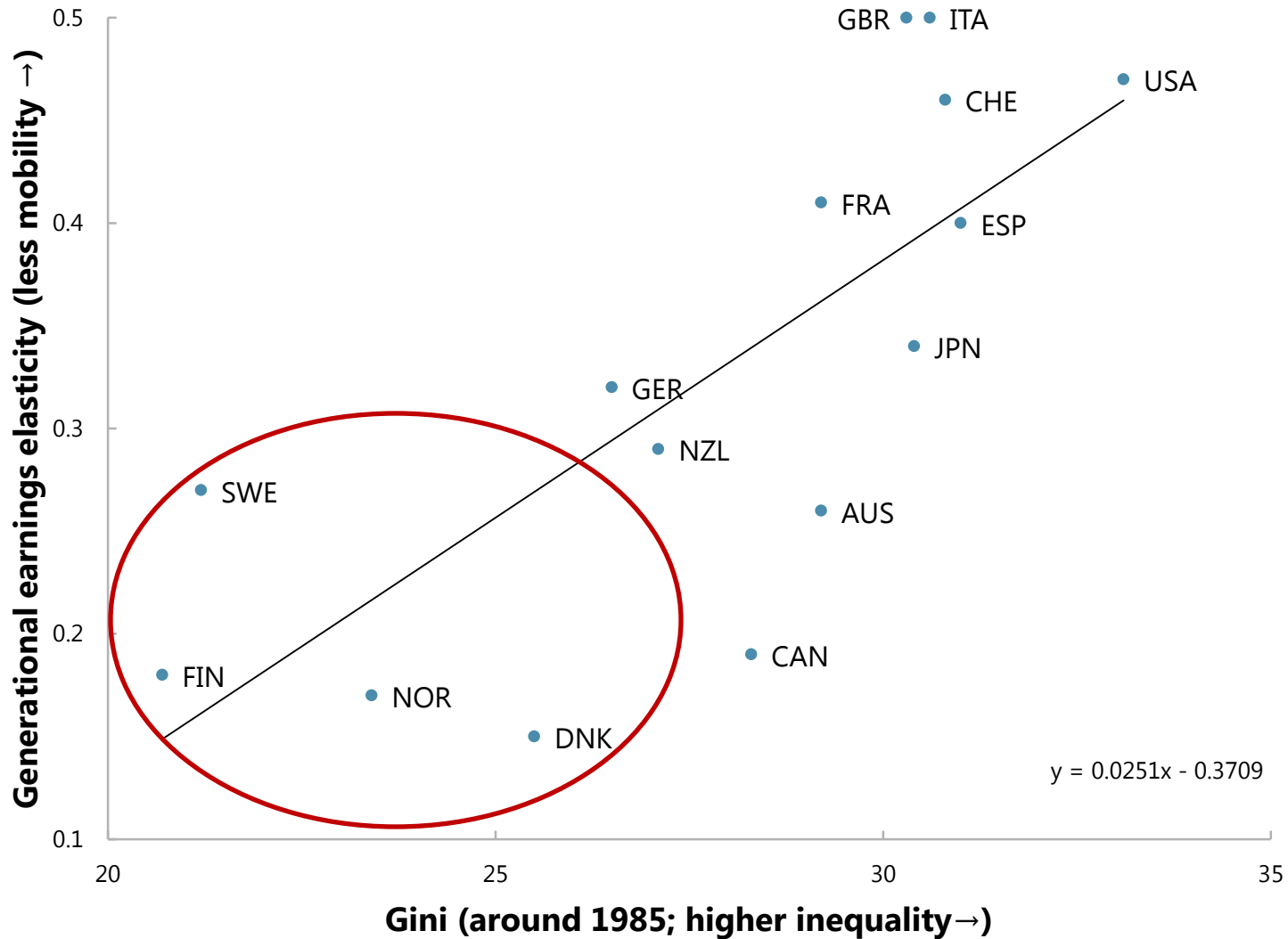


Source: Disposable income Gini is taken from OECD; Luxembourg Income Study Database; Socio-Economic Database for Latin America and the Caribbean (SEDLAC); World Bank; Eurostat. Wealth Gini data comes from Credit Suisse Global Wealth Databook

(2012)

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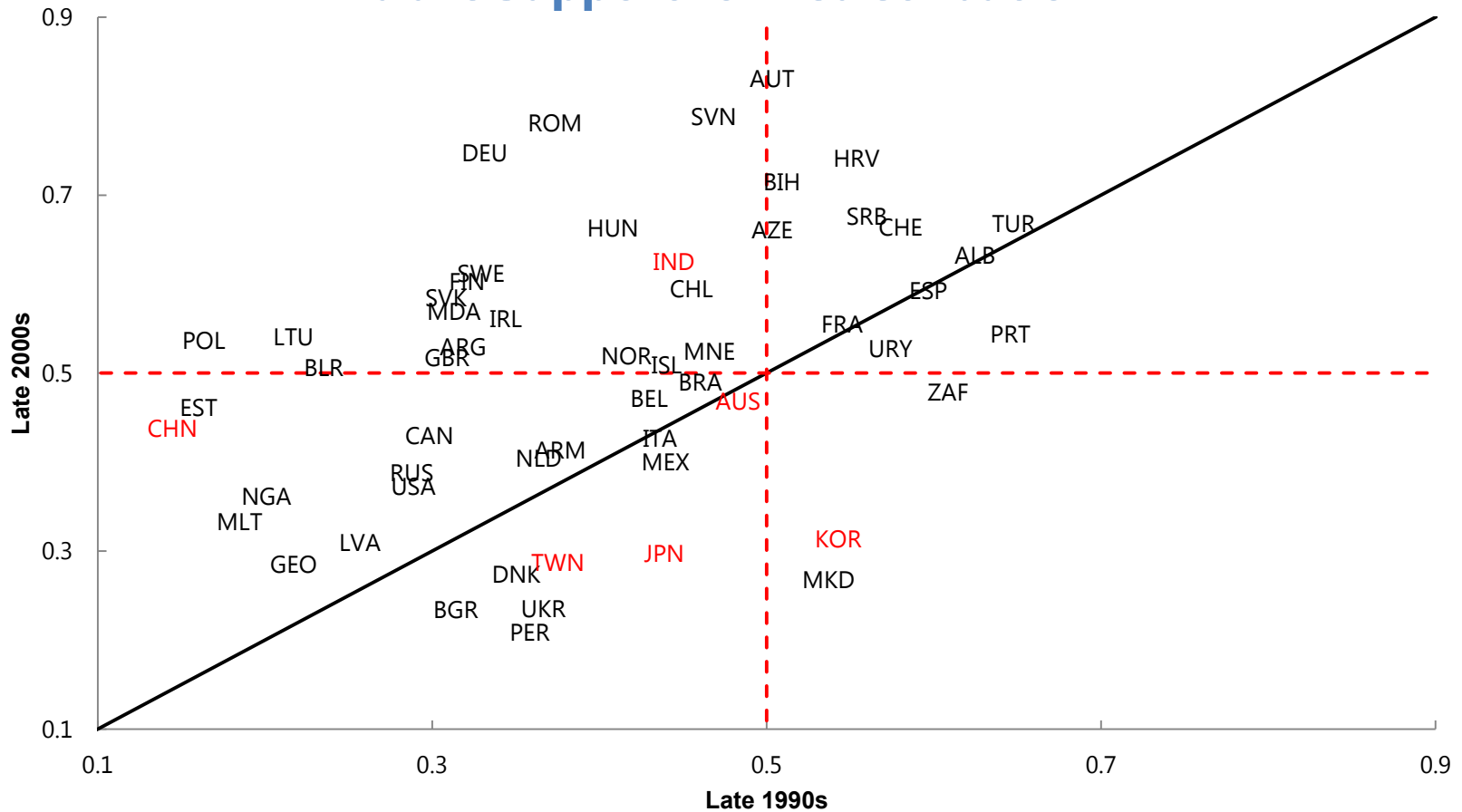
Intergenerational income mobility is higher in countries with low income inequality



Public support for redistribution has been rising



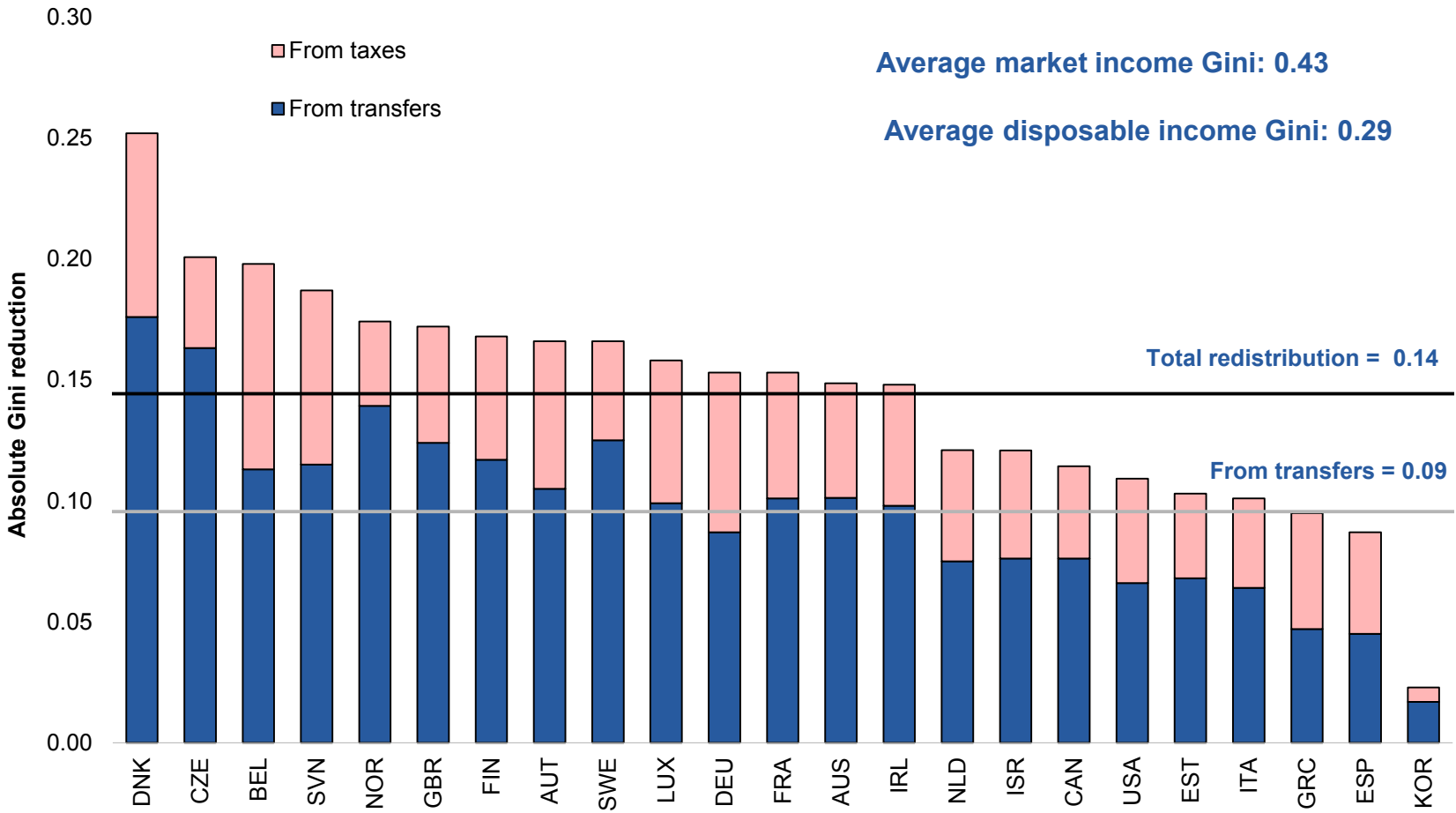
Public Support for Redistribution



Source: Integrated Values Survey 1981-2008

II. Redistributive Role of Fiscal Policy

Redistributive fiscal policy reduces inequality by one third in advanced economies, mostly through spending

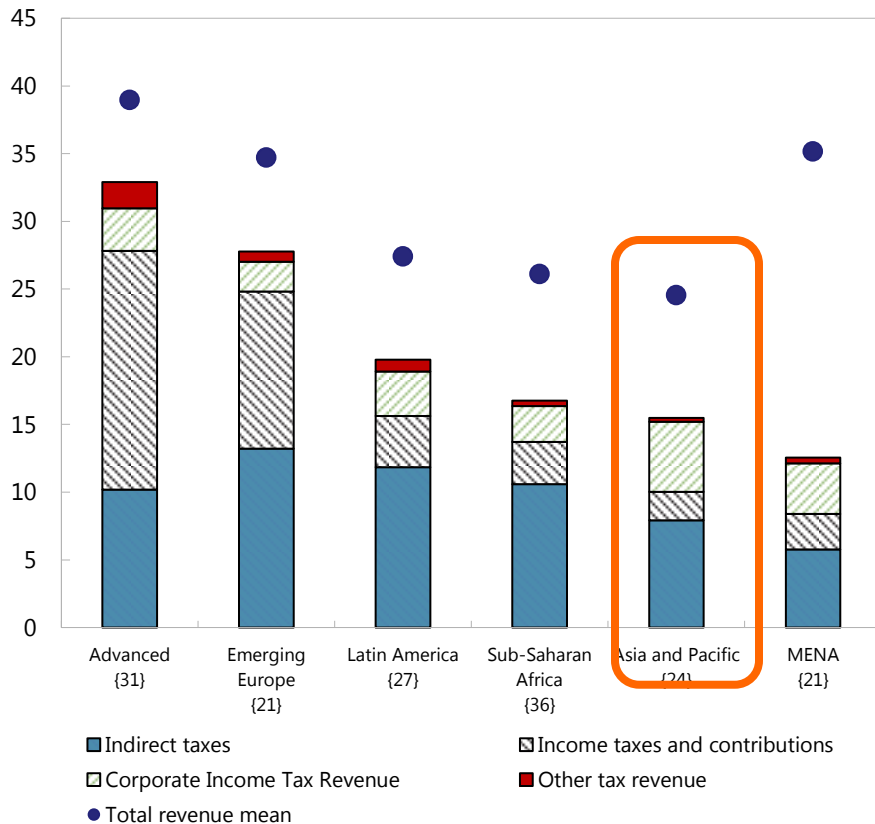


Countries included: AUS=Australia; AUT=Austria; BEL=Belgium; CAN=Canada; CZE=Czech Republic; DEU=Germany; DNK=Denmark; ESP=Spain; EST=Estonia; FIN=Finland; FRA=France; GBR=United Kingdom; GRC=Greece; ISR=Israel; IRL=Ireland; ITA=Italy; KOR=Korea; LUX=Luxembourg; NLD=Netherlands; SVN=Slovenia; SWE=Sweden; TWN=Taiwan Province of China; USA=United States.

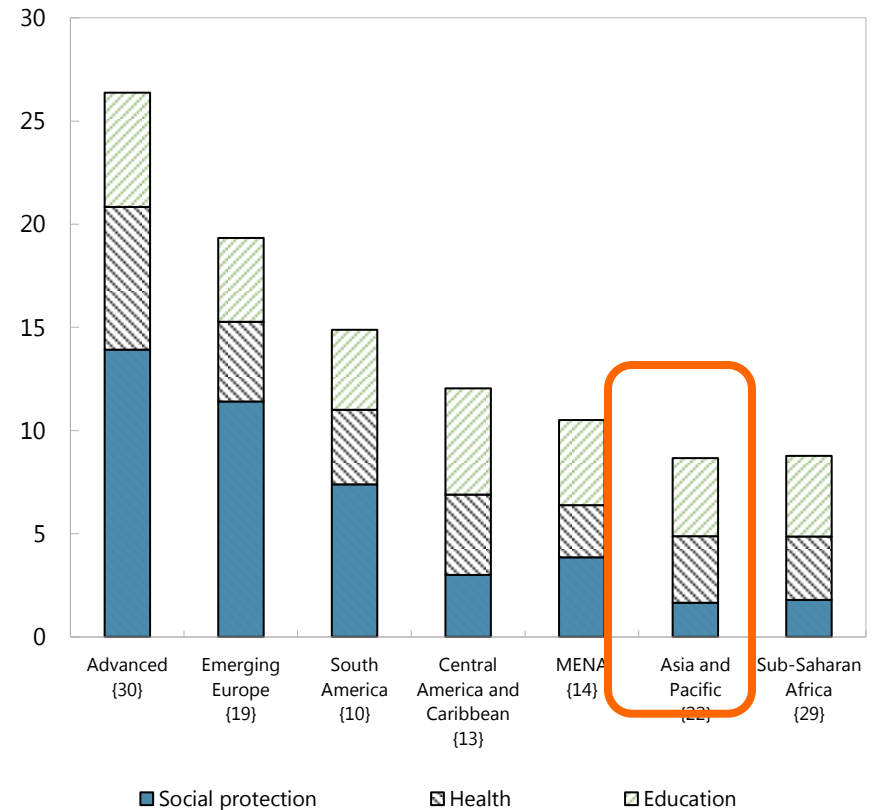
Fiscal redistribution in developing countries low reflecting low revenues and social spending



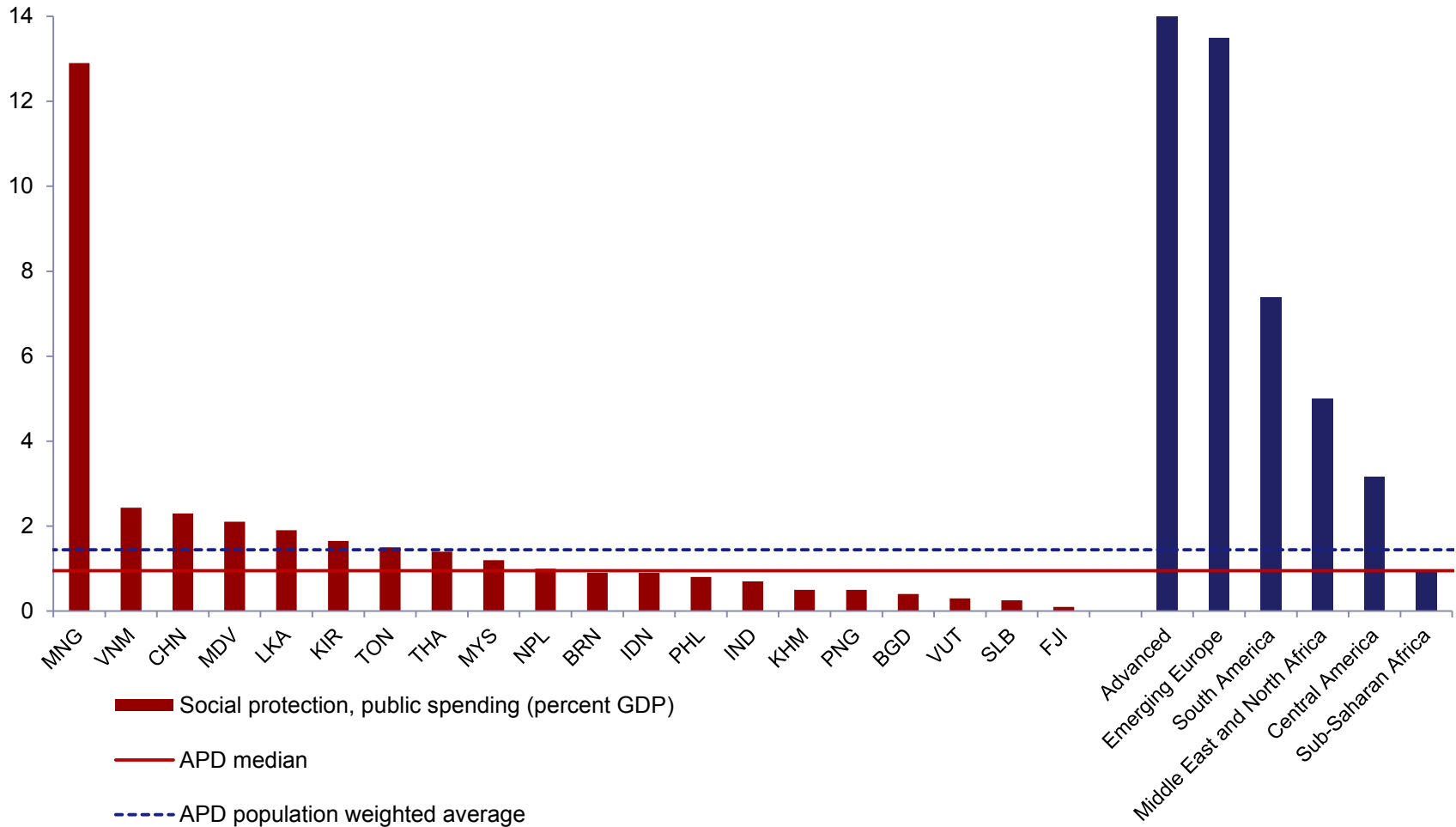
Composition of revenues, 2010
(Percent GDP)



Composition of social spending, 2010
(Percent GDP)



Social protection spending also low in Asia

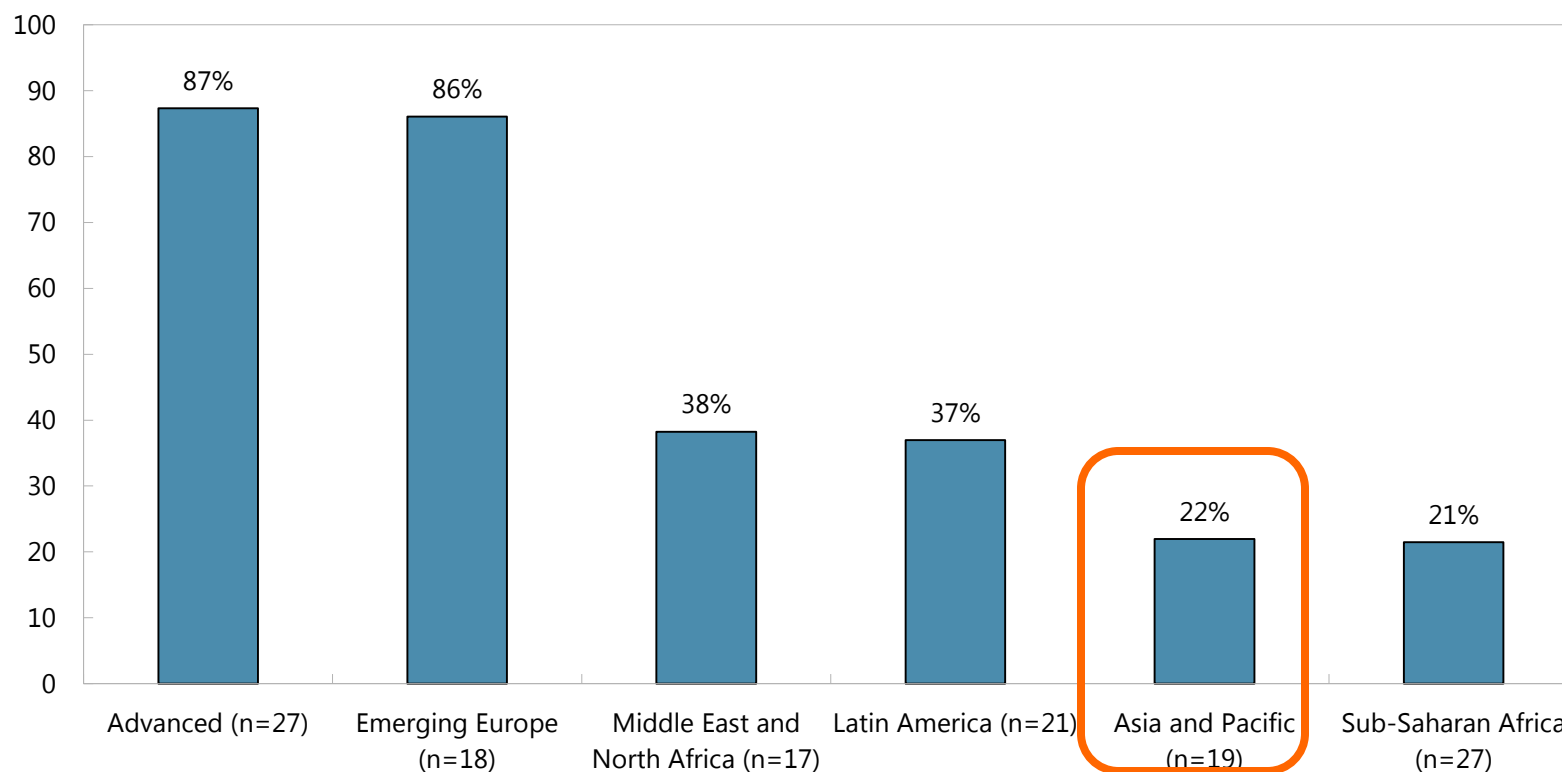


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.... and low spending reflected in low coverage of social insurance.....

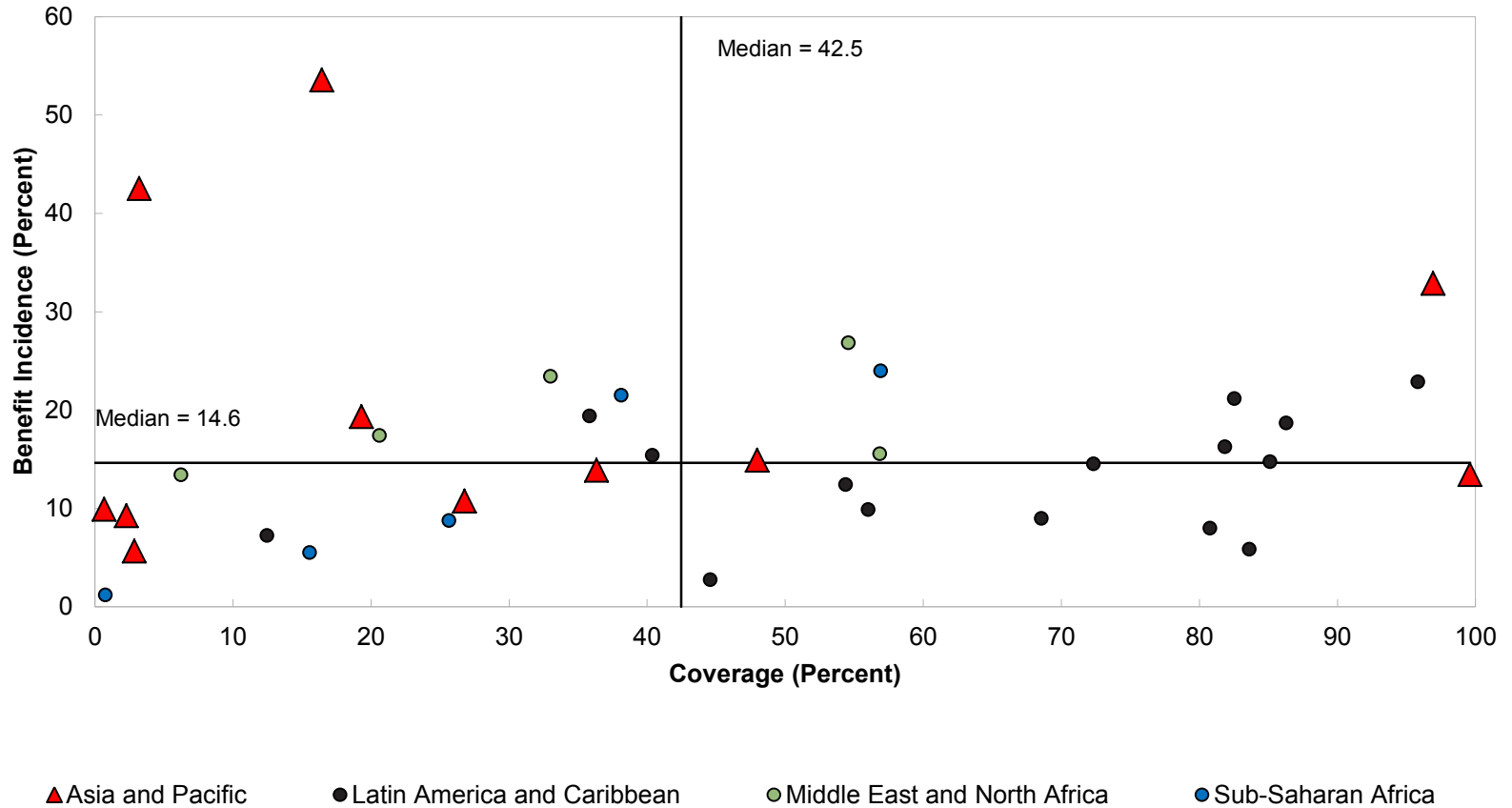


Percent of Population above Legal Retirement Age in Receipt of a Pension



.....especially among lower-income groups

Social Protection Coverage and Benefit Share of Poorest 40%

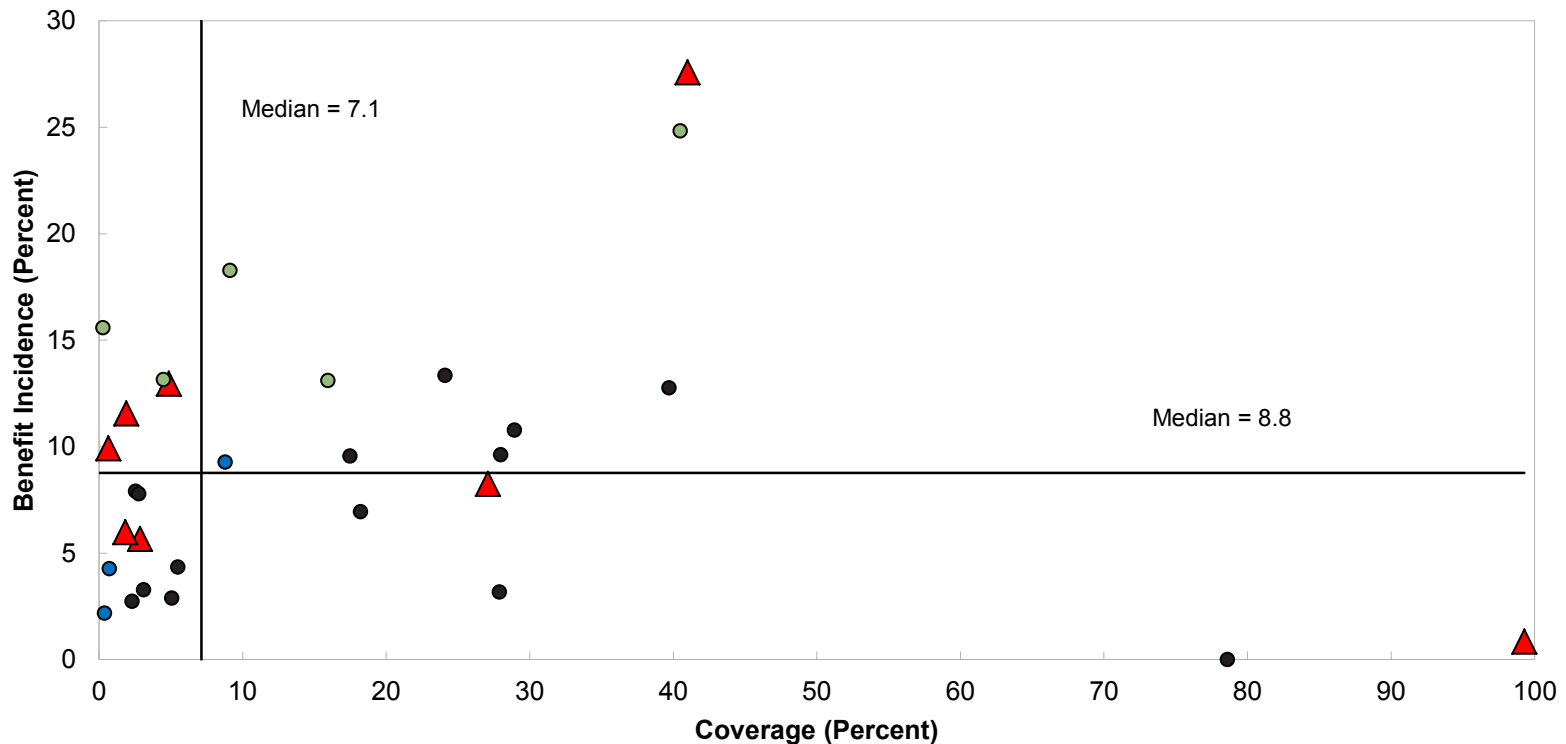


Social protection includes pensions and social assistance transfers

A large share of social insurance benefits goes to higher-income groups.....



Social Insurance Coverage and Benefit Share of Poorest 40%



▲ Asia and Pacific

● Latin America and Caribbean

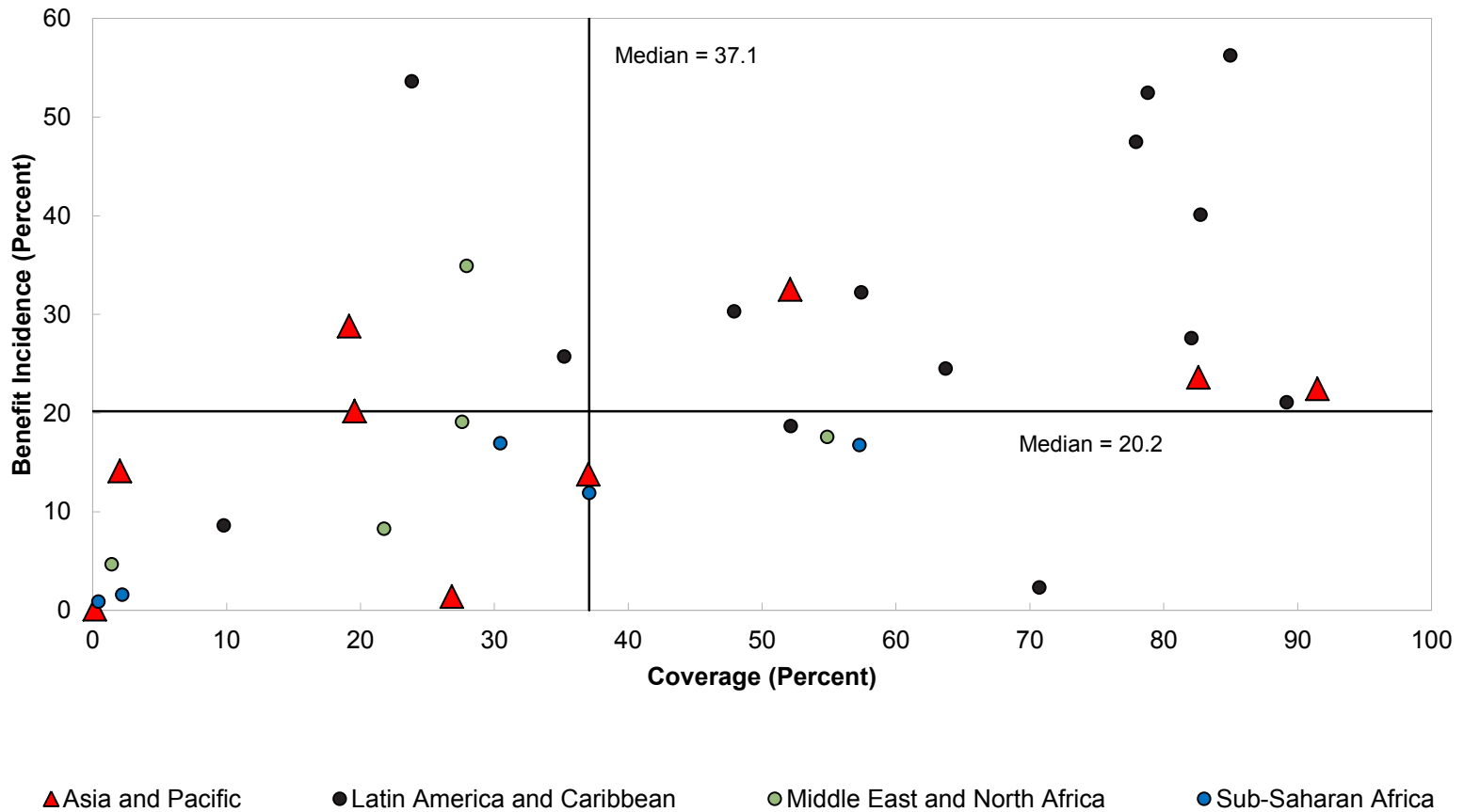
● Middle East and North Africa

● Sub-Saharan Africa

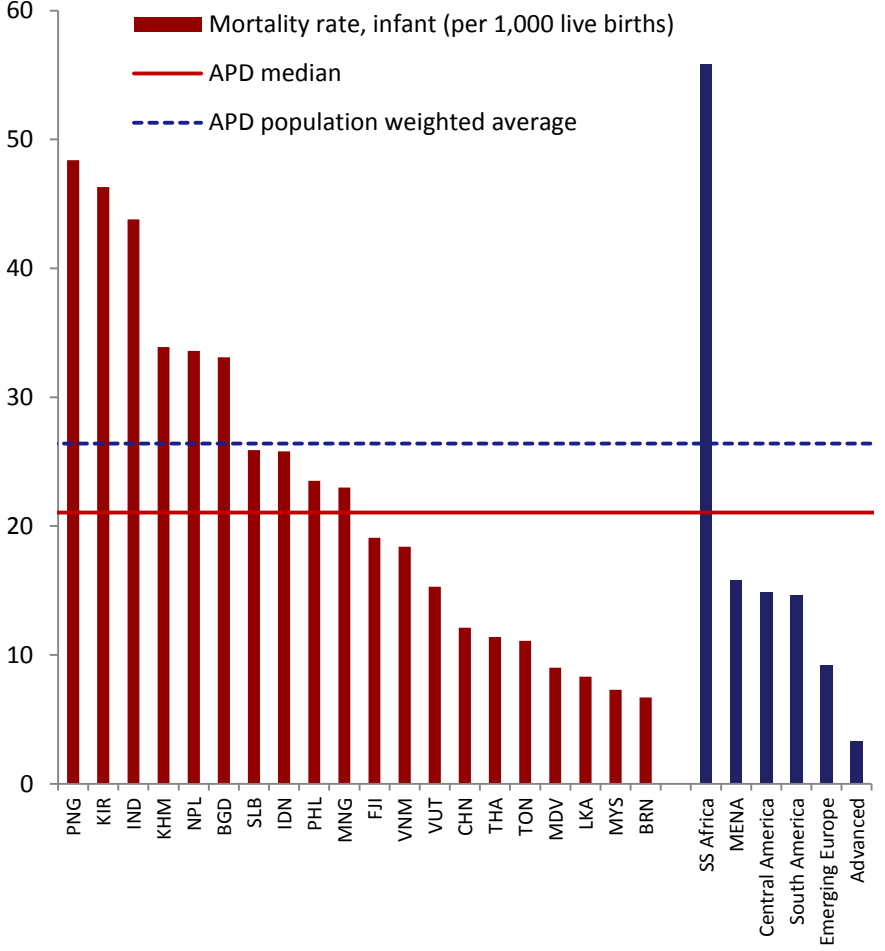
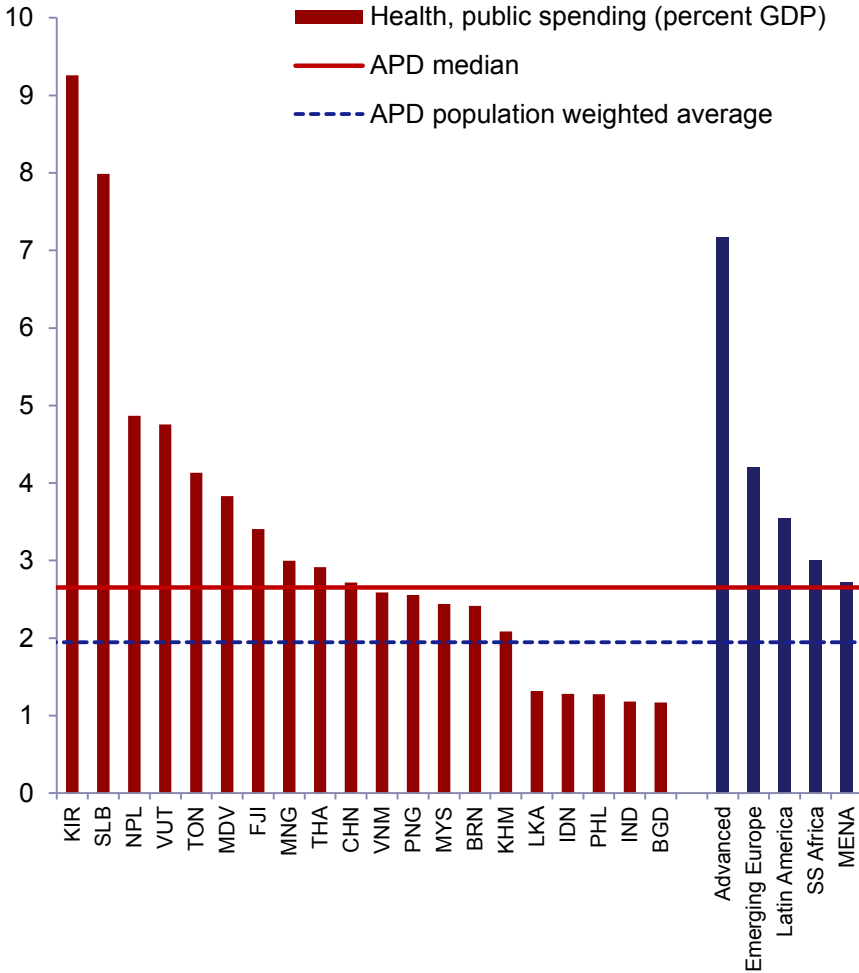
.....and coverage of social assistance is often incomplete



Social Assistance Coverage and Benefit Share of Poorest 20%

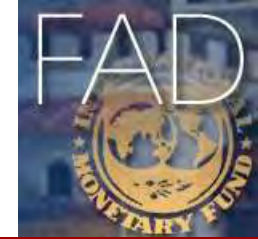


Health spending low and outcomes poor.....

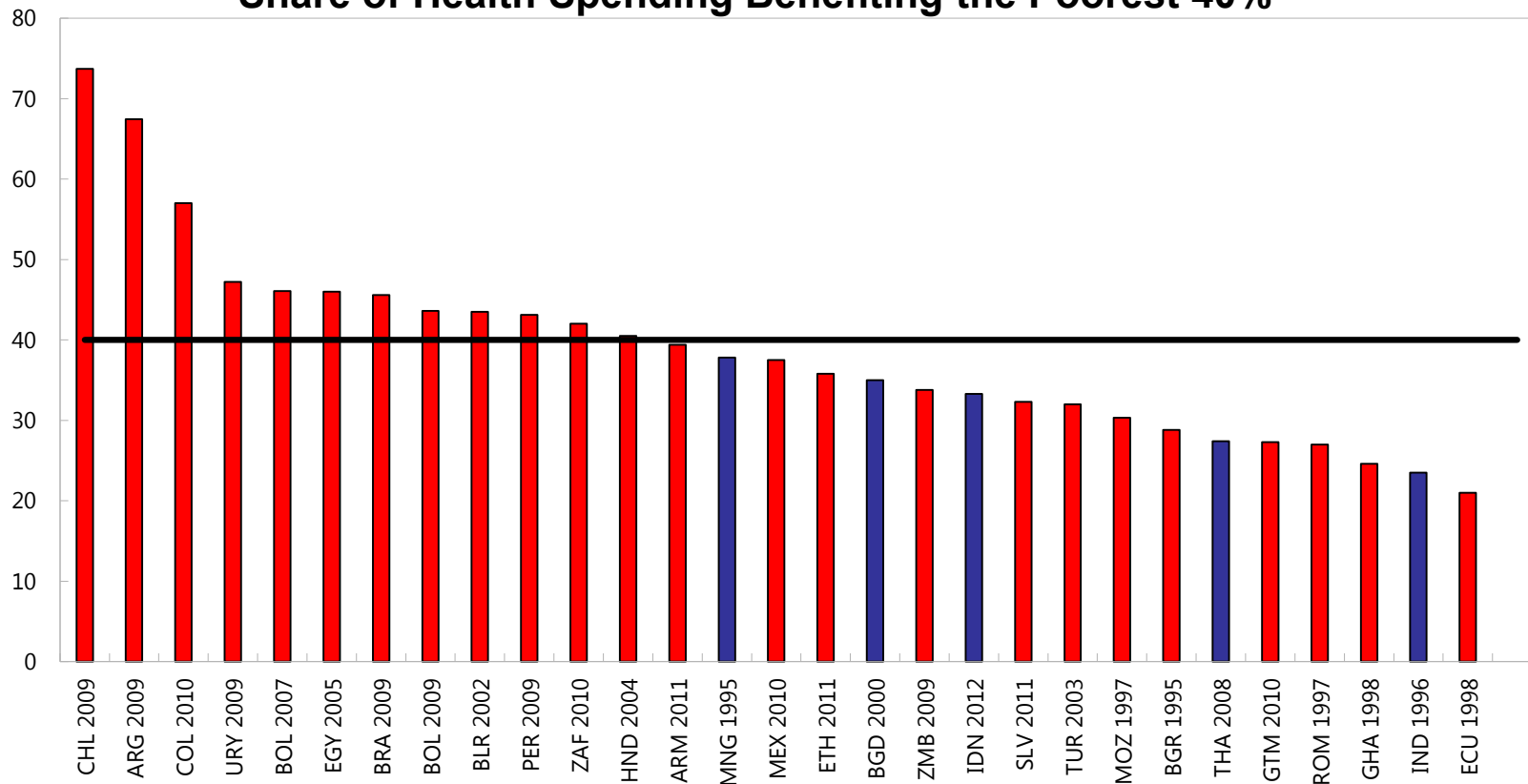


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.....with gaps in health coverage among lower-income groups



Share of Health Spending Benefiting the Poorest 40%

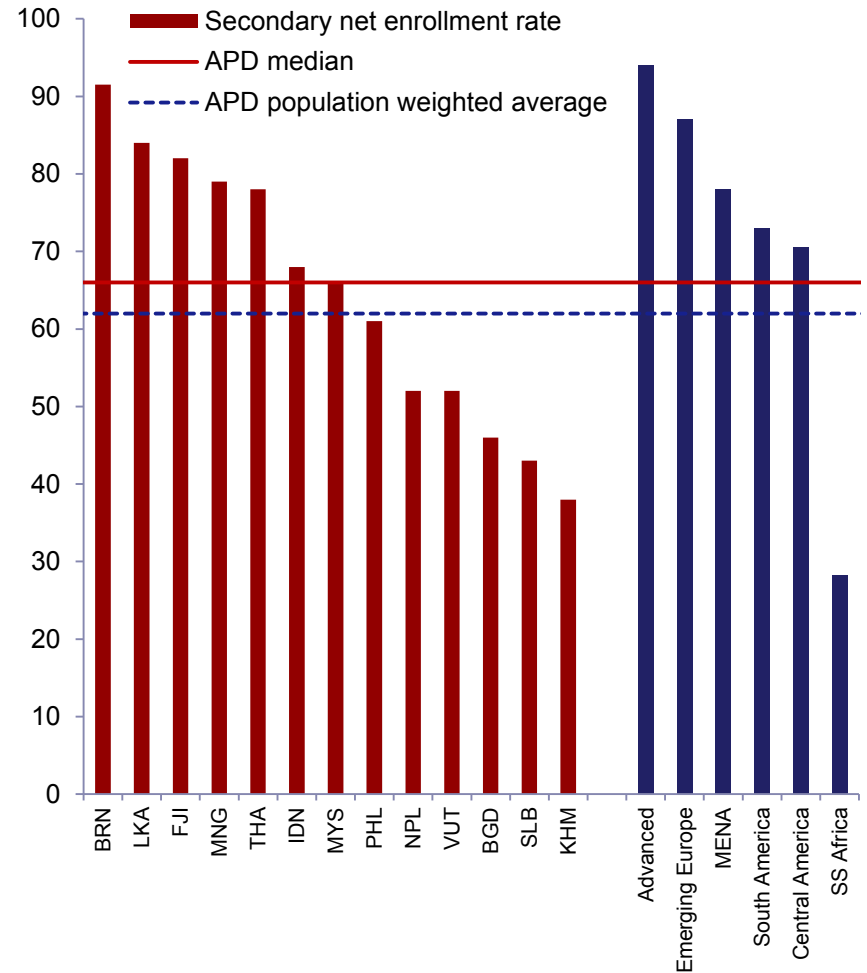
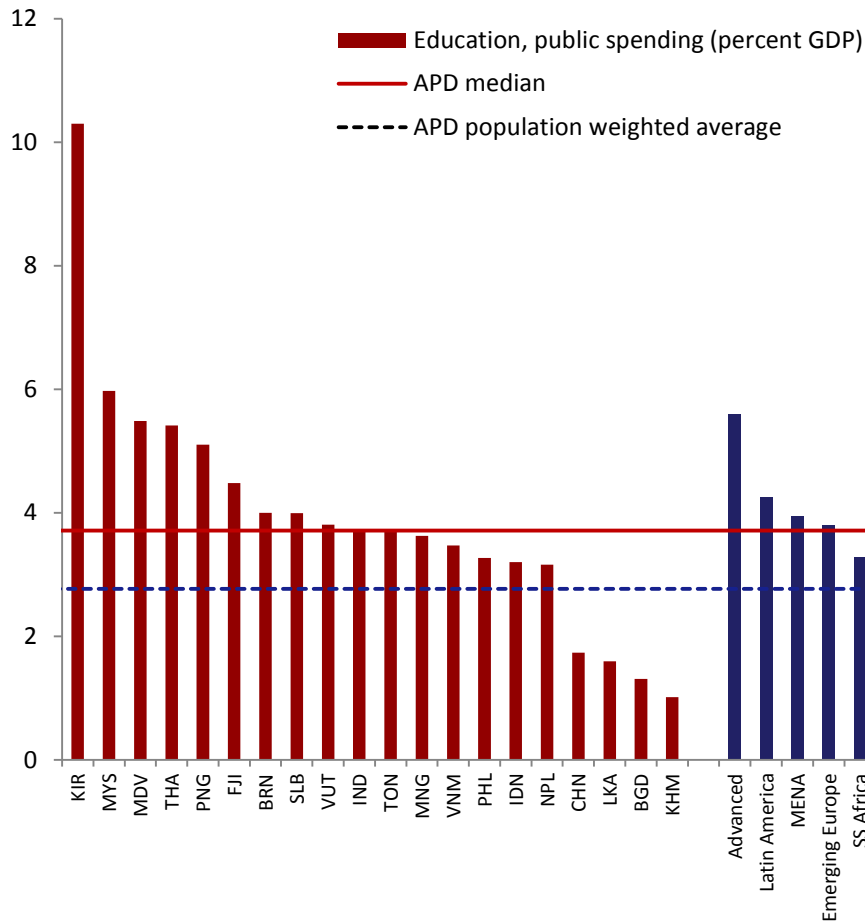


Source: Lustig (2015); Davoodi, Tiongson, and Asawanuchit (2010); Lustig et. Al (2011); World Bank..

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Low education spending also leads to low education outcomes.....

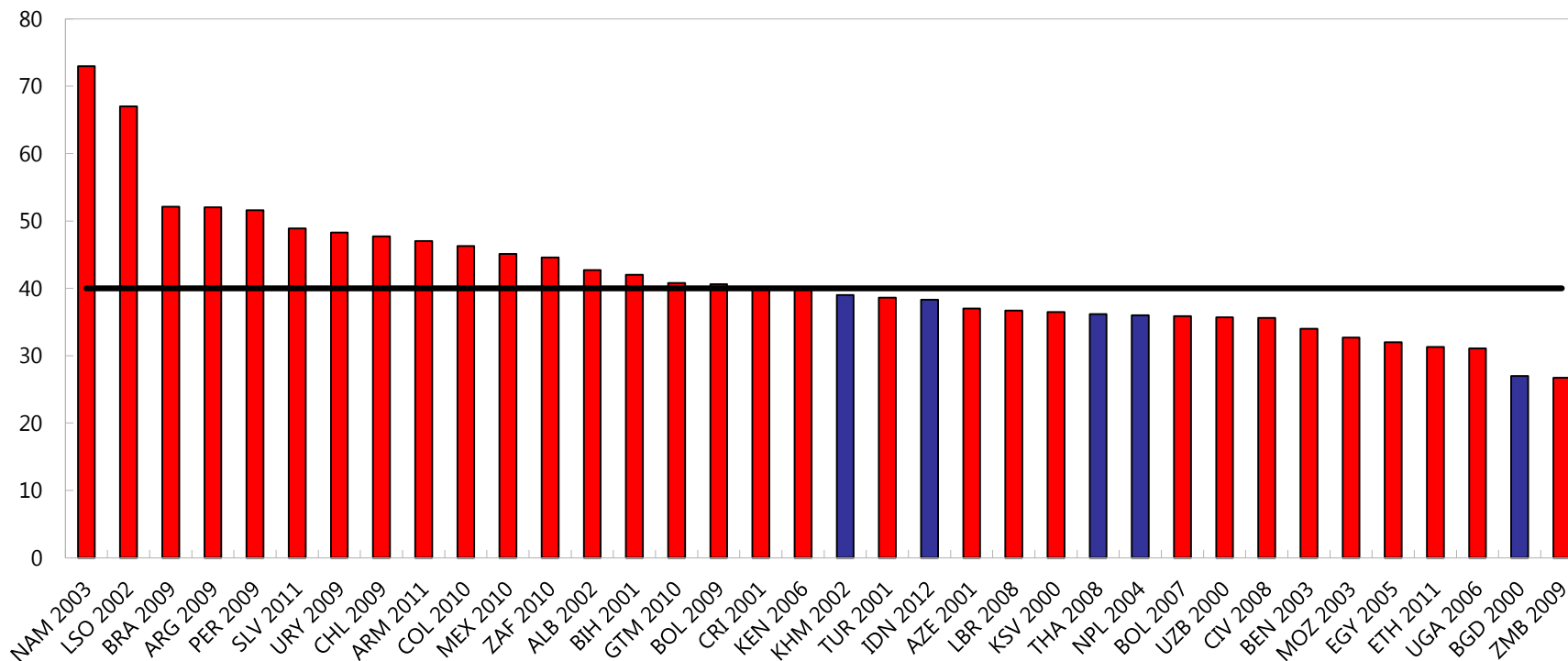


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.....and gaps in coverage among lower-income groups



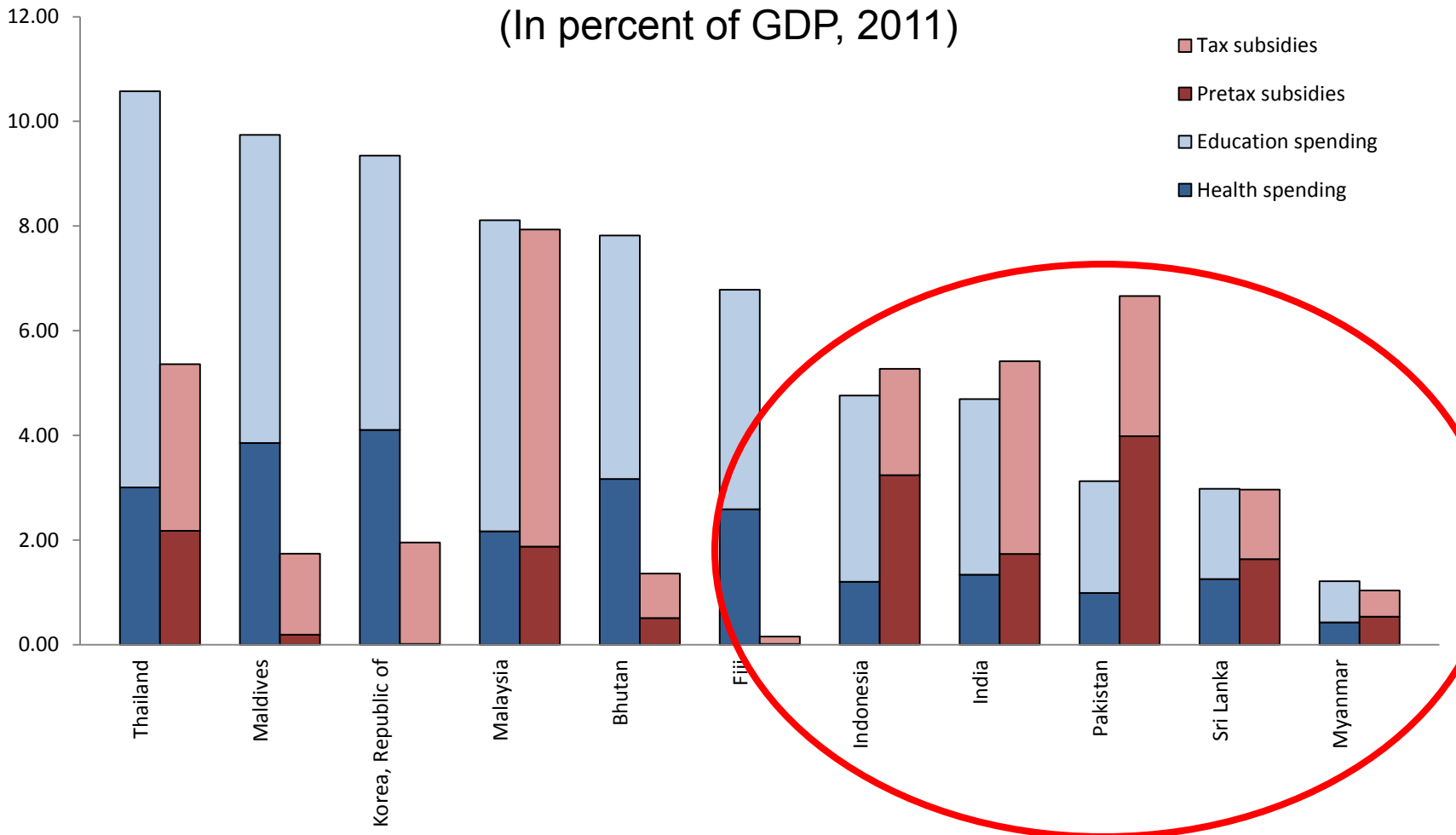
Share of Education Spending and Market Income Benefitting the Poorest 40%



Source: Lustig (2015); Davoodi, Tiongson, and Asawanuchit (2010); Lustig et. Al (2011); World Bank..

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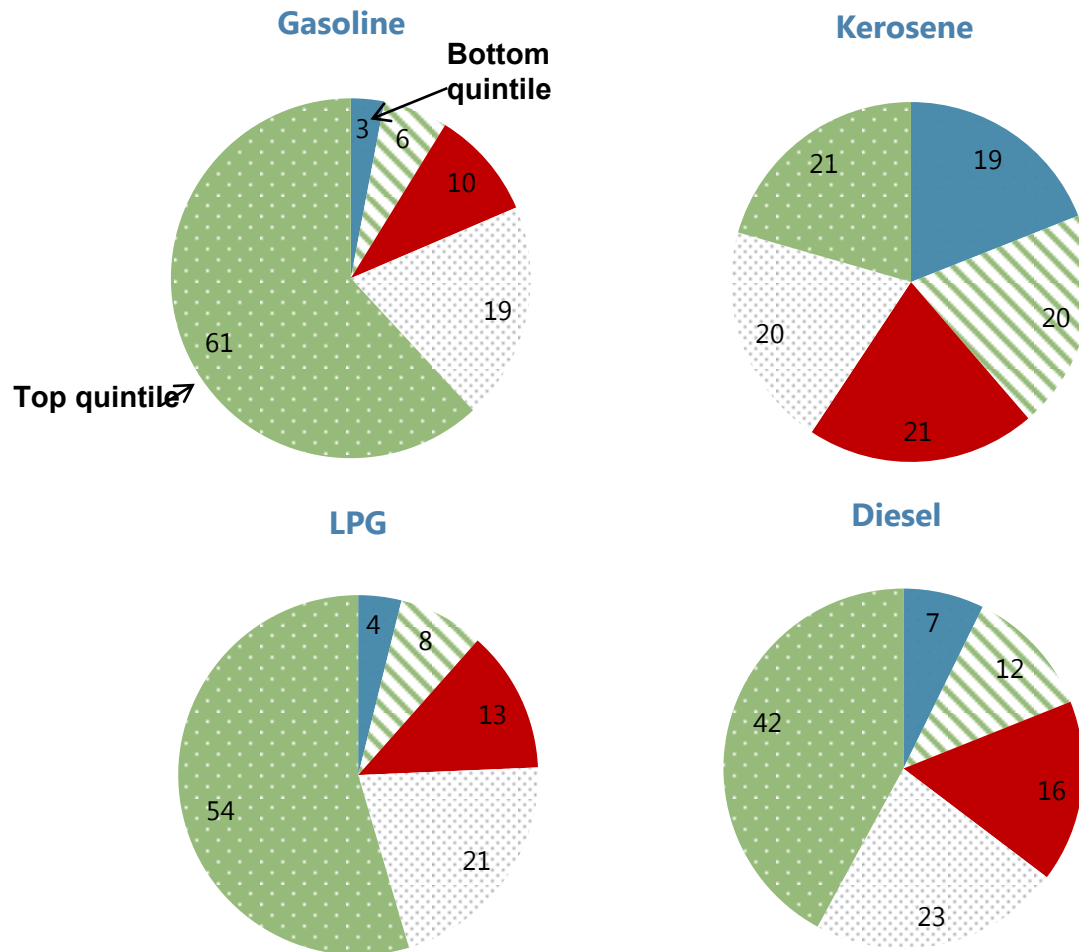
Energy subsidies are high and sometimes exceed social spending



Most of the benefits from energy subsidies accrue to upper income households



Distribution of Petroleum Product Subsidies in Asian Countries by Income Groups
(in percent of total product subsidies)



III. Designing Efficient Redistributive Fiscal Policy



Designing efficient redistributive fiscal policy

- ❑ Redistributive fiscal policy should be consistent with macroeconomic objectives
- ❑ The impact of tax and spending policies should be evaluated jointly
- ❑ Tax and expenditure policies need to be carefully designed to balance distributional and efficiency objectives
- ❑ Design should take into account administrative capacity

Increasing resource mobilization key for enhancing redistributive impact of fiscal policy



- **Need to increase revenue mobilization to finance development and redistributive goals**
- **Need to develop progressive and well targeted spending instruments**
 - For middle/lower-middle-income countries where growth has substantially decreased poverty, emphasis is now on more inclusive growth, e.g. through expansion of social insurance
 - For lower-income countries where poverty is high, revenue low, and competing needs for spending, need well-designed safety nets (consolidation, streamlining, targeting)
- **In many economies, (energy) subsidy reform can be both efficient and equitable but well-designed mitigating measures to protect poor needed**

Reform options to achieve more efficient redistribution of social spending



Pensions

- Improve fiscal sustainability of existing pension systems through increasing statutory retirement ages
- Tighten link between contributions and benefits
- Expand noncontributory means-tested social pensions
 - Set at level to alleviate poverty but low enough to minimize incentives to remain outside the formal pension system

Reform options to achieve more efficient redistribution of social spending



Non-pensions social benefits (1)

– Replace general prices subsidies with targeted transfers

– Develop unemployment savings accounts

– Consolidate social assistance programs and improve targeting by addressing their:

○ Fragmentation and duplication—reduce number of programs

○ Bad targeting—introduce means-testing to target benefits and reduce fiscal costs

○ Low coverage and benefits—with fiscal savings from targeting, expand coverage

○ Reliance on costly in-kind benefits—use cash benefits

Reform options to achieve more efficient redistribution of social spending



Non-pensions social benefits (2)

- Expand conditional cash transfer programs as administrative capacity improves
- Improve design of public works programs as a safety net instrument
 - Avoid crowding out private sector jobs by setting wages below the market rate for unskilled labor

Reform options to achieve more efficient redistribution of social spending



Education

– Improve access to education of low-income families

- Increase investment in lower levels of education
- Should focus on improving access to and progression through primary and lower-secondary education
- Focus on girls and students in rural areas
- Use targeted conditional cash assistance to those with disadvantaged access to education

– Increase private financing of tertiary education

- Use targeted conditional cash assistance to those with disadvantaged access to education
- Charge tuition for those with ability to pay; loans to facilitate access of low-income households

Reform options to achieve more efficient redistribution of social spending



Health

- Expand coverage of publicly financed basic health package
- Reduce or eliminate user charges for low-income households
- Address supply side barriers in less developed areas
- Improve efficiency of health spending

Reform options to achieve more efficient redistribution of taxation



Personal income taxation

- Implement progressive Personal Income Tax (PIT) rate structures
- Expand coverage of the PIT
- Reconsider income tax exemptions, based on a critical tax-expenditure review
- Impose a reasonable PIT exemption threshold

Capital income taxation

- Develop more effective taxation of multinationals
- Automatically exchange information internationally

Reform options to achieve more efficient redistribution of taxation



Property taxation

– Utilize better the opportunities for recurrent property taxes

- Improve administrative infrastructure

Consumption taxation

– Minimize VAT exemptions and special VAT rates

– Set a sufficiently high VAT registration threshold

– Use specific excises mainly for purposes other than redistribution



Issues for Discussion

- **Should fiscal policy be an important tool for promoting inclusive growth in Asia?**
- **Should this be achieved through affecting market (e.g., through investments in education, health and infrastructure)?**
- **Should it be achieved through affecting disposable income (e.g., through redistributive transfers)?**
- **For countries wishing to expand social insurance (pensions and health), how should this be financed?**



Thank you!