

Shaping the Future OECD Strategy on Development

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Key Question:

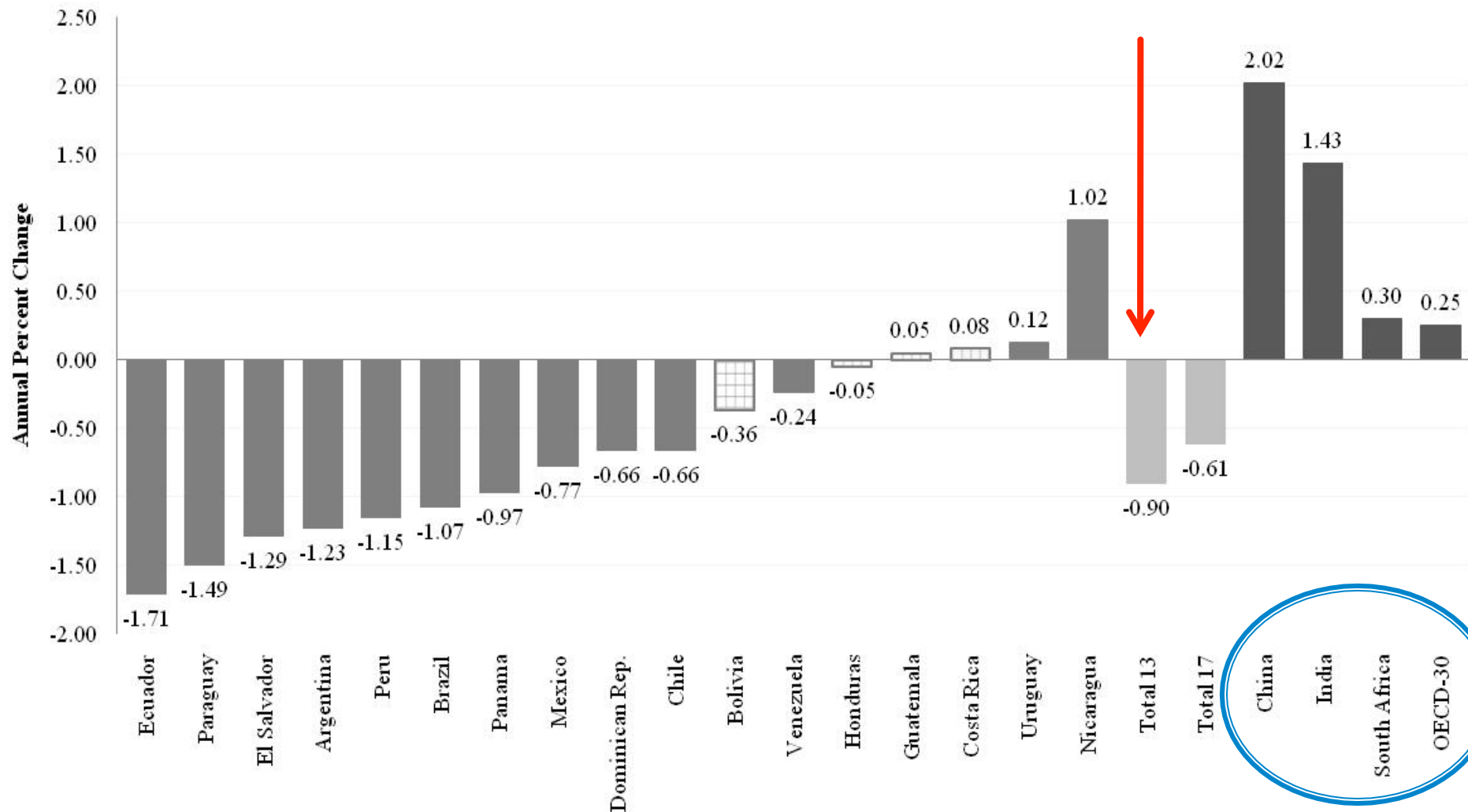
- What kind of tools could the OECD share with developing countries to help improve the impact of their public expenditures on inequality and poverty reduction?

Extensions of standard incidence analysis

Declining Inequality in Latin America

- Labor Markets
- Public Spending on Education and Cash Transfers

Change in Gini Coefficient by Country: circa 2000-2009 (yearly change in percent)



The decline in inequality has been widespread

- Fast growing countries (Chile and Peru), slow growing countries (Brazil and Mexico) and countries recovering from crisis (Argentina and Venezuela)
- Persistently high inequality countries (Brazil) and normally low inequality countries (Argentina)
- Countries with leftist governments (Argentina, Brazil, Chile) and center/center-right governments (Mexico and Peru)

Poverty Reduction: Growth and Redistribution

| | arg 2000-2009 | bra 2001-2009 | mex 2000-2008 | per 2000-2009 |
|--------------------------|------------------|------------------|------------------|------------------|
| 2.5 usd | | | | |
| Headcount Ratio | | | | |
| <i>growth</i> | 58.41% | 48.86% | 41.79% | 89.19% |
| <i>redistribution</i> | 41.59% | 51.14% | 58.21% | 10.81% |
| Poverty Gap Index | | | | |
| <i>growth</i> | 53.22% | 48.37% | 37.99% | 75.93% |
| <i>redistribution</i> | 46.78% | 51.63% | 62.01% | 24.07% |
| Squared Pov Gap | | | | |
| <i>growth</i> | 50.28% | 49.47% | 36.10% | 69.11% |
| <i>redistribution</i> | 49.72% | 50.53% | 63.90% | 30.89% |

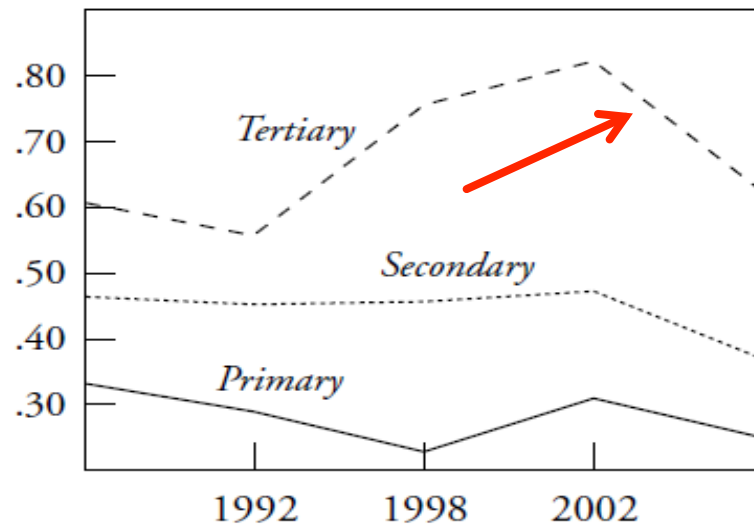
Determinants of declining inequality: Labor Markets

- Skill premium fell, as a result of educational upgrading (among other things)

Figure 1-5. *Ratio of Returns to Education for Argentina, Brazil, Mexico and Peru^a*

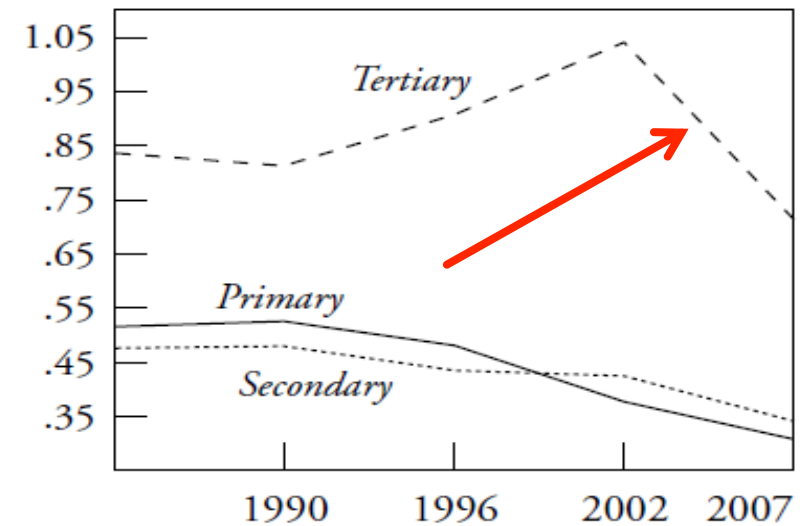
Argentina (urban areas): 1986–2006

Percent



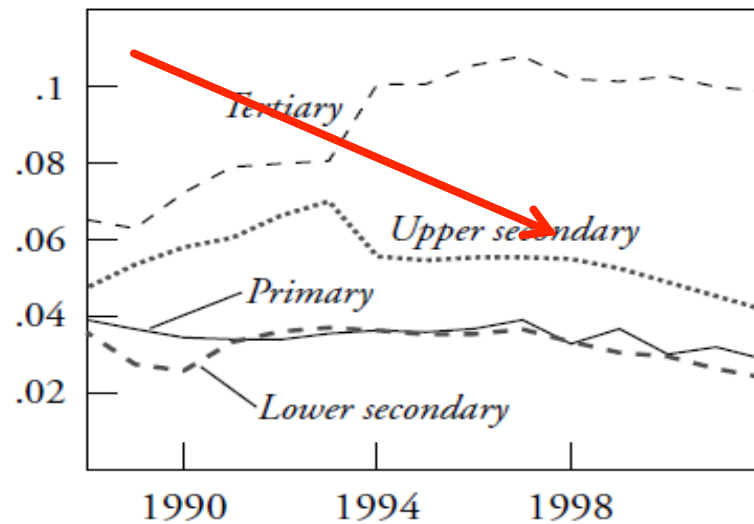
Brazil: 1986–2007

Percent



Mexico: 1988–2002

Percent



Peru: 1998–2007

Percent

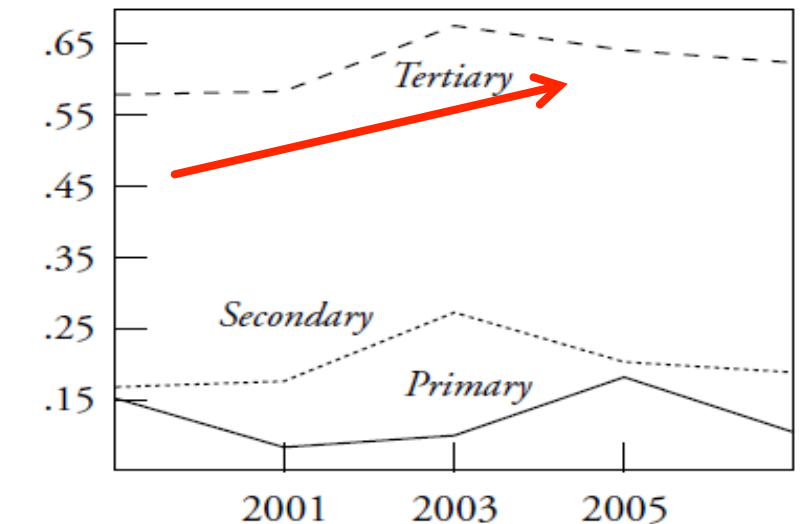
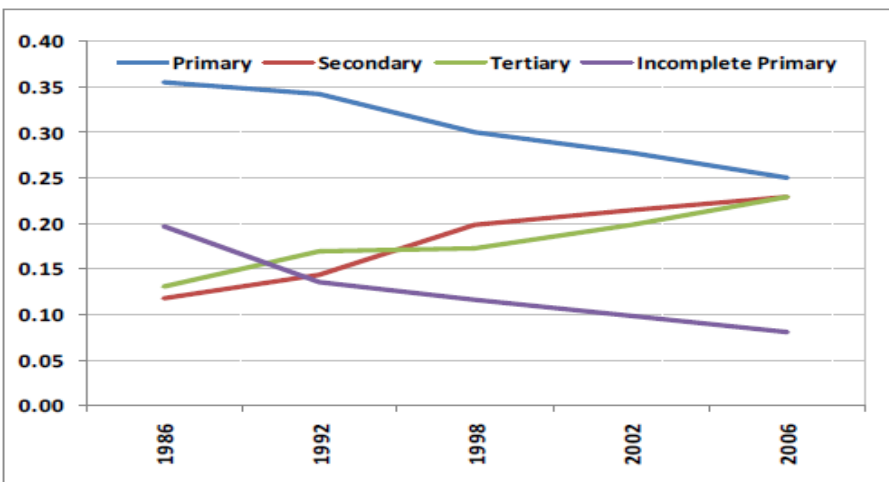
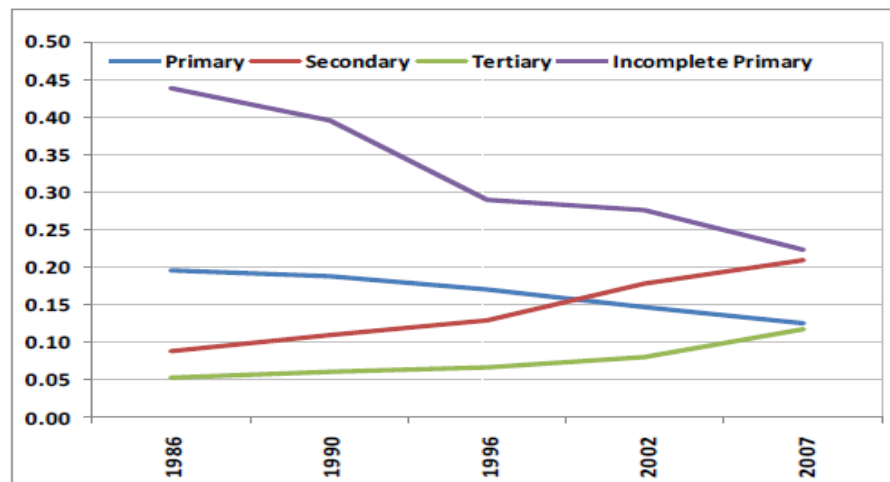


Figure 7. *Composition of Adult Population by Educational Level: Argentina, Brazil, Mexico and Peru*

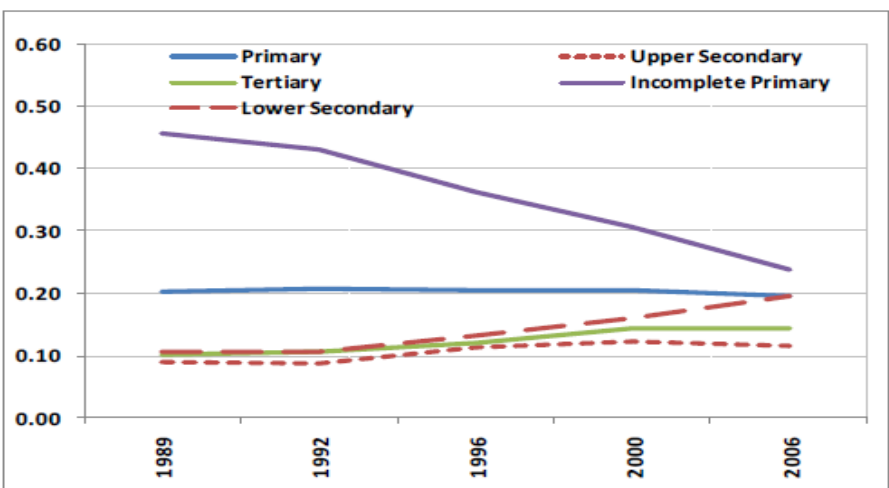
Argentina (urban areas): 1986 – 2006



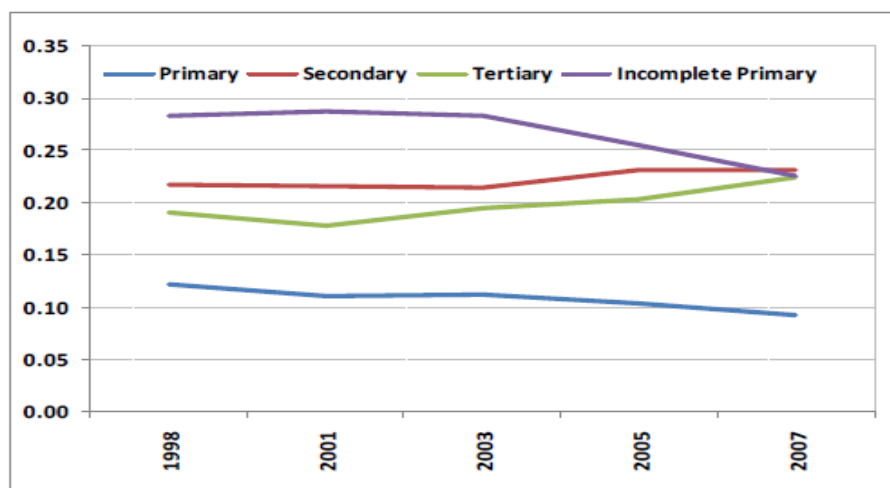
Brazil: 1986 - 2007



Mexico: 1989 – 2006



Peru: 1998 - 2007



Determinants of declining inequality: Social Spending

- Public spending **targeted** to the poor increased with the introduction of large-scale transfer programs: e.g., Pension Moratorium and Family Allowances (Argentina), Bolsa Familia (Brazil), Oportunidades (Mexico)

Determinants of declining inequality: Social Spending

- Propose a tool for a systematic analysis of who benefits from and who pays for public spending:
Commitment to Equity Assessment
- Results for Arg, Bol, Bra, Mx and Peru

Results

First: significant variation across countries

- government size and spending patterns
- Extent of income redistribution and poverty reduction

Results: Government Size and Spending

- In Argentina, Brazil and Bolivia, government primary (which excludes debt servicing) spending is over 35 percent of GDP whereas in Mexico and Peru it is around 20 percent.
- Social spending (excluding contributory pensions) as a share of GDP ranges from 15.8 percent in Argentina to 5.3 percent in Peru.
- Direct transfers (excluding contrib. pensions) as a share of GDP range from 4.2 percent in Brazil to 0.37 percent in Peru.

| | GNI/cap. in PPP - yr of survey (US\$) | Primary spending as a % of GDP | Social Spending as % of GDP <i>(excluding...)</i> | Direct Transfers as a % of GDP | Concent Coefficient Social Spending |
|---------------------------|--|---|--|---|--|
| Arg (2009) | \$14,030 | 37.57% | 15.8% | 3.08% | -0.14 |
| Bolivia (2009) | \$4,069 | 36.93% | 9.1% | 1.35% | -0.07 |
| Brazil (2009) | \$10,140 | 36.85% | 12.9% | 4.15% | -0.09 |
| Mex (2008) | \$14,530 | 21.87% | 8.4% | 0.61% | -0.05 |
| Peru (2009) | \$8,349 | 18.93% | 5.30% | 0.37% | 0.01 |

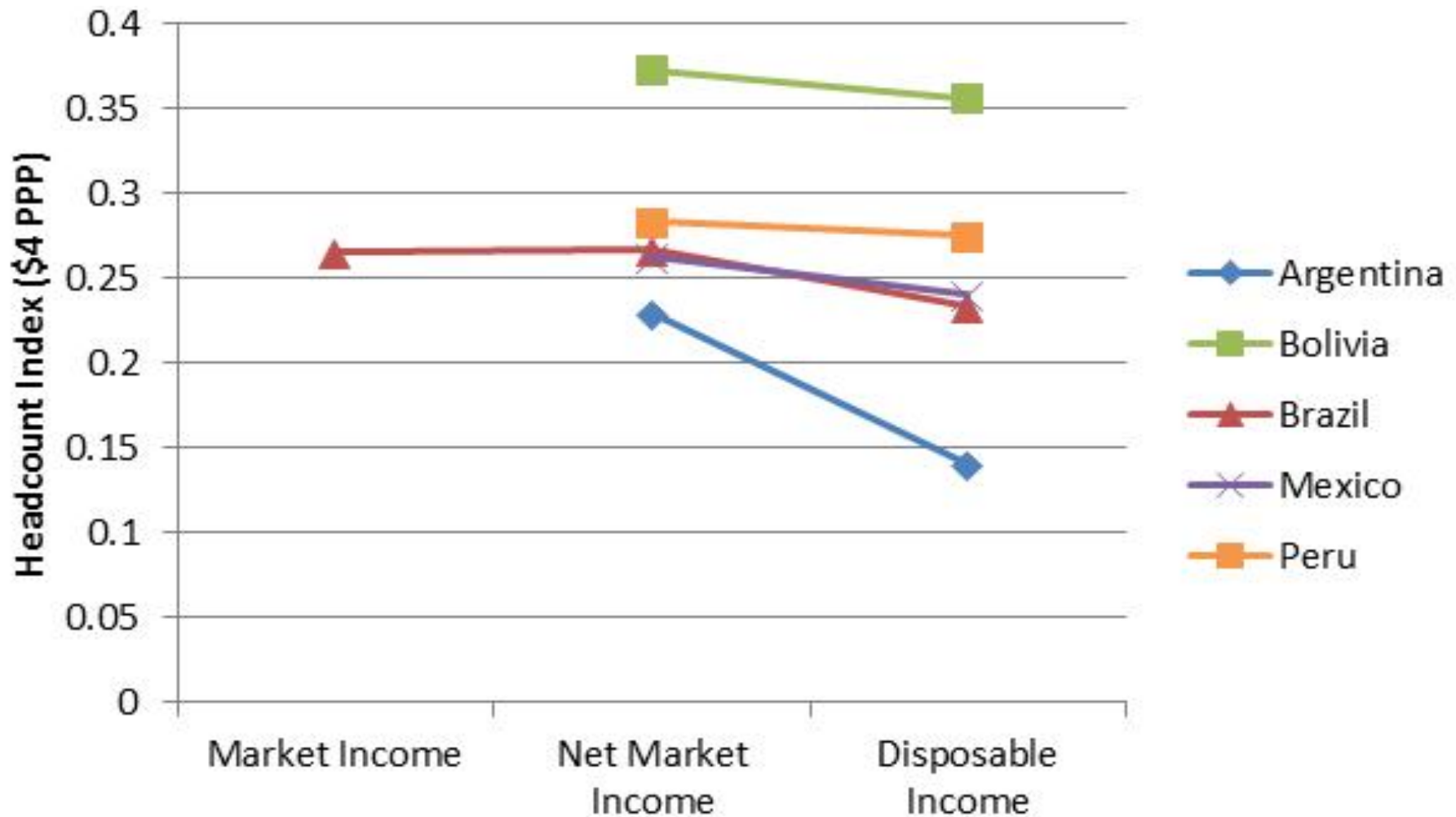
Results: Redistribution and Poverty Reduction

- The (after *direct* taxes and transfers) Gini and extreme poverty headcount ratio, for example, declines by over 7 and 64 percent, respectively in Argentina.
- In contrast, the Gini declines by only 1.4 percent in Peru and extreme poverty by only 6.6 percent in Bolivia.

Redistribution Through Taxes and Transfers: Gini for Arg, Bol, Bra, Mx and Peru



Poverty Reduction Through Direct Transfers



Results

Second, little correlation between government size and the extent of redistribution.

- Government size is similar for Argentina and Bolivia but they are on opposite sides in terms of the extent of redistribution.
- Mexico and Peru are both similarly small in terms of government size, but Mexico achieves a larger reduction in inequality and poverty.

Redistribution Through Taxes and Transfers: Gini for Arg, Bol, Bra, Mx and Peru

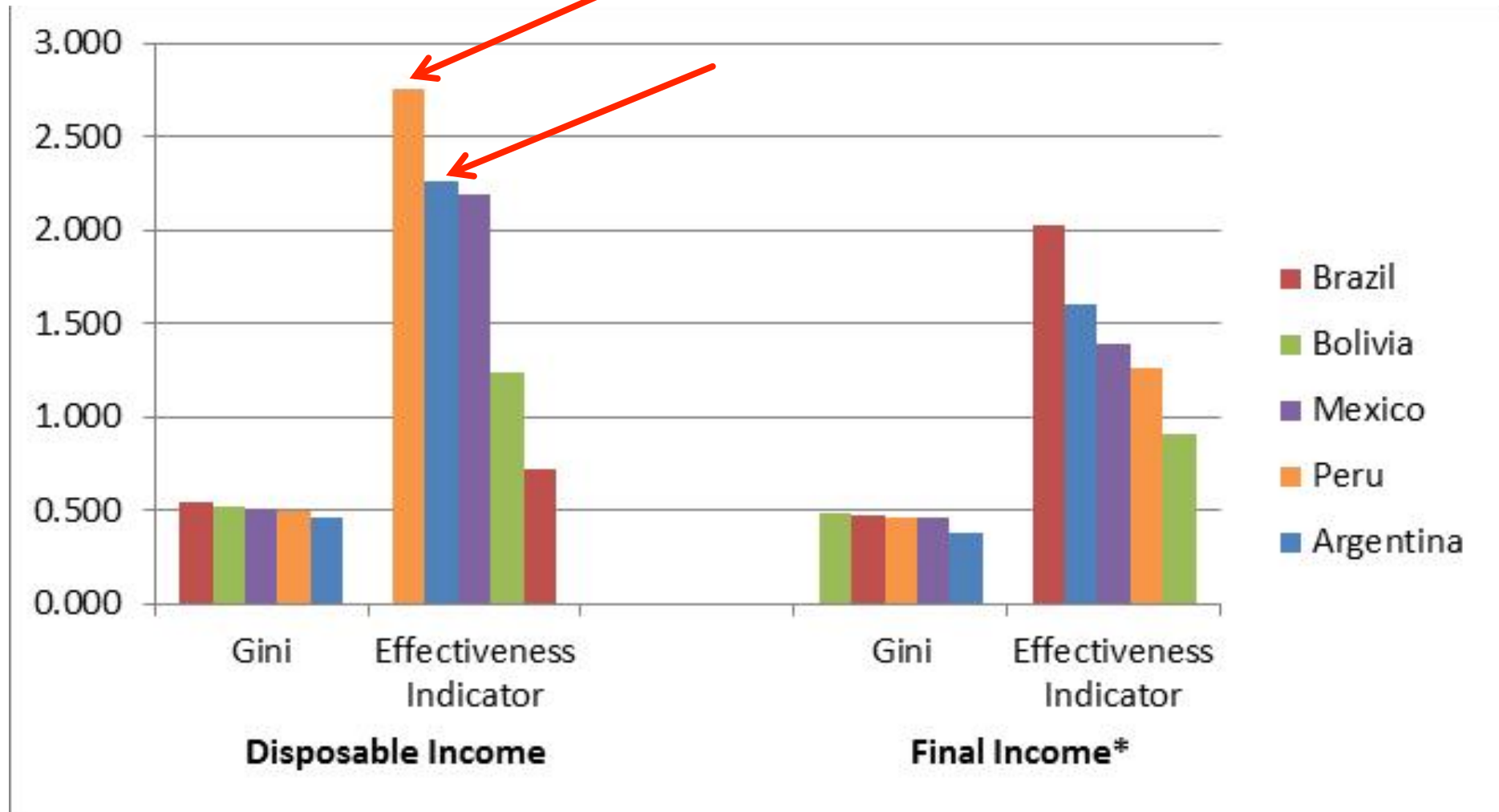


Results:

Third, little correlation between government size, extent of redistribution, and redistributive effectiveness.

- Redistributive effectiveness (reduction in Gini per amount spent as a share of GDP): Argentina and Peru rank second and first, respectively.
- The amount of redistribution is highest among both the country that redistributes and spends (on transfers) the most (Argentina) and the country that redistributes and spends (on transfers) the least (Peru).

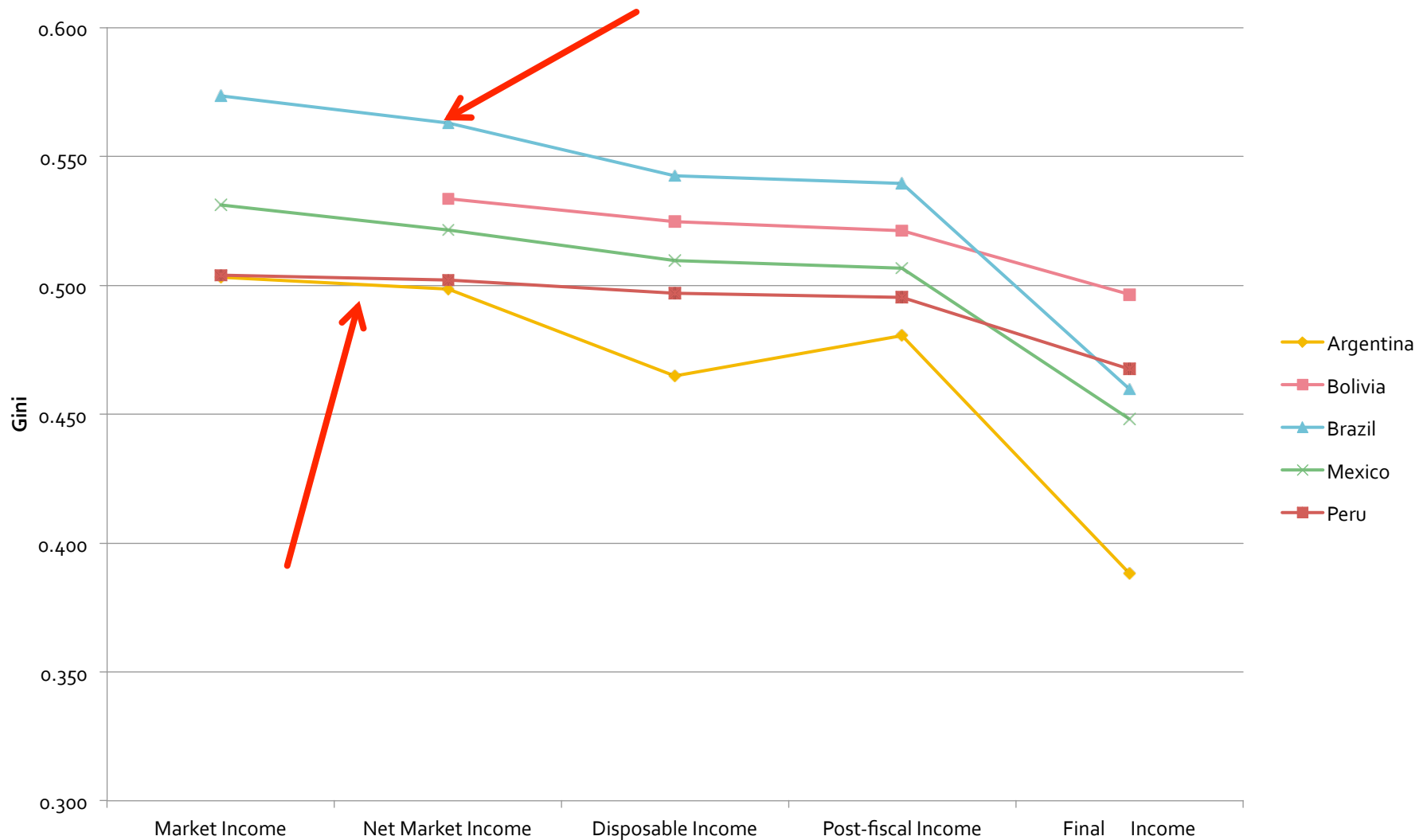
Effectiveness: Redistribution per \$ Spent as a % of GDP



Results:

Fourth, direct taxes achieve little redistribution

Redistribution Through Taxes and Transfers: Gini for Arg, Bol, Bra, Mx and Peru



Results:

Fifth, poverty reduction is highest when cash transfers are of generous size, better targeted to the poor and cover a large share of the poor.

- Argentina achieves the largest reduction in poverty because it spends a substantial amount on direct cash transfers, around 90 percent of the poor are covered and its flagship cash transfer programs are quite progressive.

Results:

Fifth, poverty reduction is highest when cash transfers are of generous size, better targeted to the poor and cover a large share of the poor.

- Bolivia, transfers although progressive, they are not sufficiently so in order to attain more poverty reduction from a smaller budget and
- Coverage (as a consequence of the smaller budget and the targeting mechanism) of the extreme poor is slightly above 40 percent.

Results:

Fifth, poverty reduction is highest when cash transfers are of generous size, better targeted to the poor and cover a large share of the poor.

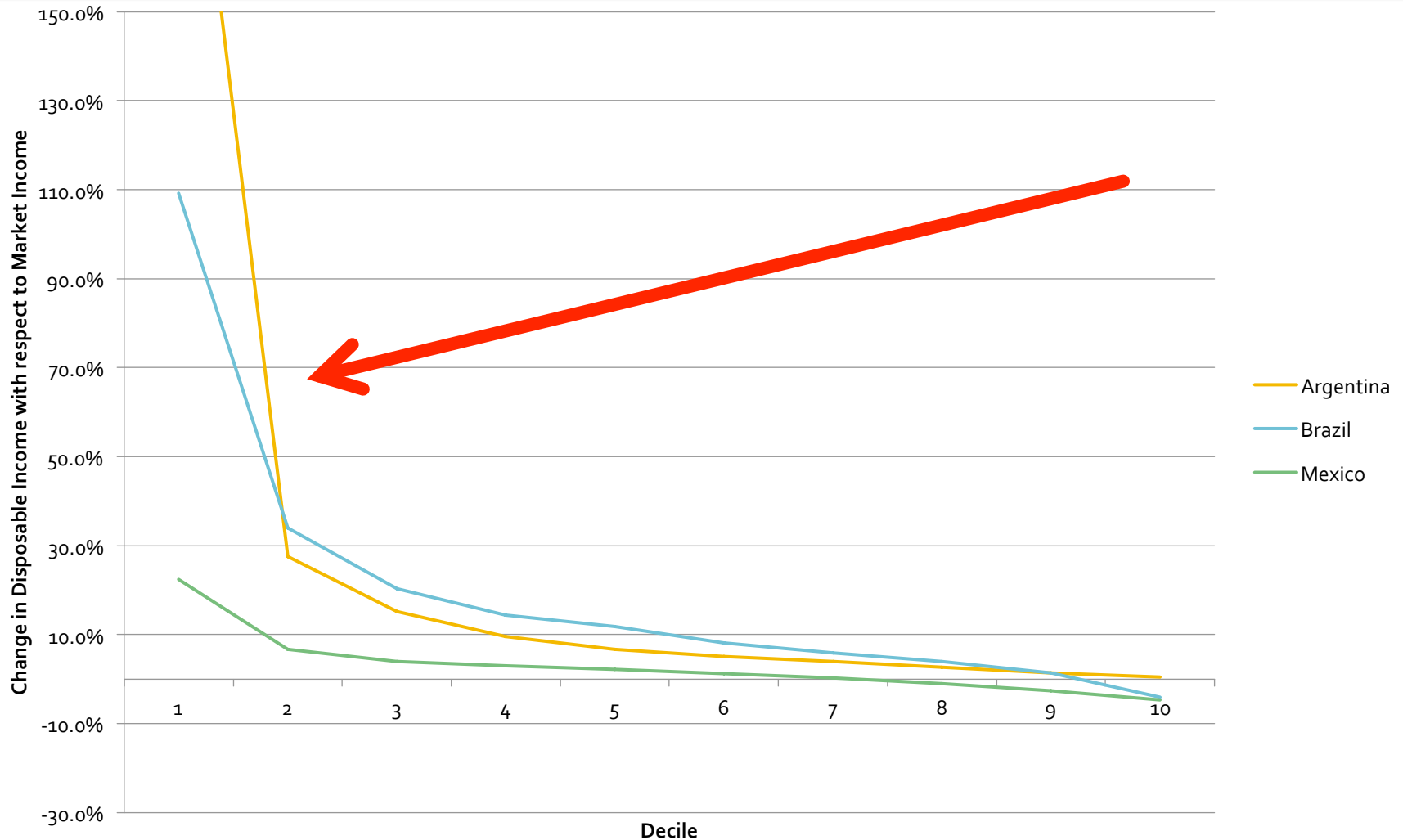
- Brazil spends the largest amount on direct cash transfers and the coverage of the poor is close to 70 percent.
- However, Special Pensions--the most important program (in terms of budget share-- is not targeted to the poor (it is progressive only in relative terms but not in absolute terms), and hence the reduction in poverty--although the second highest of the five countries-- is quite lower than Argentina's.

Results:

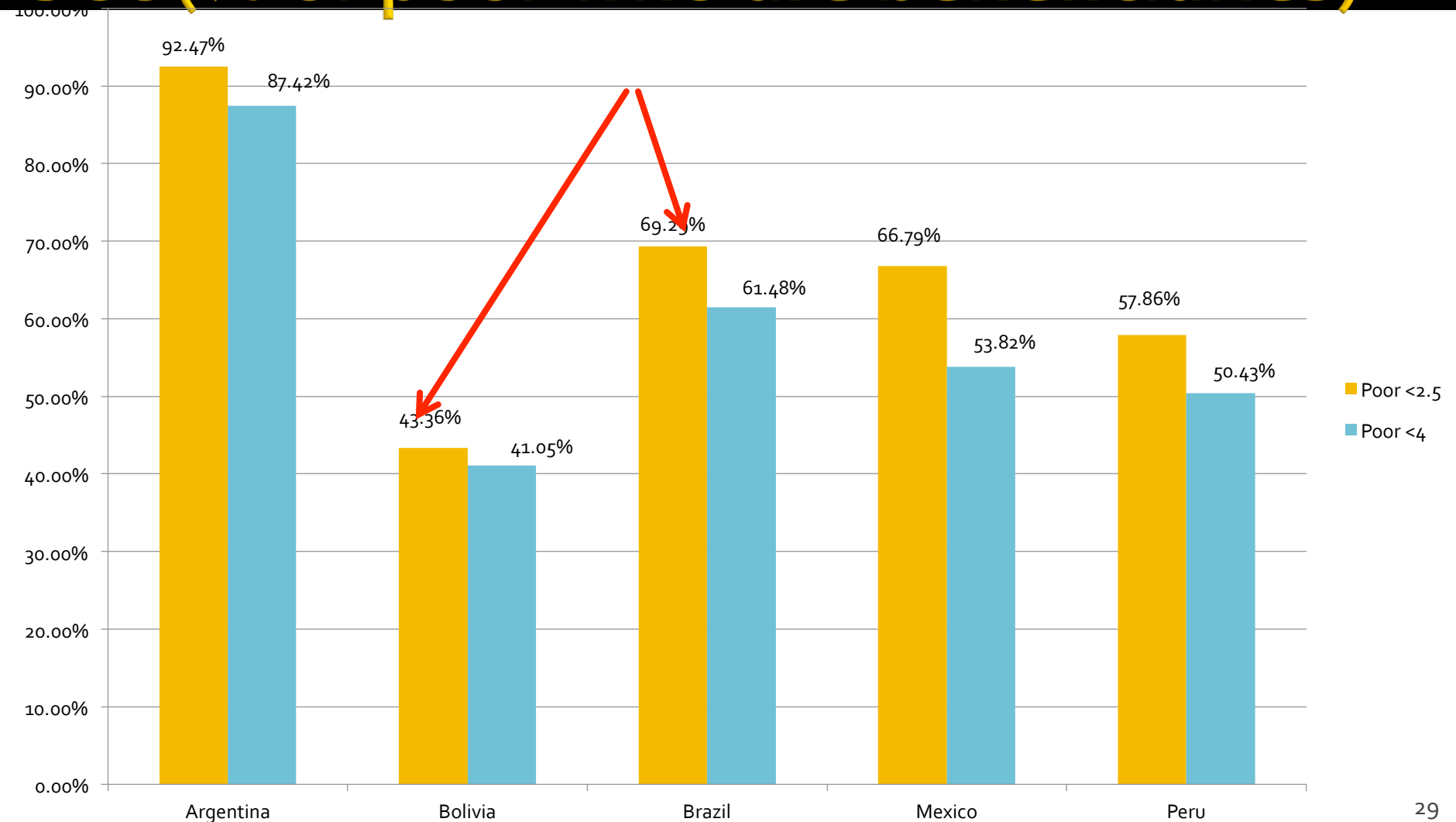
Fifth, poverty reduction is highest when cash transfers are of generous size, better targeted to the poor and cover a large share of the poor.

- Mexico does well in terms of targeting its flagship transfer program *Oportunidades*. However, it spends a fifth of what Argentina spends and because *Oportunidades*' beneficiaries are families with children (and some of the elderly poor), close to 34 percent of the extreme poor do not receive transfers.
- Peru's programs are extremely well targeted but utterly small. Hence, because of budget restrictions and targeting mechanisms, there are around 42 percent of the poor that receive no transfers.

Incidence of Direct Transfers by Decile: Arg, Bra, Mex



Coverage of Transfer Programs Leaves a Considerable Proportion of Xtreme Poor Out (% of poor who are beneficiaries)



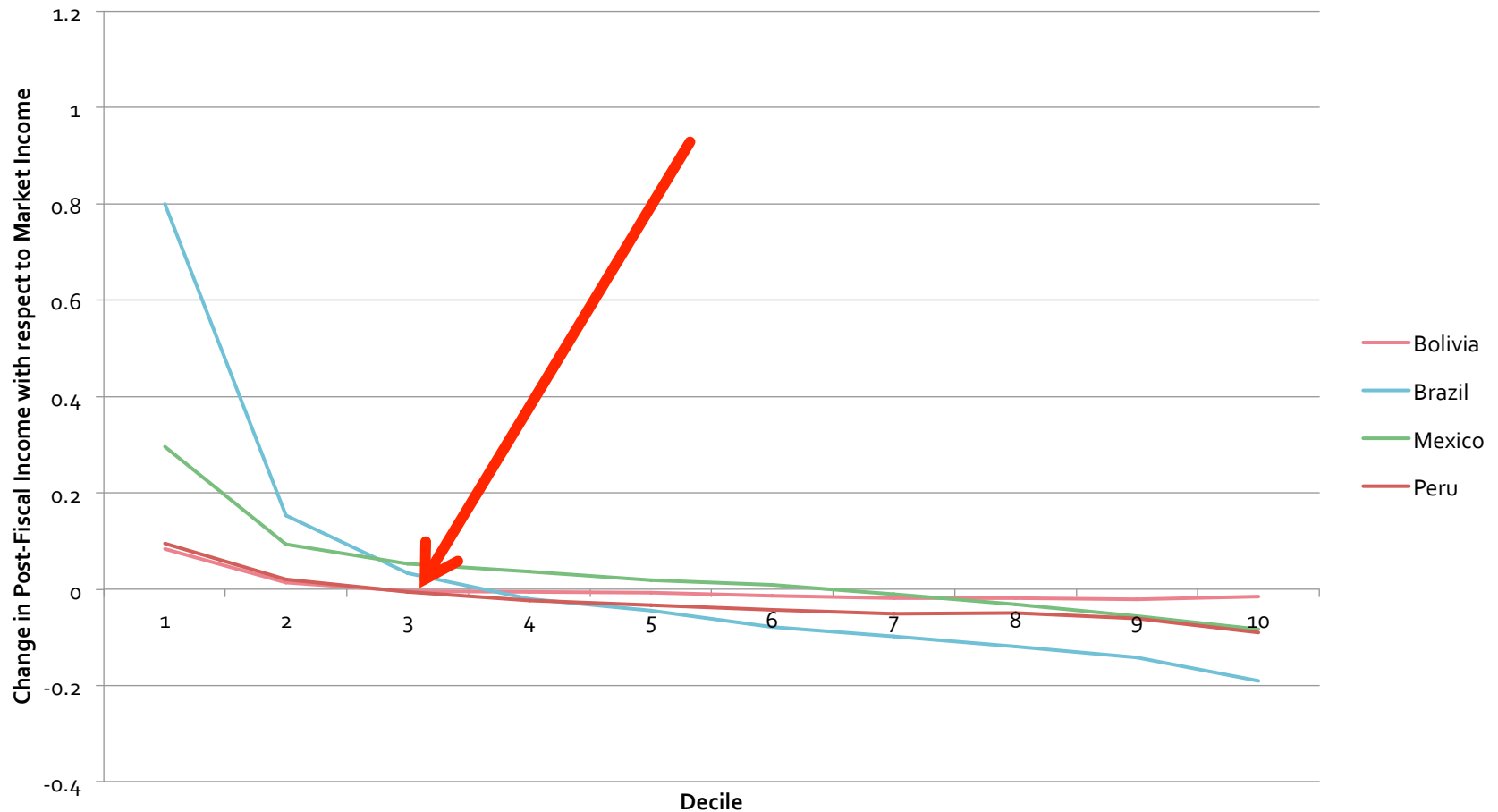
Share of Benefits to Nonpoor High (pink bars)



Results:

- **Indirect Taxes Hurt the Poor Even after Direct Transfers (incomes decline when compared to pre-tax from 2nd or 3rd decile onward in Peru, Brazil and Bolivia)**

Incidence of Indirect Taxes by Decile



Indirect Taxes Can Make Poor Poorer:

- Fiscal Downward “Mobility” in Brazil:
- 18% of Individuals who were moderately poor (between 2.5 and 4 dollars a day in PPP) with market income, became extreme poor (less than 2.5 dollars a day) after indirect taxes (AND direct taxes)

Post-fiscal Income groups

| Market Inco | $y < 2.5$ | $2.5 < y < 4$ | $4 < y < 10$ | $10 < y < 50$ | $y > 50$ | Horizontal sum |
|---------------|-----------|---------------|--------------|---------------|----------|-------------------|
| $y < 2.5$ | 88% | 8% | 4% | 0% | 0% | 100% |
| $2.5 < y < 4$ | 18% | 72% | 9% | 1% | 0% | 100% |
| $4 < y < 10$ | 0% | 13% | 84% | 3% | 0% | 100% |
| $10 < y < 50$ | 0% | 0% | 18% | 82% | 0% | 100% |
| $y > 50$ | 0% | 0% | 0% | 35% | 65% | 100% |

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THANK YOU