



Fiscal Policy and the Ethno-Racial Divide: Bolivia, Brazil and Uruguay

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Commitment to Equity (CEQ)

www.commitmenttoequity.org



The screenshot shows the homepage of the Commitment to Equity (CEQ) website. At the top is a navigation bar with the CEQ logo and the text "COMMITMENT TO EQUITY LATIN AMERICA". To the right of the logo are logos for CIPR, INTER-AMERICAN DIALOGUE, and Tulane University. Below the navigation bar is a menu with links: CEQ, ABOUT US, PUBLICATIONS, EVENTS, and NEWS. The main content area is divided into three sections. The first section, titled "What is CEQ", contains a paragraph explaining that CEQ is a joint project of CIPR and the Department of Economics at Tulane University, directed by Nora Lustig and Peter Halkins. It describes the project's goal to analyze the impact of taxation and social spending on inequality and poverty. A "Read More" button is located at the bottom right of this section. The second section, titled "Browse map for Publications by Country", features a map of Latin America. Countries are color-coded: green for "Available" and orange for "In progress". A legend on the left lists the countries under each category. The third section, titled "RECENT PUBLICATIONS", displays three book covers for CEQ Working Papers 13, 17, and 18. Below each cover is a link to the publication. A "NEWS" section follows, with three entries dated 4/1/2013, 3/21/2013, and 3/13/2013, each with a brief description and a link. At the bottom right, the text "SPACE FOR NEWS TO CONTINUE GROWING" is displayed.

CEQ
COMMITMENT
TO EQUITY
LATIN AMERICA

CIPR
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DIALOGUE
Tulane
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CEQ ABOUT US PUBLICATIONS EVENTS NEWS

What is CEQ

The Commitment to Equity (CEQ) is a joint project of CIPR and the Department of Economics at Tulane University and the Inter-American Dialogue. Directed by [Nora Lustig](#) and [Peter Halkins](#), the CEQ was designed to analyze the impact of taxation and social spending on inequality and poverty in individual countries, and provide a roadmap for governments, multilateral institutions, and nongovernmental organizations in their efforts to build more equitable societies.

[Read More](#)

Browse map for Publications by Country

Available

- Argentina
- Bolivia
- Brazil
- Colombia
- Mexico
- Paraguay
- Peru
- Uruguay

In progress

- Chile
- Costa Rica
- El Salvador
- Guatemala

RECENT PUBLICATIONS

New

[CEQ WP13 An Overview](#) [CEQ WP17 Brazil](#) [CEQ WP18 Mexico](#)

NEWS

4/1/2013: CEQ Working Paper 13, An Overview, is now available, [here](#).

3/21/2013: CEQ Featured at Colombia Equity Day Event

3/13/2013: Brazilian President Dilma Rousseff announced the end of federal indirect taxes on all items in the basic needs basket

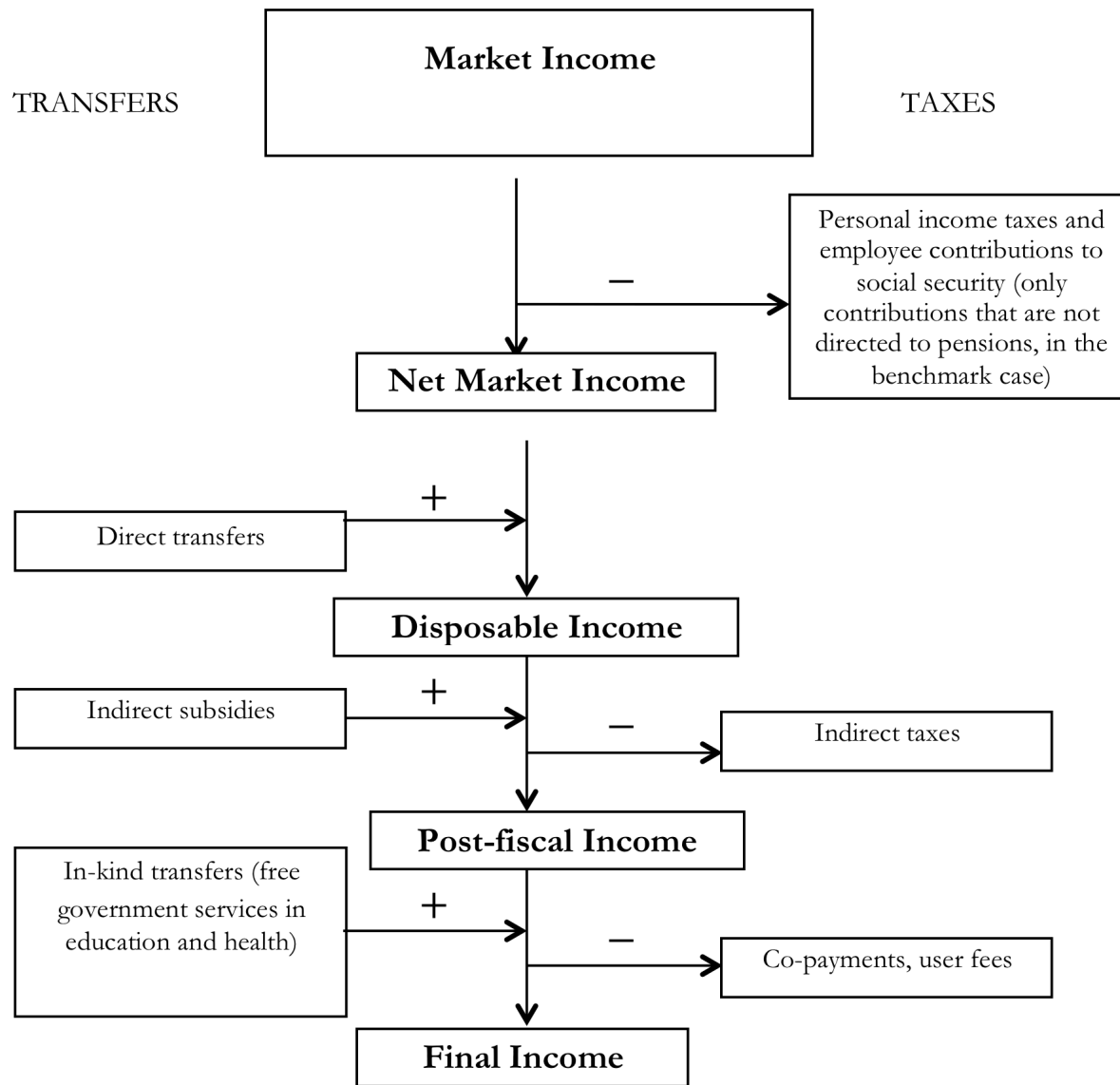
Latin America
Rest of the World

Handbook and
Diagnostic Questionnaire

SPACE FOR NEWS TO
CONTINUE GROWING

CEQ by Ethnicity and Race

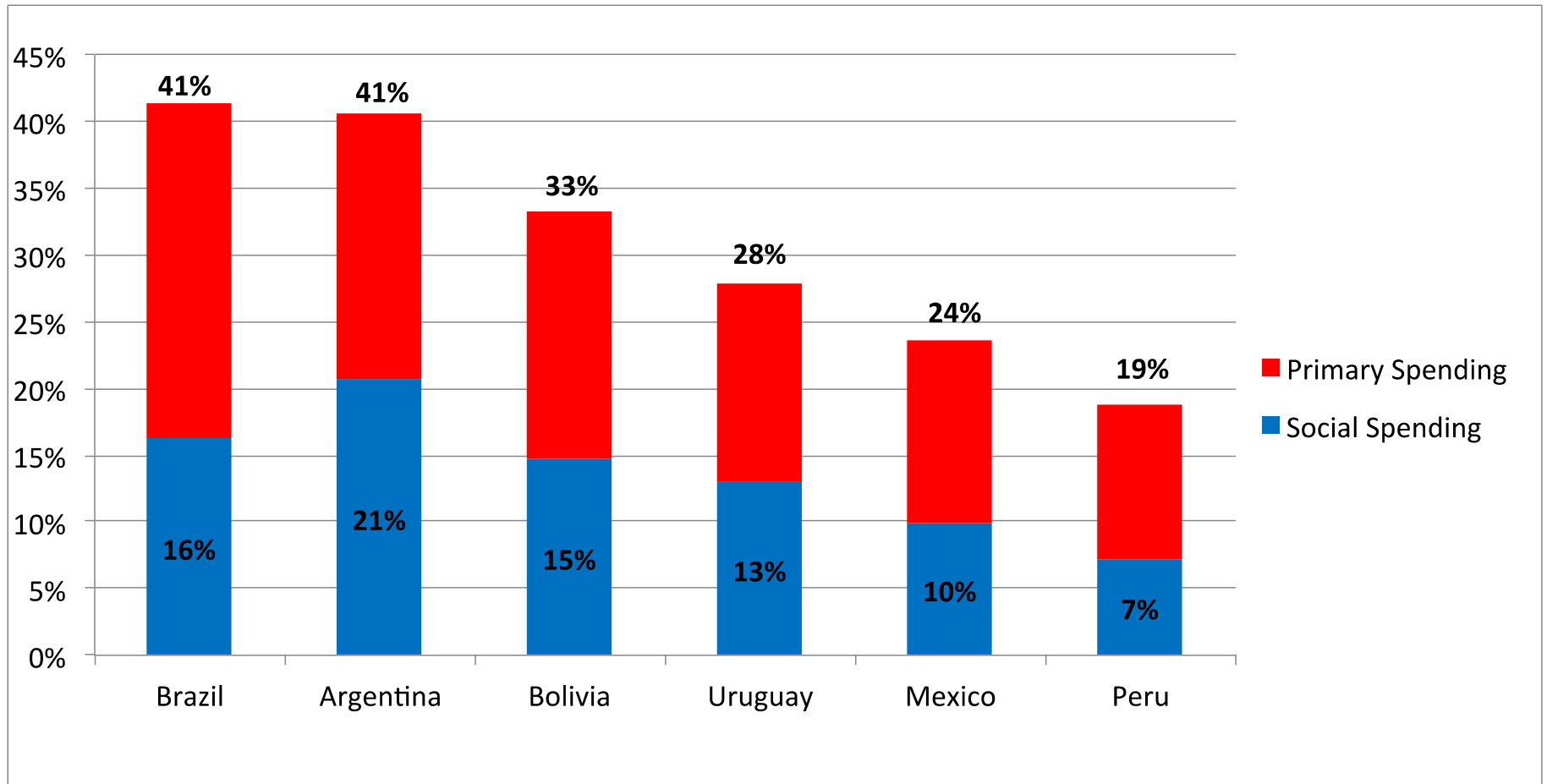
- Bolivia: Paz-Arauco, Grey-Molina, Jimenez and Yañez
- Brazil: Higgins and Pereira
- Guatemala: Cabrera, Lustig and Moran (under verification)
- Uruguay: Bucheli, Rossi and Amabile



Source: Lustig and Higgins (2013)

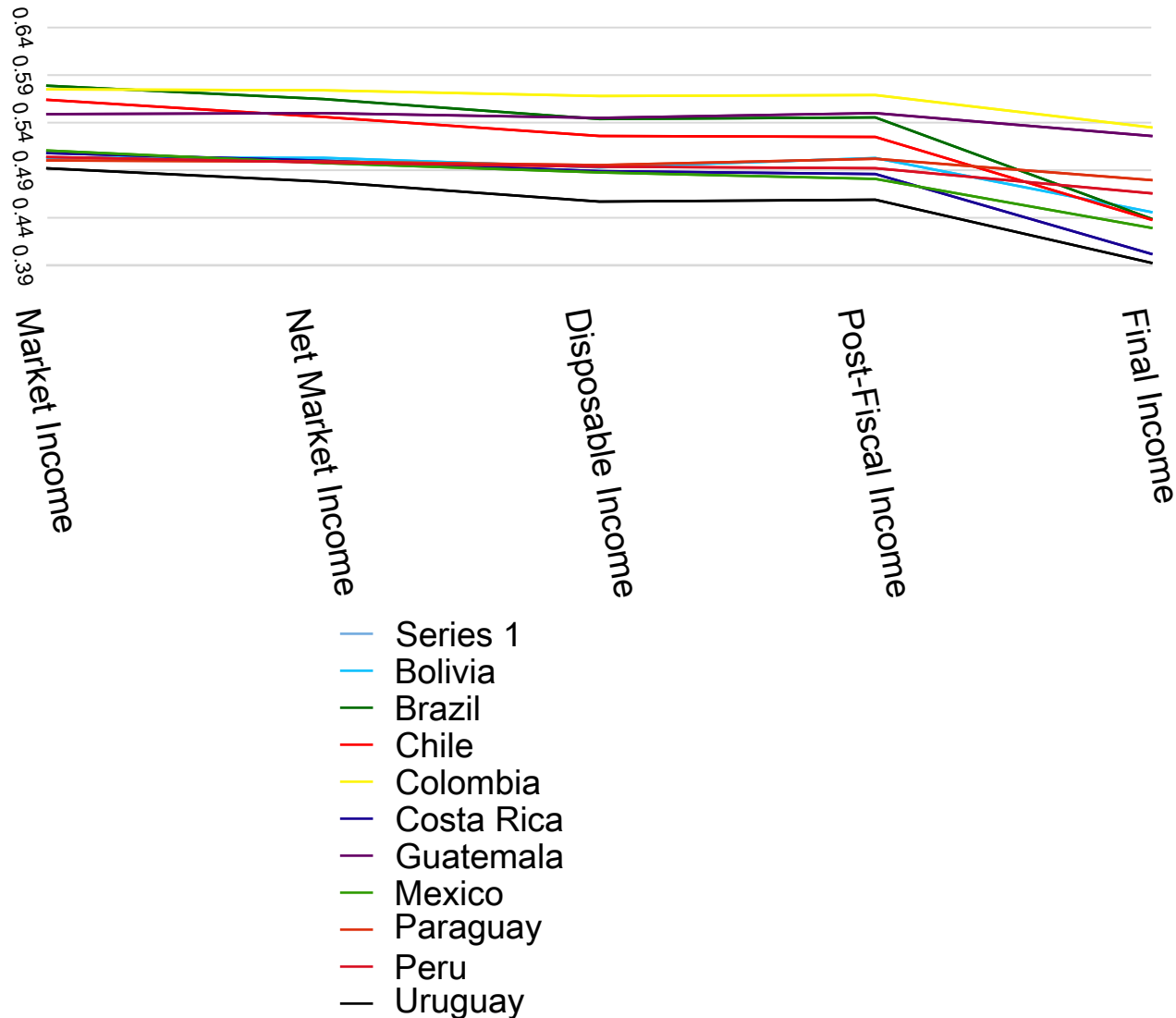
Budget Size and Composition

Primary and Social Spending as % of GDP



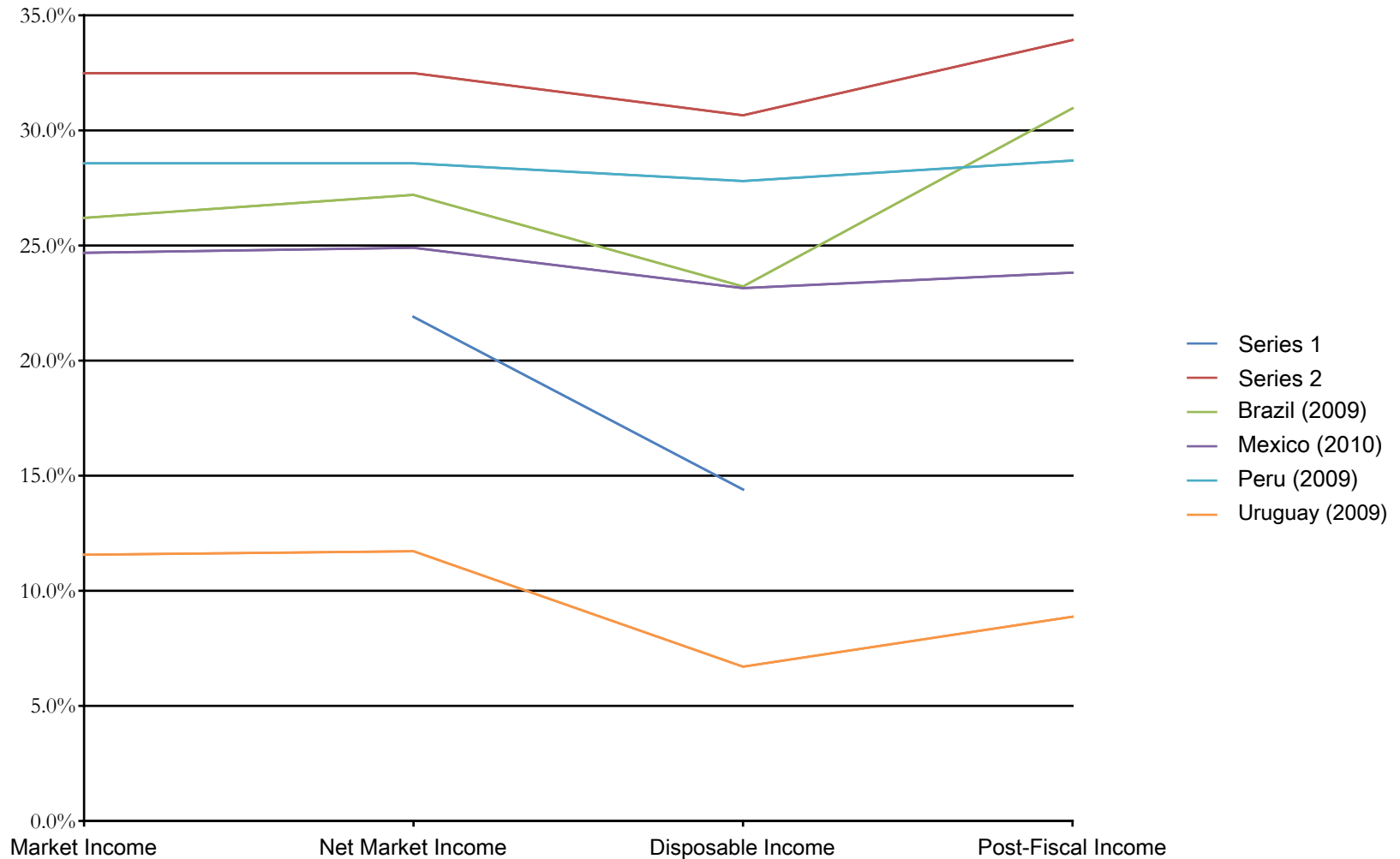
Fiscal Policy and Inequality

Gini Coefficient by Income Concept



Fiscal Policy and Poverty

Headcount Ratio

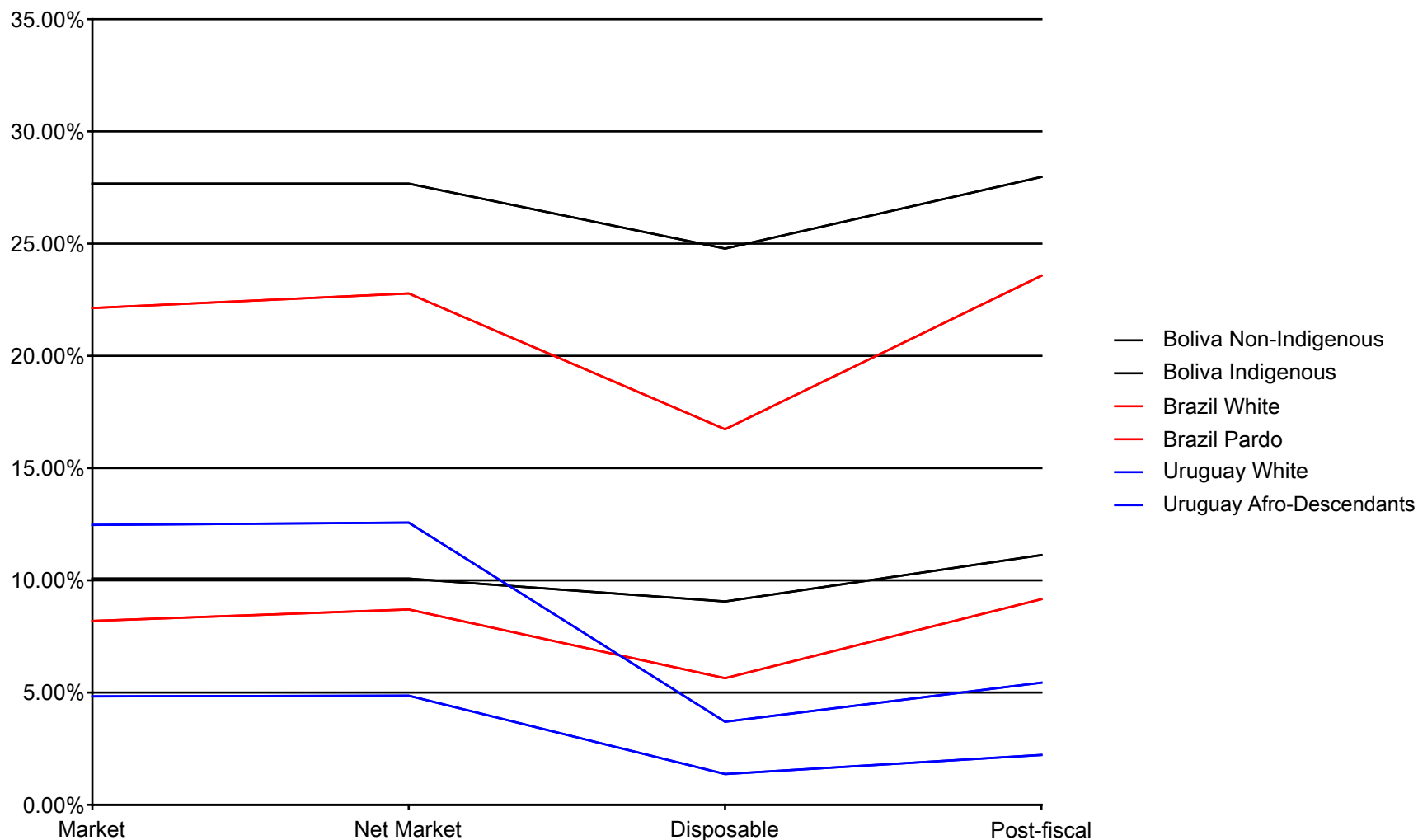


Measuring the Ethno-Racial Divide

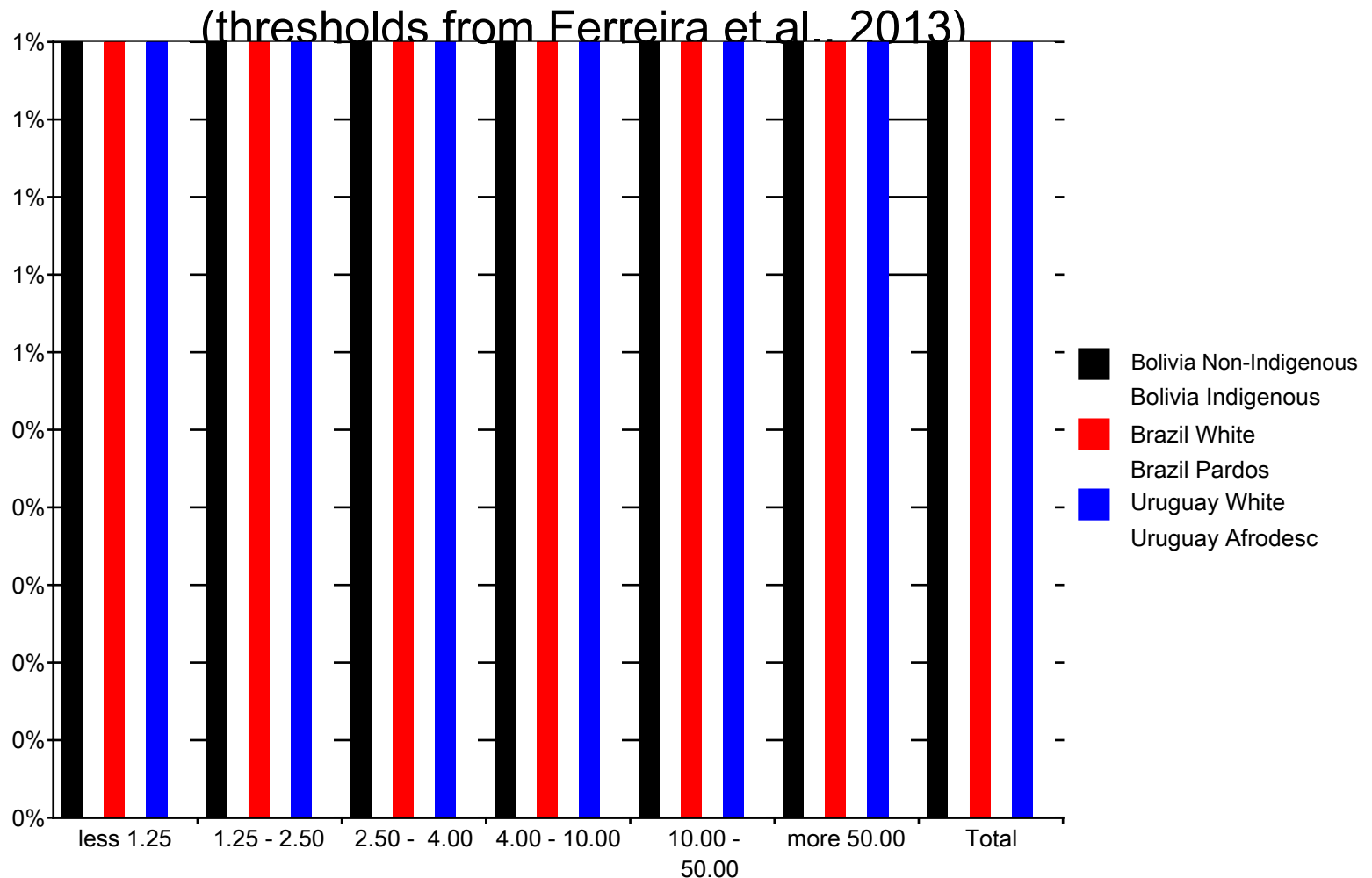
1. *Poverty*: poverty rates by ethnic and racial groups and the ethno-racial composition of the poor
2. *Inequality*: ratio of income per capita between and the distribution of population within groups
3. *Inequality of opportunity*: a measure of equalization of incomes across circumstances
4. *Equity in Public Services*: use of public education and health services by ethnic and racial groups

Poverty

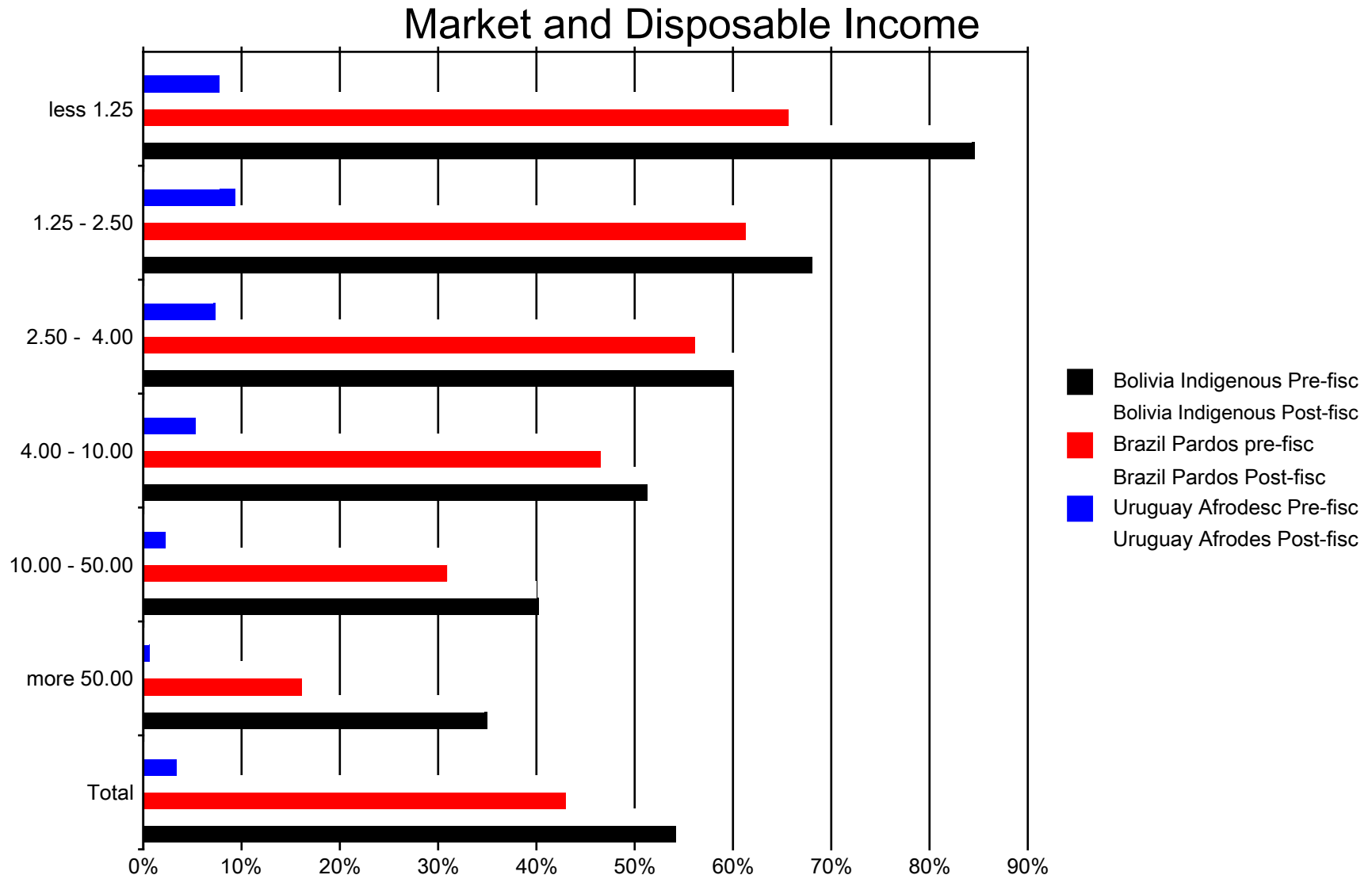
Headcount Ratio US2.50ppp/day



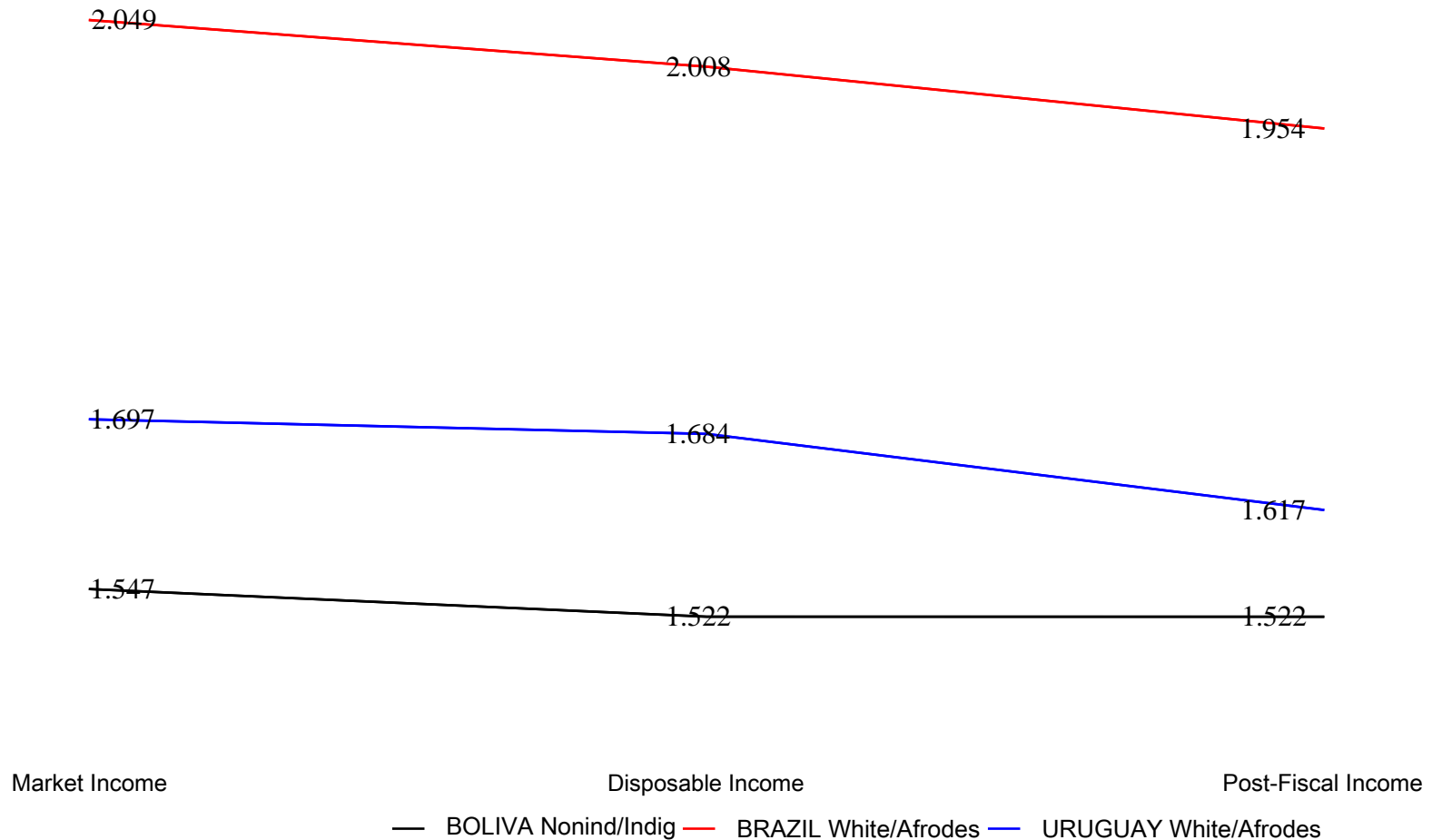
Ethno-Racial Composition of the Population by Income Class



Ethno-Racial Composition of the Population by Income Class

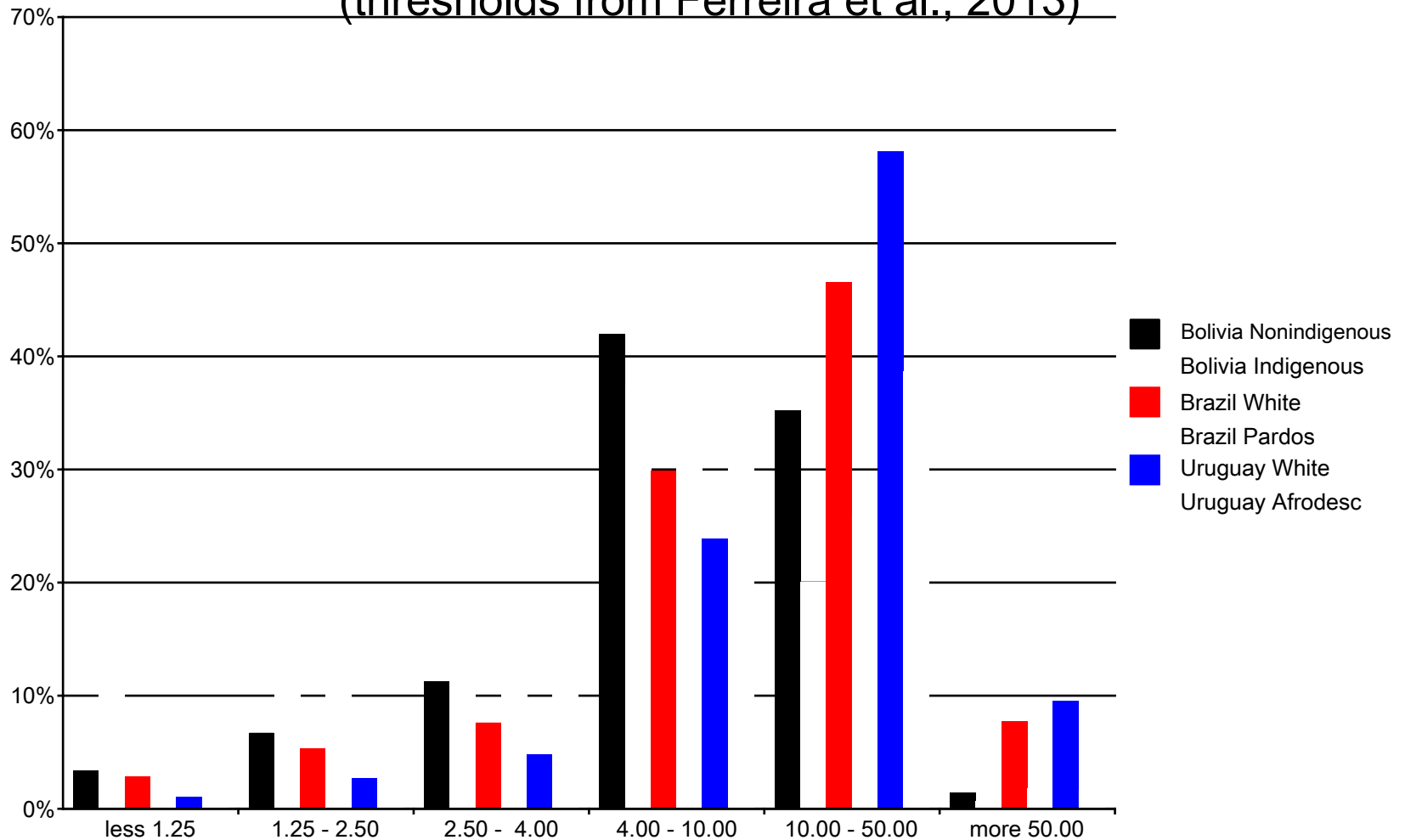


Ratio of Income Per Capita Between Ethno-Racial Groups



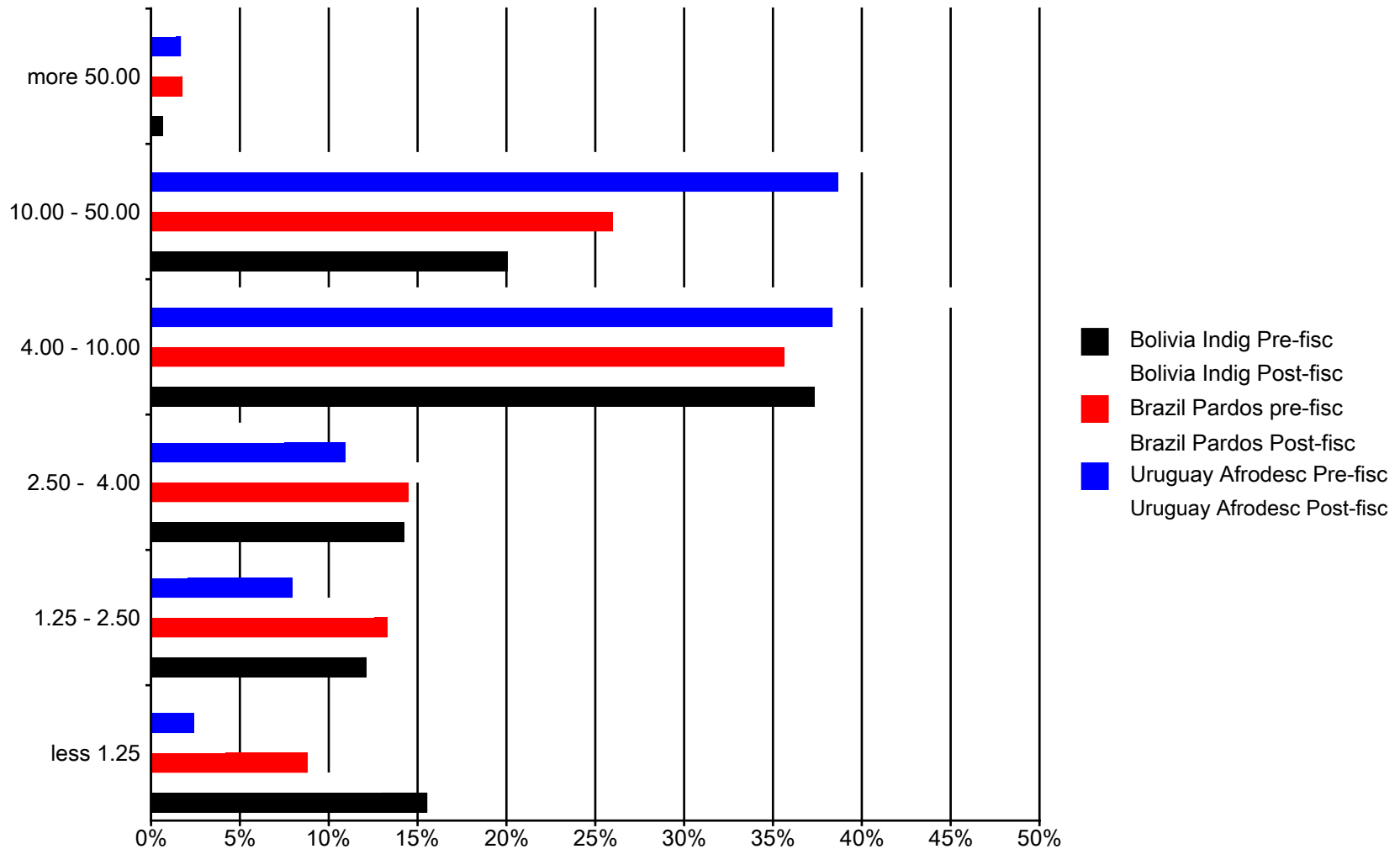
Distribution of the Population by Income Class

(thresholds from Ferreira et al., 2013)

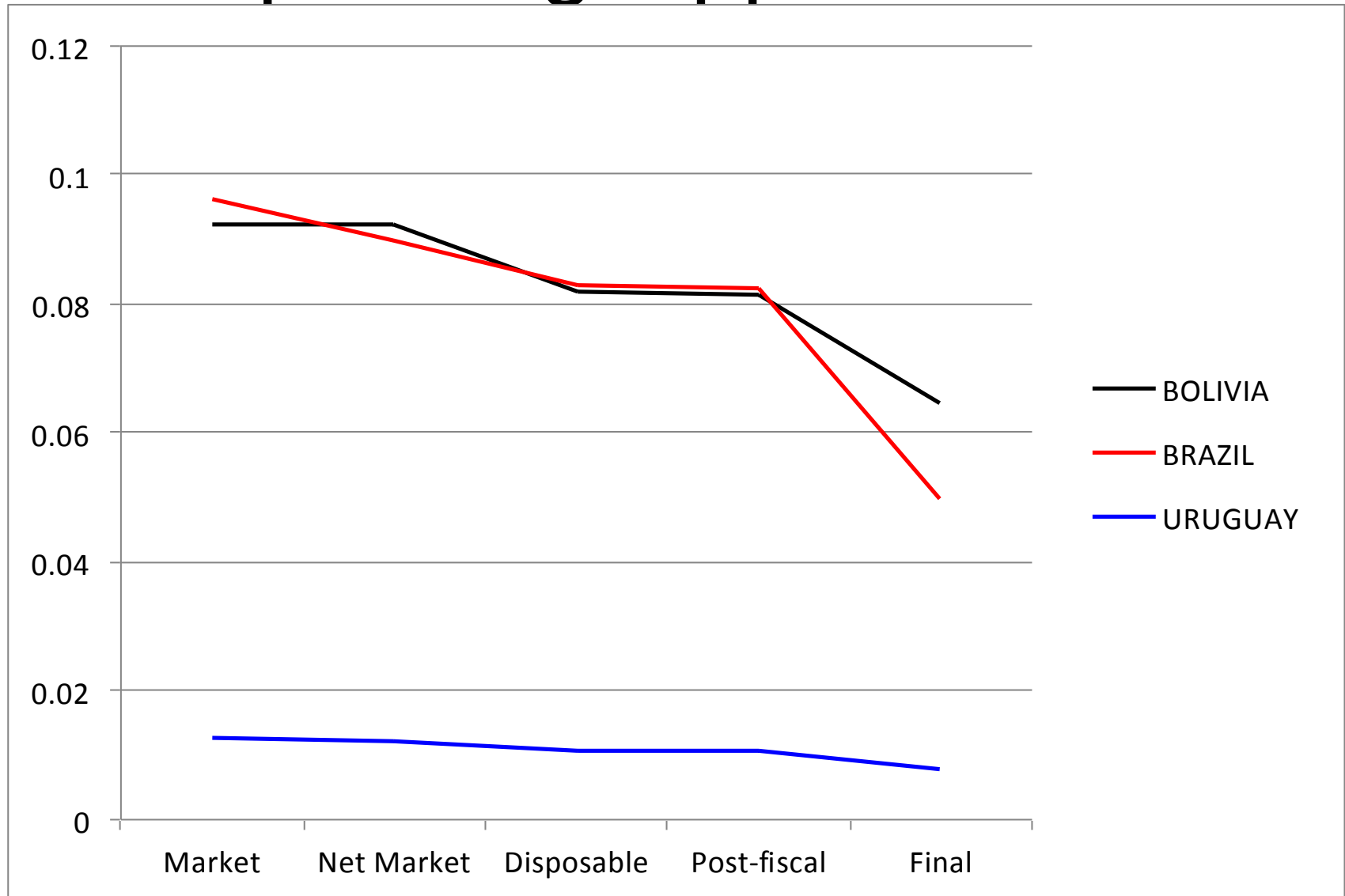


Distribution of the Population by Income Class

Market and Disposable Income



Equalizing Opportunities



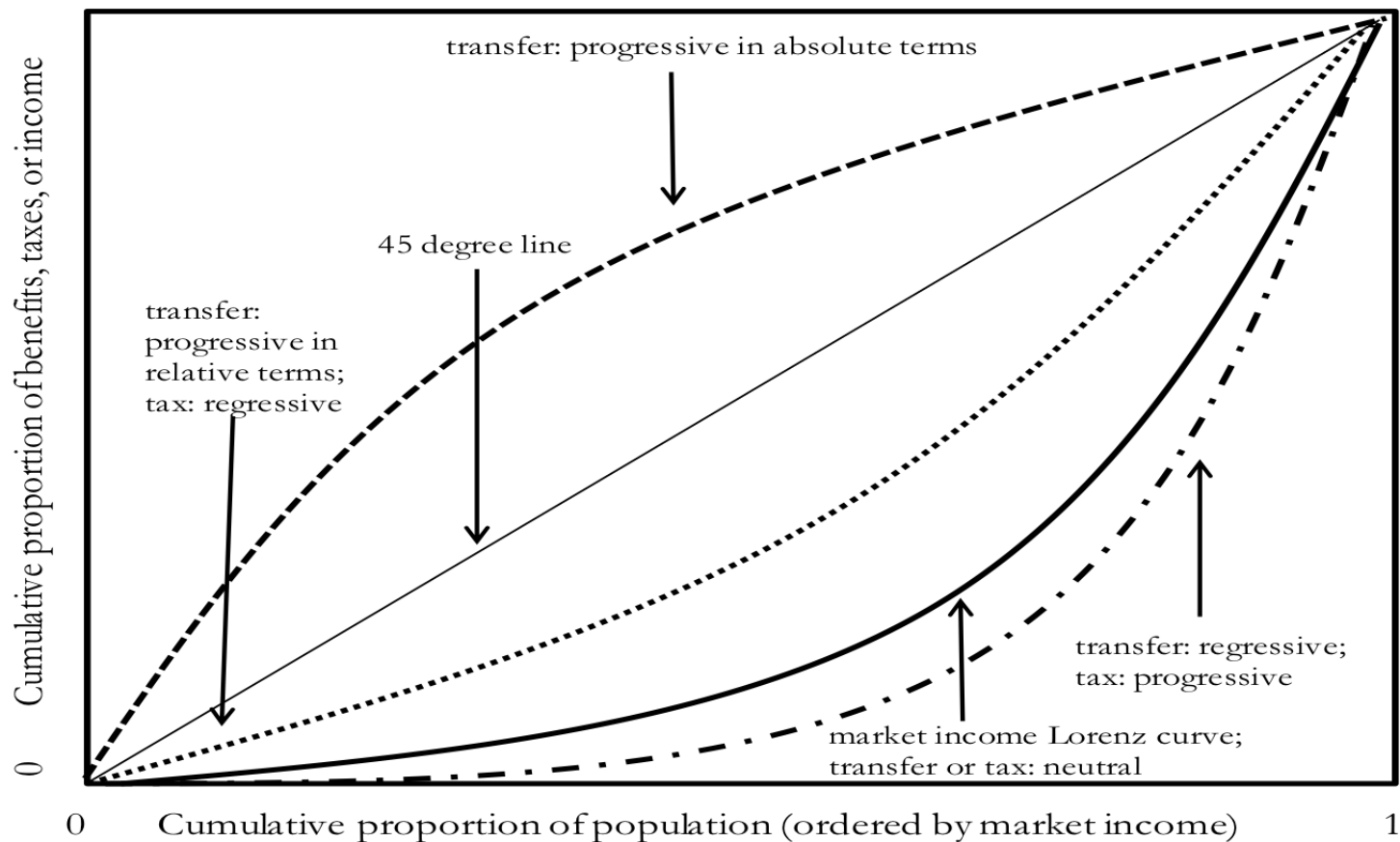
Assessing Characteristics of Fiscal Interventions

- Progressivity:
 - Taxes:
 - Progressive if share paid is higher than market income share for ethno-racial group with higher per capita income
 - Regressive if share paid is higher than market income share for ethno-racial group with lower per capita income

Assessing Characteristics of Fiscal Interventions

- Progressivity:
 - Transfers:
 - Progressive if share received is higher than market income share for ethno-racial group with lower per capita income
 - Progressive in absolute terms if share received is higher than population share for ethno-racial group with lower per capita income
 - Regressive if share received is lower than market income share for ethno-racial group with lower per capita income

Figure 1- Concentration Curves for Progressive and Regressive Taxes and Transfers



Source: Lustig and Higgins (2013).

BOLIVIA		NONINDIGENOUS	INDIGENOUS
POPULATION		46%	54%
MARKET INCOME		57%	43%
All Direct Transfers		39%	61%
	Non-contributory Pensions	39%	61%
	Flagship CCT	39%	61%
	Other Direct Transfers	44%	56%
Indirect Subsidies		57%	43%
Indirect Taxes		56%	44%
Net Indirect Taxes		56%	44%
Education		48%	52%
	Education: YSP	23%	77%
	Education: preschool	40%	60%
	Education: primary	40%	60%
	Education: secondary	41%	59%
	all except tertiary	40%	60%
	Education: tertiary	60%	40%
	Education: PAN	40%	60%
Health		45%	55%
	Cajas	53%	47%
	Public Healt System	43%	57%

BRAZIL		WHITE	AFRODESCENDANTS
Population		48.0%	50.8%
Market Income		64.9%	33.5%
Direct Taxes		71.4%	27.5%
Direct Taxes and Contributions to Soc Sec		70.5%	27.7%
All Direct Transfers		55.1%	44.2%
	CCT	26.6%	72.3%
	Scholarships	72.2%	27.4%
	Special Circums	64.5%	34.7%
	Unemployment	50.5%	48.9%
	Other Direct Tra	51.9%	47.6%
Indirect Taxes		64.5%	33.9%
Net Indirect Transfers		64.7%	34.1%
Education		43.5%	55.0%
	preschool	39.1%	59.9%
	primary	39.6%	59.4%
	secondary	40.4%	58.5%
	Education: all except tertiary	39.7%	59.3%
	tertiary	59.6%	37.1%
Health		44.5%	54.3%
Educ, Health plus Housing and Urban		44.0%	54.7%

URUGUAY		WHITE	AFRODESCENDANT
		% nat'l	% nat'l
POPULATION		95.5%	3.4%
MARKET INCOME		97.2%	1.9%
Direct Taxes		97.6%	1.7%
All Direct Transfers		92.8%	5.8%
	CCT	91.9%	6.7%
	Non-contributory pension	92.5%	6.2%
	Other Direct Transfers	93.3%	5.3%
Indirect Taxes		97.3%	1.9%
Net Indirect Taxes		97.3%	1.9%
In-kind Education		95.4%	3.7%
	Education: preschool	94.9%	4.3%
	Education: primary	94.1%	4.9%
	Education: secondary	95.9%	3.2%
	Education: tertiary	98.5%	0.9%
In-kind Health		94.9%	3.9%

Assessing Characteristics of Fiscal Interventions

- Scale Effect

For poor population:

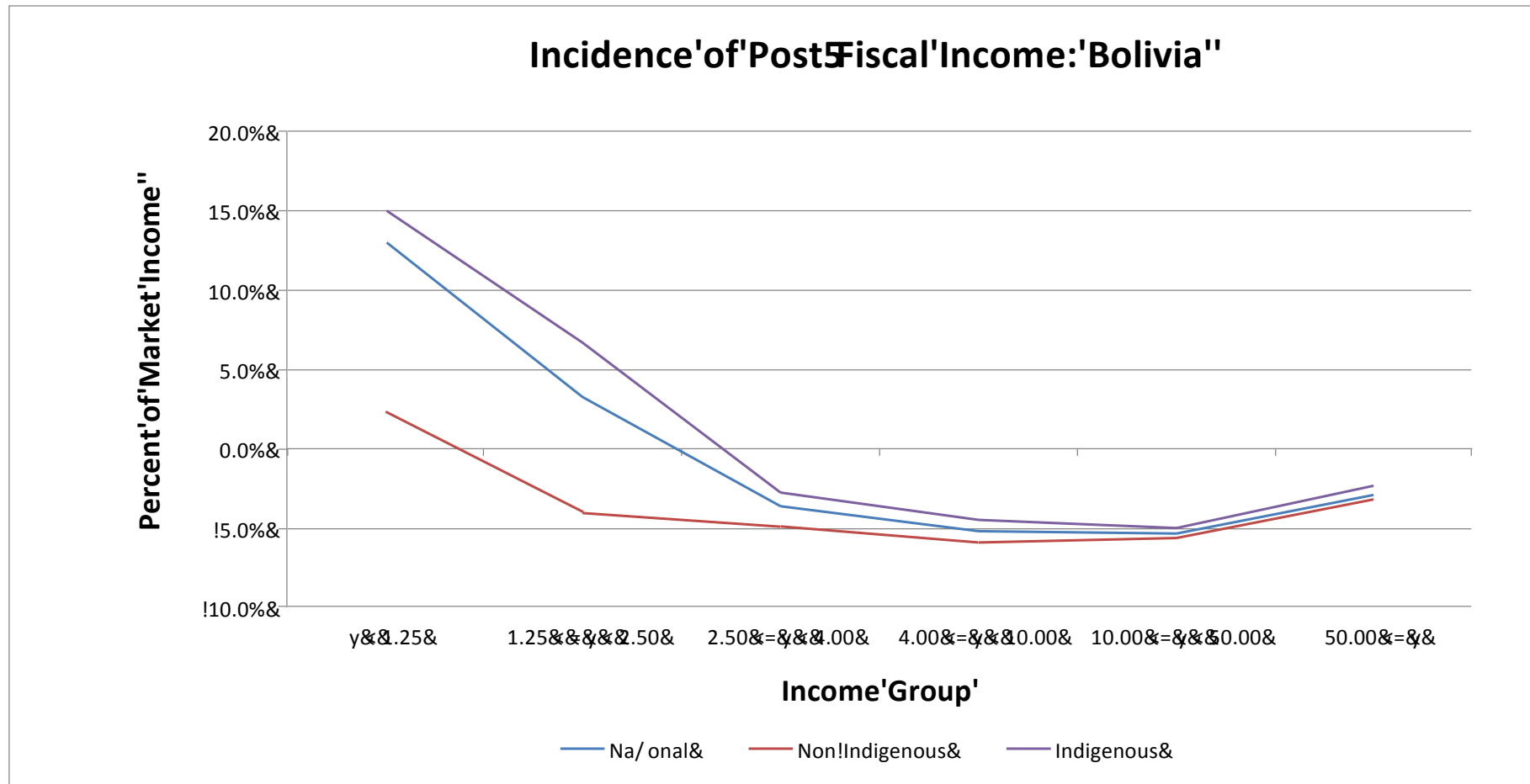
- Coverage
- Per capita transfers

- Horizontal inequity

For poor population:

- Incidence of a transfer (tax) higher (lower) for ethno-racial group with lower poverty rates

Bolivia: Post-Fiscal Income wrt Market Income



Source: Paz-Arauco et al., 2013 CEQ-IDB.

Why Ethno-Racial Divide is not Reduced More in Bolivia?

- The indigenous population has a higher coverage rate and receives a higher per capita transfer on average than the nonindigenous.
- The largest transfer program in terms of its budget is *Renta Dignidad*, a noncontributory universal pension for all citizens over 60 years old; in 2009 (year of the survey), this program represented 1.4 percent of GDP (Table Bolivia-8).
- Because the transfer under this program is practically the same in per capita terms for all individuals of the eligible age, its concentration coefficient is around zero (Figure Bolivia-2).

Why Ethno-Racial Divide is not Reduced More in Bolivia?

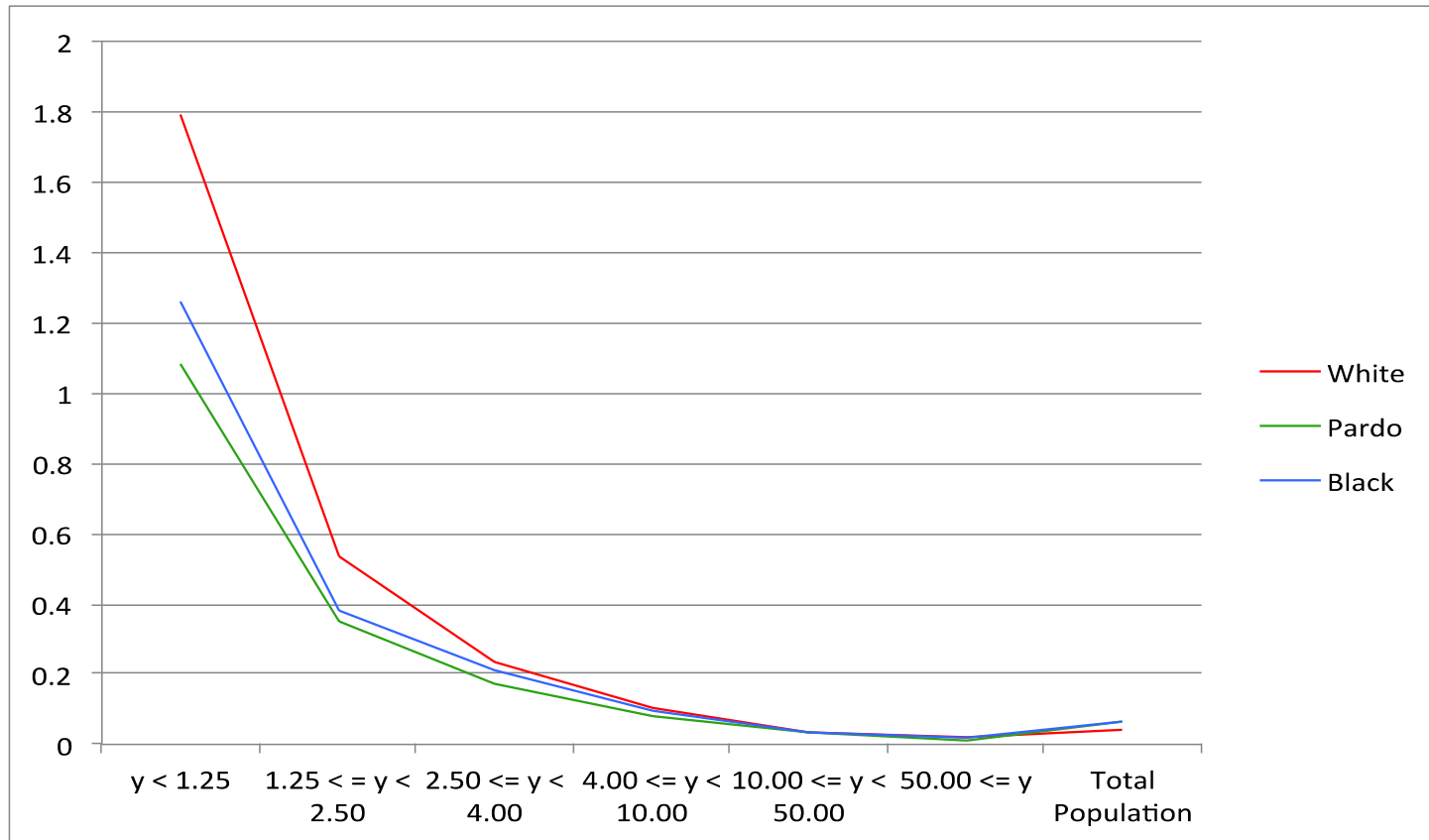
- In other words, the universal nature of the largest cash transfer in Bolivia is one of the reasons why the cash transfers programs are not able to do more to reduce the ethnic divide in terms of poverty rates and the large presence of the indigenous population among the poor.

Why Ethno-Racial Divide is not Reduced More in Bolivia?

- This is particularly so because Bolivia does not have large-scale anti-poverty programs (such as Bolsa Familia and Oportunidades).
- In fact, leaving out Renta Dignidad and Benemeritos, the government spends a paltry of .31 percent of GDP in cash transfers (Bono Juancito Pinto and Bono Juana Azurduy) and .21 percent on school feeding programs.
- Clearly, children are getting the short-end of the stick in Bolivia.

Why Ethno-Racial Divide is not Reduced More in Brazil?

Figure Brazil-1: Incidence of Direct Transfers by Income Class and Race



Source: Higgins and Pereira (2013).

Why Ethno-Racial Divide is not Reduced More in Brazil?

⇒ Special Circumstances Pensions

include social protection programs against illness, disability, widowhood, orphanhood and other adverse shocks that,

although they are paid through the formal social security system to which beneficiaries need to be enrolled,

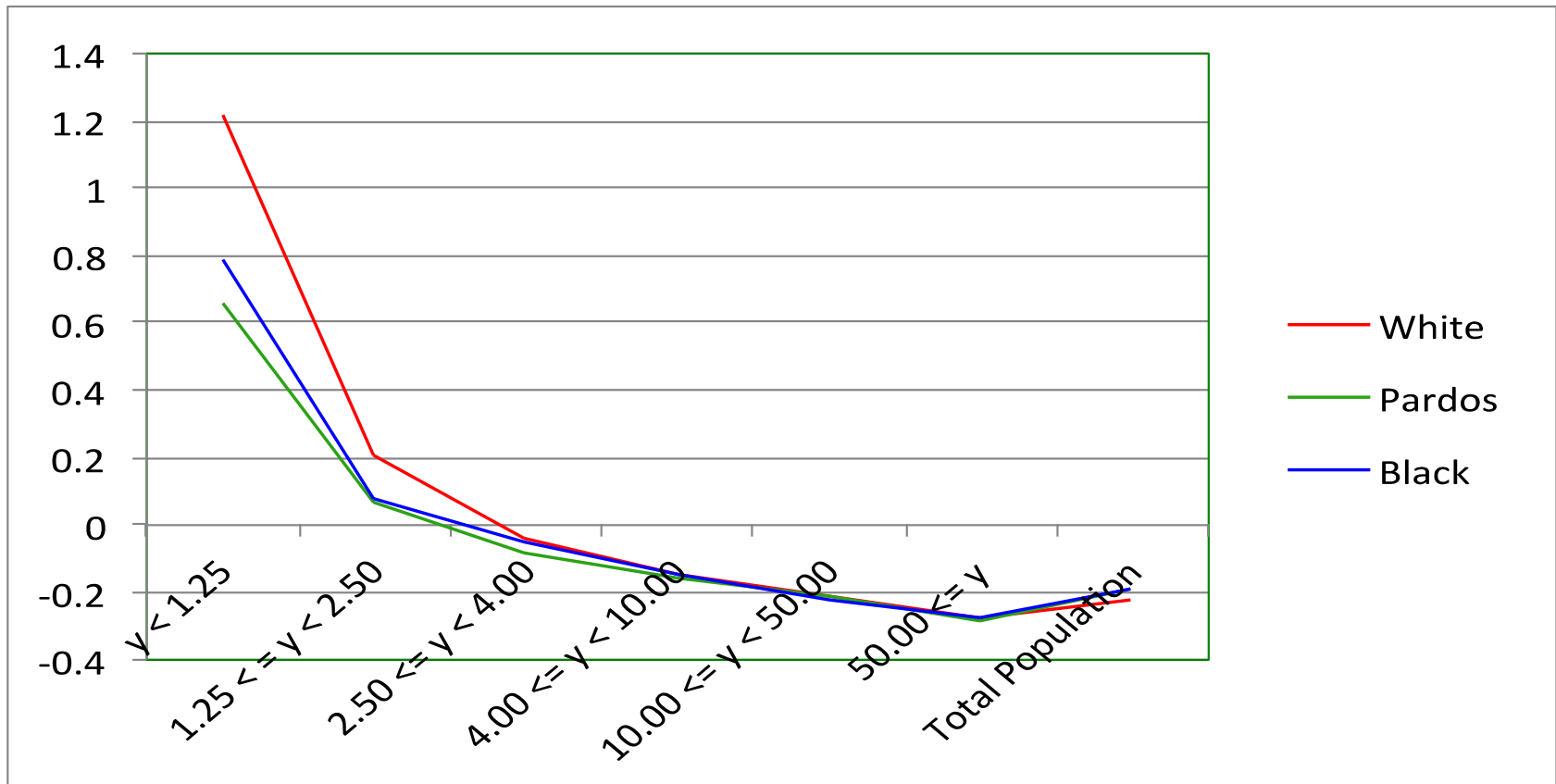
individuals can be eligible to receive the benefit even if they have not made contributions to the system (see Table Brazil-8 for a brief description of cash transfers).

Why Ethno-Racial Divide is not Reduced More in Brazil?

- Special Circumstances Pensions Coverage: is higher for the white population and especially so among the poorest groups.
- The per capita benefit is also higher for the white population as a whole and all income groups, including the poorest.
- The white population also benefits more from the Scholarships program primarily because the average per capita transfer is higher.
- The poorer groups among the white population have not only higher per capita transfers but also higher coverage.

Brazil: Post-Fiscal Income wrt Market Income

Figure Brazil-2: Change in Post-Fiscal Income (wrt Market Income) by Income Class and Race



Source: Author based on Higgins and Pereira (2013).

Uruguay: the “Poster Child”

- Measured in terms of outcomes, direct taxes and cash transfers reduce quite a bit the ethno-racial divide in Uruguay in the (disposable) income space.
- While poverty rates remain lower for the white population, the distance is shortened substantially.
- Also, the nonwhites are no longer overrepresented among the ultra-poor and a notable share of the Afrodescendants is moved from the poor to the vulnerable and middle income class.

Uruguay

- There are no visible ethno-racial inequities in health spending except those related to quality.
- In education, the inequity is probably associated with higher repetition rates among the nonwhites as well as a lower access to tertiary education.