

Comments on Fiscal Policy, Fiscal Mobility, The Poor, The Vulnerable, and the Middle Class in Latin America

Luis F. Lopez-Calva
The World Bank

Prepared for the IAD-IDB Meeting on the Commitment to Equity Initiative, November 3rd, 2011

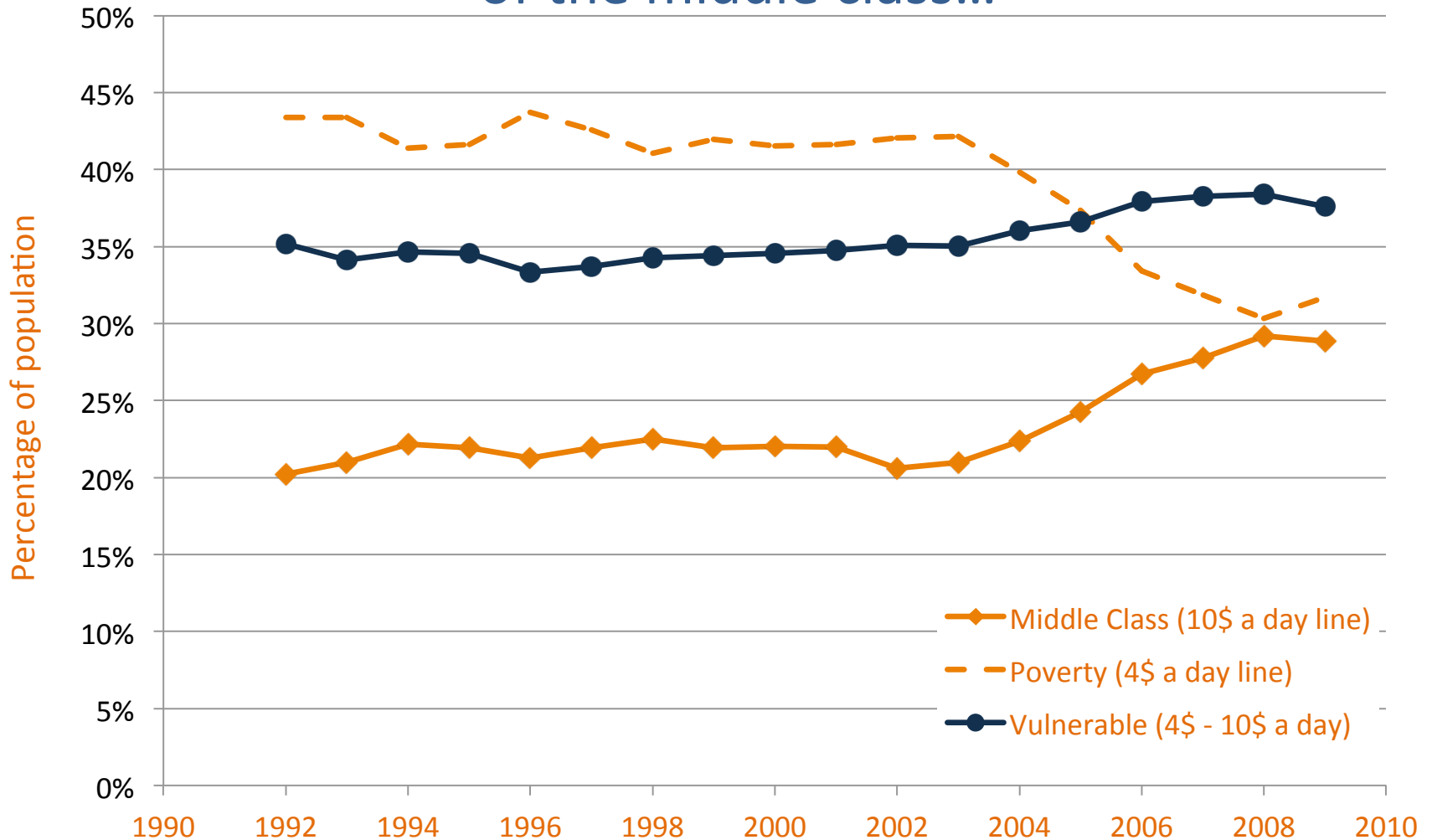
General Comments

- The CEQ is a very interesting, useful and important initiative
- The fact that we are moving beyond the effect of government spending on "the poor" to the effect of government spending on equity and inequality in general is a great step forward
- This is particularly the case for MICs

(I will not list the strengths, but try to add value to the research agenda)

2. Trends

...The last decade observed the rise
of the middle class...



Source: The World Bank, LAC Regional Mobility and Middle Class Flagship

Specific Comments

1. The CEQ is a very data-intensive exercise
2. The data-intensivity is both a strength and a weakness
 - The strength is that it allows us to get down to the level of “the program” and look at the “effect” of receiving transfer X on the poverty/inequality situation in society.
 - The weakness is that it is often not something that is readily available in the data (especially older data in the case of Mexico). So now you are in the land of imputations.

Specific Comments (2)

The imputations in and of themselves are not an issue.

- What could be an issue is that the inference from the imputation could be more cautious - case in point the fiscal mobility matrices.
- The absence of the tax data is particularly a concern
- It is very appealing, but the messaging has to take into consideration the strength of the data.

An issue with respect to vulnerability...

Poverty transition matrix 2002/2005

Row percent distribution

Mexico		2005		
2002		Non-poor	Poor	Total
	Non-poor	81.7	18.3	100
	Poor	50.9	49.1	100
	Total	73.8	26.2	100

Percentage of households beneficiaries of Oportunidades in 2002, by status of transition

Never poor	8.5
Always poor	40.3
Fall in poverty	18.1
Out of poverty	22.8

Source: Own estimates based on data from MxFLS 2002 and 2005

Percentage of households beneficiaries of other social programs in 2002, by status of transition*

Never poor	6.9
Always poor	26.1
Fall in poverty	15.7
Out of poverty	16.8

* It includes Procampo, Vivah, Crédito a la palabra, Coinversión social, PET, Alianza para el campo, Fondo Mi

Source: Own estimates based on data from MxFLS 2002 and 2005

Vulnerability-related targeting issues

Question

- Currently, the methodology describes the patterns of redistribution of expenditure, which is very valuable
- Some relevant questions could be:
 - How many people are receiving transfers **because** the issue of vulnerability is not addressed in the policy?
 - Can we think of fiscal mobility matrices as a related to a flaw in the SP system?

Where to go?

- The CEQ methodology, thus far, is fundamentally a positive exercise (actually, efficiency issues are also put aside at this stage)
- What is the normative view, the “idea of justice” behind it? (Atkinson’s talk at HDCA: “Austerity and The Idea of Justice”)
- This is not only relevant in a rhetorical sense, it is important to link it to policy

Where to go? (2)

- A very specific, practical concern:
 - A normative notion could help linking the diagnostics to the policy implications: how to reform in the margin
- A very important area of concern, conceptually:
 - What is behind the CEQ is a discussion of the nature of the social contract and/or
 - The result of a political economy equilibrium we would like to understand better

Bottom line

- Very innovative, useful and interesting methodology
- Besides strengthening what is being done (always qualifying by the quality of the data), there are very important areas of analysis in the agenda
- Some normative benchmark could be useful (for example, to focus on the role of policy in transitions on an ex ante basis)