

Taxes, Transfers, Inequality and Poverty in Latin America

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Acknowledgments

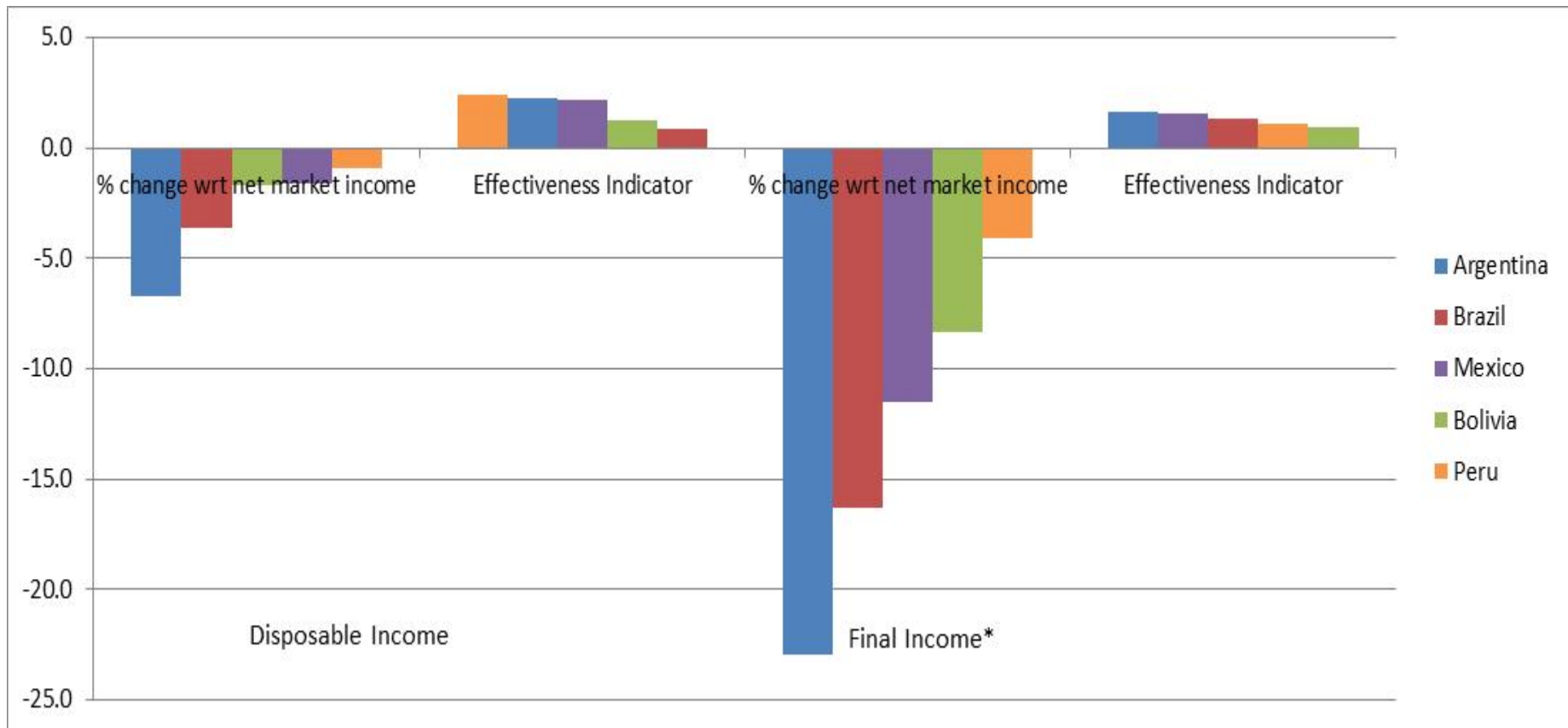
- Lustig, Nora (coordinator). “Fiscal Policy and Income Redistribution in Latin America: Challenging the Conventional Wisdom,” Argentina: Carola Pessino; Bolivia: George Gray Molina, Wilson Jimenez, Verónica Paz, Ernesto Yañez; Brazil: Claudiney Pereira, Sean Higgins; Mexico: John Scott; Peru: Miguel Jaramillo. , Economics Department, Working Paper 1202, New Orleans, Louisiana, April 2012. Forthcoming.
- Commitment to Equity (CEQ) Initiative; Inter-American Dialogue and Tulane University’s CIPR and Dept. of Economics.
- Currently: 12 countries
- 5 finished: Argentina (2009), Bolivia (2007), Brazil (2009), Mexico (2008) and Peru (2009) (year of HH survey)
- 7 in progress: Chile, Colombia, Costa Rica, El Salvador, Guatemala, Paraguay and Uruguay

Outline

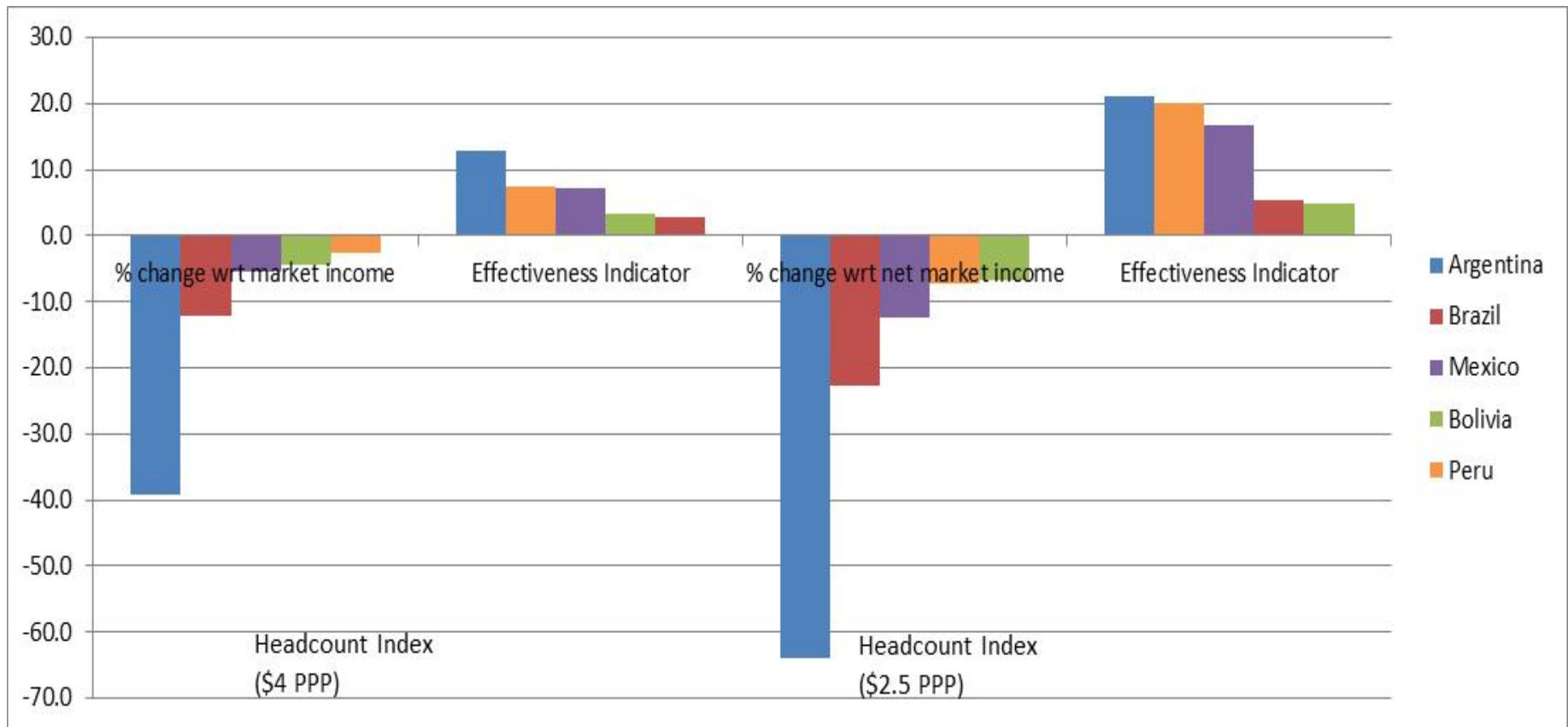
- How much poverty reduction and redistribution LA achieves through fiscal policy?
- Standard Incidence Analysis/Caveats
- Results:
 - Heterogeneous LA
 - Little correlation between size of government and extent of redistribution
 - Direct Taxes, practically “useless”
 - Cash Transfers, can reduce poverty significantly
 - Indirect taxes can make poor become net payers to the government (even after cash transfers)

| | | | Headcount | Headcount | | | |
|-----------|--------|------------|-----------|------------|--------------|-------------|---------|
| | Gini | Gini | Ratio Net | Ratio | Direct | Primary | |
| | Mket | Disposable | Mket | Disposable | Transfers as | Spending as | GDP/cap |
| | Income | Income | Income | Income | % GDP | % of GDP | U\$PPP |
| Argentina | 0.50 | 0.46 | 14% | 5% | 2.8% | 38% | 14030 |
| Bolivia | 0.53 | 0.52 | 22% | 21% | 1.2% | 37% | 4069 |
| Brazil | 0.57 | 0.54 | 15% | 12% | 4.2% | 37% | 10140 |
| Mexico | 0.53 | 0.51 | 12% | 11% | 0.8% | 22% | 14530 |
| Peru | 0.50 | 0.49 | 15% | 14% | 0.4% | 19% | 8349 |

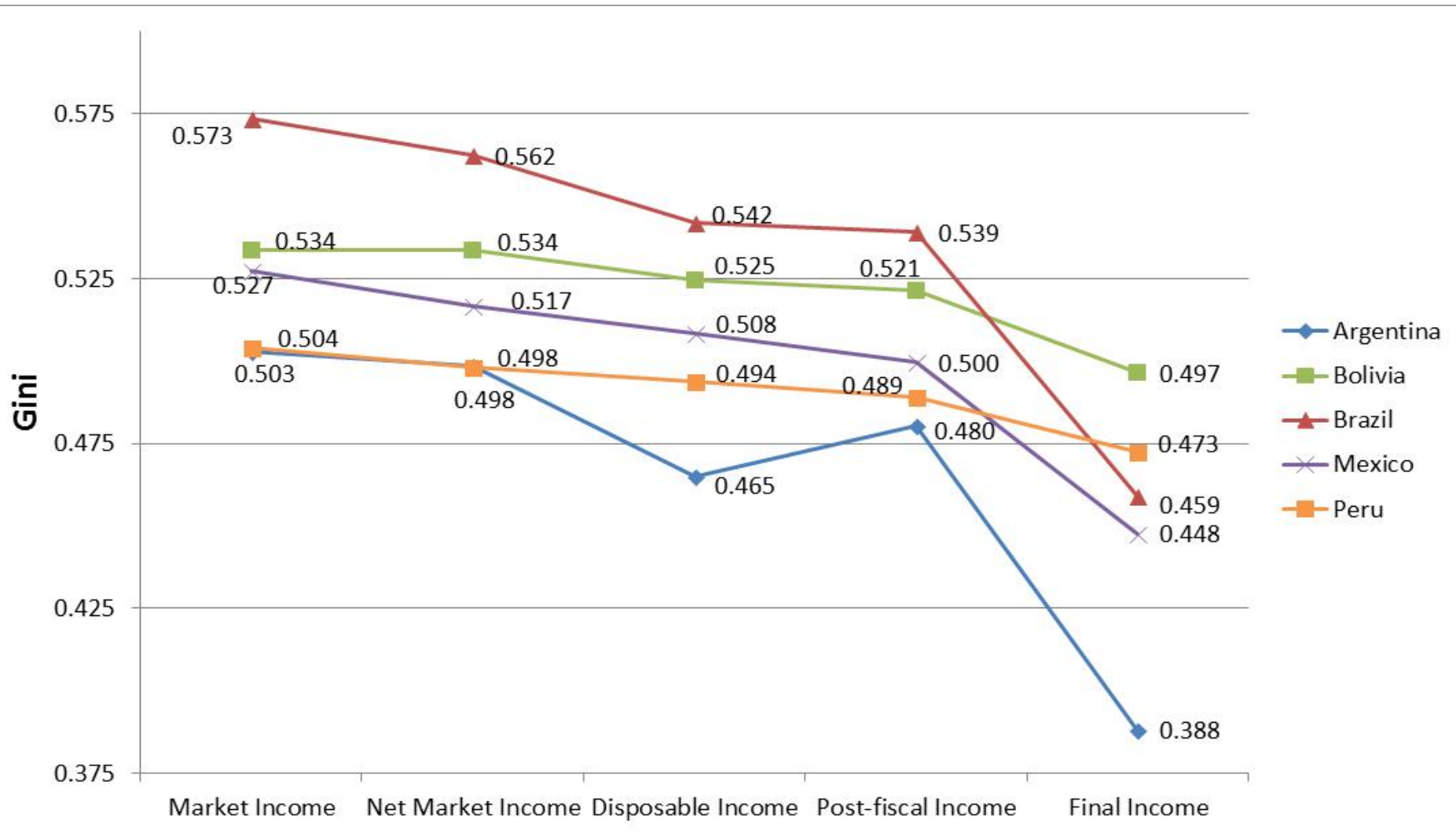
Decline in Gini and Effectiveness: Heterogeneous LA



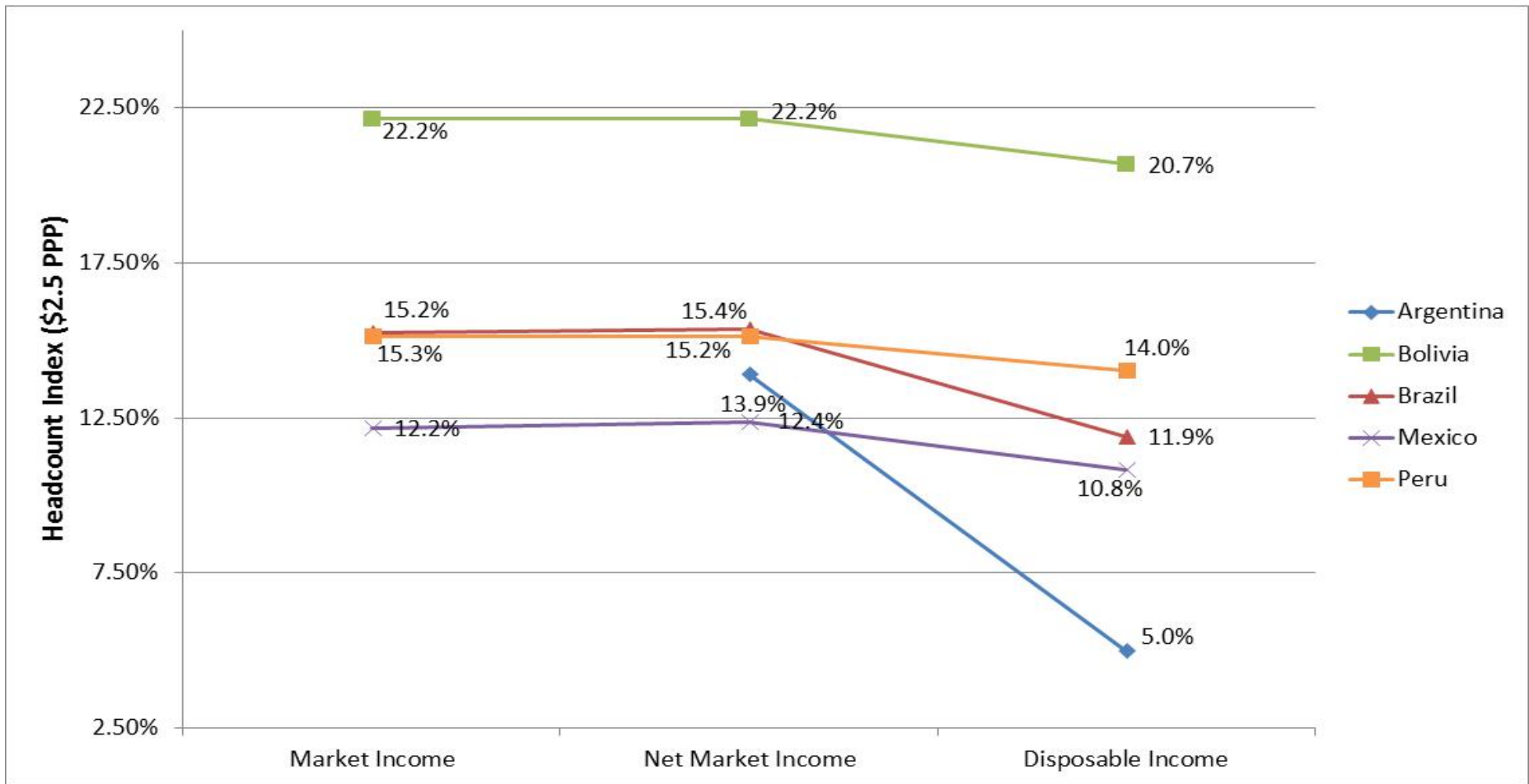
Decline in Headcount Ratio and Effectiveness: Heterogeneous LA



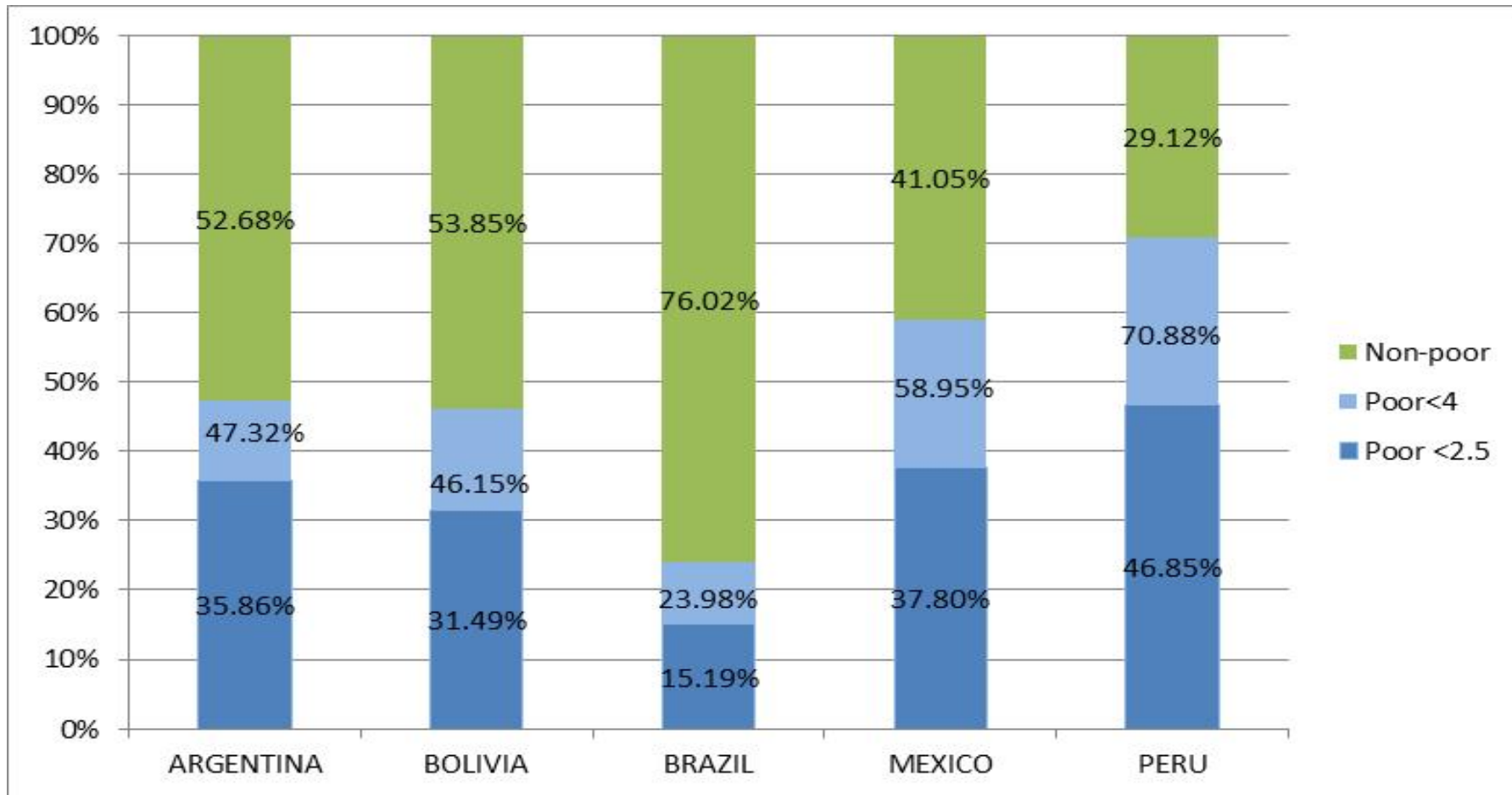
Fiscal Policy and Decline in Gini



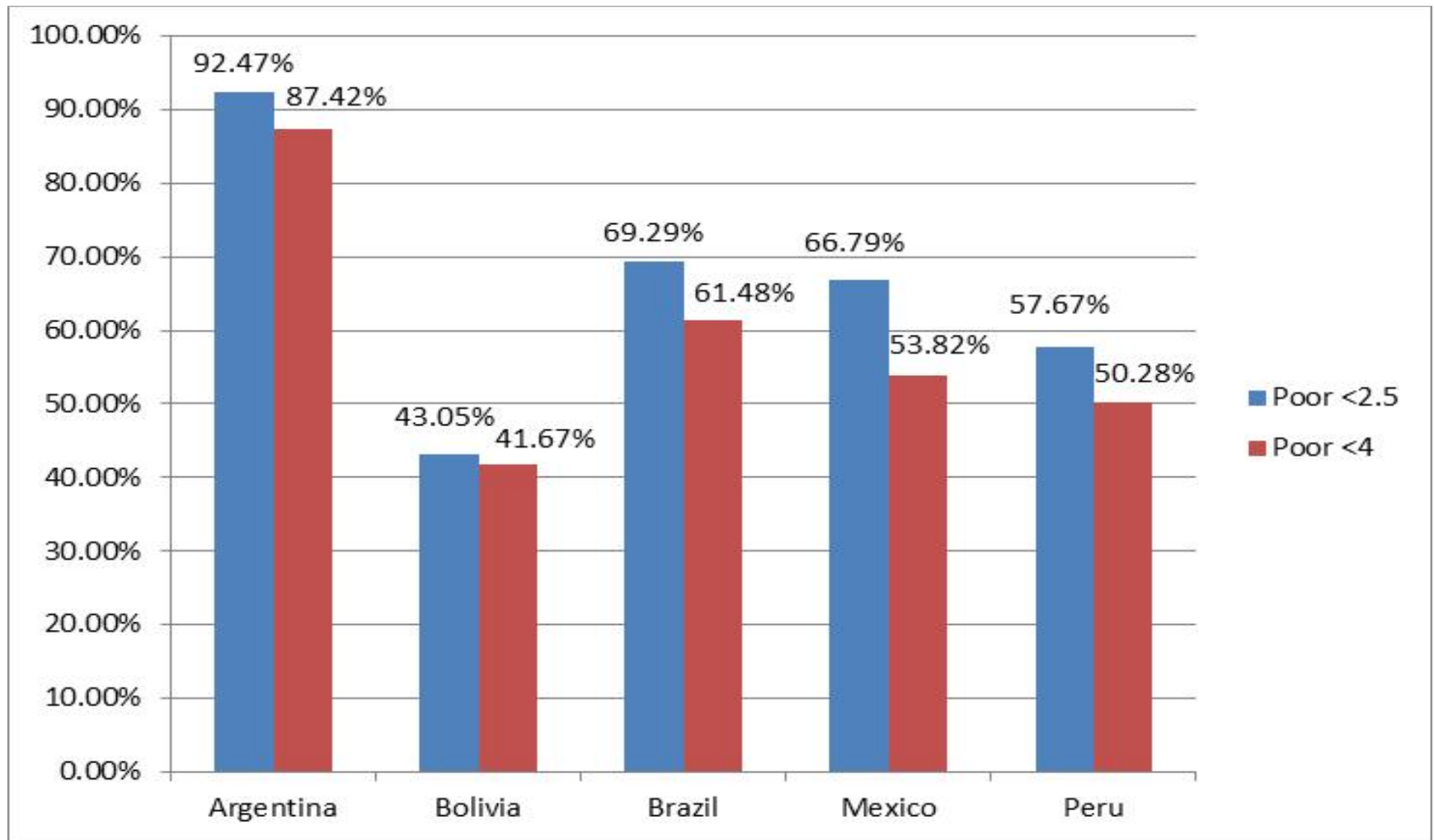
Decline in Headcount Ratio (PL: 2.50 dollars a day in PPP)



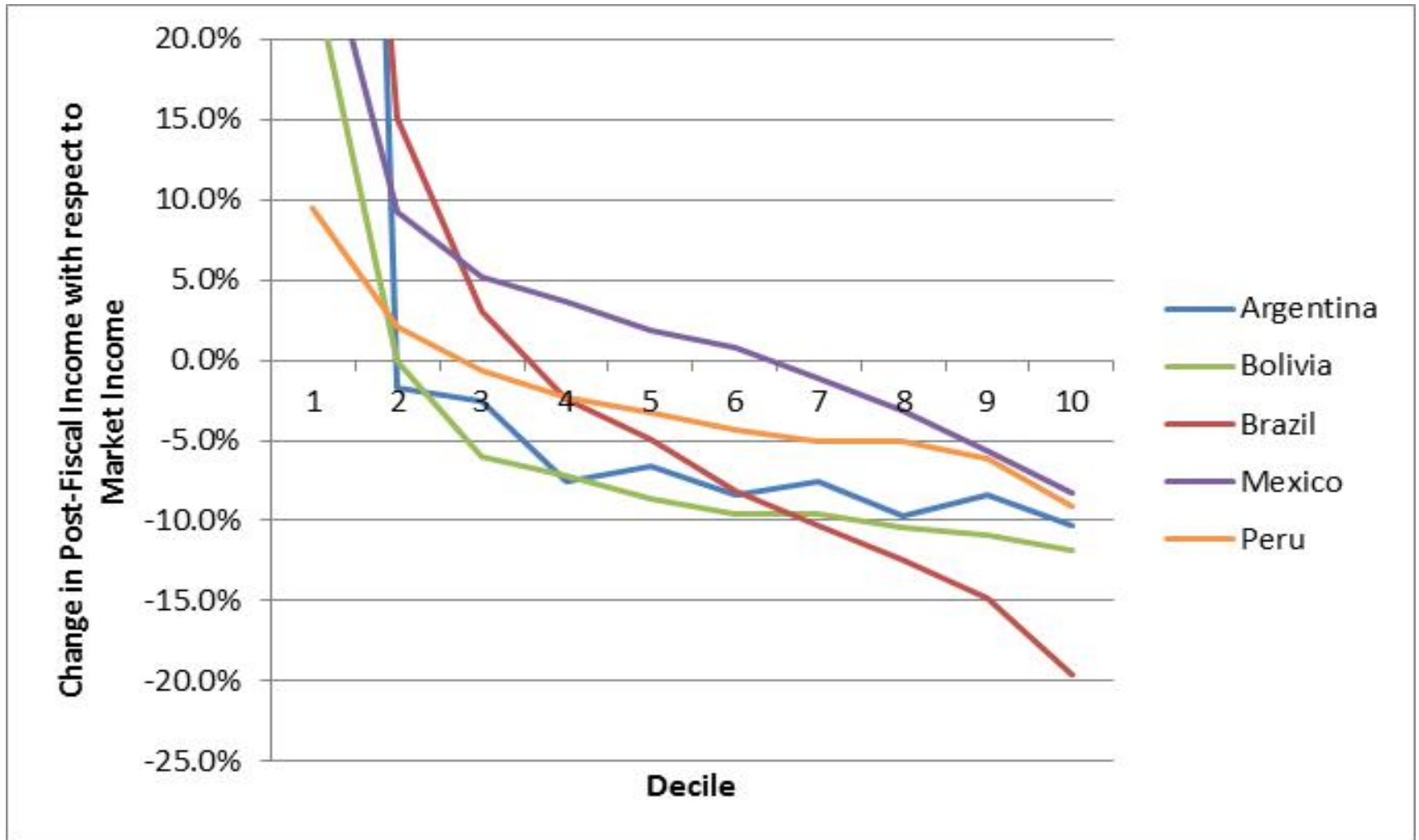
“Leakages” to Non-poor



Coverage of the Extreme and Total Poor



Impact of Indirect Taxes



Conclusions

First, Latin America is heterogenous;
can't talk of "a Latin America"

The extent and effectiveness of
income redistribution and poverty
reduction, government size, and
spending patterns vary significantly
across countries.

Conclusions

- Second, there is little correlation between government size and the extent and effectiveness of redistribution and poverty reduction.

Conclusions

Third, direct taxes achieve little in the form of redistribution.

Caveat:

- The rich are excluded from analysis using household surveys; need governments to share information from tax returns (anonymous of course) as all advanced countries do (except for NIC's)
 - Fiscal Transparency for Efficiency and Equity Campaign

Conclusions

- Fourth, large-scale targeted cash transfers can achieve significant reductions in extreme poverty.
- The extent of poverty reduction depends on:
 - size of per capita transfer
 - coverage of the poor

Conclusions

- Fifth, when indirect taxes are taken into account, the moderate poor and the near poor become net payers to the fiscal system.