

Taxes, Transfers, Inequality and Poverty in Latin America

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Commitment to Equity Project

- 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

References

- 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.
- Lustig and Higgins (2012) “Fiscal Incidence, Fiscal Mobility and the Poor: a New Approach,” to be presented at *Well-being and inequality in the long-run: measurement, history and ideas*, Universidad Carlos III, Madrid, May 31 and June 1, 2012

Outline

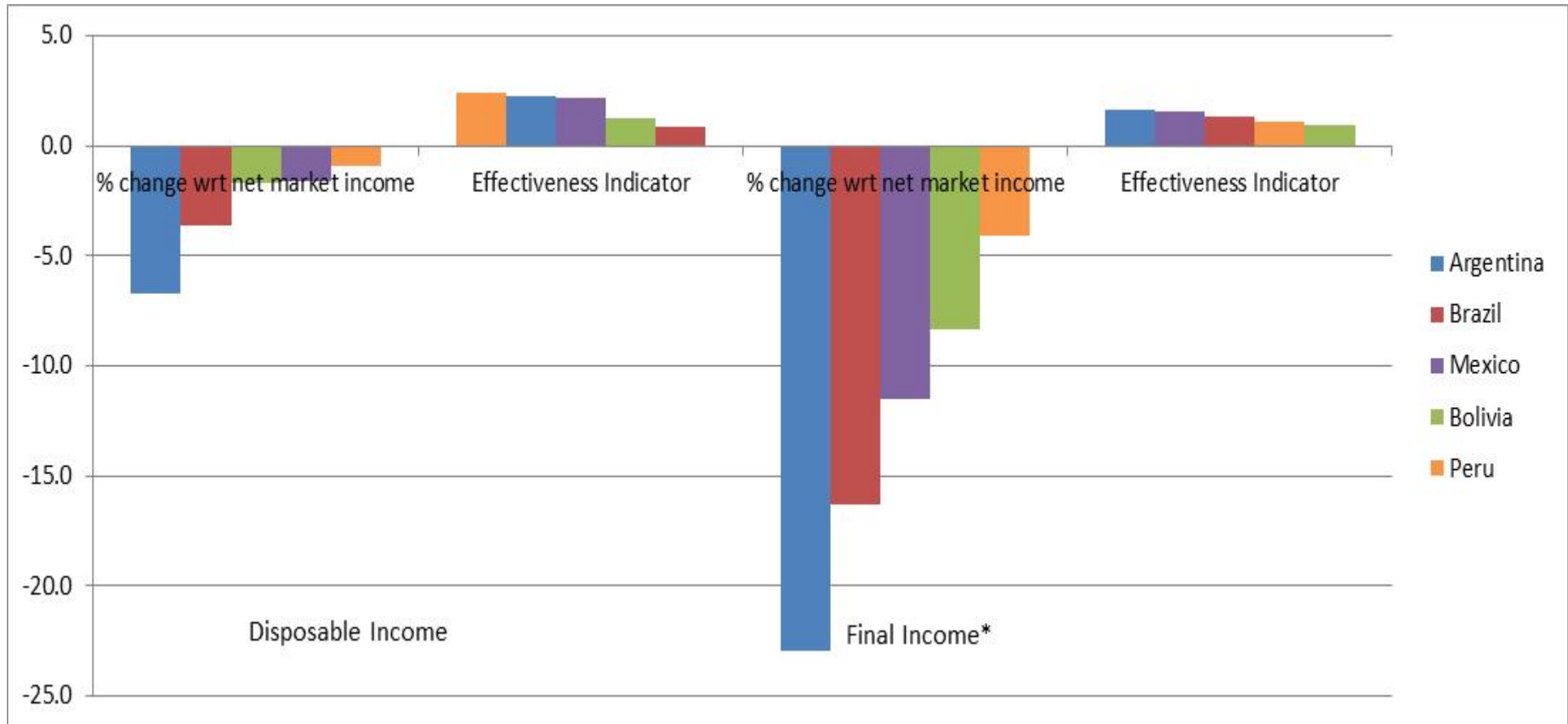
- How much poverty reduction and redistribution LA achieves through fiscal policy?
- Standard Incidence Analysis/Caveats
- Results:
 - Heterogeneous LA
 - Little correlation between size of government and extent of redistribution
 - Direct Taxes, practically “useless”
 - Cash Transfers, can reduce poverty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

Conclusions

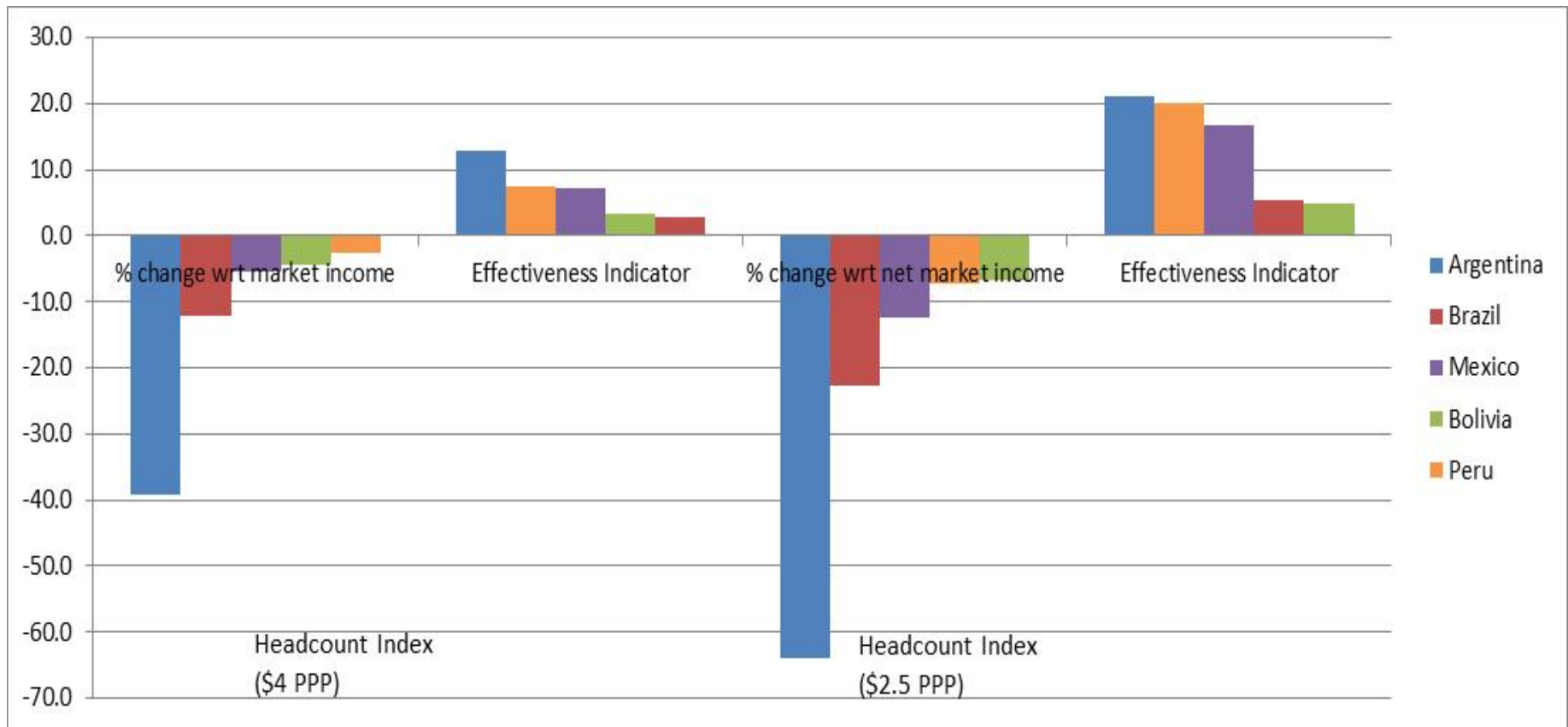
First, Latin America is heterogenous;
can't talk of "a Latin America"

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

Decline in Gini and Effectiveness: Heterogeneous LA



Decline in Headcount Ratio and Effectiveness: Heterogeneous LA



Conclusions

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

			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

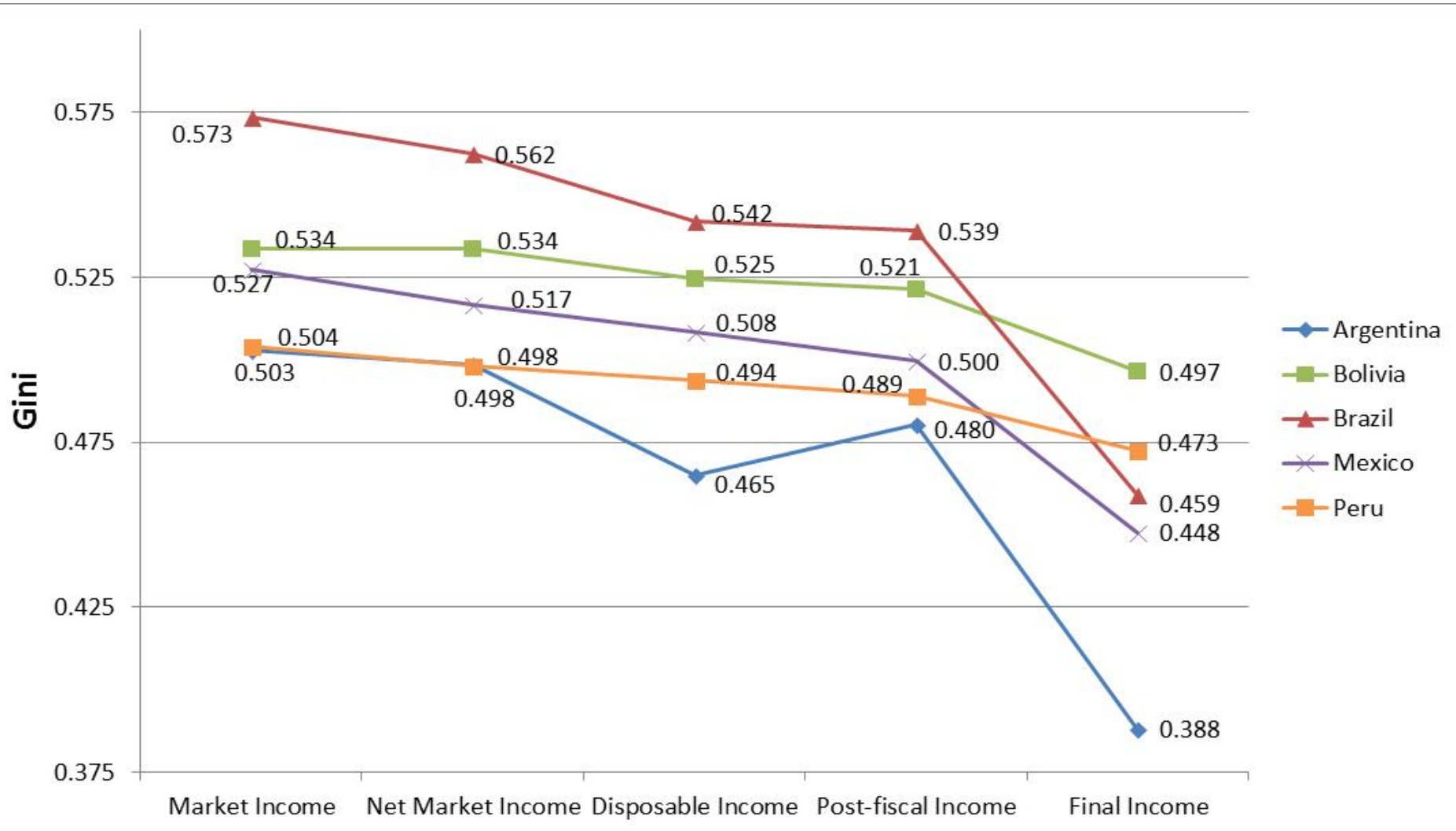
Conclusions

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

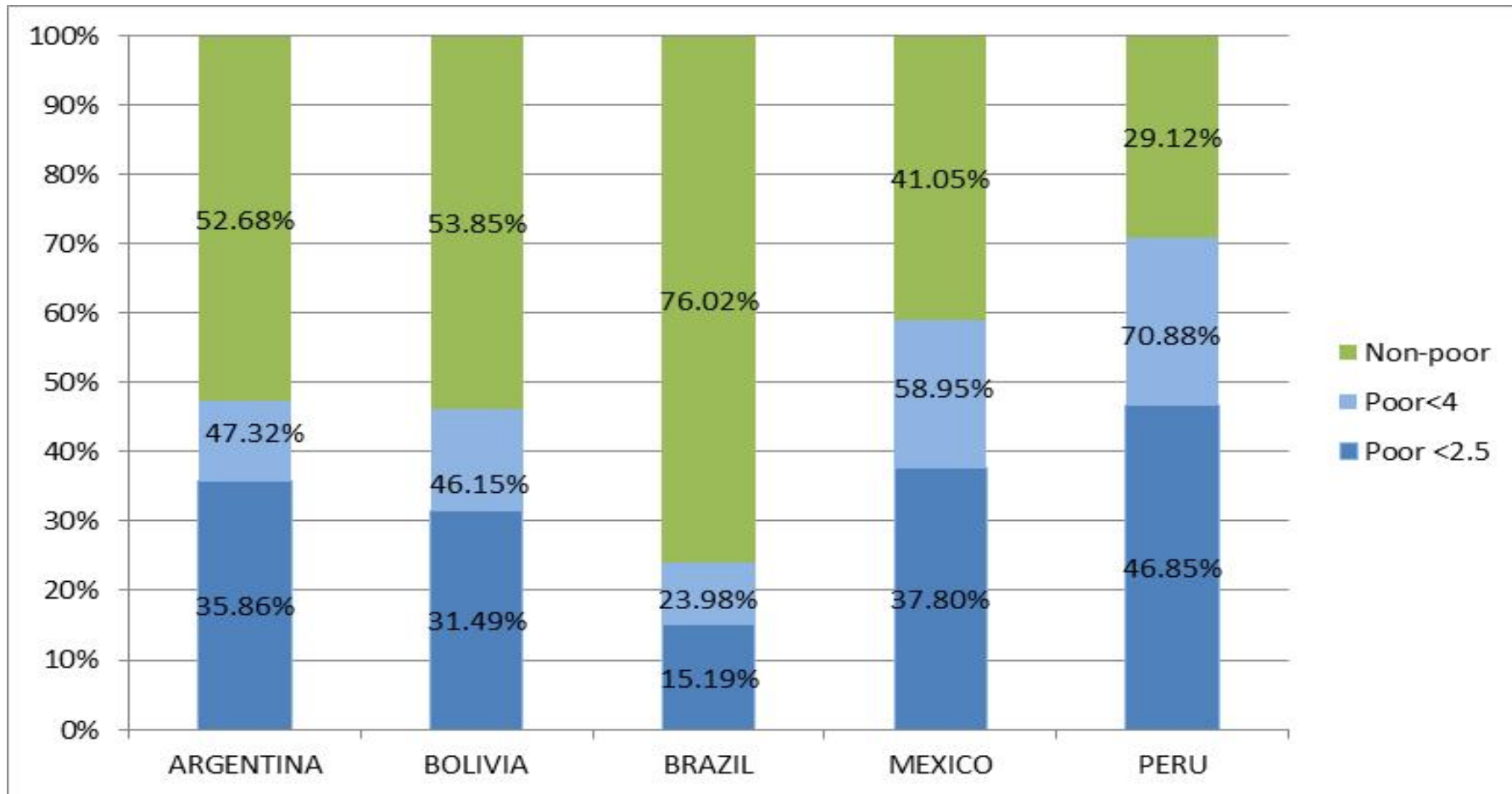
Fiscal Policy and Decline in Gini



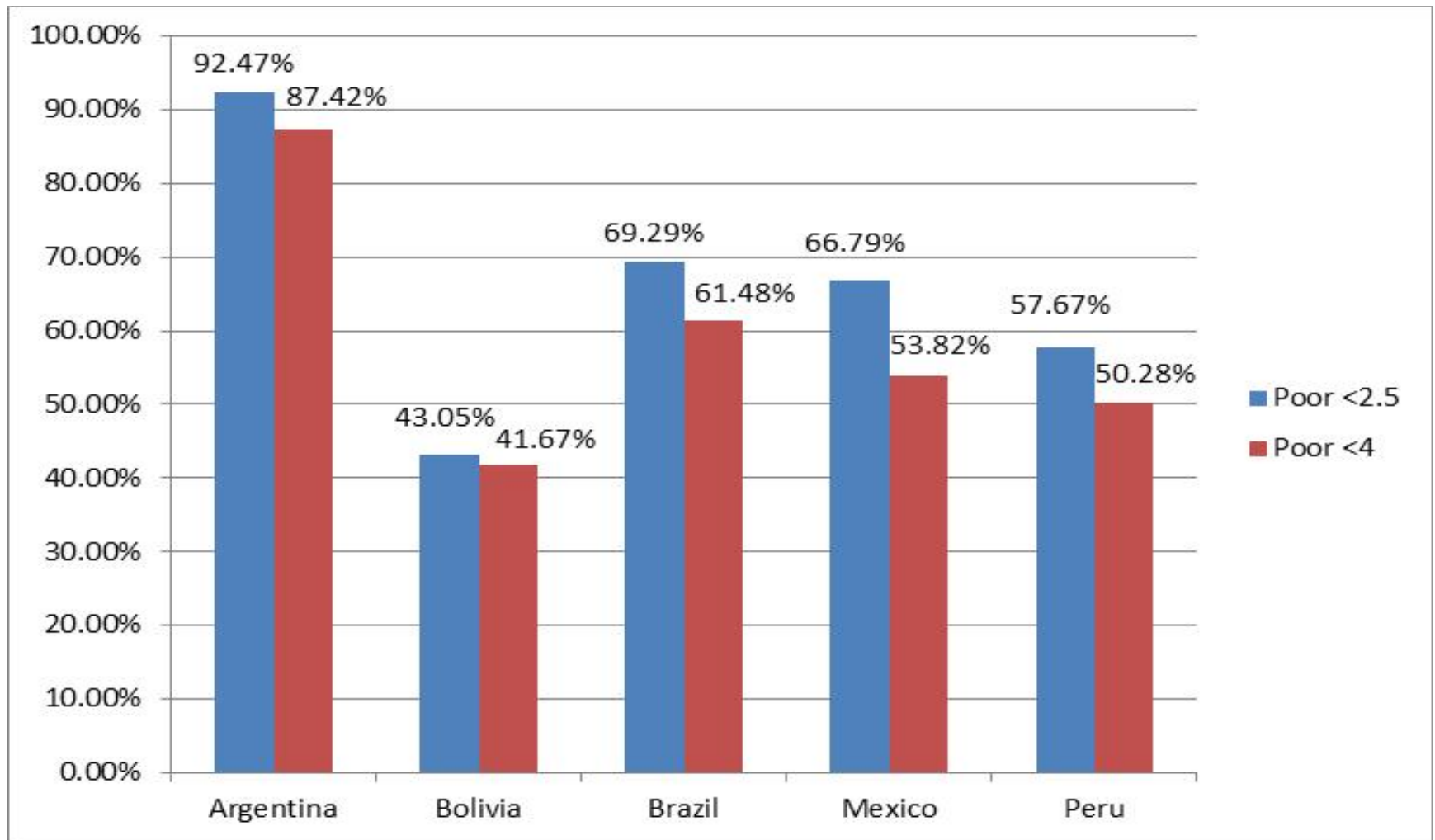
Conclusions

- 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

“Leakages” to Non-poor



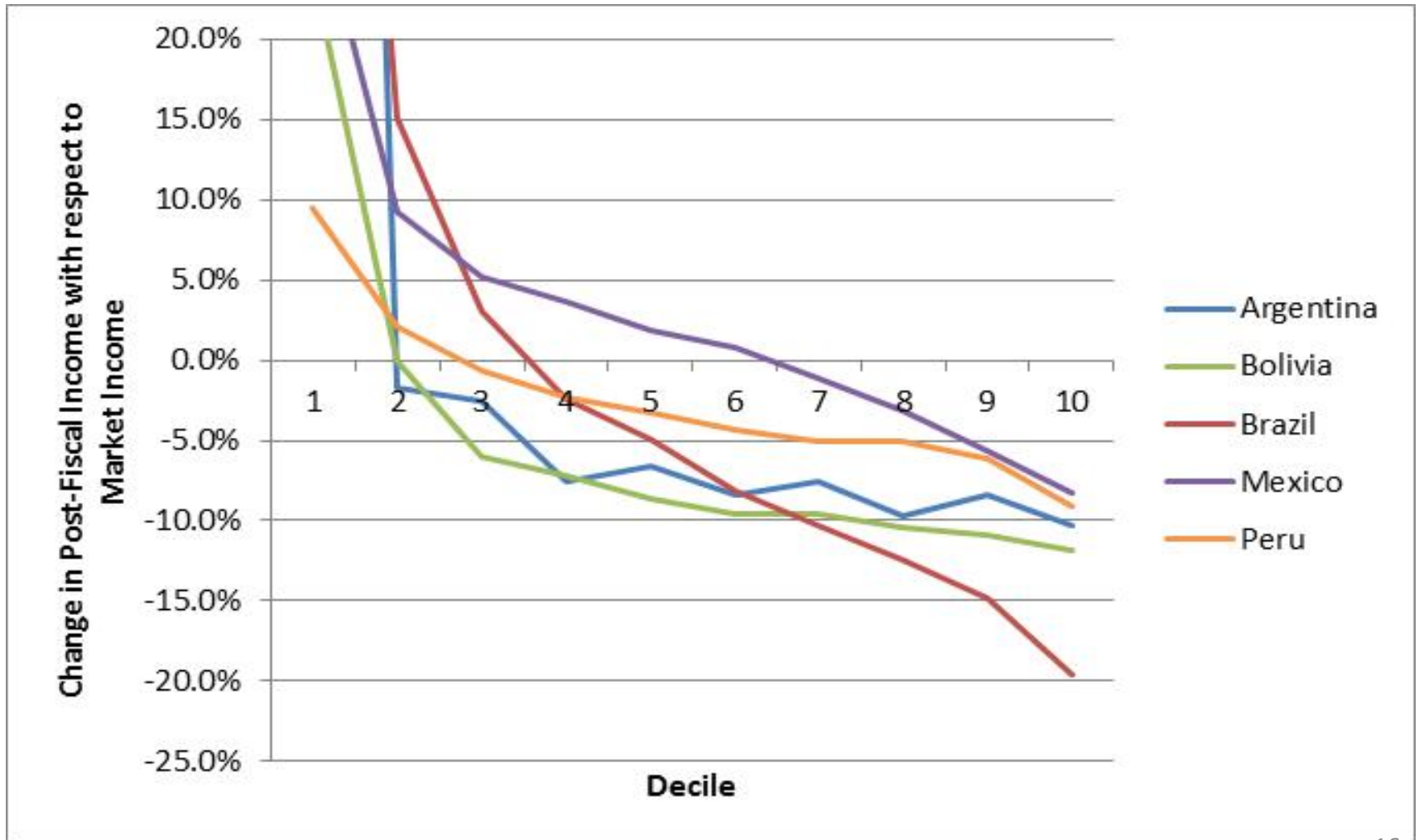
Coverage of the Extreme and Total Poor



Conclusions

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

Impact of Indirect Taxes



Fiscally-induced Upward and Downward Movement: Brazil

BRAZIL: FISCAL MOBILITY MATRIX (in percent)									
AFTER TAXES AND TRANSFERS									
BEFORE	y<1.25	1.25<y<2.50	2.5<y<4	4<y<10	10<y<50	y>50	Total	% of population	Average BEFORE IncomeUS \$PPP/day
y<1.25	69	21	6	3	0	0	100	5.7%	\$0.74
1.25<y<2.5	4	81	10	4	0	0	100	9.6%	\$1.89
2.5<y<4	0	15	75	9	1	0	100	11.3%	\$3.24
4<y<10	0	0	11	86	3	0	100	33.6%	\$6.67
10<y<50	0	0	0	15	85	0	100	35.3%	\$19.90
y>50	0	0	0	0	32	68	100	4.5%	\$94.59
Total	4.4	10.7	13.5	35.8	32.5	3.2	100	100.0%	

Thank you