

2013 World Bank Conference on Equity Commitment to Equity in Fiscal Policy

June 10-11, Washington DC

“Shared prosperity must be a guiding principle for the Bank to do research on and promote activism in areas of inclusive growth, environmental protection and sustainability. Shared prosperity is nothing but an organizing principle but it can, through refinement, debate and discussion, become a compelling idea that guides policy to create a world that is not only more prosperous but also fair and equitable—a better world.” Kausik Basu, Chief Economist, World Bank, February 7, 2013

Background

Although the world has become considerably less poor in the past three decades, 2.5 billion people continue to live in poverty while 1.3 billion are in extreme poverty. Moreover, opportunities --as measured by access to adequate nutrition, quality education, basic health services, and water and sanitation infrastructure-- are still very uneven. As a consequence, gaps between the non-poor and the poor are much larger than what is socially tolerable in many countries. Developing countries are questioning the role for the state, and are increasingly interested in assessing how effective their fiscal policies are in accelerating poverty reduction and promoting shared growth.

At the same time, the World Bank has recently embarked on an effort to focus its work on two goals: ending extreme poverty and promoting shared prosperity. The goal of "shared prosperity," measured as the income growth of the bottom 40 percent of the population in every country, recognizes that progress requires both growth and improvements in equity. In this context, an important concern is how to make the Bank's focus on the bottom 40 percent effective through its lending and nonlending activities. An analysis of the distributional impact of fiscal policy can guide the Bank in its engagement with its member countries.

Common questions that are of interest to both policy-makers and development partners include: (i) How progressive are the current tax and benefit systems? (ii) Who benefits from and pays for public services (e.g., education, health, etc.)? (iii) How much additional redistributive effort is required to end extreme poverty and equalize opportunities? (iv) What can be done to ensure that these efforts are fiscally and politically sustainable? (v) Can the current level of revenues and public expenditure be made more equitable without significantly hindering economic growth? (vi) In countries in which government revenues are mostly coming from natural resources (e.g., mining, oil, gas, etc.), how should benefits be shared across citizens and generations to ensure sustainable growth and long-term poverty reduction?

To help governments answer some of these questions and given the World Bank's efforts to focus on ending extreme poverty and promoting shared prosperity, the World Bank's Poverty Reduction and Equity Department has partnered with the Economics Department at Tulane University to implement a diagnostic tool to identify the main constraints that prevent effective poverty and inequality reduction via tax and benefit policies in a set of countries across different regions of the world.

The diagnostic tool—the *Commitment to Equity Assessment*—relies on a comprehensive fiscal incidence analysis designed to assess how taxation and public expenditures affect income inequality, poverty, and different

socioeconomic groups. Assessing both sides of the fiscal ledger will give a clear picture of which groups are net beneficiaries of the fiscal system. Assessing the incidence of taxes is important because those who actually bear the burden of taxes (economic incidence) can be quite different from those who are legally liable to make payments to tax authorities (statutory incidence). Establishing the incidence of government expenditures is equally important as public spending benefits households to different extents. While conducting tax and benefit incidence analyses separately provides important insights, their combination makes for a powerful tool. Fiscal incidence analysis strives to determine the overall progressivity of the budget and to identify the net contributors and receivers of the entire fiscal system.

The country-level studies will examine the distributional effects of individual programs and policy measures—and the net effect of each country’s mix of policies and programs. The assessments will be comparable across countries and over time. The results will give policy makers, multilateral institutions, and nongovernmental groups the data and analysis necessary to determine what changes in tax and spending policies will lead to greater equality and poverty reduction. In particular, the assessments will be applied across a set of countries in the world in a way that is useful for Bank staff and practitioners to ensure that the goals of poverty reduction and shared prosperity are being incorporated into the evidence base needed for policy reform.

Objective

In practice, fiscal incidence analysis is quite complex given the limitations in existing information, the importance of taking into account behavioral responses, and the ambiguity surrounding the definition of certain concepts. The objective of this workshop is to collect the views of leading experts on methodological good practices on fiscal incidence analysis to ensure that the upcoming country-level studies rely on state-of-the-art approaches.

Over the course of two days, the event will target an audience that includes World Bank staff, international practitioners, and the lead authors of country teams.

AGENDA

DAY ONE: Monday, June 10th, MC 13-121

- 8:30 – 9:00 am **Breakfast and registration**
- 9:00 – 9:15 am **Welcome and opening remarks**
Jaime Saavedra, Acting Vice President, Poverty Reduction and Economic Management Network, The World Bank
- 9:15 – 10:00 am **Fiscal Incidence Analysis: Theory and Practice**
Chair: Jaime Saavedra, Acting Vice President, Poverty Reduction and Economic Management Network, The World Bank
Nora Lustig, Tulane University
Stephen Younger, Ithaca College
- 10:00 – 10:15 am **Coffee**
- 10:15– 11:30am **Identifying the Economic Incidence of Taxes**
This panel discussion will address the information requirements and assumptions that are typically needed to analyze the incidence of direct and indirect taxes. Panelists will discuss how to take account of tax evasion, the advantages of a general equilibrium approach relative to the costs, and whether one should be concerned with intertemporal effects.
Chair: Jeff Lewis, Director, Economic Policy, Debt and Trade Department, The World Bank
Jim Alm, Tulane University
David Philips, Institute for Fiscal Studies
Sally Wallace, Georgia State University
- 11:30 – 12:30 pm **Contributory Pensions and other benefits**
This panel will discuss whether contributory pensions should be treated as a government transfer or individual savings, and whether this decision depends on whether the system is self-funded or relies on government support. It will also address best practice in identifying the economic incidence of contributory pensions, and options available to take into account behavioral responses and general equilibrium effects.
Chair: Robert Palacios, Team Leader, The World Bank
Gary Burtless, Brookings Institution
Robert Gillingham, Independent consultant
Carola Pessino, University of CEMA
- 12:30 – 2:00 pm **Lunch and Keynote Address:**
Kaushik Basu, Senior Vice President and Chief Economist, The World Bank
Chair: Marcelo Giugale, Sector Director PREM Africa, The World Bank (TBC)

2:00 – 3:15 pm

Direct Transfers and Subsidies

This panel discussion will address best practice in identifying the economic incidence of cash transfers and indirect subsidies, including fuel and agricultural subsidies.

Chair: Ariel Fiszbein, Chief Economist, Human Development Network, The World Bank

xx, xx (TBC)

Kathy Lindert, World Bank

Jacob Ricker-Gilbert, Purdue University

3:15 – 3:30 pm

Coffee break

3:30 – 4:45 pm

In Kind Transfers: Health, Education, and Food

This panel discussion will address best practice in identifying the economic incidence of in kind benefits in the form of public health, education and food transfers.

Chair: Emmanuel Jimenez, Director Public Sector, Independent Evaluation Group, The World Bank

Adam Wagstaff, The World Bank

John Scott, CIDE

Ian Preston, University College London

4:45 – 5:45 pm

Infrastructure and Public Order

This panel discussion will address best practice in imputing the economic incidence of infrastructure spending, the different methods for transport, water, electricity and sanitation. In addition, panelists will discuss potential methods to analyze the incidence of security and public order expenditures.

Chair: Marcelo Selowsky, The World Bank

Quentin Wodon, World Bank

Dominique van de Walle, World Bank

Cormac O'Dea, Institute for Fiscal Studies

DAY TWO: Tuesday, June 11th—CLOSED-DOOR SESSION

- 8:30 – 9:00 am **Breakfast**
- 9:00 – 9:10 am **Welcome**
Christina Malmberg-Calvo, Sector Manager, Poverty and Equity Department, The World Bank
- 9:10 – 10:00 am **Introduction to CEQ**
Nora Lustig, Tulane University
- 10:00 – 10:45am **The Master Workbook and Tools**
Sean Higgins, Tulane University
- 10:45 – 11:00am **Coffee**
- 11:00 – 12:00 pm **Construction of market income aggregate**
Country team discussion
What are the main challenges in measuring market income in each country case given the data available?
- 12:00 – 1:00 pm **Construction of net market income aggregate**
Country team discussion
What are the main challenges in measuring direct taxes and contributions to social security?
- 1:00 – 2:30 pm **Lunch**
- 2:30 – 3:30 pm **Construction of disposable income aggregate**
Country team discussion
What are the main challenges in measuring direct transfers?
- 3:30 – 4:30 pm **Construction of post fiscal income aggregate**
Country team discussion
What are the main challenges in measuring indirect taxes and subsidies in each country case given the data available?
- 4:30 – 4:45 pm **Coffee**
- 4:45 – 5:45 pm **Construction of final income aggregate**
Country team discussion
What are the main challenges in measuring in-kind transfers, copayments and user fees in each country case given the data available?
- 5:45 – 6:00 pm **Wrap-Up**
Nora Lustig, Tulane University