

Comments to “Fiscal Policy and
Income Redistribution in Latin
America: Challenging the
Conventional Wisdom”
by Nora Lustig (coord.)

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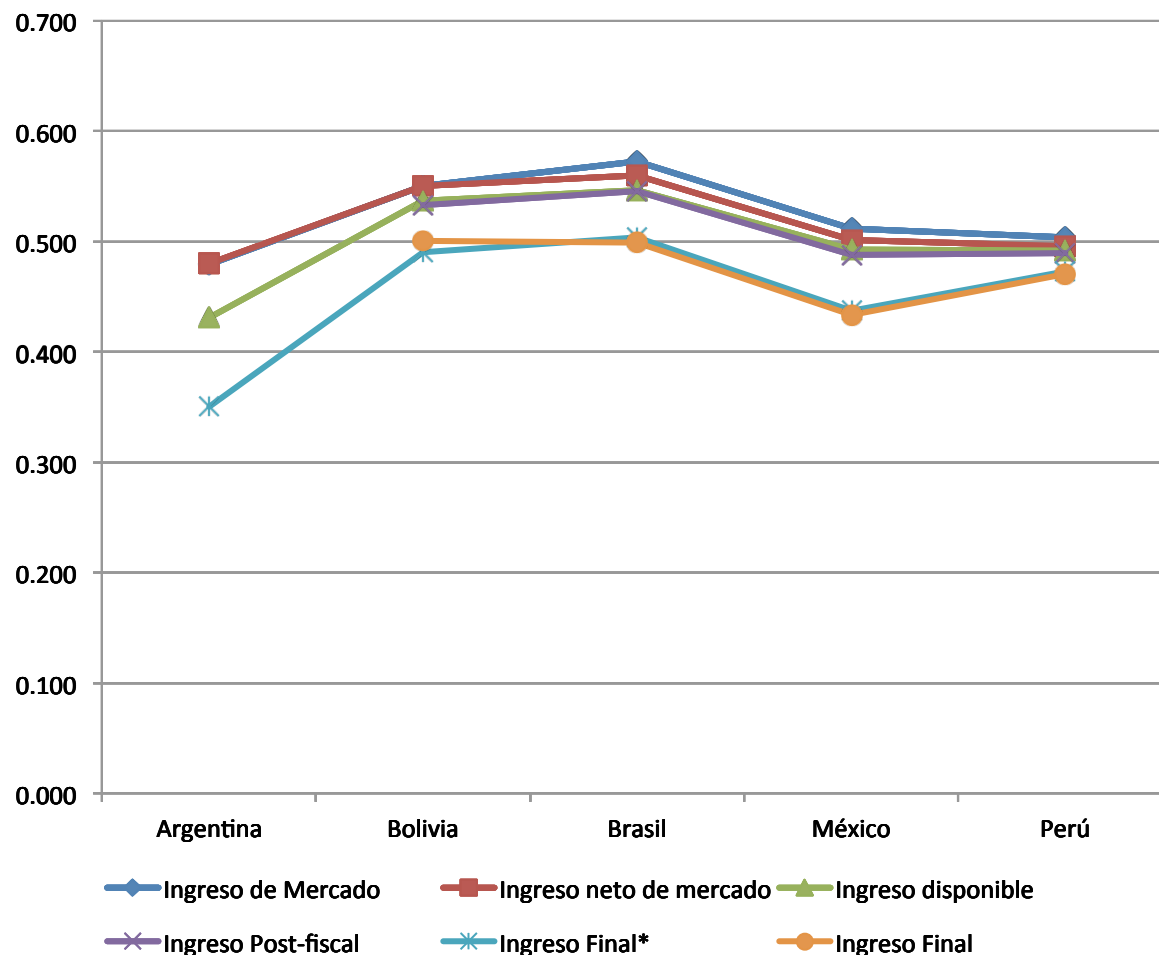
General comments 1

- This is a remarkable endeavor that seeks to provide an update on fiscal incidence in Latin America
- A welcome effort given the significant policy initiatives put in place in many countries after 2005, such as Asignacion Universal por Hijo (AUH) in Argentina, Juancito Pinto in Bolivia, the expansion of Bolsa Familia in Brazil, Juntos in Peru and 70 y mas in Mexico

General comments 2

- The paper brings to bare an important point: there is significant heterogeneity between countries in terms of their redistributive capacity
- No obvious relationship with the size of government or the size of social spending as a share of total spending
- Countries' "redistributive efficiency" may be quite different, and not obviously related to size (or ideology)

Fiscal incidence of taxes and transfers: changes in Gini



$\text{Post-Fiscal income} = \text{Market income} + \text{in-kind transfers and taxes}$
 $\text{Disposable income} = \text{Net market income} + \text{direct taxes and subsidies}$
 $\text{Final Income (Final* excludes indir. taxes \& trans.)} = \text{Post-Fiscal income} + \text{direct government transfers}$

Comment on framing and context

- The bulk of the inequality reduction comes from in-kind transfers and taxes
- This finding is consistent with previous studies (Goni et al, 2011)
- Of the 4 countries included in both studies (Argentina, Brazil, Mexico and Peru) the estimated redistributive impact is significantly larger only in Argentina (13 vs 5). Bolivia is 6 pts in both, Mexico is between 7.4 and 2.4 here and 4 pts in Goni et al and for Peru it is between 3.2 and 1.4 here and 1 in the previous study
- It would be very interesting to include one or a few European countries (or the US) in the analysis

Other comments

- The inclusion of contributory pensions in market income warrants further discussion, since one concern would be that whenever the system is in deficit, shortfalls are covered via general taxation with clear regressive impacts given the exclusion of informal workers, so the lack of adjustment in Argentina and Brazil (given the circumstantial zero deficit) favors their redistributive effectiveness
- Weighting of program concentration indexes to obtain an aggregate index is not very clear, as different weights may yield different rankings. This seems unnecessary and confusing since the overall impacts are summarized in Gini index changes

The key is comparability of method

- Some concerns in this regard:
 - Assumption of perfect targeting in AUH may favor Argentina's "redistributive effectiveness", could try Becas, Jefes/Jefas or U-insurance targeting quality and evaluate sensitivity
 - Not considering indirect subsidies in Peru could potentially bias results against that country's redistributive effort
 - Including in-kind housing and urban transfers only for Argentina and Mexico favors their redistributive "score" relative to Peru, Bolivia and Brazil (Tu Casa in Mexico is very progressive, for example)
 - If urban populations are benefited disproportionately by in-kind redistribution (which is quite plausible as urban populations are more active politically), Argentina's focus on urban data again unfairly leans the balance their way

Possible additional comparisons?

- Restrict all countries to urban data
- Exclude housing in-kind transfers
- Exclude indirect transfers from all countries
- Exclude in-kind health transfers from all countries
- Try different targeting assumptions for AUH in Argentina

Finally

- In concluding, the paper argues that regressive public spending “should be scrapped”. This is a strong statement, as redistribution is not the Government’s only objective
- Incidence analysis, but:
 - Conclusions should underscore importance of interplay of incentives and programs in fleshing out policy implications
- PS: Brazil’s regressive public health system seems very odd