

Discussion of

Fiscal mobility, the poor, the vulnerable and
the middle class in Latin America

Jamele Rigolini

World Bank

The CEQ Initiative

- The CEQ initiative represents an unmatched effort to analyze fiscal and equity issues in LAC
- For the first time there is a platform that allows credible cross-country comparisons that can be tailored to specific needs
- Efforts are starting to pay off – the CEQ team has produced a set of very interesting papers in record time

The Paper

- The paper addresses very important issues that could not be covered rigorously previous to the CEQ
- The analysis also draws from and anchors to the latest thinking about the concepts of redistribution, mobility and the middle class
 - *Directional* mobility is the correct concept to use when looking at fiscal redistribution
- Already in its current form we are learning many new interesting insights that will foster further the policy debate

Comments – Big Picture

- The quest for rigor seems to undermine a little the quest for a regional message:
 - The paper remains quite descriptive
 - Despite a heterogeneous picture, is it possible to distill a regional message?
- The Fiscal Incidence Curves suggest for instance that current transfers & taxes are good for the poor, but do not alter much the big picture
 - It would be interesting to see if taxes and transfers change some of the *rankings*

Comments – Big Picture

- The transition matrices also suggest that few people are “hurt” (i.e. drop class) after taxes and transfers
 - Is it a good thing? Does it suggest that redistribution remains minimal?
- Education expenditures seem to go to the middle class more than to the poor, while cash transfers go mostly to the poor
 - Is it a good or a bad thing? Is there a “polarization” of service delivery that may endanger the social contract?

Comments – Technical Details

- The education analysis is very interesting. Why not doing it for health, pensions and social security?
- It would be useful to think about which before and after scenario represents the most correct comparison. My guess is it should be mostly about market vs. disposable income
 - Some Figures mix Market with Net Market income as the basis reference, which are not comparable
 - Figure 3 is misleading – by definition Disposable income leads to lower poverty rates than net market income

Comments – Policy Questions

- Given all the efforts that have been invested, it may be possible to extract more information for policy :
 - Is the middle class benefitting disproportionately from taxation and social transfers?
 - Or will the move towards middle class society require a rethinking of the incidence of social spending?
 - Is there a danger of “middle class dictatorship” where social spending will neglect the remaining poor?
 - Analysis of sectoral social spending may also help understanding sector-specific issues

Thanks