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


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 heterogeneous; 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.
<table>
<thead>
<tr>
<th>Country</th>
<th>Gini Mkt Income</th>
<th>Gini Disposable Income</th>
<th>Headcount Ratio Net Mkt Income</th>
<th>Headcount Ratio Disposable Income</th>
<th>Direct Transfers as % GDP</th>
<th>Primary Spending as % of GDP</th>
<th>GDP/cap U$PPP</th>
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</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>0.50</td>
<td>0.46</td>
<td>14%</td>
<td>5%</td>
<td>2.8%</td>
<td>38%</td>
<td>14030</td>
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<tr>
<td>Bolivia</td>
<td>0.53</td>
<td>0.52</td>
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<td>21%</td>
<td>1.2%</td>
<td>37%</td>
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<td>Brazil</td>
<td>0.57</td>
<td>0.54</td>
<td>15%</td>
<td>12%</td>
<td>4.2%</td>
<td>37%</td>
<td>10140</td>
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<tr>
<td>Mexico</td>
<td>0.53</td>
<td>0.51</td>
<td>12%</td>
<td>11%</td>
<td>0.8%</td>
<td>22%</td>
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<tr>
<td>Peru</td>
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<td>14%</td>
<td>0.4%</td>
<td>19%</td>
<td>8349</td>
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</table>
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

- Argentina: 52.68% Non-poor, 47.32% Poor < 2.5
- Bolivia: 53.85% Non-poor, 46.15% Poor < 2.5
- Brazil: 76.02% Non-poor, 23.98% Poor < 2.5
- Mexico: 41.05% Non-poor, 58.95% Poor < 2.5
- Peru: 29.12% Non-poor, 70.88% Poor < 2.5
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

<table>
<thead>
<tr>
<th>BEFORE</th>
<th>y&lt;1.25</th>
<th>1.25&lt;y&lt;2.50</th>
<th>2.5&lt;y&lt;4</th>
<th>4&lt;y&lt;10</th>
<th>10&lt;y&lt;50</th>
<th>y&gt;50</th>
<th>Total</th>
<th>% of population</th>
<th>Average BEFORE IncomeUS $PPP/day</th>
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<tr>
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<td>13.5</td>
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<td>100</td>
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Thank you