The Distributional Impact of Taxes and Transfers. Evidence from Eight Low & Middle Income Countries (edited by Gabriela Inchauste and Nora Lustig)

Nora Lustig
Samuel Z. Stone Professor and Director of CEQ Institute
Tulane University
Nonresident Senior Fellow CGD and IAD
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CEQ Institute: Brief Description

**Project** started in 2008, at the Inter-American Dialogue; in 2009, it was nested at Tulane University and CGD became a partner.

**Mission:** The CEQ Institute works to reduce inequality and poverty through comprehensive and rigorous tax and benefit incidence analysis, and active engagement with the policy community.

**Objective:** To measure the impact of fiscal policy on inequality and poverty across the world using a comparable framework.

**Workstreams:**
- Research-based policy tools
- [Data Center](#)
- Advisory and training services
- Bridges to policy

- Grant from Bill & Melinda Gates Foundation US$4.9 million for 5 years (2016 – 2020)
CEQ Institute: Brief Description

• Working on close to 40 countries; covers around two thirds of the world population
  • Results available for 30 => Data Center
• Nonresident Research Associates and over 100 collaborators
• Collaborative efforts and partnerships with multiple organizations: ADB, AfDB, CAF, IDB, IMF, ICEFI, OECD, Oxfam, UNDP, UNICEF,
  • => World Bank
• Utilized by governments
• Working Paper series and numerous scholarly publications
CEQ Institute and World Bank

- Collaboration started in LAC: Chile, Colombia, DR, Mexico, Paraguay
- Joint project launched in 2013
- Collaborating in other countries: Albania, Egypt, several countries from Africa
- WB staff members Francisco Ferreira, Luis F. Lopez-Calva, and Jaime Saavedra members of the technical Advisory Board since 2008
- CEQ-WB Partnership
  - => Data Sharing Agreement (together close to 80 countries covered!)
http://www.commitmenttoequity.org/
CEQ HANDBOOK


• Theoretical aspects of fiscal incidence analysis
• Practical guidelines
• Applications
• User-written software
• Master Workbook of Results
Methodological Innovations in Progress

• Measuring education and health benefits using willingness to pay and returns
• Assessing fiscal, demographic and natural capital sustainability of redistributive policies
• Measuring the intertemporal redistributive effects of contributory pensions and other contributory systems
• Modeling behavioral responses
• Microsimulations
• Correcting for under-reporting of top incomes
• Benefits from investment in infrastructure
CEQ Assessment: Income Concepts

Market Income →

Plus Direct Transfers Minus Direct Taxes →

Disposable Income →

Plus Indirect Subsidies Minus Indirect Taxes →

Consumable Income →

Plus Monetized Value of Public Services: Education & Health →

Final Income

Source: Lustig (2018)
Redistributive Effect: 30 countries; EU & US
(Change in Gini: market income plus pensions and market income to disposable income, circa 2010)

(rank by redistributive effect (left hand scale); Gini coefficients right hand scale)

Source: Lustig (2018)
More Unequal, More Social Spending/GDP

Contributory pensions as deferred income

\[ y = 0.213x^{***} + 0.001 \]

(2.88)  (0.03)

\( R^2 = 0.2285 \)

Source: Lustig (2018)
More Unequal, More Redistribution

Redistributive effect = Gini market income plus pensions less Gini final income (ppts)

\[ y = 0.2754x^{**} - 0.0635^{*} \]

\[ (3.79) \quad (-1.82) \]

\[ R^2 = 0.3391 \]

Source: Lustig (2018)
Impact on Inequality of Fiscal Interventions

• Direct taxes are equalizing
• Direct transfers are always equalizing
• Indirect taxes can be equalizing *(surprised?),*
• Indirect subsidies are often equalizing *(surprised?)*
• Education spending is always equalizing with exception of Ethiopia
• Health spending is always equalizing with exception of Jordan
CEQ Assessment: Income Concepts

MARKET INCOME

PLUS DIRECT TRANSFERS MINUS DIRECT TAXES

DISPOSABLE INCOME

PLUS INDIRECT SUBSIDIES MINUS INDIRECT TAXES

CONSUMABLE INCOME

Source: Lustig (2018)
Fiscal Policy and Poverty Reduction

Poverty line $1.25 dollars 2005 PPP/day; in % and for the scenario of contributory pensions as deferred income

(ranked by poverty reduction in %; poverty line $1.25 dollars 2005PPP/day)

Source: Lustig (2018)
Fiscal Policy and Poverty Reduction
Poverty line $4 dollars 2005 PPP/day; in % and for the scenario of contributory pensions as deferred income

(ranked by poverty reduction in %; poverty line $4 dollars 2005PPP/day)

Source: Lustig (2018)
In Conclusion...

• Fiscal systems are always equalizing but can often reduce the purchasing power of the poor
  ➢ Warning: unintended consequence of the domestic resource mobilization agenda can be making the poor worse off

• Spending on education and health is often pro-poor and almost universally equalizing
  ➢ Warning: is this favorable result because middle-classes and the rich are opting out?
Thank you!
Teams and References by Country
(the year for which the analysis was conducted in parentheses);
C=consumption & I=income


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9. **Ecuador (2011-12, I):** Llerena Pinto, Freddy Paul, Maria Cristhina Llerena Pinto, Roberto Carlos Saa Daza and Maria Andrea Llerena Pinto. 2015. “Social Spending, Taxes and Income Redistribution in Ecuador.” CEQ Working Paper 28 (Center for Inter-American Policy and Research and Department of Economics, Tulane University and Inter-American Dialogue), February


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