



Issues to be considered when designing redistributive fiscal policy

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Scope of government spending to address income inequality

- ❑ Government spending to address income inequality should be considered in a broader view:
 - Social spending (social transfers, health, education):
Directly impact household income
 - Capital spending (subsidized interest rate, public investment in roads, infrastructure system, etc.):
Indirectly impacts household income through economic development and job creation
- Capital spending should be focused on disadvantageous areas to promote economic development and household income

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Institutional arrangement

- ❑ Role of central government and local government in designing redistributive fiscal policy
 - Depends much on countries' fiscal decentralization policy
 - Highly-centralized countries: Top-down approach
 - Legislative body determines both tax and expenditure policies, including conditional transfer programs
 - Local governments have little capacity in policy designing
 - Central government spending decisions may fail to meet local preferences
 - Reduce fiscal redistributive efficiency

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Policy enforcement (1)

- Level of administrative capacity
- Coordination between government agencies responsible for various conditional transfer programs:
Duplication and overlapping in policy implementation
 - Duplication in administrative costs
 - Duplication in targeted groups
 - Waste in public expenditure

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Policy enforcement (2)

- Capacity to benefit from redistributive fiscal policy by disadvantaged groups
 - The most disadvantaged and poorest groups are usually located in remote areas, which limits their access to education and healthcare system
 - Limited access to basic services under economic pressures (e.g. the poor cannot afford education/medical expenses even though they are subsidized)
- Adverse effects, where the policy incidence are those who are better off

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Local government's fiscal capacity

- Difference in fiscal capacity between local governments due to difference in development level and pattern of consumption and investment
 - Richer provinces can invest more in education, healthcare, etc., which help to reduce inequality in the future
- Poorer provinces need transfers from central government to finance local needs
- The role of institutional arrangement in designing redistributive fiscal policy

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Job creation policy

- In the course of development, many people, especially farmers and unskilled workers, become unemployed
- Increase income inequality
- Job creation policy plays an important role in addressing income inequality
 - Direct measures: Finance training programs for the poor and disadvantaged people; support job seeking, etc.
 - Indirect measures: Expansionary fiscal policy (increasing public investment or tax reduction) to promote investment and job creation; interest subsidy for households and small businesses; investment in infrastructure so that households in remote areas can have better market access, etc.

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Moral hazard problem

- Many social benefits are means-tested to focus on the poor and disadvantaged people who need support and avoid better off beneficiaries
- Moral hazard problem may occur when some people do not have incentive to work and do not want to graduate from means-tested redistributive policies
- Even local governments enjoying poverty status to receive more transfer from central government

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Thank you!

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