

Social Spending, Distribution and Equal Opportunities

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Poverty Reduction and Equity

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Countries”

Increasing attention to inequality and fiscal policies when international income inequality is declining?

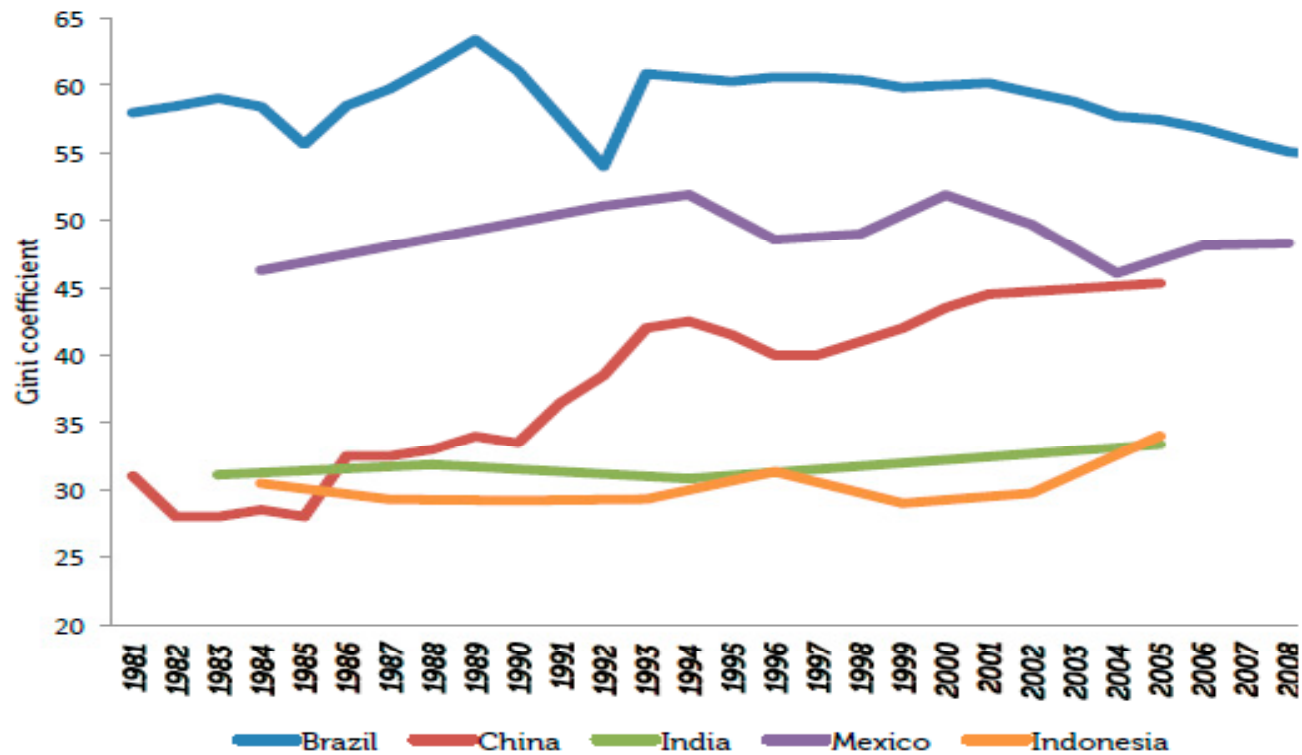
International Income Inequality



B. Milanovic (2012) "Global income inequality by the numbers: in history and now". WB PRWP 6259

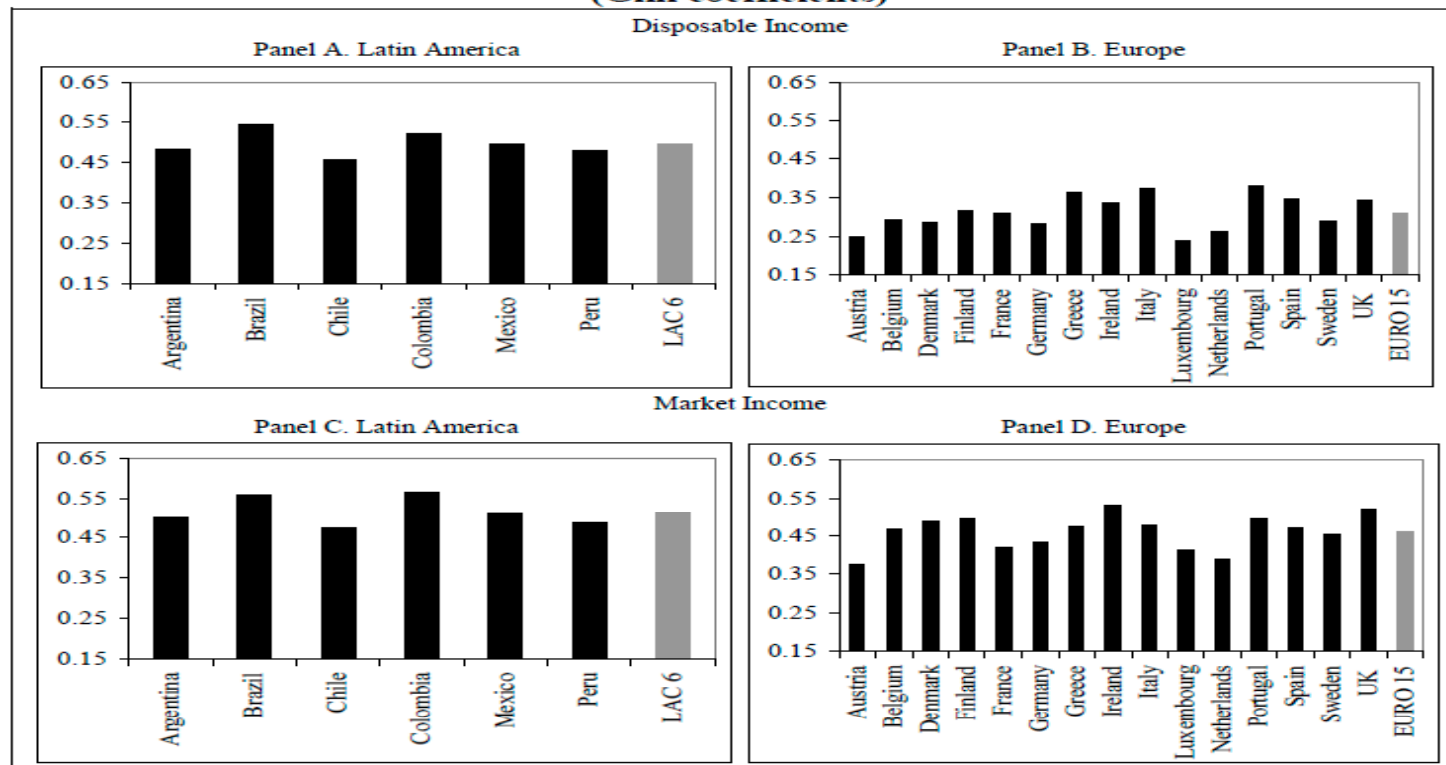
Declines are not uniform across countries

Inequality in Selected Developing Countries



Fiscal policies may play a significant role

Figure 1. Inequality of Disposable and Market income in Latin America and Europe (Gini coefficients)



Distributive effects of fiscal policies

- **The Conventional Wisdom**
 - Progressive direct taxes, regressive indirect taxes
 - Spending more redistributive than taxes
 - Progressive spending on primary services, regressive on tertiary services
- **Conventions increasingly challenged**
 - Variations between developed and developing countries (Bastiagli et al, 2012)
 - Variations across developing countries (Lustig et al 2011)

The key policy issue

- **No global consensus on level of “desirable” inequality**
- **Nor a global consensus on the “desirable” role of fiscal policies:**
 - **Separate roles of taxes (revenue collection) and spending (redistribution)?**
 - **OR both taxes and spending should be equalizing?**
- **A stronger consensus around equal opportunities**

Three practical issues

- **Traditional incidence analysis needs more “resolution”**
 - More tax and spending categories
 - Better sub-national information
 - Better identification of vulnerable groups
- **Include a long(er) term horizon**
 - Go beyond short term immediate effects
- **From diagnosis to guiding policy making**
 - Provide “value added” information to take decisions

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Some proposed changes

- Build from the **traditional** BIA analysis
- Go beyond outcomes into **opportunities**
- Opportunities today relate to **outcomes tomorrow**
- Income (C, W) not useful in identifying **vulnerable groups**
- Rather, **circumstance groups**
- **So what?** Need to improve not only diagnosis but policy (targeting and C/B of simulated spending reforms)

Equality of Opportunities 101

Opportunities

- Basic services that society agrees are critical for individual development and decent life
- Universality is a valid social objective
- Examples:
 - School attendance
 - Access to water, to sanitation, to electricity
 - All vaccinations complete
 - Assisted birth
 - Timely and affordable health care

Equality of Opportunities 101

Circumstances

- Characteristics outside the control of individuals
- Society wants these to not influence a child's access to basic opportunities
- Examples:
 - Gender
 - Parents' education, gender
 - Household's location
 - Number (order) of siblings, household composition
 - Ethnicity, religion

Equality of Opportunities 101

Equality of opportunities when

- an opportunity is achieved with the same level of effort across different circumstances
- Circumstances outside an individual's control should not determine the person's access to opportunities
- Only differences in effort, luck, unobservables (talent), choices (preferences) should determine differentials

A simple extension to BIA: Opportunity Incidence Analysis

- * **Step 1:** Estimate gross benefits from public service provision (on education, health...)
- * **Step 2:** Identify all beneficiaries of the service provision;
- * **Step 3:** Obtain gross unitary benefits, by dividing total benefits (from step 1) among total beneficiaries (step 2);
- * **Step 4:** Rank the identified beneficiaries in the household dataset according to their distribution of probability of access to a particular opportunity or by different circumstance groups.
- * **Step 5:** Assign the gross unitary benefit (as obtained in step 3) across the distribution of beneficiaries identified in the household dataset
- * **Step 6:** Calculate the out-of-pocket household per capita spending from the household dataset; and
- * **Step 7:** Subtract to the expenditure assigned as the benefit, the out-of-pocket household per capita spending. The resulting figure is the net unitary benefit per individual.

OIA – Education (Cote d'Ivoire)

Fig 1 Cote d'Ivoire, 2007 (attending school, age 6-15)

Fig 1a

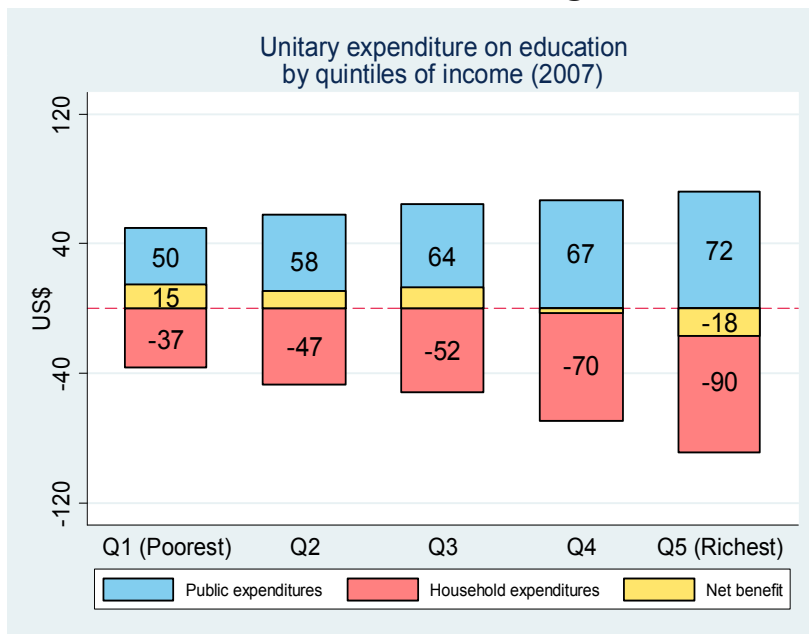
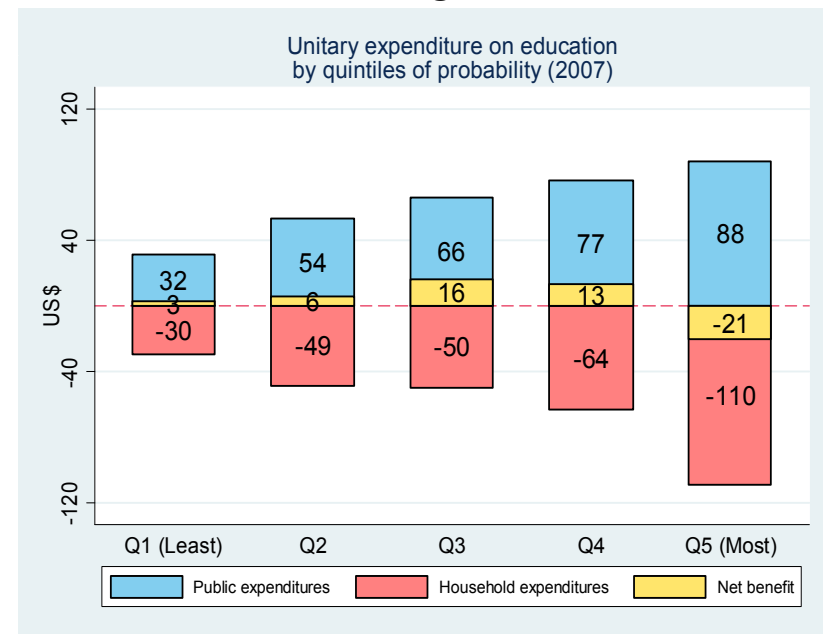
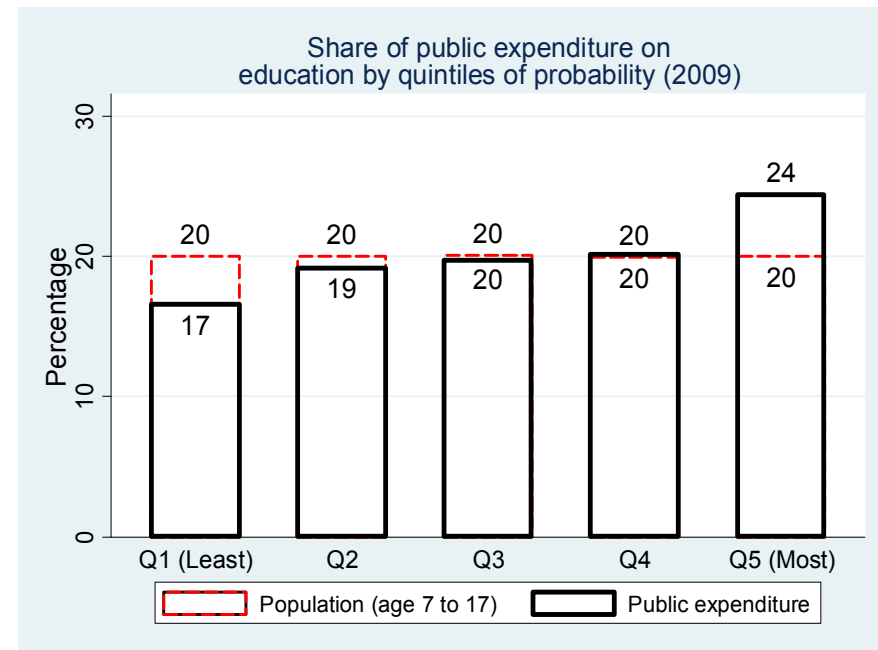
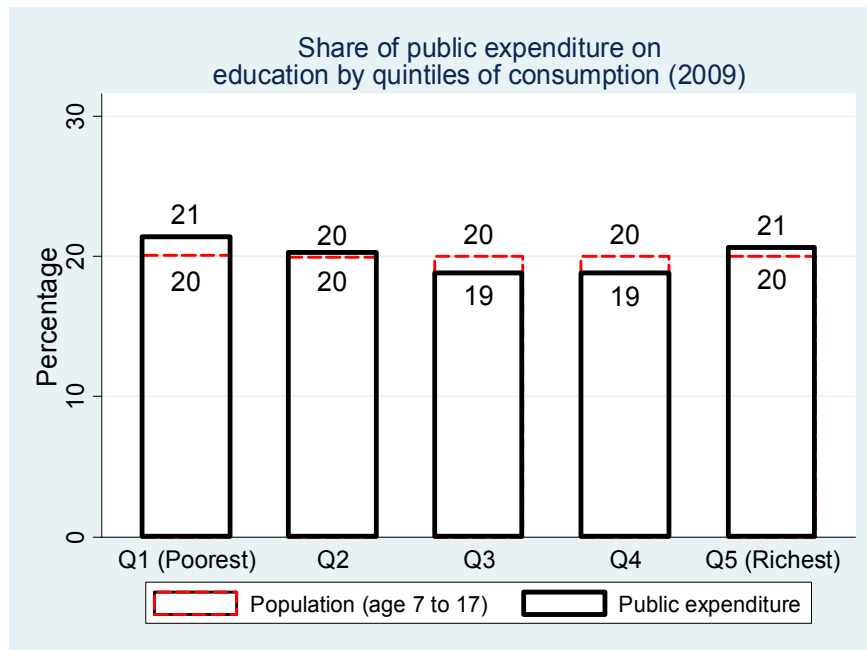


Fig 1b



Who gets what?

Fig 4 Tajikistan, 2007 (attending school, age 7-17)



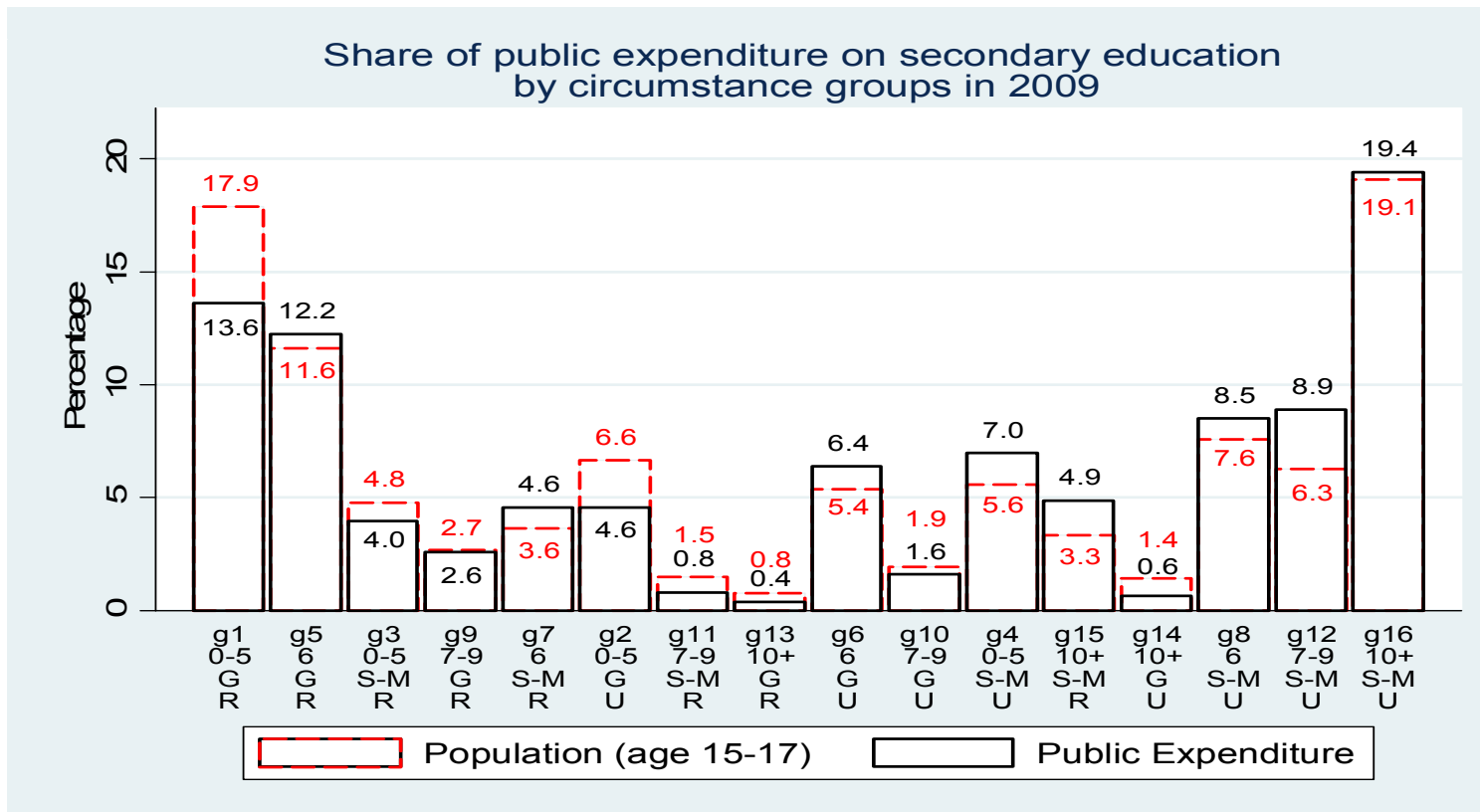
Tajikistan Living Standards Survey (2007), World Bank (2012), Abras, Cuesta and Tiwari (2012)

Policy Application 1: Improving Targeting

- Use circumstances as an additional criterion for targeting spending
 - Target resources to:
 - Low income levels
 - Groups with lowest access to a basic service
 - Groups with large gaps between benefit and population share
- AND**
- **Least favorable set of circumstances (i.e., to groups least likely to improve by themselves)**

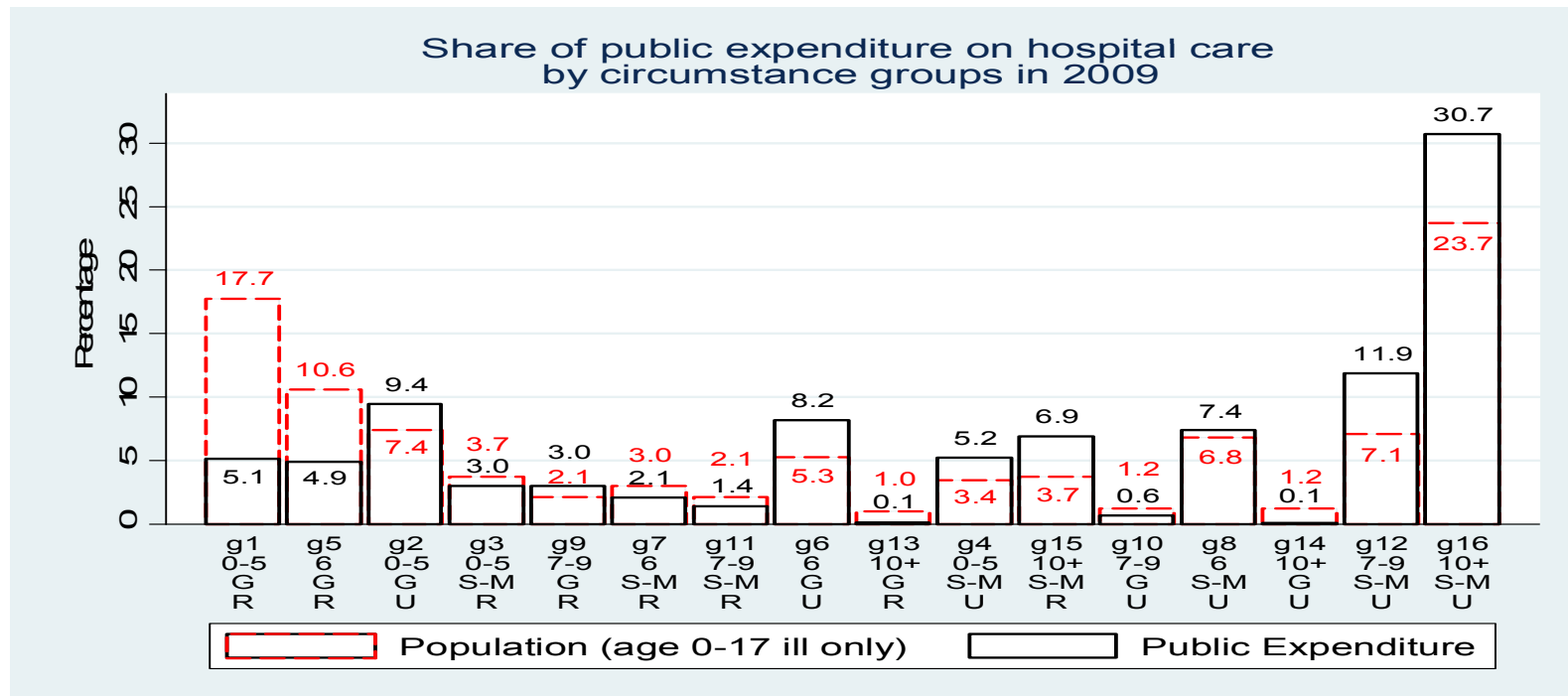
Policy Application 1: Improving Targeting (Paraguay)

Figure 12: Share of Public Spending on *Secondary* Education by Circumstance Group, Paraguay (age 15-17), 2009



Policy Application 1: Improving Targeting (Paraguay)

Figure 13: Share of Public Expenditure on Hospital Health Care by Circumstance Group, Paraguay, (age 0-17)



Policy Application 2: C/B of simulated spending reforms

- Simulate the effect on existing opportunity profiles after alternative spending reforms
- E.g.: Zambia, age 7-13, primary spending on education
 - Sim 1: Increase unitary benefits by 20% across the board
 - Sim 2: Return average fees to all students
 - Sim 3: Increase benefits 30% rural, decrease 10% urban
- Estimate:
 - Aggregated impact on opportunities
 - Impacts across circumstance groups (winners and losers)
 - Fiscal impact

Policy Application 2: Education spending in Zambia

Coverage (%)	Baseline (%)	Sim 1: increase of 20% of gross unitary benefit across the board	Sim 2: Average fees returned across the board	Sim 3: 30% increase in benefits to rural students and 10% decrease among urban students		
All	82.0	83.1	82.1	83.3		
Area of Residence						
Rural	78.0	79.3	79.9	78.0		
Urban	90.8	91.3	90.6	90.8		
Groups of circumstances (defined by household head's education, area of residence, sex of child)						
6th grade or less	Rural	Male	70.1	72.5	72.5	70.0
		Female	71.5	73.9	73.9	71.5
	Urban	Male	81.4	80.9	80.9	81.4
		Female	82.9	82.5	82.5	82.8
7th to 9th grade	Rural	Male	79.8	81.7	81.7	79.8
		Female	81.0	82.8	82.8	81.0
	Urban	Male	88.3	88.0	88.0	88.3
		Female	88.9	88.6	88.6	89.0
9th grade or more	Rural	Male	89.4	90.5	90.5	89.3
		Female	90.2	91.2	91.2	90.2
	Urban	Male	94.2	94.0	94.0	94.2
		Female	94.4	94.3	94.3	94.4
HOI	77.6	78.9	79.2	79.3		
Total fiscal cost (US\$ millions)	156.7	188.0	196.6	188.8		

Conclusions

- * Increasing attention to inequality and role of fiscal policies
- * OIA builds from conventional wisdom and BIA
- * As diagnostic tool: income matters but so other circumstances
- * As policy tool:
 - * Least favorable circumstances as additional targeting criterion
 - * Simulate spending reforms' impact on opportunities
- * Still need to make progress on better information, more comprehensive analysis and on tax and opportunities analysis



Many thanks

<http://www.worldbank.org/en/topic/poverty>