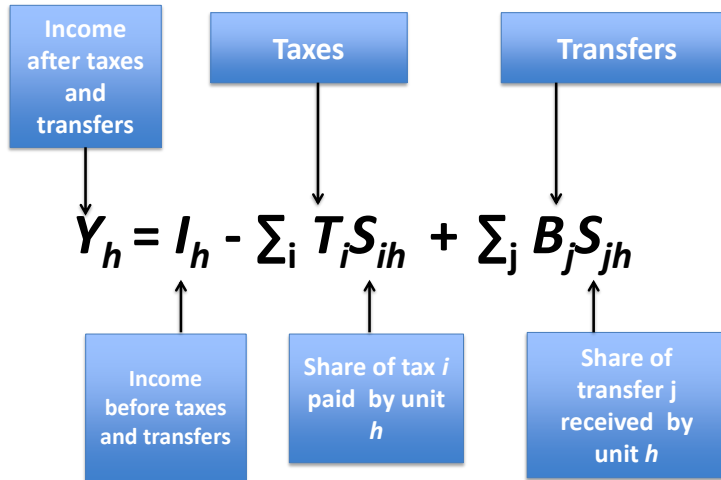


*Opening the fiscal channels on the budget constraint (Income Policies)

CEQ Assessment: Fiscal Incidence Analysis

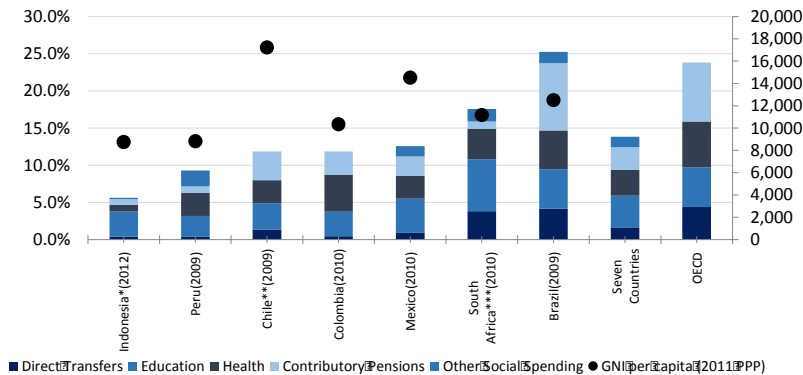


1

Figure 1: Size and composition of government budgets (circa 2010)

Panel a: Composition of Social Spending as a Share of GDP

(ranked by Social Spending/GDP)



Lustig, Nora. 2015b. [Inequality and Fiscal Redistribution in Middle Income Countries: Brazil, Chile, Colombia, Indonesia, Mexico, Peru and South Africa. Evidence from the Commitment to Equity Project \(CEQ\).](#)

Brazil spends (and taxes) as a rich country but its impact on inequality is rather small

2

Measuring the Social State

Three key indicators of a government's commitment to reducing inequalities, poverty and social exclusion

- The share of total income devoted to social spending and how it is financed
- How equalizing and pro-poor net spending is
- Who pays for what the government spends

www.commitmenttoequity.org

***COMPLEXITIES: Lambert's Conundrum

	ED	C	B	A	Total
Original Income x	10	20	30	40	100
Tax t	6	9	12	15	42
Transfer B	21	14	7	0	42
Net Income N	25	25	25	25	100

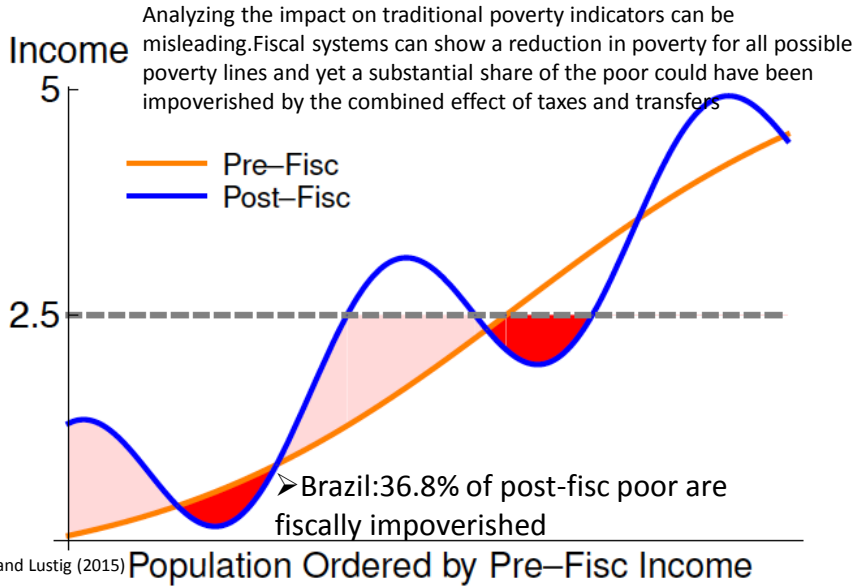
Source: Lambert, 2001, Table 11.1, p. 278

- The Redistributive Effect of the tax only in this example is equal to -0.05, highlighting its regressivity
- The Redistributive Effect of the transfer is equal to 0.19
- Yet, the Redistributive Effect of the net fiscal system is 0.25, higher than the effect without the taxes!

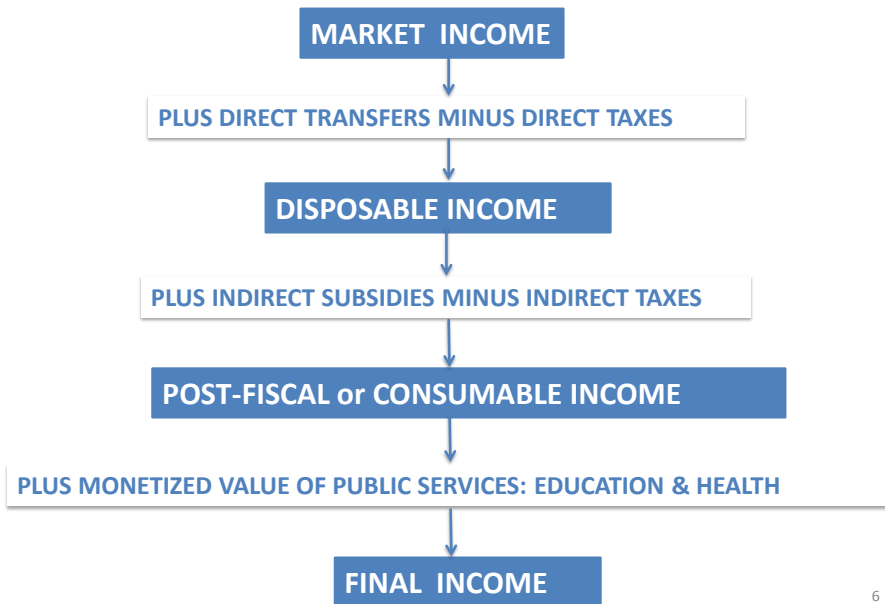
Taxes can be unequalizing by themselves but when combined with transfers make the system more equalizing than without the regressive taxes

- The US and the UK had regressive equalizing taxes in the past (O'Higgins & Ruggles, 1981)
- Chile's 1996 fiscal system had equalizing regressive taxes (Engel et al., 1999)

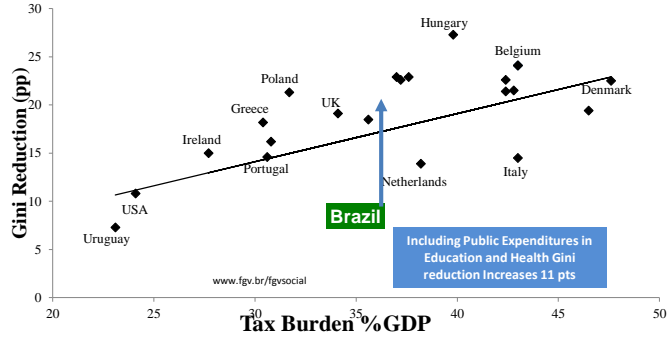
Fiscal Impoverishment and Fiscal Gains to the Poor



CEQ Assessment: Income Concepts



WHAT IS THE IMPACT OF TAXES AND CASH TRANSFERS (SUBSIDIES) IN INEQUALITY?



1. High Tax Burden and transfers constraint production and do not redistribute
2. Public Expenditures in Education and Health redistribute more, but has a low impact at the Brazilian productivity

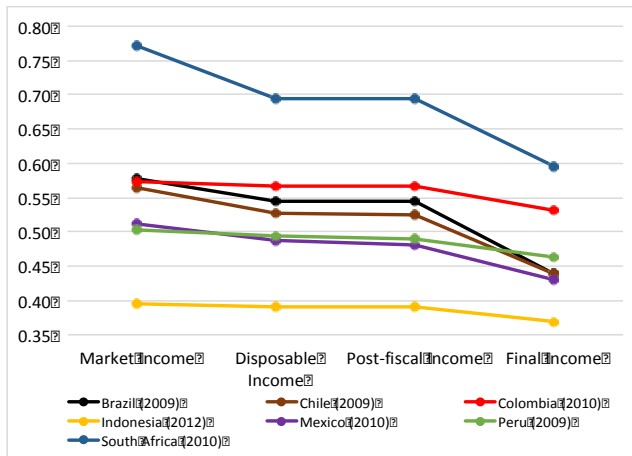


7

Fiscal Redistribution: Brazil, Chile, Colombia, Indonesia, Mexico and South Africa



Gini Coefficient, circa 2010



Source: Lustig (2015a)

8

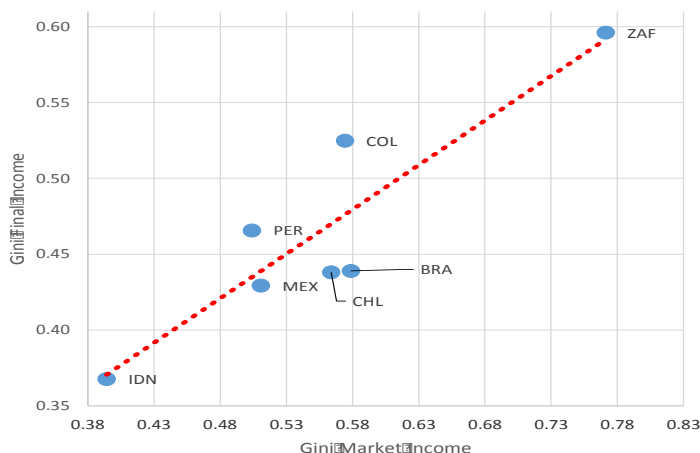


Do More Unequal Countries Redistribute More?

Robin Hood is With Us!

His true profession in Brazil is doctor or a teacher

B. Final income inequality and market income inequality



Source: Lustig (2015b)

9

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