Do more with less to face development traps and external challenges in LAC

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ECLAC Regional Seminar on Fiscal Policy
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• Macroeconomic conditions
• Social debt: citizens’ demand and middle class
• (Bad) Perception on institutions and public services
• Taxes

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LAC region: in 2019 GDP growth will be (again) below OECD average (since 2014)

The region is facing a less benign external context

Global trade and portfolio flows

A. Global trade
(Annual variation with three-month moving average)

B. Total emerging market portfolio flows reversals

Current account deficit coupled with low GDP growth

Latin America: Phases of external constraint and economic growth, 1960-2016

Under low and vulnerable economic growth

GDP growth in Latin American economies with alternative scenarios
(Annual percentage rate)

Despite improvements, restricted fiscal space

Gross public debt and primary fiscal balance in selected LAC countries
(Central government, percentage of GDP in 2016)

A larger middle-class is driving up aspirations and demands *(for good)*…

Latin American population by socio-economic groups

(% population)

- **Middle class (USD 13.00-70.00)**
- **Vulnerable (USD 5.50-13.00)**
- **Poor (under USD 5.50)**

*Note: The affluent, those that earn over 50 USD per day are not included.*

*Source: OECD/ECLAC/CAF based on LAC Equity Lab tabulations of SEDLAC (CEDLAS and the World Bank, 2017).*
Likewise, satisfaction with public services has declined

Satisfaction with selected public services in Latin America, Southeast Asia and OECD (% population)

A. Satisfaction with quality healthcare

B. Satisfaction with the educational system

Satisfaction with public medical and health services in Latin America, 2015
(% socio-economic group)

Lower trust and increasing dissatisfaction translate into lower willingness to pay taxes

Tax morale in Latin America
(Do you find it justifiable not to pay taxes?, % population)

Source: OECD/ECLAC/CAF own elaboration based on Latinobarometro.
Tax revenues in LAC have increased, but are still far below the OECD levels

Source: OECD/ECLAC/CIAT/IDB (2017), Revenue Statistics in Latin America and the Caribbean
The *institutional trap* in Latin America with low GDP growth and restricted macro conditions

- Unmet/Rising aspirations of the middle class
- Lower trust and increasing dissatisfaction
- Low tax revenues
- Lower tax morale
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To overcome the institutional traps: more quality spending in social protection is needed

Public social expenditure in OECD countries and LAC (% of GDP)

The region lags behind in key public investments as research and development

Research and development expenditure

Panel A. R&D expenditure

Panel B. R&D expenditure by source of funds, 2016

Therefore, LAC needs to do more with less

Examples on:

- Education
- Connectivity
- R&D
- Tax policy
School endowments and performance: Private vs. Public Schools

Performance differences between private and public schools before and after controlling ESCS

School endowments and performance: “soft policies” to increase performance

Effect on performance in mathematics
(in months of schooling, after a 1-s. d. change)

Some cost-effective pedagogical actions associated to quality of the educational system in Latin America...

...Whereas some traditional inputs not necessarily linked with performance.

Using “soft” policies: cost-effective policies to increase connectivity

Time to export, border compliance
(hours)

Source: World Development Indicators 2018
PPP costs can be costly to governments: To spend better through PPPs (more info needed)

Renegotiation costs of concession contracts in selected countries

Improve efficiency of R&D expenditure

Room to improve the use of taxes and transfers to reduce income inequalities

Impact of taxes and transfers on income distribution in Latin America, the European Union and selected OECD economies

Source: INEC (2016); Lustig (2017); OECD/CAF/ECLAC (2018); and Commitment to Equity (CEQ) Institute at Tulane University, New Orleans.
Improving tax expenditure information availability is critical to improving program targeting

Countries in which tax expenditure estimations are carried out by national institutions on a regular basis

- Argentina – MECON
- Bolivia – Ministry of Economy and Public Finances
- Brazil – Receita Federal
- Chile – Internal Revenue Service
- Costa Rica – Ministry of Finance
- Ecuador – Internal Revenue Service
- Dominican Republic – Ministry of Finance
- Guatemala – Tax Administration Agency
- Mexico – SHCP
- Peru – SUNAT
- Uruguay – DGI

Tax expenditure estimations are not regularly produced and their estimation is outsourced

- Colombia – World Bank (2012)
- Honduras – CIAT (2012)
- Nicaragua – (2010)
- Panama – (OECD MDCR 2018)
- Paraguay – GIZ, CIAT and SET (2015)
From a feared to an enabler tax collector, the Swedish example

If I had the opportunity, I would not declare taxable income
(Share that agree)

- **Private employment**
- **Public employment**
- **Self-employment**

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<th>Year</th>
<th>Feared tax collector</th>
<th>Popular service agency</th>
<th>Enabler</th>
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<td>2026</td>
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LAC needs innovative capacities to face internal traps and external uncertainty.
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Wealthier individuals opt out of public services into private services

Enrolment in private schools in Latin America, 2014
(% secondary students in private schools, by income quintile)

Case of Colombia: PPPs on road concessions

- Large part of State payments made through deferred funds
- Division between payments by the private and the State
- Value including renegotiations
- Total value of initial contract

Note: Values in Millions of constant Pesos of Dec/09
... and the perception of corruption is on the rise

Perception of corruption in government in Latin America, Southeast Asia and OECD (percentage)

Source: OECD/ECLAC/CAF own elaboration based on data from Gallup World Poll (2017)