

During the presentation, your microphone will be muted. Please use the chat button to send questions

During the Q&A please raise your hand (option in the 'reaction' tab) the chair will call on you to ask your question

This webinar will be recorded, and the recording will be added on UNU-WIDER YouTube channel



Think WIDER Webinar | UNU-WIDER | 13 December 2022

How can tax-benefit systems support households through crisis?

Presenter: Jukka Pirttilä

Panellists: Gioia De Melo (OECD), Murray Leibbrandt (University of Cape Town)

Chair: Ravi Kanbur



UNITED NATIONS
UNIVERSITY
UNU-WIDER

Tax-benefit goals

- One key objective: offer **social protection** to alleviate (chronic) poverty
- But also: offer **social insurance**
 - Cushioning against negative shocks , e.g. unemployment
- Can also be examined via the lens of **automatic stabilization**
 - Increase in benefits and reduction in taxes paid when incomes decline

Automatic stabilization in developing countries

- Examined by Adu-Ababio (2022) for three different countries: Ecuador, Ghana, South Africa using [SOUTHMOD](#) microsimulation models
- Calculates how well tax-benefit policies insulate households from shocks
- Can, in principle, range from 0 to 100%

If 0%: disposable income declines in 1:1 manner with market income

If 100%: disposable income stays constant despite drop in market income

Autom stabiliz in developing countries: Results

| | Ghana | Ecuador | South Africa |
|---|-------|---------|--------------|
| Share of income decline cushioned by taxes and benefits | 1% | 10% | 22% |

Calculated using a 5% decline in gross incomes. Source: Adu-Ababio (2022)

Autom stabiliz in developing countries: Results

| | Ghana | Ecuador | South Africa | EU | US |
|---|-------|---------|--------------|-----|-----|
| Share of income decline cushioned by taxes and benefits | 1% | 10% | 22% | 38% | 39% |

Calculated using a 5% decline in gross incomes.
Sources: Adu-Ababio (2022) and Dolls et al. (2012)

A specific shock: the coronavirus pandemic


- The extent of protection against the pandemic in 2020 has been studied by Lastunen et al. (2021)
- Simulations conducted for five countries in Africa (Ghana, Mozambique, Tanzania, Uganda, Zambia)
- Automatic stabilization very modest
- New COVID specific policies introduced during the year also barely reduced poverty (with the exception of Zambia)

Why so little automatic stabilization?

- Three key reasons
 1. Government size (and hence the level of taxes and benefits) smaller in developing countries
 2. Large share of workers in the informal sector; do not pay income taxes
 3. Many benefits not means tested
 - Rather: based on proxy means test (PMT): eligibility depends on proxies (e.g. asset ownership); requires data collection

Are there reform options?

Conceptual framework

- Provided by the optimal income tax work (Mirrlees 1971)
- Chosen redistribution 
 - pre-tax income differences increasing
 - Society puts a greater value on equal distribution
 - Negative impacts of tax on economic efficiency decline
- Likely implication (Miao et al. 2022): redistributive capacity should be increased, especially in the wake of the crisis

Targeted or more universal benefits?

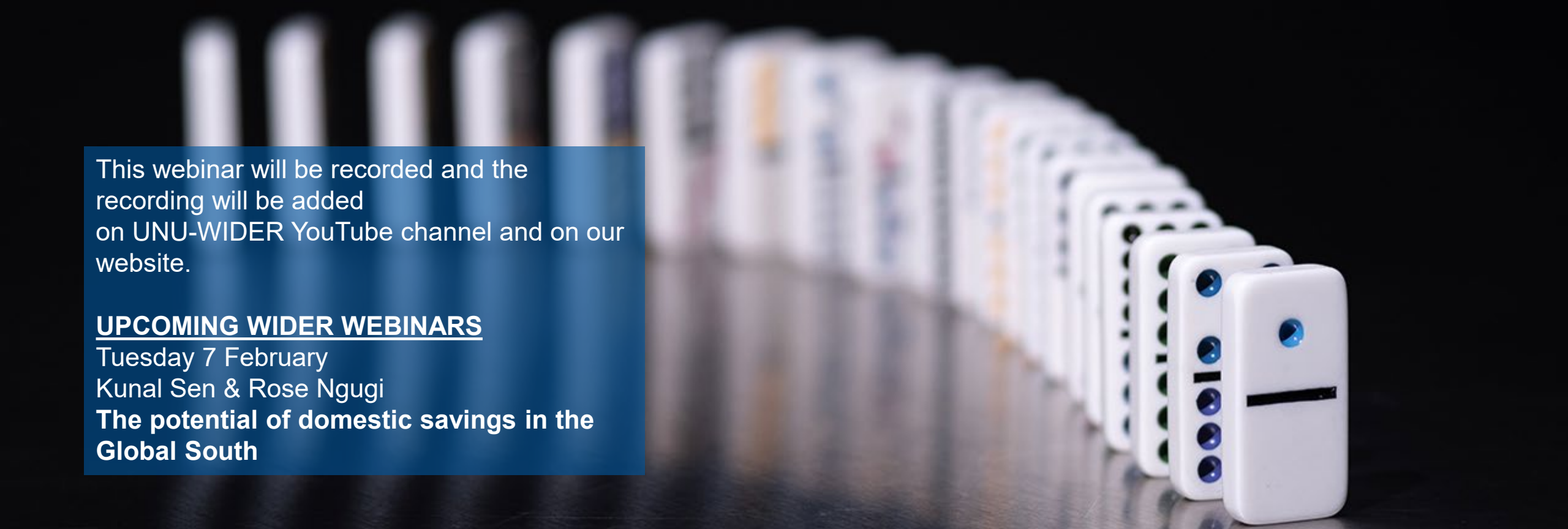
- If gross incomes difficult to observe, one can use
 - Targeted (proxy means tested) transfers
 - More universal benefits (to certain demographic groups or everyone)
- Trade-off:
 - Targeting to minimize poverty in "normal" circumstances
 - Shocks: the profile of the needy may change => A case for more universalism?

Ongoing work

- This is examined in Ethiopian context by Shahir et al. (2022)
- Two shocks investigated: COVID-19 and an agricultural shock
- Result: The increase in poverty smaller under a more universal system than in a targeted system

Conclusion

- Better social insurance system requires resources = revenues and the capacity to implement transfers
- The desirable scale of cushioning likely greater than the existing one
- More universal systems useful especially if shocks considerable and frequent



This webinar will be recorded and the recording will be added on UNU-WIDER YouTube channel and on our website.

UPCOMING WIDER WEBINARS

Tuesday 7 February

Kunal Sen & Rose Ngugi

The potential of domestic savings in the Global South

Think WIDER Webinar | UNU-WIDER | 13 December 2022

How can tax-benefit systems support households through crisis?

Thank you for joining!



UNITED NATIONS
UNIVERSITY
UNU-WIDER

Changes in income and the role of tax/ben policies (Source: Lastunen et al. 2021)

| | Pre-crisis | Crisis | Total change | Decomposition of total change | | |
|------------|------------|--------|----------------------------|-------------------------------|---------------------------------|-------------------------------------|
| | | | | Effect of COVID policies | Effect of automatic stabilizers | COVID-related reduction in earnings |
| Ghana | 2 744 | 2 692 | -50.6*** (-1.9%) | +1.3*** (+0.05%) | +4.0 (+0.2%) | -55.9 (-2.1%) |
| Mozambique | 526 | 489 | -36.9*** (-7.0%) | +0.8*** (+0.2%) | +3.2 (+0.6%) | -40.9 (-7.7%) |
| Zambia | 966 | 871 | -84.3*** (-9.8%) | +4.6*** (+0.5%) | +17.7 (+2.1%) | -106.6 (-12.4%) |
| Tanzania | 920 | 912 | -8.8*** (-0.9%) | - | +0.5 (+0.04%) | -9.3 (-0.9%) |
| Uganda | 704 | 665 | -41.2*** (-5.5%) | - | +7.5 (+1.0%) | -48.8 (-6.5%) |

References

Adu-Ababio, K. (2022) Microsimulation approaches to studying shocks and social protection in selected developing economies. WIDER WP 71/2022.

Dolls, M.; Fuest, C. Peichl, A. (2012) Automatic stabilizers and economic crisis: US vs. Europe. Journal of Public Economics.

Lastunen, J. et al. (2021) The mitigating role of tax and benefit rescue packages for poverty and inequality in Africa amid the COVID-19 pandemic. WIDER WP 148/2021.

Miao, D., Kanbur, R.; Pirttilä, J (2022) How Should an Optimal Tax System React to a Crisis? Simulation Results for Zambia. In Progress.

Mirrlees, J. (1971) An Exploration in the Theory of Optimum Income Taxation. Review of Economic Studies.

Shahir, A., Kanbur, R., Pirttilä, J.; Rattenhuber, P. (2022) The role of targeted versus universal benefits in times of crises. In progress.