

Democratically Institutionalized Emerging Countries: Should They Accept Responsibility for Sustainable Economic Activities?

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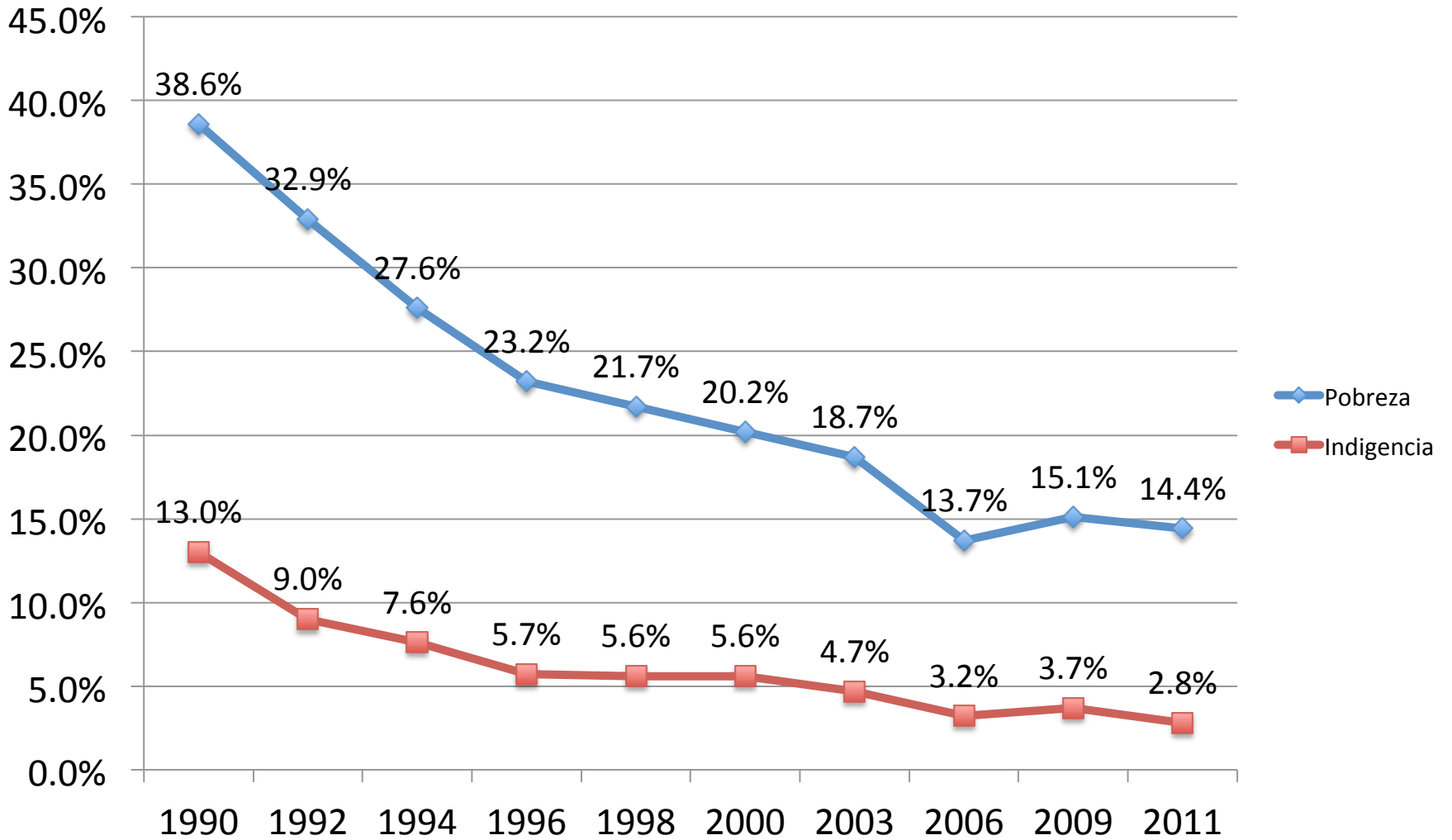
Topics to Discuss

1. Poverty
2. Inequality
3. Taxation
4. State Policies: Expenditures and Institutions
5. Democracy

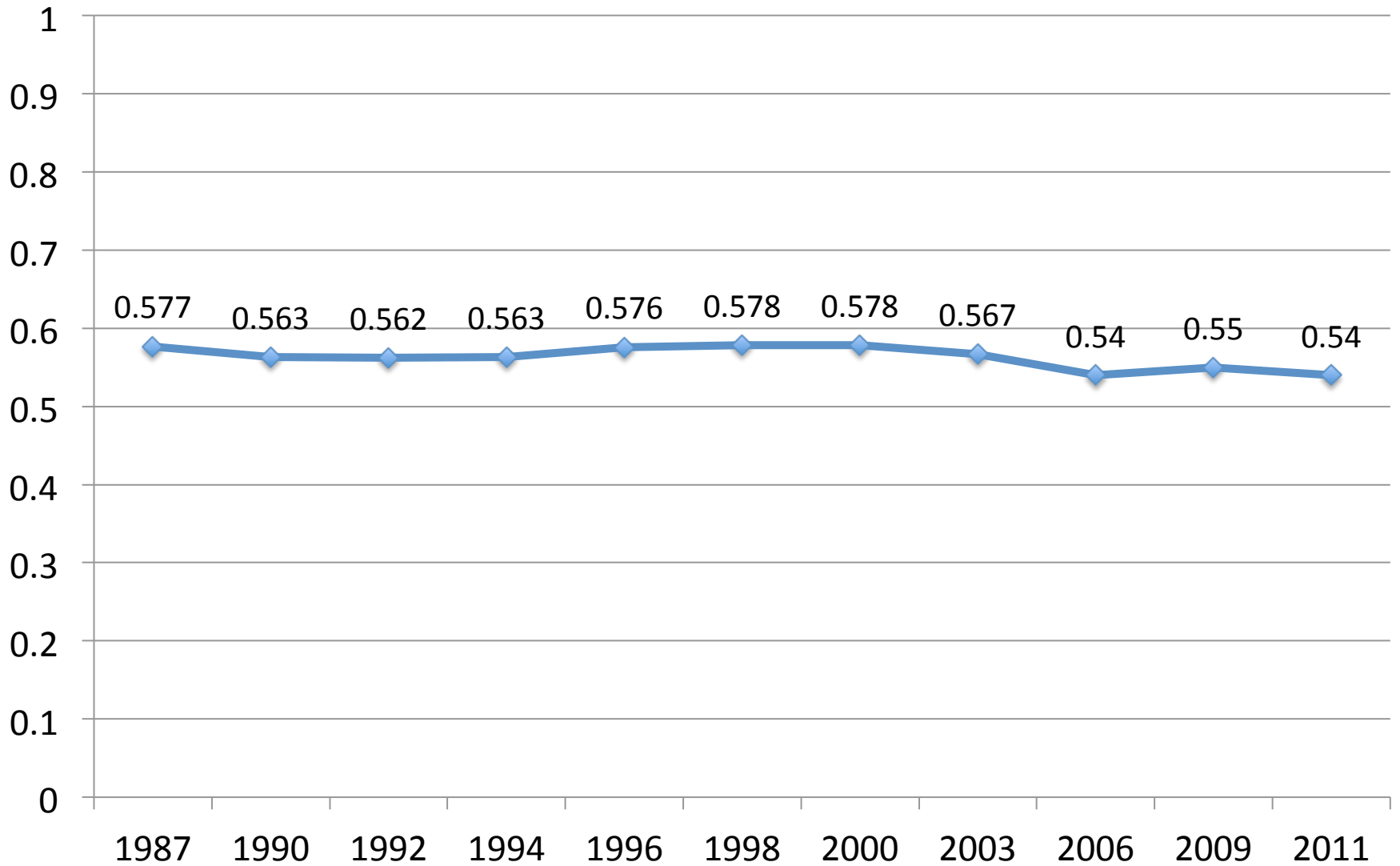
Economic Growth and Income

- Free open market policies have increased economic growth rates in Latin America
- Income per capita in Chile increased from US \$3000 in 1985 to US\$17000 in 2011
- Poverty decreased from 38.6% in 1990 to 14.4% in 2011

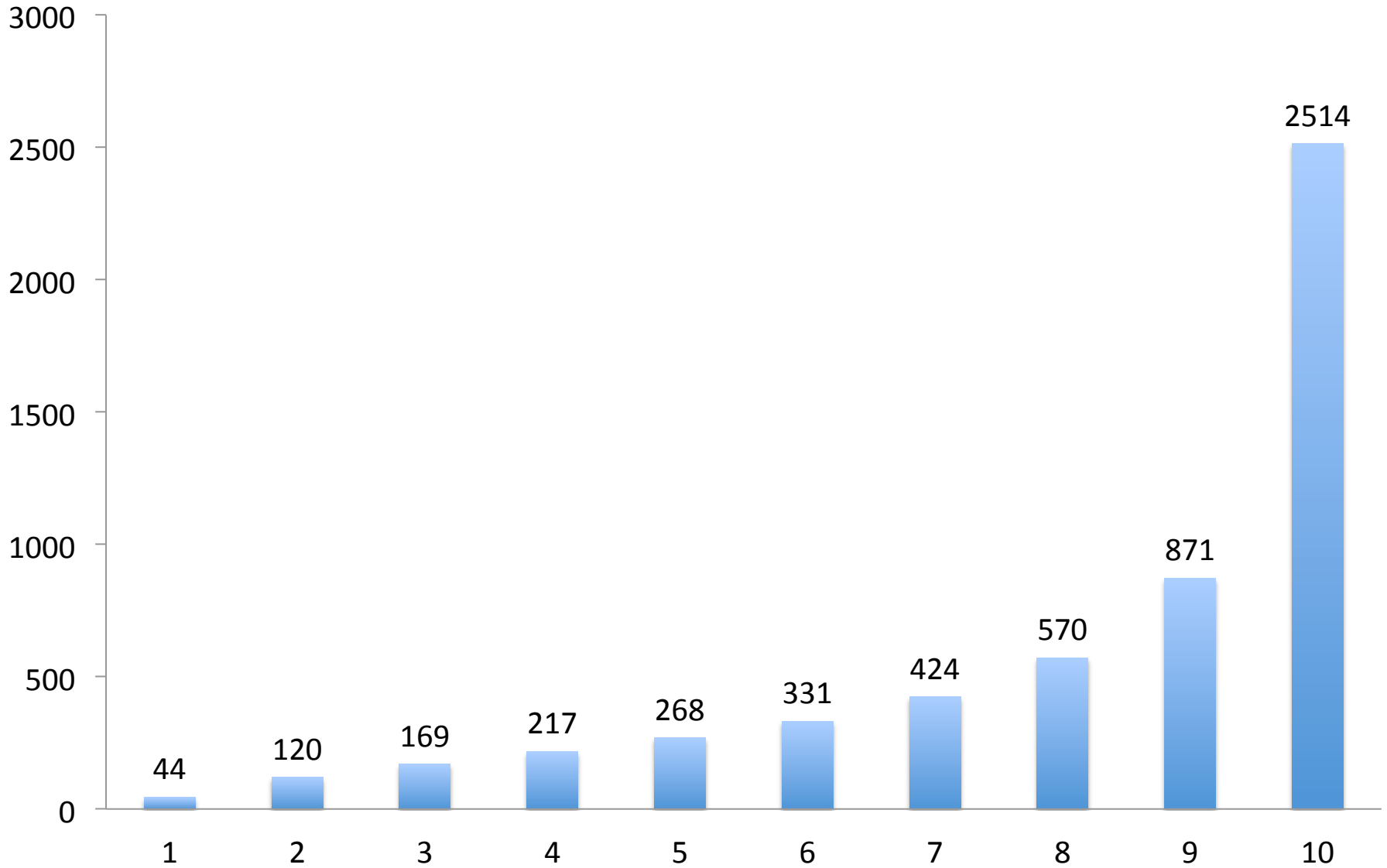
Poverty and Indigency



Inequality



Household Monthly Income Per Capita in 2011 (US\$)



Income per Capita in Chile by Decile

Income Decile	Income per Capita similar to:
10	Norway, Singapore
9	Croatia, Slovakia
8	Argentina, Mexico
7	Kazakhstan
6	Peru
5	Salvador
4	Angola
3	Sri Lanka
2	Congo
1	Ivory Coast

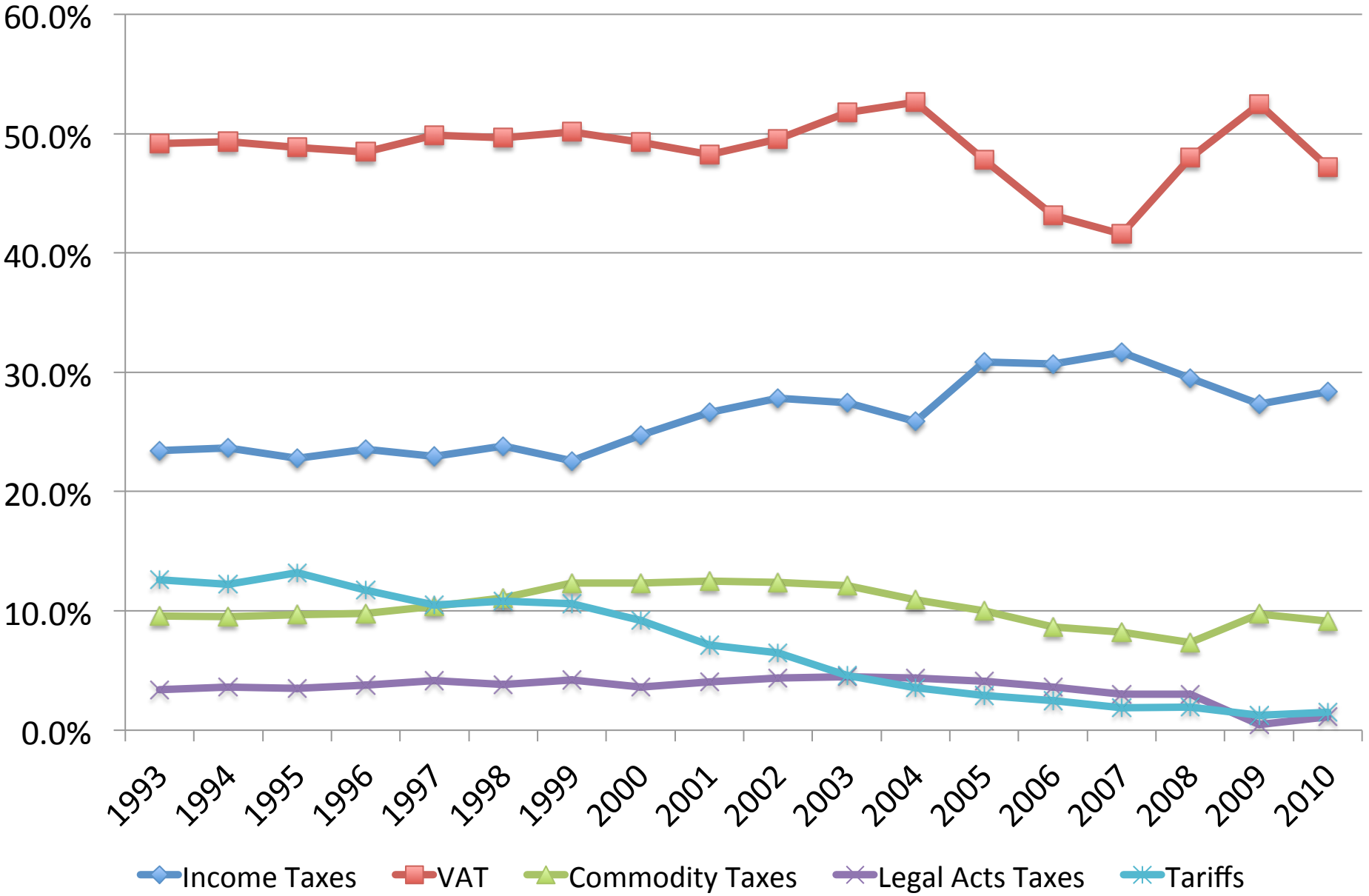
Inequality is not only about Income

- It affects quality of life and opportunities:
 - Education
 - Transport
 - Health
 - Access to justice
 - Recreation
 - Green areas

Taxation

- A large fraction of tax revenue comes from VAT which is efficient but regressive
- Minor role for income taxes. There are too many loopholes, several of them associated to pressure groups
- The goal should be to have a fair, simple and efficient tax system
- Income tax can play an more significant role for income redistribution

Tax Revenue Composition (%)



Taxes and Redistribution

	Gini	Q5/Q1
Before Taxes	0.5223	17.04
After VAT	0.5445	20.73
After Income Taxes	0.5073	15.92
After Commodity Taxes	0.5234	17.21
After All Taxes	0.5302	19.64

State Policies and Institutions

- Social Policy has consisted mostly on cash and in kind transfers. As poverty decreases the focus has been on good targeting
- The problem is long run effects of some of these policies:
 - Housing policy created segregated cities and social exclusion
 - Transport investment in cities, mostly in urban highways, reinforces segregation and benefits the top quintile of the income distribution
- Social policy should switch to creating capabilities an opportunities as a focus more than current income

Government Policies and Institutions

- Competition Policy is a crucial component of a social market economy, but it is challenging to implement one in a very unequal society
- Inequality comes partially from economic rents from either not very competitive markets or just from anticompetitive practices
- Interest groups can prevent the implementation of a strong competition policy
- Consumer protection policies and regulatory policies face a similar challenge

Democracy

- There is a large majority in Chile supporting:
 - Tax reform
 - Investing in public education
 - Public transport
 - Stronger competition policies
- But a powerful minority can prevent those changes from happening in a very unequal society
- A good example is gasoline taxes: efficient, reduce pollution and congestion and in Chile is a progressive tax. However, congress keeps reducing it.

Democracy

- Institutions matter to sustain democracy:
 - Campaign financing
 - Lobby regulations
 - Transparency and conflicts of interest
- Only 48% of people 18-29 years old values democracy as the most preferable form of government









Ethical Reasons for Redistribution

- Justice: even though there are different conceptions about distributive justice, there is at least one common support: equality of opportunities
- Income and wealth distribution in Latin America, in general, is unfair because there are inequalities of opportunities. The playing field is not leveled and, therefore, high income groups are the winners in a very unfair competition.
- Income redistribution levels somehow the playing field, and this is very important for the equality of opportunities in the future.
- Reductions in inequality would enhance social cohesion while also improving individual wellbeing.

The Challenge for the Future

- High and persistent inequality can destroy a social market economy and also democracy
- Therefore, the challenge is not only about sustainable economic growth
- It is not only about environmental sustainability either
- It is also about a market economy which is “Socially sustainable” and “Democratically sustainable”