Topic 12 (Part1): Poverty, Inequality and Redistribution

EE441

Outline

1. Concepts in Inequality and Poverty
2. Overview & Observations of Data
3. Redistribution, Policy Options Discussion

The Growth Controversy: Seven Critical Questions

- What is the extent of relative inequality, and how is this related to the extent of poverty?
- Who are the poor?
- Who benefits from economic growth?
- Does rapid growth necessarily cause greater income inequality?
- Do the poor benefit from growth?
- Are high levels of inequality always bad?
- What policies can reduce poverty?

Measuring Inequality

Measuring Inequality

- size distributions

TABLE 6.1 Typical Size Distribution of Personal Income in a Developing Country by Income Shares—Quintiles and Deciles

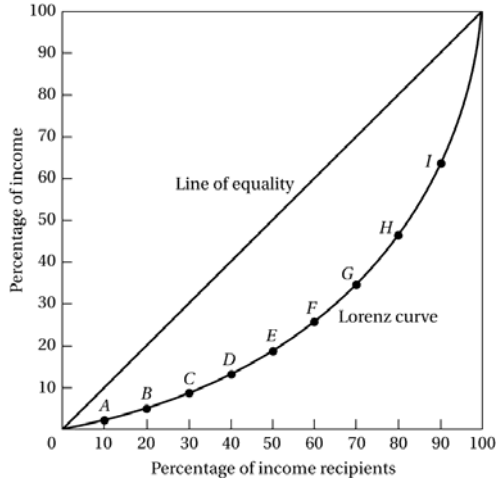
Individuals	Personal Income (money units)	Percentage Share in Total Income: Quintiles	Percentage Share in Total Income: Deciles
1	0.8		
2	1.0		1.8
3	1.4		
4	1.8	5	3.2
5	1.9		
6	2.0		3.9
7	2.4		
8	2.7	9	5.1
9	2.8		
10	3.0		5.8
11	3.4		
12	3.8	13	7.2
13	4.2		
14	4.8		9.0
15	5.9		
16	7.1	22	13.0
17	10.5		
18	12.0		22.5
19	13.5		
20	15.0	51	28.5
Total (national income)	100.0	100	100.0

Note: Measure of inequality = ratio of bottom 40% to top 20% = 14/51 = 0.28.

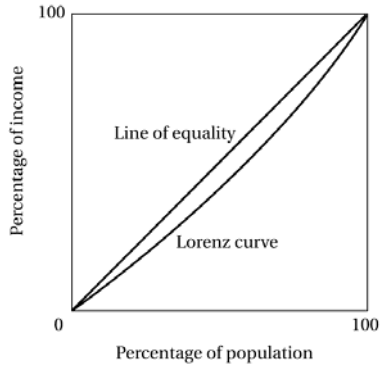
Measuring Inequality

Measuring Inequality
- size distributions
- Lorenz curves

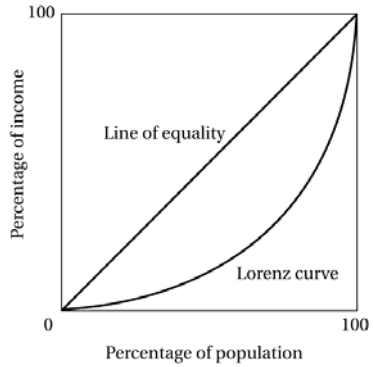
The Lorenz Curve



The Greater the Curvature of the Lorenz Line, the Greater the Relative Degree of Inequality



(a) A relatively equal distribution

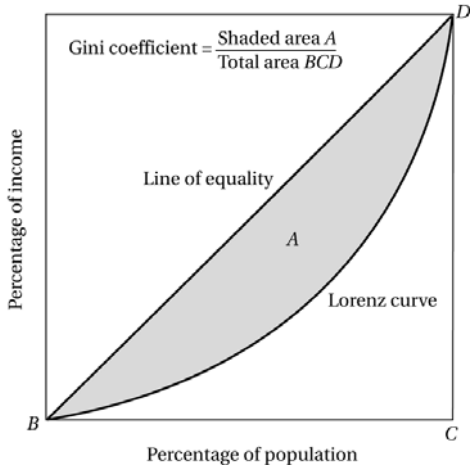


(b) A relatively unequal distribution

Measuring Inequality

Measuring Inequality
- size distributions
- Lorenz curves
- Gini coefficients and aggregate measures of inequality

Estimating the Gini Coefficient

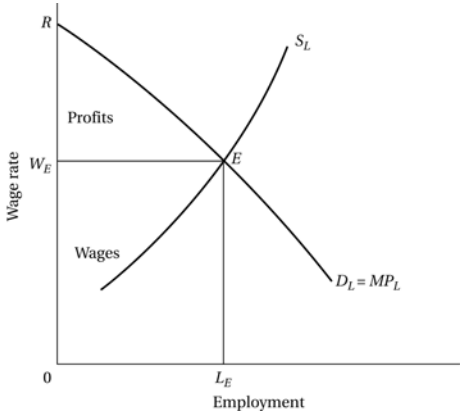


Measuring Inequality

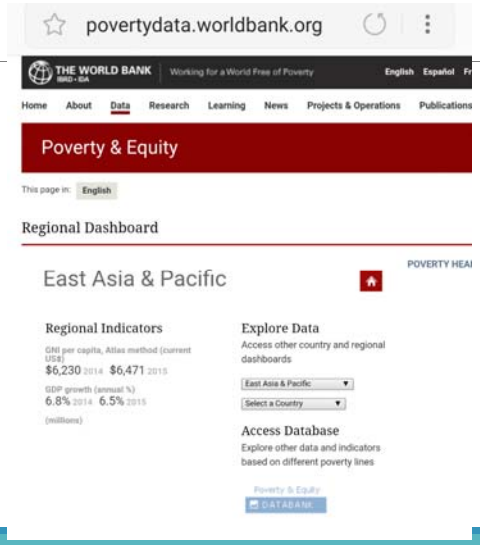
Measuring Inequality
- size distributions
- Lorenz curves
- Gini coefficients and aggregate measures of inequality

- functional distributions

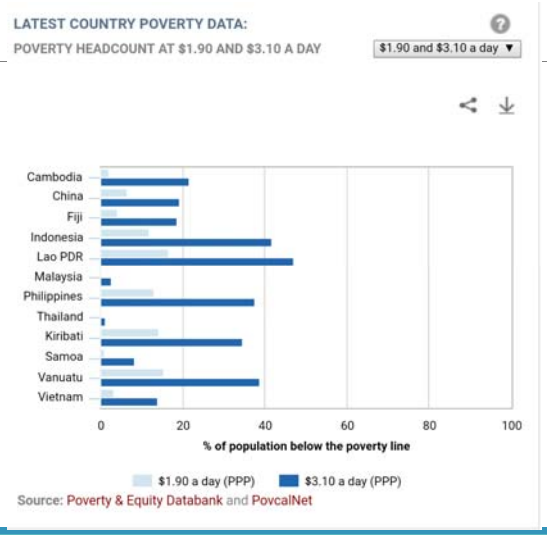
Functional Income Distribution in a Market Economy: An Illustration



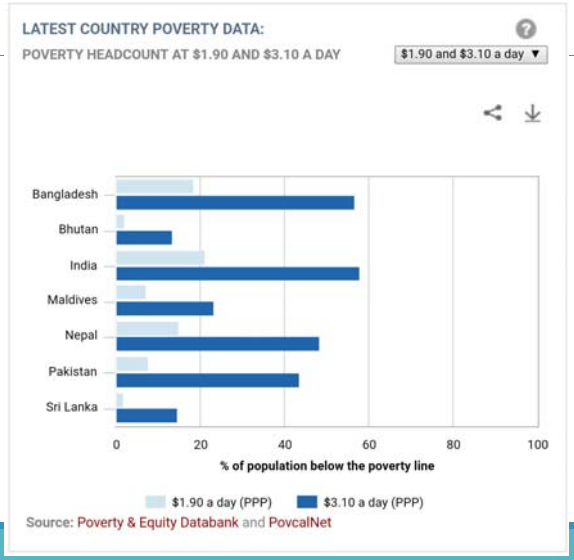
Data Sources



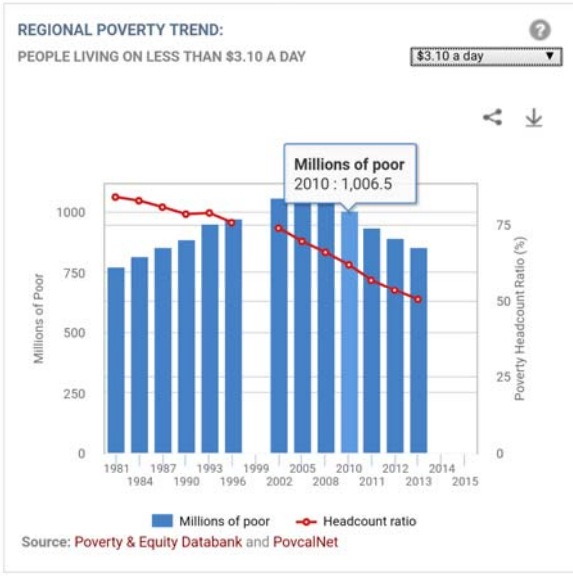
East Asia & Pacific



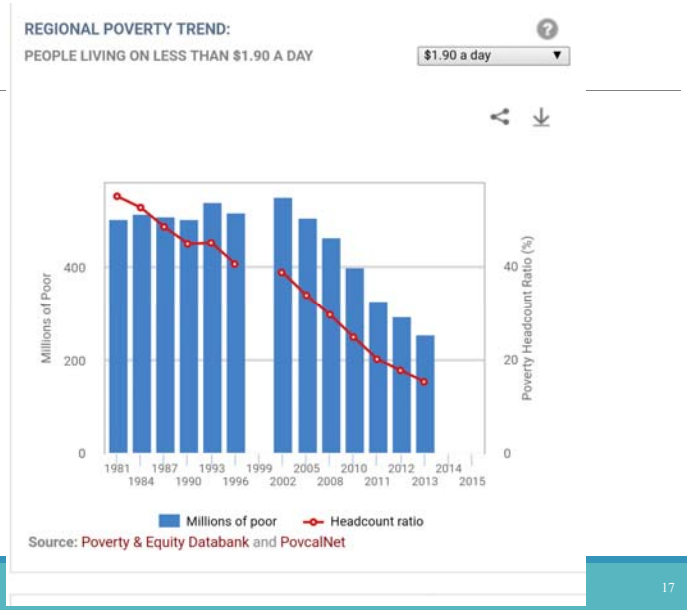
South Asia



South Asia



South Asia



Measuring Poverty

Measuring Absolute Poverty

- Total poverty gap

$$TPG = \sum_{i=1}^{H} (Y_p - Y_i)$$

where Y_p is the absolute poverty line
Y_i is income of person i

Measuring Poverty

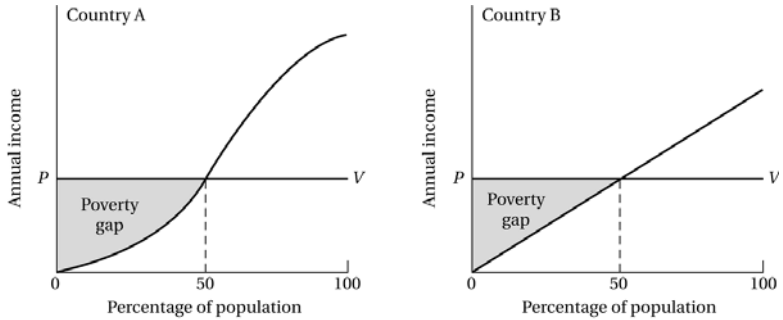
Measuring Absolute Poverty

- Average poverty gap

$$APG = \frac{TPG}{H}$$

where H is number of persons
TPG is total poverty gap

Measuring the Poverty Gap



(a) A relatively large poverty gap
(b) A relatively small poverty gap

Measuring Poverty

Measuring Absolute Poverty

- Total poverty gap
- Average poverty gap
- Foster-Greer-Thorbecke measure

Measuring Poverty

Measuring Absolute Poverty

- Foster-Greer-Thorbecke (FGT)measure

$$P_\alpha = \frac{1}{n}\frac{\sum_{i=1}^{H}(Y_p - Y_i)^\alpha}{Y_p}$$

- If alpha is low, then FGT metric weights all the individuals with income below Yp roughly the same.
- The higher the value of alpha, the greater the weight place on the poorest individuals.
- The higher FGT statistic, the more poverty there is in an economy.

Problems in Poverty Line Measurement

The poverty line has remained a mainstay of most countries' public policy, with its exact placement influencing so much of government spending each year.

There have been three types of criticisms:

Bundle Has Changed

- For example, the share of food in family consumption has fallen over time relative to clothing, shelter, medical care, and other goods. As a result, using the cost of food times three is no longer an appropriate way to compute a minimum standard of living.

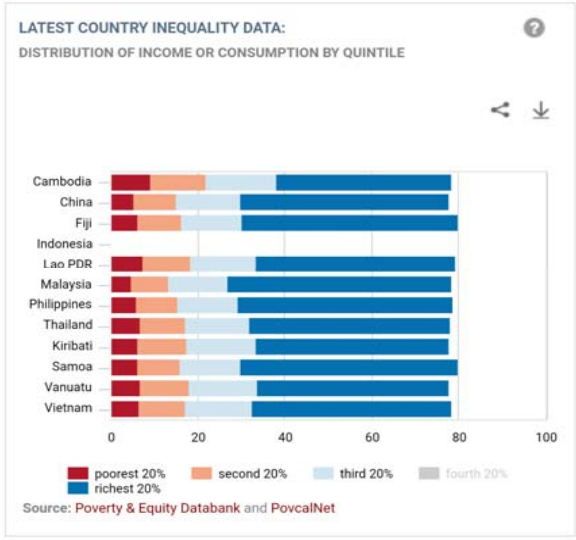
Differences in Cost of Living Across Areas Are Ignored

- *Cost of living varies across areas.*

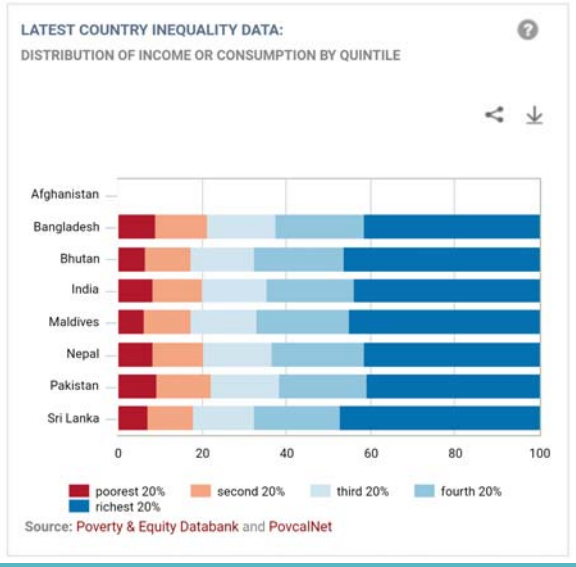
Income Definition Is Incomplete.

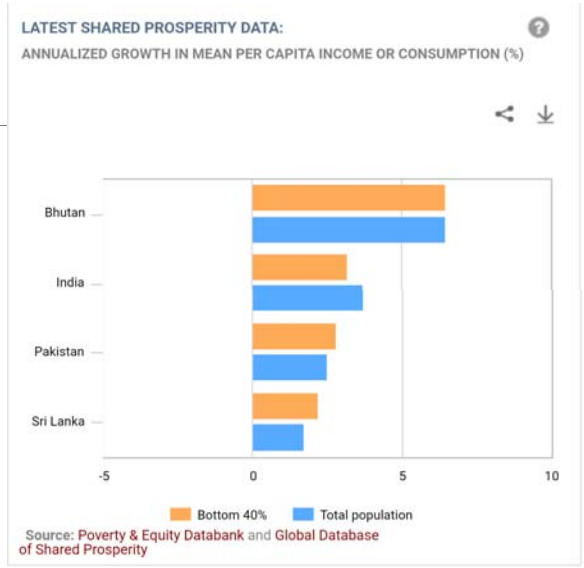
- If two individuals have the same cash income but only one of them has free universal health care coverage, then the individual with that individual is effectively richer because he or she doesn't have to pay for medical costs.

East Asia and Pacific



South Asia



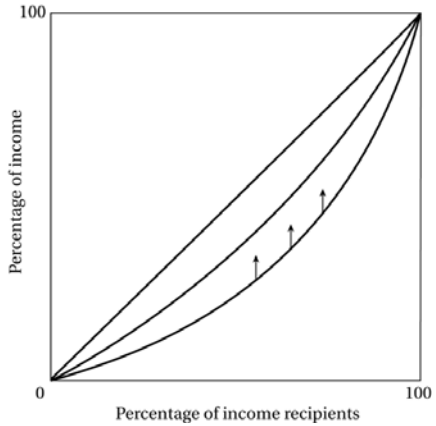


Poverty, Inequality, and Social Welfare

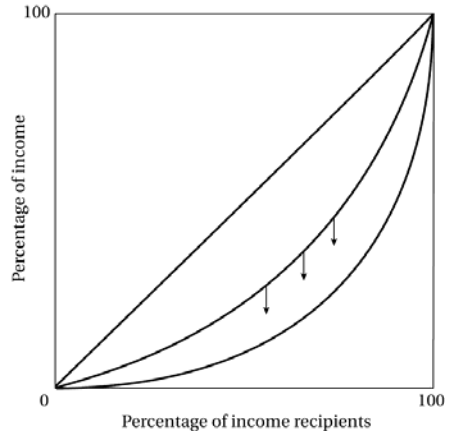
Dualistic development and shifting Lorenz curves: some stylized typologies

- modern sector enlargement
- modern sector enrichment
- traditional sector enrichment

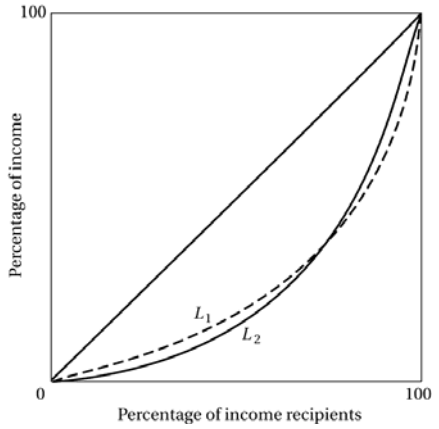
Improved Income Distribution under the Traditional-Sector Enrichment Growth Typology



Worsened Income Distribution under the Modern-Sector Enrichment Growth Typology



Crossing Lorenz Curves in the Modern-Sector Enlargement Growth Typology



Poverty, Inequality, and Social Welfare

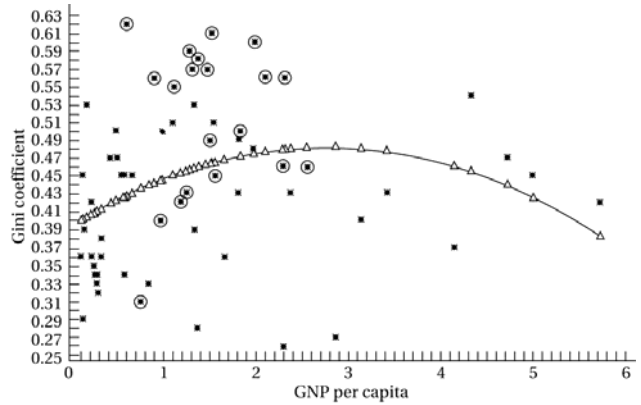
Dualistic development and shifting Lorenz curves: some stylized typologies

- modern sector enlargement
- modern sector enrichment
- traditional sector enrichment

Kuznets's inverted-U hypothesis

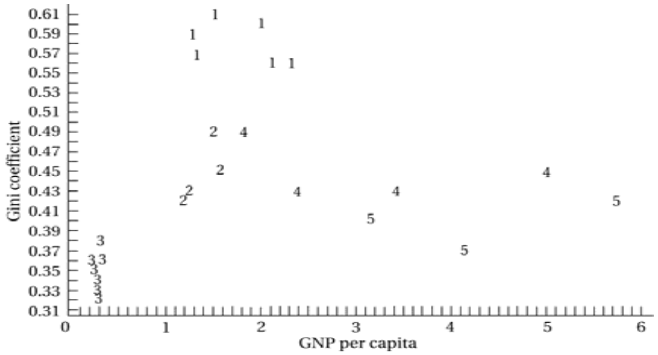
The "Inverted-U" Kuznets Curve

Kuznets Curve with Latin American Countries Identified



Star – Actual Data
Triangle – Predicted relationship
Circled – Latin American

Plot of Inequality data for selected countries



1 = Brazil
2 = Costa Rica
3 = Pakistan
4 = Hong Kong
5 = Singapore

Poverty, Inequality, and Social Welfare

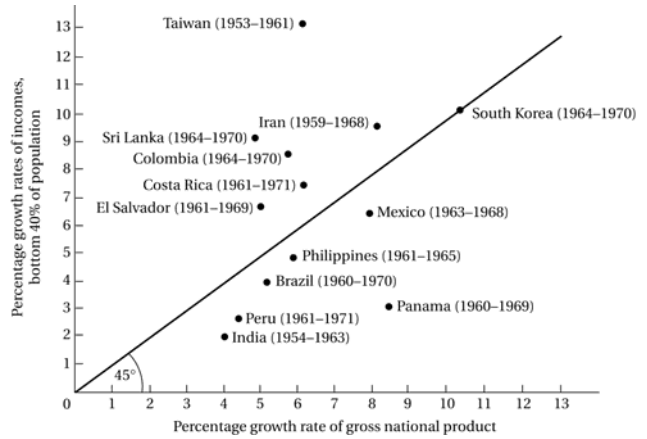
Dualistic development and shifting Lorenz curves: some stylized typologies

- modern sector enlargement
- modern sector enrichment
- traditional sector enrichment

Kuznets's inverted-U hypothesis

Growth and inequality

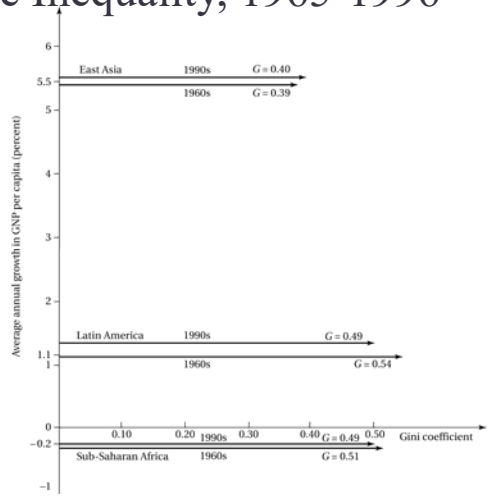
Comparison of Gross National Product Growth Rates and Income Growth Rates of the Bottom 40% of the Population in Selected Less Developed Countries



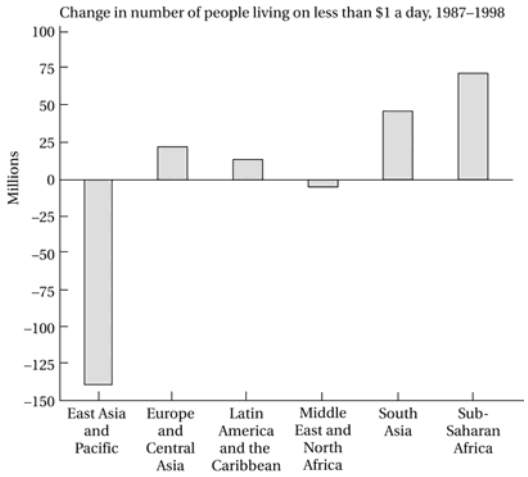
Absolute Poverty: Extent and Magnitude

Poverty: some progress

Long-Term Economic Growth and Income Inequality, 1965-1996



Where Poverty Has Fallen, and Where It Has Not

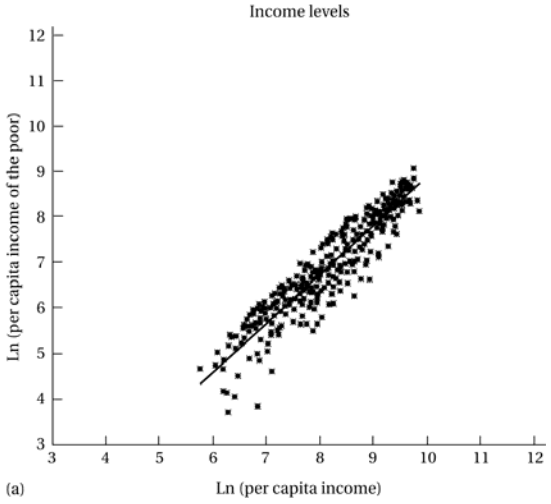


Absolute Poverty: Extent and Magnitude

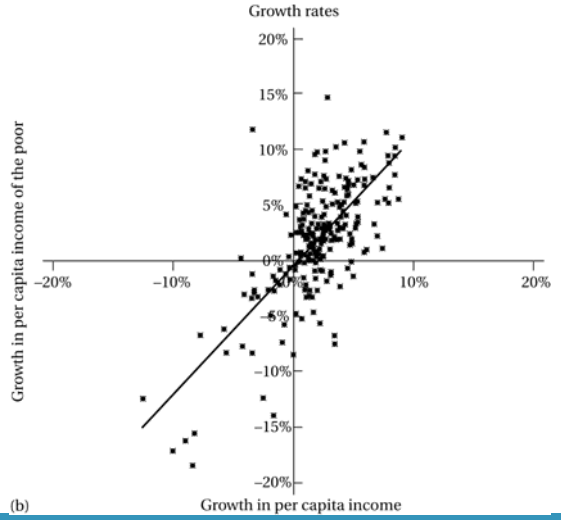
Poverty: some progress

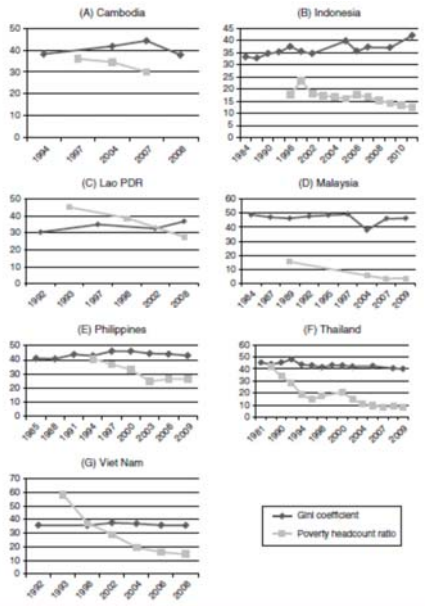
Growth and poverty

Growth and the Poor



Growth and the Poor





Economic Characteristics of Poverty Groups

Rural Poverty

TABLE 6.5 Rural Poverty as a Percentage of Total Poverty

Region and Country	Rural Population as a Percentage of the Total	Rural Poor as a Percentage of the Total
Sub-Saharan Africa		
Ghana	65	80
Ivory Coast	57	86
Kenya	80	96
Asia		
India	77	79
Indonesia	73	91
Malaysia	62	80
Philippines	60	67
Thailand	70	80
Latin America		
Guatemala	59	66
Mexico	31	37
Panama	50	59
Peru	44	52
Venezuela	15	20

Source: World Bank, *World Development Report, 1990: Poverty* (New York: Oxford University Press, 1990), tab. 2.2. Reprinted with permission.

Economic Characteristics of Poverty Groups

Rural poverty

Women and poverty

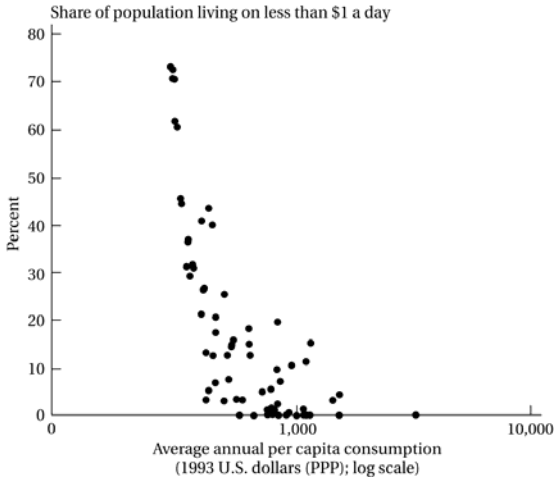
Ethnic minorities, indigenous populations, and poverty

TABLE 6.6 Indigenous Poverty in Latin America

Country	Percentage of Population below the Poverty Line	
	Indigenous	Nonindigenous
Bolivia	64.3	48.1
Guatemala	86.6	53.9
Mexico	80.6	17.9
Peru	79.0	49.7

Source: George Psacharopoulos and Harry A. Patrinos, "Indigenous people and poverty in Latin America," *Finance and Development* 31 (March 1994): 41. Reprinted with permission.

Poverty Declines as National Income Rises



Recent Trends in Asia

SOURCE: ADB (2014)

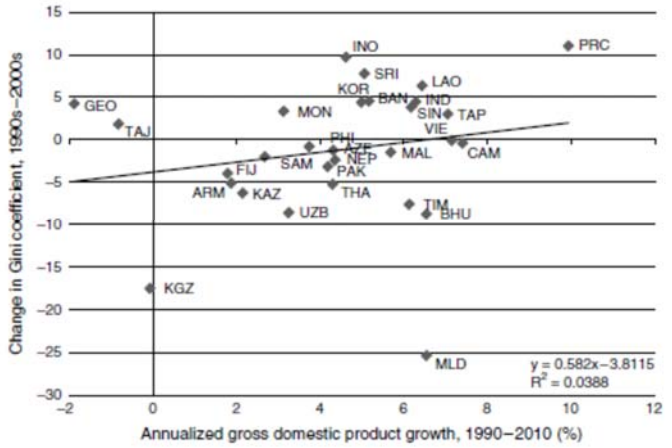
Table 2.2 Trends in inequality in developing Asia

Developing member economy	*Initial year*	*Final year*	*Gini coefficient* 1990s	2000s	*Annualized growth rate (%)*	*Top/bottom 20%* 1990s	2000s	*Annualized growth rate (%)*
Central Asia								
Armenia	1998	2008	36.0	30.9	−1.53	5.8	4.5	−2.46
Azerbaijan	1995	2008	35.0	33.7	−0.28	6.1	5.3	−1.11
Georgia	1996	2008	37.1	41.3	0.90	7.1	8.9	1.88
Kazakhstan	1996	2009	35.3	29.0	−1.51	6.2	4.2	−2.98
Kyrgyz Republic	1993	2009	53.7	36.2	−2.47	22.7	6.4	−7.95
Tajikistan	1999	2009	29.0	30.8	0.61	4.5	4.8	0.61
Turkmenistan	1998	–	40.8	–	–	7.7	–	–
Uzbekistan	1998	2003	45.3	36.7	−4.21	–	–	–
East Asia								
PRC	1990	2008	32.4	43.4	1.62	5.1	9.6	3.56
Korea, Rep. of	1992	2010	24.5	28.9	0.92	–	–	–
Mongolia	1995	2007	33.2	36.5	0.79	–	–	–
Taipei,China	1990	2010	31.2	34.2	0.46	5.2	6.2	0.88
South Asia								
Afghanistan	–	2007	–	27.8	–	–	–	–
Bangladesh	1991	2010	27.6	32.1	0.80	3.9	4.7	0.94
Bhutan	2003	2007	46.8	38.1	−5.18	9.9	6.8	−9.37
India	1993	2010	32.5	37.0	0.75	4.8	5.7	1.05
Maldives	1998	2004	62.7	37.4	−8.62	46.6	6.8	−32.09
Nepal	1995	2010	35.2	32.8	−0.47	5.5	5.0	−0.66
Pakistan	1990	2007	33.2	30.0	−0.59	5.2	4.2	−1.31
Sri Lanka	1990	2006	32.5	40.3	1.34	4.8	6.9	2.26
Southeast Asia								
Cambodia	1994	2008	38.3	37.9	−0.08	5.8	6.1	0.32
Indonesia	1990	2011	29.2	38.9	1.36	4.1	6.6	2.18
Lao PDR	1992	2008	30.4	36.7	1.18	4.3	5.9	1.91

Table 2.2 Continued

Developing member economy	*Initial year*	*Final year*	*Gini coefficient* 1990s	2000s	*Annualized growth rate (%)*	*Top/bottom 20%* 1990s	2000s	*Annualized growth rate (%)*
Malaysia	1992	2009	47.7	46.2	−0.19	11.4	11.3	−0.03
Philippines	1991	2009	43.8	43.0	−0.10	8.6	8.3	−0.19
Singapore	2000	2011	44.4	48.2	0.75	10.1	12.8	2.15
Thailand	1990	2009	45.3	40.0	−0.65	8.8	7.1	−1.16
Viet Nam	1992	2008	35.7	35.6	−0.02	5.6	5.9	0.25
Pacific								
Fiji	2002	2008	46.8	42.8	−1.48	12.6	8.0	−7.50
Kiribati	–	2006	–	40.0	–	–	7.8	–
FSM	1998	–	45.0	–	–	10.3	–	–
Nauru	–	2006	–	48.0	–	–	16.2	–
Palau	–	2006	–	42.0	–	–	7.6	–
Papua New Guinea	1996	–	50.9	–	–	12.5	–	–
Samoa	2002	2008	45.0	43.0	−0.76	9.2	7.9	−2.51
Solomon Islands	–	2006	–	46.0	–	–	10.3	–
Timor-Leste	2001	2007	39.5	31.9	−3.55	7.0	4.6	−6.91
Tonga	–	2001	–	34.0	–	–	6.0	–
Tuvalu	1994	2004	45.0	37.0	−1.96	8.9	6.2	−3.57
Vanuatu	–	2006	–	46.0	–	–	10.4	–

– = not available; FSM = the Federated States of Micronesia; Lao PDR = Lao People's Democratic Republic; PRC = People's Republic of China.



Urban and rural inequality

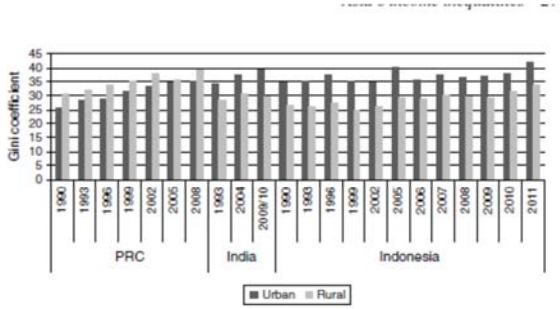


Figure 2.2 Urban and rural inequality in the People's Republic of China, India, and Indonesia.

What are the key drivers of rising inequality in Asia?

- Technological progress
  - Increasing inequality in income
- Globalisation
  - Financial and trade integration
  - Less access of benefits by the poor
- Market-oriented reform
  - Trade policy reform, labour market reform can change bargaining power
- All the above factors are drivers of growth but they favour:
  - Skilled rather than unskilled labour
  - Capital rather than labour
  - Urban and coastal areas rather than rural and inland regions

Labour income share

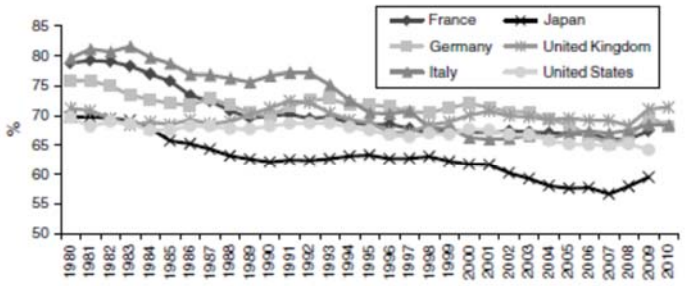


Figure 3.2 Labor income share of industry in major Organisation for Economic Co-operation and Development countries, 1980–2010.

Decreasing share of labour income observed.

Labour income share in Asia

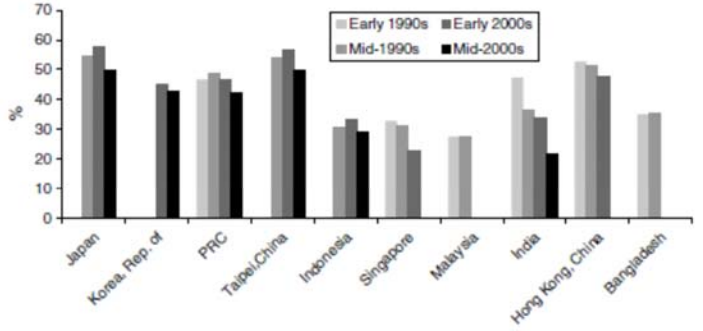


Figure 3.3 Share of labor income in industrial/manufacturing value added in selected Asian economies.

Observations

- Developing Asia's rapid growth in recent decades had led to a significant reduction in extreme poverty.
- However, it has also been accomplished by rising inequality in many countries.
- Income inequality has increased in 12 out of the 30 countries, accounting for 82% of the population.
- In many countries income inequality coexists with non-income inequality in the form of unequal access to education, and basic services among different population groups classified by gender, location and income.

Observations

- Increasing skill premiums and returns to human capital.
  - In many countries, as much as 25-35% of the total income inequality can be explained by interpersonal differences in human capital and skill endowments.
- Falling labour income shares.
  - The abundance of labour relative to capital, which depresses wage rates is contributing to the declining labour income share in developing Asia.
- Increasing spatial inequality.
  - Some regions are better able to respond to new opportunities because of their advantages in infrastructure and market access as well as agglomeration economies from self-perpetuating process of increasing concentration. About 30-50% of income inequality is accounted for by spatial inequality due to uneven growth.
- Unequal access to opportunity.
  - This is caused by institutional weaknesses, market distortions and failures and social exclusion.

Table 14.6 Aggregate governance/institutional indicators in Southeast Asia, 2011

Country	*Voice and accountability*	*Political stability*	*Government effectiveness*	*Regulatory quality*	*Rule of law*	*Control of corruption*
Brunei Darussalam	−0.63	1.12	0.88	1.17	0.88	0.84
Cambodia	−0.91	−0.44	−0.75	−0.45	−1.03	−1.10
Indonesia	−0.08	−0.82	−0.24	−0.33	−0.65	−0.68
Lao PDR	−1.60	0.01	−0.91	−0.96	−0.92	−1.06
Malaysia	−0.44	0.16	1.00	0.66	0.52	0.00
Myanmar	−1.86	−1.16	−1.64	−2.13	−1.42	−1.69
Philippines	−0.01	−1.39	0.00	−0.26	−0.51	−0.78
Singapore	−0.19	1.21	2.16	1.83	1.69	2.12
Thailand	−0.45	−1.02	0.10	0.24	−0.24	−0.37
Viet Nam	−1.48	0.17	−0.28	−0.61	−0.48	−0.63

Worldwide governance indicators produced by the World Bank. The indicators range from =2.5 to 2.5, with higher values corresponding to better government standards. Singapore has the highest score, followed by Brunei, Malaysia, Thailand, Indonesia, Philippines, Vietnam, Cambodia, Laos and Myanmar.

Policy Options

- The productivity growth, poverty reduction vs high inequality.
  - Rising inequality could also lead to demands for populist measures that would be detrimental to efficiency and growth.
- Question: How to reduce inequality without hurting growth?

Policy Options

- Efficient fiscal policy.
  - Increasing spending on education and health, esp. for the poorer
  - Developing better targeted social protection schemes, conditional cash transfers that target income to the poorest but also incentivize the building of human capital
  - Mobilising greater revenue by broadening the tax base and improving tax administration
  - Switching spending from inefficient general subsidies to targeted transfers

A note: In discussing welfare policy, it is important to understand two characteristics of each policy

- 1. *Categorical and Means-Tested Programs*
  - Categorical welfare: Welfare programs restricted by some demographic characteristic, such as single motherhood or disability.
  - Means-tested welfare: Welfare programs restricted only by income and asset levels.
- 2. *Cash and In-Kind Programs*
  - Cash welfare: Welfare programs that provide cash benefits to recipients
  - In-kind welfare: Welfare programs that deliver goods, such as medical care or housing, to recipients.

Example of Cash Welfare Programs in the US

Temporary Assistance for Needy Families (TANF)

- The TANF program provides support to low-income families with children in which one biological parent is absent.
- benefit guarantee: The cash welfare benefit for individuals with no other income, which may be reduced as income increases.
- benefit reduction rate: The rate at which welfare benefits are reduced per dollar of other income earned.

Supplemental Security Income (SSI)

- SSI is a program that provides cash welfare to the aged, blind, and disabled.

The Moral Hazard Costs of Welfare Policy

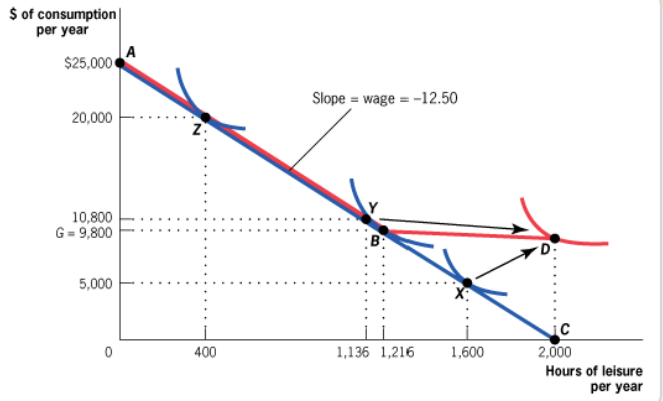
Moral Hazard Effects of a Means-Tested Transfer System

- This system is a simplified version of TANF or other redistributive programs, but it allows us to clearly show the effects of moral hazard that come with redistribution.
- The benefit to any individual would be equal to:

$$B = G - t \times w \times h$$

Where B= benefits
G=Guarantee level
t=implicit tax
w= wage rate
h=hours worked

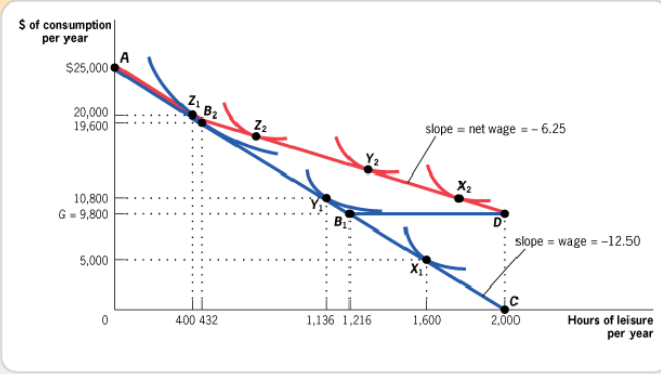
■ FIGURE 17-3



Labor Supply Decisions with a 100% Benefit Reduction Rate (BRR) • If workers are subject to a welfare system with a 100% BRR, then their budget constraint changes from *ABC* to *ABD*. Persons such as Mr. X (earning below $9,800 without welfare) will no longer work (he takes 2,000 hours of leisure). Some persons earning just above $9,800 without welfare, such as Ms. Y, may also be induced to drop out of the labor force and join welfare. Here, Ms. Y moves from point *Y* to point *D*. Persons such as Mr. *Z* will be unaffected.

Solving Moral Hazard by Lowering the Benefit Reduction Rate

■ FIGURE 17-4



Labor Supply Decisions with a 50% Benefit Reduction Rate • Reducing the BRR to 50% changes the budget constraint with welfare to AB_2D. This leads persons such as Mr. X and Ms. Y to reduce their leisure (increase their labor supply) relative to a 100% BRR, moving from *D* to points X_2 and Y_2. But persons such as Mr. Z are now brought onto the welfare program and reduce their labor supply as a result, at point Z_2.

The "Iron Triangle" of Redistributive Programs

iron triangle There is no way to change either the benefit reduction rate or the benefit guarantee to simultaneously encourage work, redistribute more income, and lower costs.

Reducing the Moral Hazard of Welfare

Moving to Categorical Welfare Payments

- By targeting welfare payments to observed earnings, the government introduces incentives for individuals to work less hard in order to qualify for larger welfare payments.
- This problem could be eliminated if the welfare program could target those who are truly less capable of earning, to ensure that benefits go to those who really need them, not just to those who are working less hard in order to qualify for benefits.

What Makes a Good Targeting Mechanism?

- Individuals have no way to change behavior in order to qualify.
- The best mechanisms target those with low earning capacity.

Reducing the Moral Hazard of Welfare

Using "Ordeal Mechanisms"

ordeal mechanisms Features of welfare programs that make them unattractive, leading to the self-selection of only the most needy recipients.

The Paradox of Ordeal Mechanisms

If the government provides a benefit that is not attractive to the non-needy but helps out the truly needy, then targeting will be more efficient.

The paradox of ordeal mechanisms is therefore that *apparently making the less able worse off can actually make them better off.*

Reducing the Moral Hazard of Welfare
An Example of Ordeal Mechanisms

The government wants to set up a soup kitchen for low-ability individuals who are poor, but the government cannot tell whether individuals are truly low-ability, or high-ability and just lazy. The government can:

- Hire a large number of workers for this soup kitchen, so that no one has to wait very long for a bowl of soup.
- Hire a small number, so that there is always a line outside.

The long line might prevent the more able from using resources that they don't need and are not really intended for them.

Through the use of ordeal mechanisms, such as waiting in line, welfare programs can use the fact that the low-ability want the good more, and have a lower disutility from this ordeal, to more effectively target the redistribution of scarce resources.

Reducing the Moral Hazard of Welfare

Increasing Outside Options

Training

Training programs lead to modest declines in welfare receipt and increase the earnings for welfare recipients.

Labor Market Subsidies

Subsidizing work increases employment and reduces the number of people on welfare, and this impact rises with the size of the subsidy.

Reducing the Moral Hazard of Welfare

Increasing Outside Options

Child Care

Subsidizing child care has been shown to raise female labor supply: recent estimates suggest that for each 10% rise in child care subsidies, female labor supply increases by about 2%.

Child Support

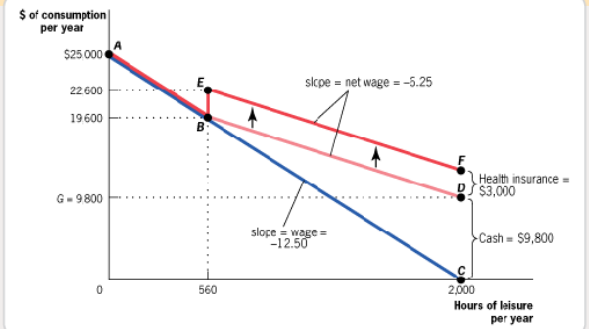
child support Court-ordered payments from an absent parent to support the upbringing of offspring.

The major advantage of stronger enforcement of child support is that it potentially reduces the incidence of single motherhood by making it financially costly for fathers to abandon their families.

Reducing the Moral Hazard of Welfare

Remove "Welfare Lock"

■ FIGURE 17-7



Tying Health Insurance to Cash Welfare • The linking of health insurance coverage through Medicaid to cash welfare creates an additional large disincentive to leave welfare. The budget constraint with the welfare program moves from *ABD* to *ABEF* when insurance is tied to welfare, with an extra portion (*BEF*) that reflects the value of Medicaid, but that ends when the individual leaves welfare. Thus, when Medicaid is linked to welfare, it is never sensible to leave welfare for a job that pays only slightly more, unless that job offers health insurance.

Table 5.1. Estimated marginal impact of government spending on income inequality

	Asia	*Rest of the world*
Social protection	0.490	−0.276
Education	−0.483	−0.034
Health	−0.241	−0.330
Housing	2.162	−0.614

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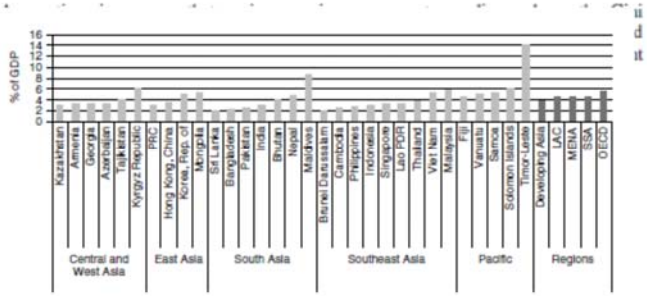


Figure 5.1 Government expenditure on education, 2000s.

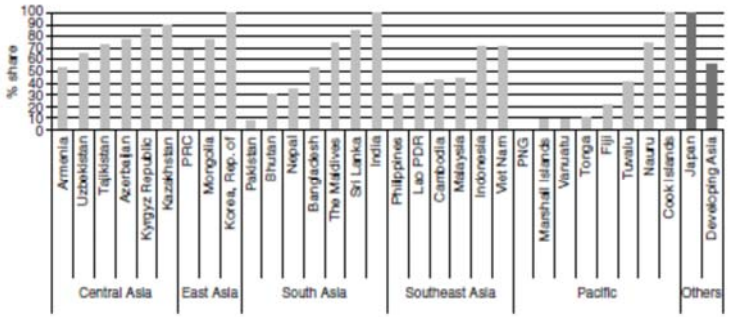


Figure 5.4 Share of the poor receiving social protection, 2008.

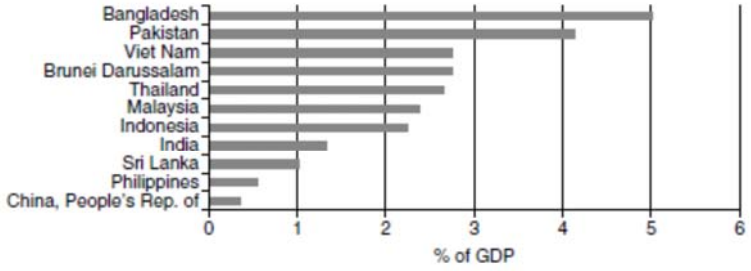


Figure 5.5 Fossil fuel consumption subsidy, 2010.

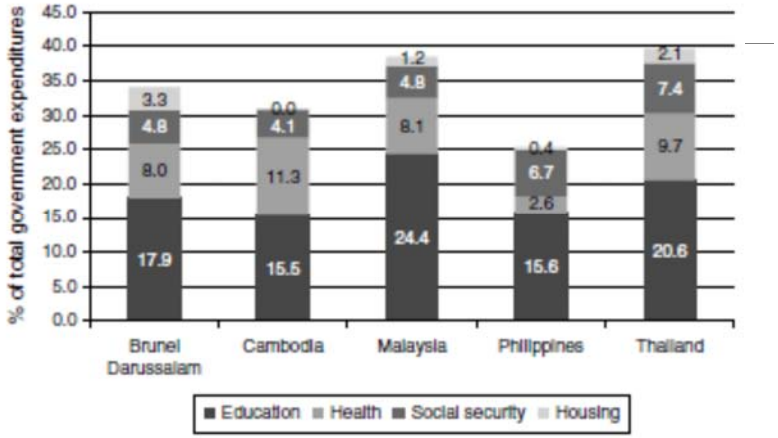
The countries are greatly varied in terms of the social security programs provided. Thailand seems to be the most comprehensive social assistance benefits and insurance programs that cover all categories.

Table 14.4 Coverage of social security programs in the Association of Southeast Asian Nations, 2010

Country	Old age, disability, and survivors	Sickness and maternity		Work injury	Unemployment benefits	Family allowances
		Cash benefits for both	Cash benefits plus medical care			
Brunei Darussalam	x	n	c	x	n	n
Myanmar	n	x	x	x	n	n
Indonesia	x	n	c	x	n	n
Lao PDR	x	x	x	x	n	n
Malaysia	x	n	c	x	n	n
Philippines	x	x	x	x	n	n
Singapore	x	x	x	x	n	n
Thailand	x	x	x	x	x	x
Viet Nam	x	x	x	x	x	n

Table 14.5 Contribution rates for all social security programs in the Association of Southeast Asian Nations, 2010

Country	Employee (%)	Employer (%)	Total (%)
Brunei Darussalam	8.50	8.50	17.00
Myanmar	1.50	2.50	4.00
Indonesia	2.00	7.24	9.24
Lao PDR	4.50	5.00	9.50
Malaysia	11.50	13.75	25.25
Philippines	4.58	8.32	12.90
Singapore	20.00	15.00	35.00
Thailand	5.00	5.20	10.20
Viet Nam	8.50	20.50	29.00



The share in government revenue in GDP is low in most Asian economies.

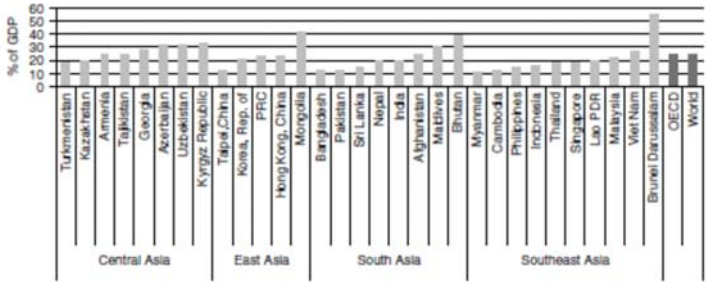


Figure 5.6 Central government revenue in selected Asian economies, 2011.

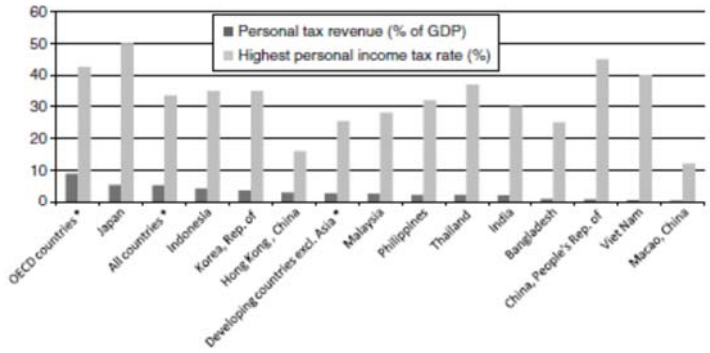


Figure 5.7 Personal income tax and top personal marginal income tax rate, 2009 or latest available year.

Table 9.1 Estimated marginal impact of taxation on income inequality (percentage points)

	Asia	*Rest of the world*
Personal income tax	−0.573	−0.041
Personal income tax × progressivity	−0.002	−0.005
Corporate income tax	0.598	−0.338
Corporate income tax × globalization	−0.017	0.005
Social security and payroll taxes	1.324	0.165
General taxes on goods and services	0.666	0.768
Excises	0.609	−0.059
Customs duties	0.174	0.651

CIT regressive effect in Asia due to larger tax concessions and subsidies of firms. However, CIT+globalization reverses the sign may be due to higher effective tax rates for foreign firms in Asia compared with domestic firms and in the rest of the world.

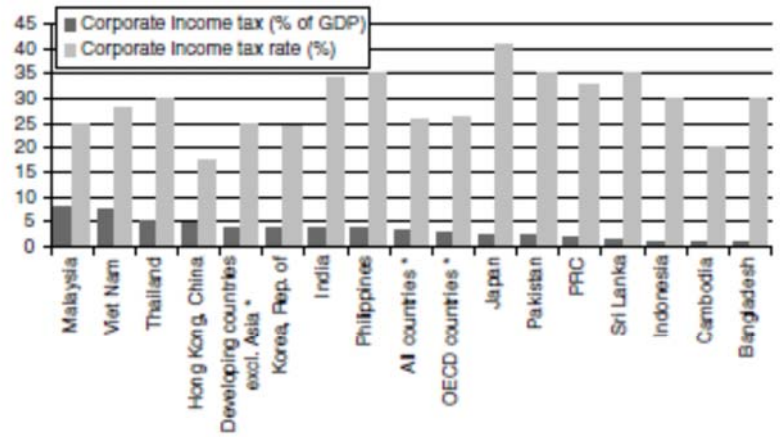


Figure 9.1 Corporate income tax and corporate income tax rate, 2009 or latest available year.

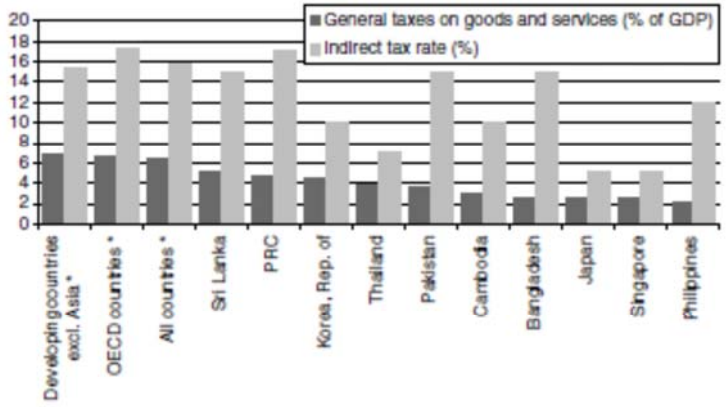


Figure 9.5 General taxes on goods and services and indirect tax rate, 2009 or latest available year.

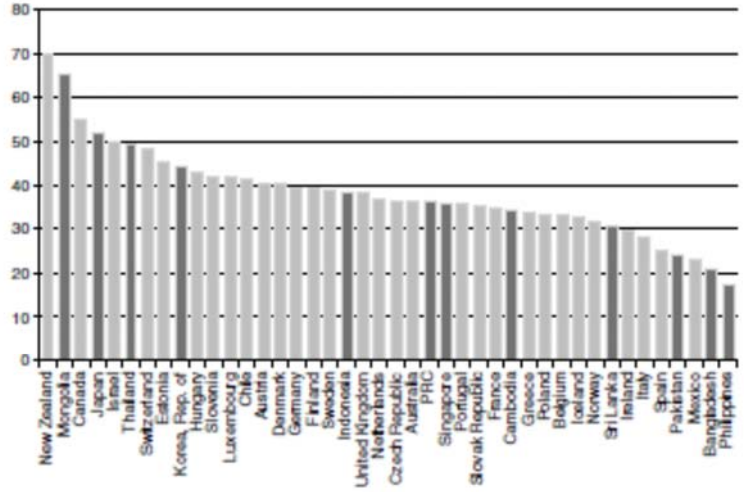


Figure 9.6 Value-added tax efficiency ratio, 2009 or latest available year.

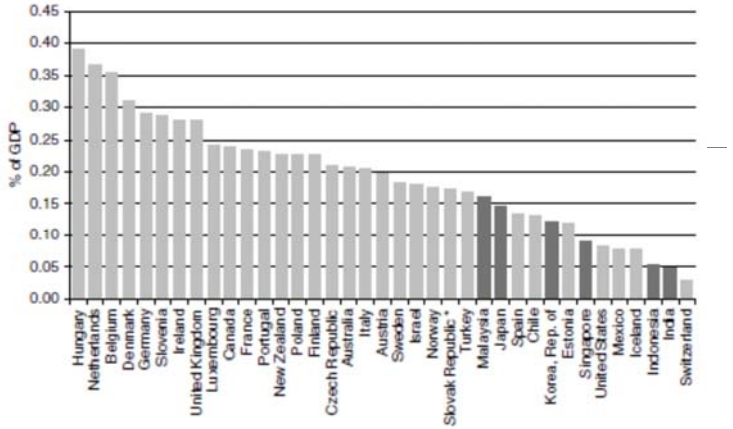


Figure 9.8 Tax administration expenditure, 2009.

Complicated tax systems increase tax administration and compliance costs, and opportunity for tax planning and tax avoidance. Also, narrow-base, high-rate tax systems are often seen as unfair because higher-income-tax-payers generally have greater scope and resources to shift income to avoid higher tax rates. Unfair ta systems can reduce people's and businesses' willingness to pay taxes and, hence the government's ability to raise finances to fund government expenditure.

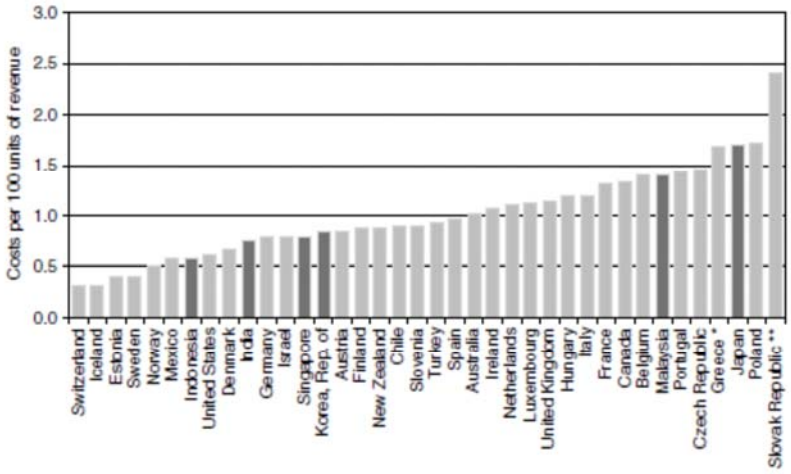


Figure 9.9 Tax administration costs to net revenue collections, 2009.

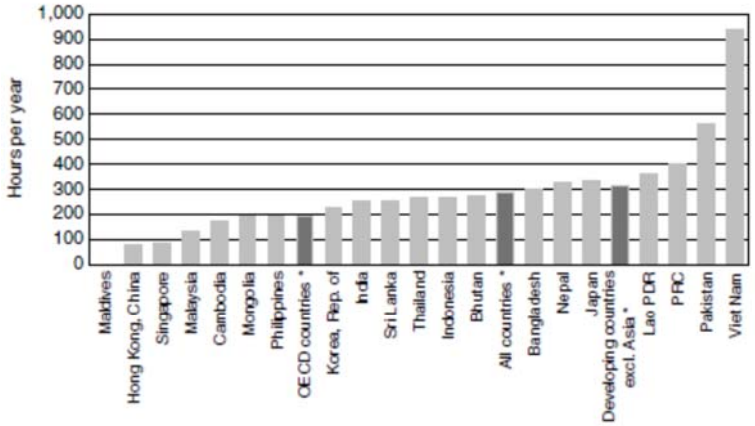


Figure 9.10 Total time to comply with taxes, 2012.

Compliance costs in Asia are lowest in Maldives. They are highest in China, Pakistan and Vietnam, partly because of complicated tax systems in these countries.

Policy Options

- Intervention to address lagging regions.
  - Improving regional connection
  - Developing new growth poles in lagging regions
  - Strengthening fiscal transfers for greater investment in human capital and better access to public services in lagging regions
  - Removing barriers to migration from poor to more prosperous areas

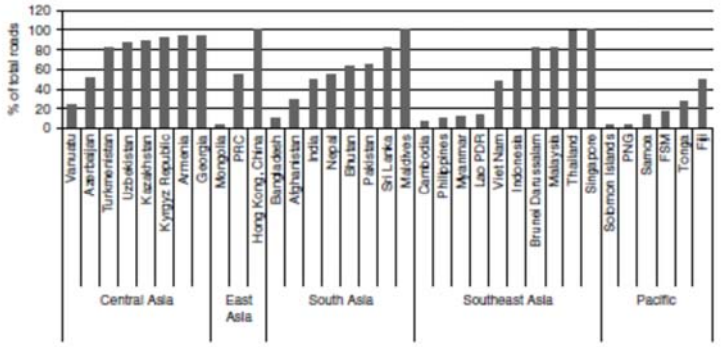


Figure 5.9 Paved roads in Asia and the Pacific, 2000s.

Policy Options

- More employment-friendly growth.
  - Facilitating structural transformation and maintaining a balanced sectoral composition of growth between manufacturing, services and agriculture
  - Supporting the development of SMEs
  - Removing factor market distortions that favour capital over labour
  - Strengthening labour market institutions
  - Introducing public employment schemes as a temporary bridge to address pockets of unemployment and underemployment
- Good governance in all areas.

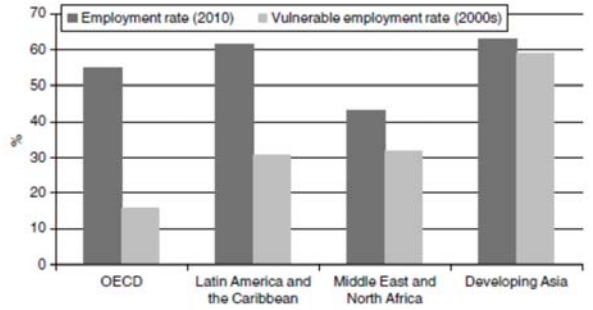


Figure 5.10 Vulnerable employment.

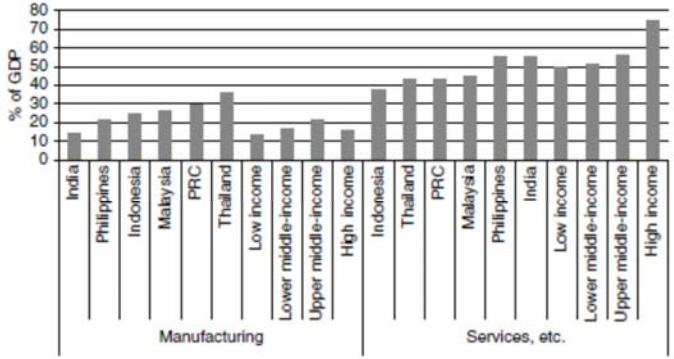


Figure 5.11 Share of manufacturing and services in gross domestic product, 2010.

Box 5.4 India's National Rural Employment Guarantee Scheme

The Mahatma Gandhi National Rural Employment Guarantee Scheme was launched in 2006 in the 200 most backward districts of India (of 640 districts in all). It is a program that explicitly recognizes the "right to a job."

Under the program, every rural adult willing to be engaged in unskilled manual labor has the right to demand work from the state government for up to 100 days per household annually. The core funding for the program is provided by the central government, and state governments make additional contributions.

The program has been extended and now covers the entire country (apart from 100% urban districts). The number of households that were provided with employment increased from 21 million in 2006/2007 to 38 million in 2010/2011, which amounted to more than 1,200 million person-days of work. A notable aspect of the scheme is the large number of women who have sought work – female participation increased from 41% to 49% in this period.

The program has had several achievements: lifting rural wages; reducing distress migration; creating community assets; promoting empowerment and making politicians more responsive to the demands of the poor; reducing unemployment and underemployment; encouraging growth of agricultural production; reducing discrimination; and reducing malnutrition.

It has also drawn criticism, however, including allegations of corruption, weakening work incentives, undermining fiscal sustainability, distorting the labor market, and causing wage inflation.