Book Review: Inequality, Inclusive Growth, and Fiscal Policy in Asia

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1. Introduction

Are countries in Asia fostering equitable growth? While Asia has experienced rapid economic growth in recent times, the income gap has widened, leading to higher levels of inequality. The book, *Inequality, Inclusive Growth, and Fiscal Policy in Asia* edited by Donghyun Park, Sang-Hyop Lee, and Minsoo Lee, explores several inequality and poverty related issues that many countries in developing Asia are facing. The book consists of nine essays written by different authors to address several aspects of the use of fiscal policy in fostering inclusive growth. Some of these pieces discuss the expenditure system, tax structure, and fiscal space in developing Asia, where fiscal space is the set of feasible fiscal policies, while others analyze the implementation of fiscal policy in other parts of the world. The latter is used to derive important lessons that may be applicable to developing Asia. Working in unison, the authors of the book provide insightful analysis and policy recommendations regarding the design, suitability, and implementation of fiscal policies to tackle inequality.

2. Book Synopsis

The first essay, “An Overview,” by Gemma Estrada, Sang-Hyop Lee, and Donghyun Park delivers a synopsis of Asia’s most important challenge: achieving inclusive growth and equality. This concern has brought into

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consideration the use of fiscal policy as an instrument to fight inequality and poverty in the region. Part of the challenge that Asia faces is implementing fiscal policies that promote equality, while maintaining growth and fiscal sustainability despite having minimal experience with the utilization of fiscal policy relative to other parts of the world. The authors note that studies have found that government expenditures can promote inclusive growth if targeted towards the poor such as spending in education, health care, and direct transfers. The essay culminates with a discussion of various methods that can be employed in Asia to increase government revenue to support public spending for inclusive growth.

The second and third essays “Room at the top: an overview of fiscal space, fiscal policy, and inclusive growth in developing Asia” by Rathin Roy and “Fiscal policy and growth in developing Asia,” by Arnelyn Abdon, Gemma Estrada, Minsoo Lee, and Donghyun Park, assess the current fiscal space and impact of fiscal policies on economic growth in Asia. In general, countries in the region maintain prudent expenditures by carrying surpluses or minimal deficits. Due to cautious public spending, developing Asia has a greater fiscal space compared to OECD and some non-OECD countries. In terms of public expenditures, most countries prioritize spending on health and education over redistributive welfare transfers. Although, the emerging mega economies, such as the PRC, need redistributive transfers to tackle the growing top-bottom inequality in consumption. In the third essay, the authors first explore the taxation system by using the estimates of Acosta-Ormaechea and Yoo (2012) to investigate the effects of changing the structure of taxation on long-run growth for specific Asian countries. One main finding is that decreasing income taxes in these countries to OECD levels leads to a one percentage point increase in long-run GDP per capita growth. Another key result is that raising property taxes to OECD levels, holding total taxation constant, leads to greater growth. The authors investigate the government expenditure structure in Asia by using the estimates from Acosta-Ormaechea and Morozumi (2013) to simulate how increases in education spending affect growth. One of the most crucial findings is that increasing education spending by one percentage point leads to a 1.098 percentage point rise in growth over a period of five years. The two essays combined demonstrate that there
exists substantial fiscal space in most of Asia to invest in public goods and the analysis provides meaningful recommendations to improve the current taxation and spending systems in the region.

Similarly, the fourth essay, “Government spending and inclusive growth in developing Asia,” by Seok-Kyun Hur quantitatively evaluates the effects of fiscal policy on economic growth and equality by the implementation of three empirical techniques. One significant result was that spending in education, public health, and fixed capital formation has a positive impact on growth. Investments in education and health were found to have a more lasting effect on growth than other types of spending. Additionally, all the itemized long-run fiscal expenditures significantly and negatively affected the Gini coefficient, raising equality, with the exclusion of capital formation and military expenditures. The essay closes with several policy recommendations such as using fiscal spending to target a reduction in the Gini coefficient.

“Benefit incidence of public transfers: evidence from the People’s Republic of China,” the fifth essay, by Ke Shen and Sang-Hyop Lee studies the benefits of two types of public transfers in the People’s Republic of China: in-kind and cash transfers. The authors note that the PRC has experienced a rapid increase in higher education as yearly college enrollment rates have tripled from 2000 to 2010, urban youths benefitting the most. One crucial finding is that rural residents benefit less from public health-care funding than do urban residents, due to the segregated public health insurance system, as most facilities are located in urban areas. There is a huge inequality gap in pension benefits amongst the highest and lowest income groups: the top quartile received 55 times more pension benefits than those in the bottom quartile. In essence, the results provide detailed estimates of how public spending in education, health care and pensions affects the population.

Arindam Das-Gupta investigates how the fiscal policy instruments utilized to raise revenue affect economic growth and income distribution in his essay, “Fiscal Resources for inclusive growth.” According to the analysis, many developing Asian nations are highly dependent on broad-based taxes and neglect the use of resource taxes that inflict low economic costs. In contrast, there are some resource dependent economies that face highly unstable public revenue flows since their main revenue instrument is non-tax
revenues from the resources sold in the world market. Many developing Asian countries should make an effort to improve their tax system effectiveness by the use of communication technology and information. Broadly, the author provides convincing insights and suggested reforms.

Sang-Hyop Lee and Andrew Mason: “Are current tax and spending regimes sustainable in developing Asia?” examines the projected changes in the tax and spending systems in Asia and the Pacific due to aging. The authors note that there have been and will be rapid changes in the age composition in Asia and the Pacific. For instance, by 2050, in the People’s Republic of China, one-third of the population will be 60 or older. The authors project that spending on education is expected to decrease to an average of 2.7% of the GDP by 2050 compared with the 3.5% figure in 2010. Further, spending in health care is expected to rise to an average of 4.7% of the GDP by 2050 compared to 2.8% in 2010. Not surprisingly, public expenditures in social security and welfare are projected to increase to 4.9% of the GDP in 2050 compared to 2.8% in 2010. A final observation notes that the region still needs to develop adequate health care and social security systems to accommodate the aging population.

At last, the two chapters, “Fiscal policy and inclusive growth in Latin America: Lessons for Asia” by Sang-Hyop Lee and Donghyun Park, and “Fiscal policy and inclusive growth in advanced countries: their experience and implications for Asia” by Almas Heshmati, Jungsuk Kim, and Donghyun Park, summarize fiscal policies in Latin America and OECD countries to derive recommendations for developing Asia. Several Latin American countries have successfully implemented conditional cash transfer programs to reduce inequality and increase access to education and health care amongst the poorest population. A good example is the program called Bolsa Familia in Brazil, which provides cash transfers targeted toward increasing human capital amongst the poorest. A major policy suggestion is that countries in developing Asia should employ the Nordic model, which offers the largest levels of public expenditures, social protection, and widespread welfare cash transfers.
3. Review

The book evaluates fiscal systems across nations in developing Asia in a coherent and careful manner. One of the book’s greatest strengths is delivering keen analysis and policy recommendations regarding the current and future status of fiscal policies in developing Asia. As well, the essays address different aspects regarding fiscal policy from raising government revenue to sustainable fiscal spending, which provides a strong basis for researchers. While the book provides some technical derivations and data analysis results, the concepts and results are explained in a clear and understandable manner. As a whole, the book provides useful information on a wide range of topics regarding fiscal policy use in Asia for both researchers and the average reader.

One unavoidable flaw flows from the fact that many countries in Asia lack adequate government data. Therefore, the analysis should be considered with some caution. In addition, the structure of the book could have been improved by putting together the essays under a subsection covering a main topic since several essays share common themes. This is the case because the chapters were loosely arranged in such a way that some similar essays were subsequent. By improving the structure of the book, the reader would be able to easily compare and contrast the findings and concepts discussed in the essays with similar themes.

The book lays a strong foundation for more profound future research concerning Asian fiscal systems. The authors should consider writing a sequel in a few years from now to re-evaluate further developments in fiscal policy in Asian countries, especially its effects on inclusive growth and inequality to provide follow-up recommendations for the region.

References

