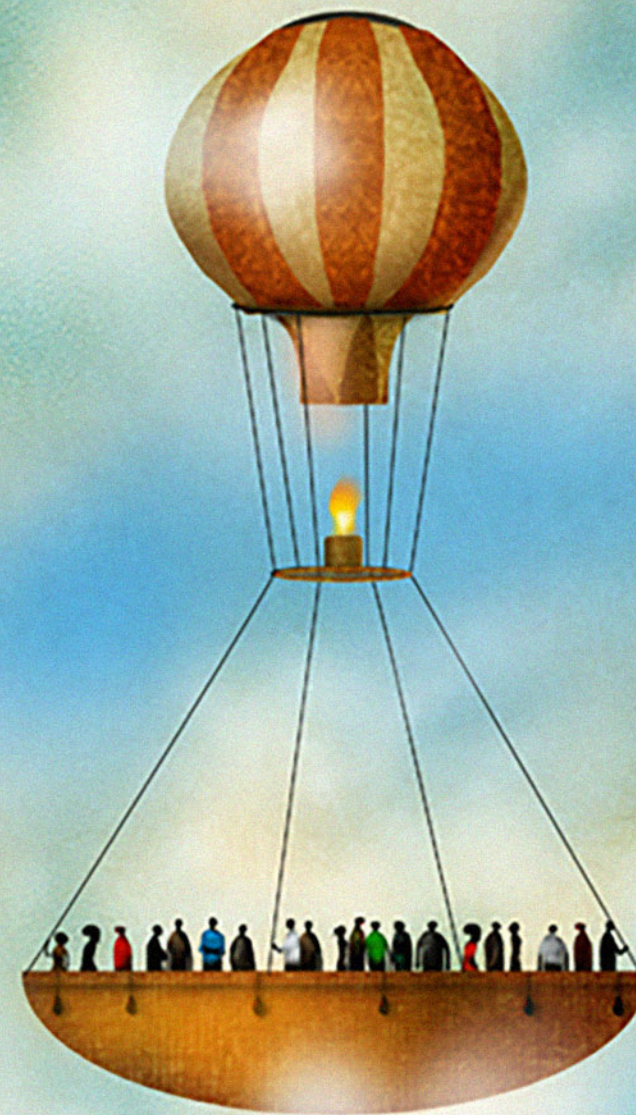


Better Spending
for **Better Lives**
How Latin America
and the Caribbean Can
Do More with Less

Edited by Alejandro Izquierdo,
Carola Pessino, and Guillermo Vuletin



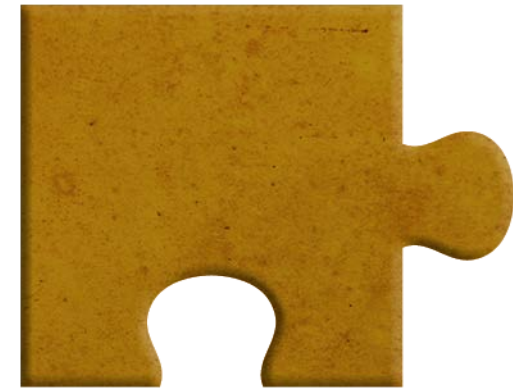
Intermediate Meeting of the Working Group of
Joint Research
Mexico City,
August 5th, 2019



Middle-income
demands



Worse external
conditions



Domestic sources of
growth

Solving the Expenditure Puzzle

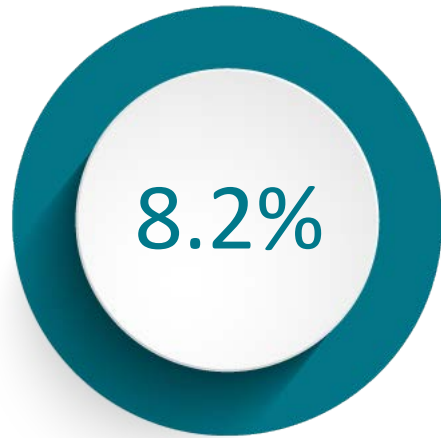
» Better Spending:

Doing More with Less Without Shortchanging the Future

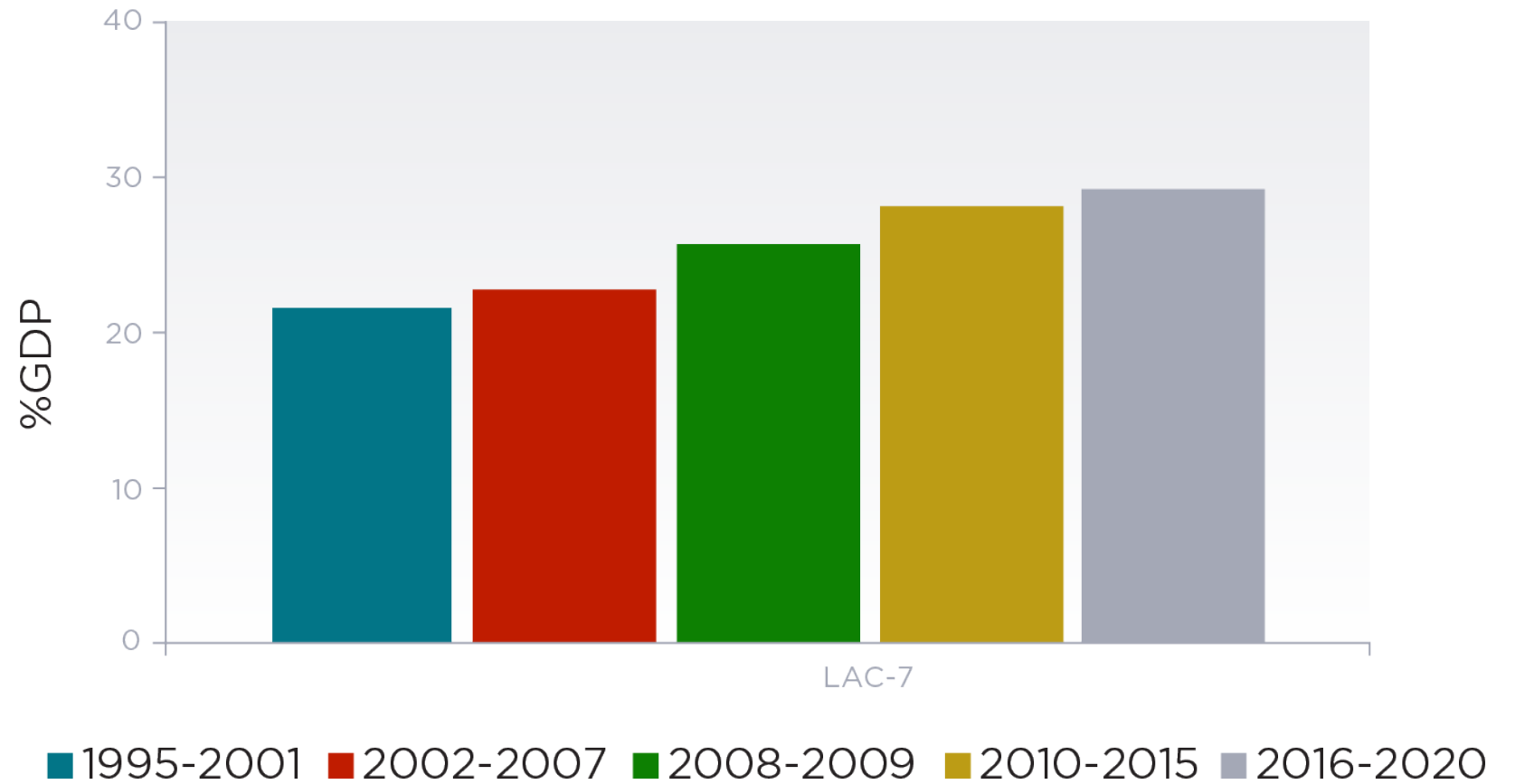




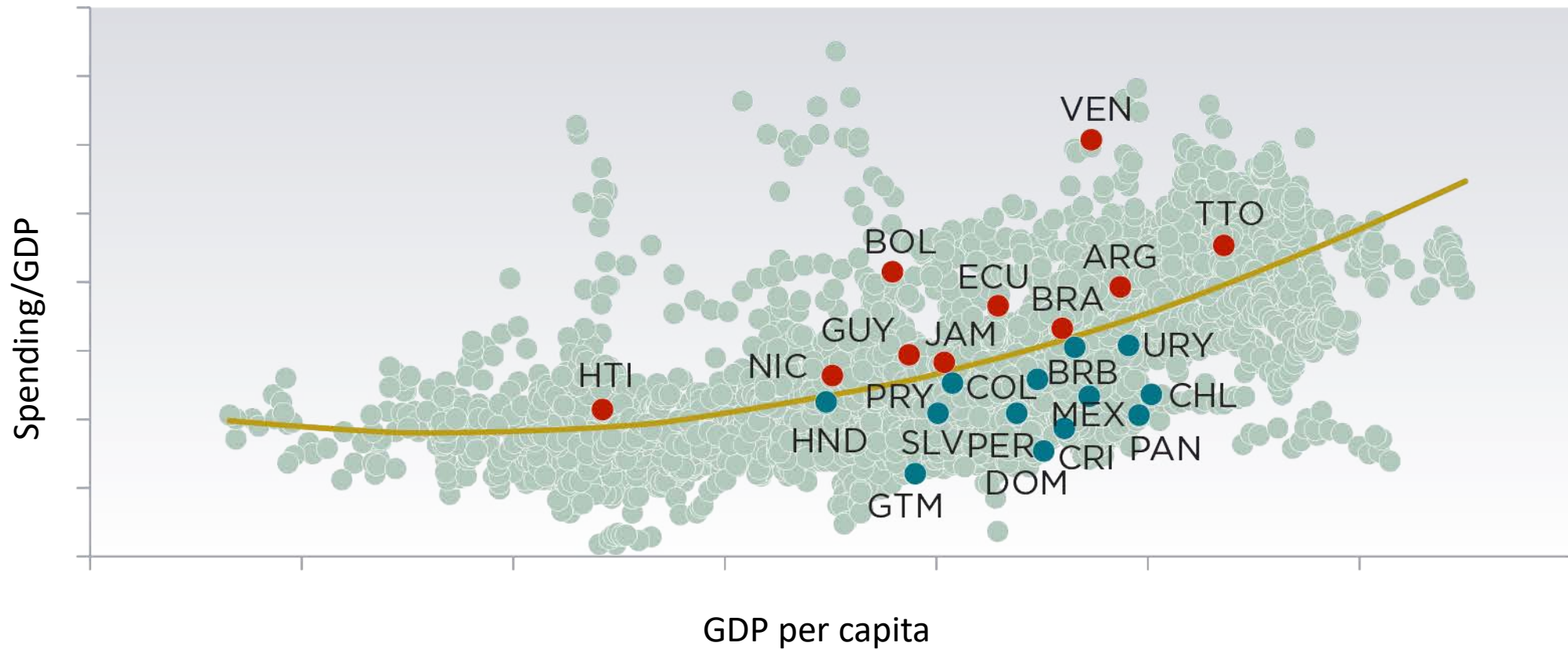
» Public Spending across the Region's Largest Economies



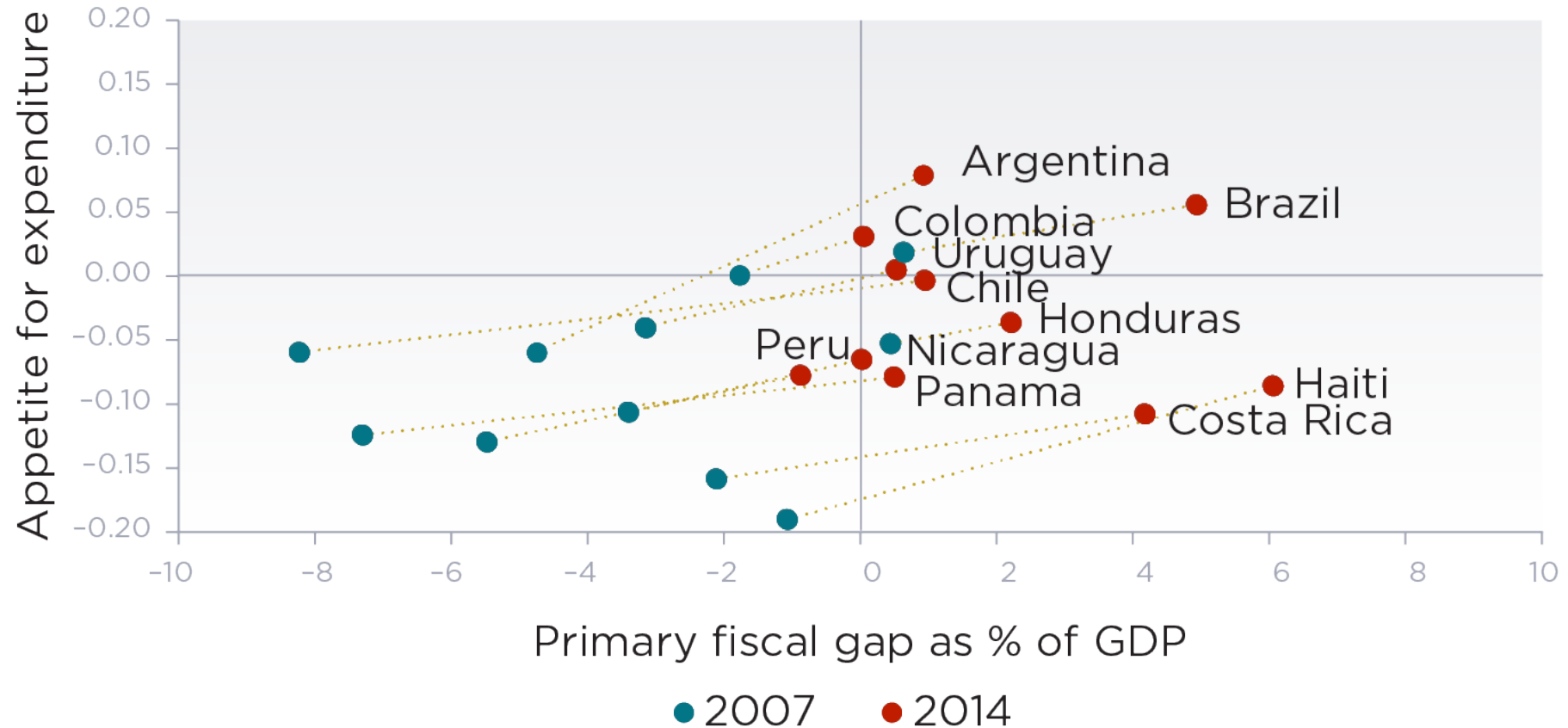
of GDP



» Some Spend Above Their Level of Development, Others Below



» Greater Appetite for Expenditure, Greater Vulnerability



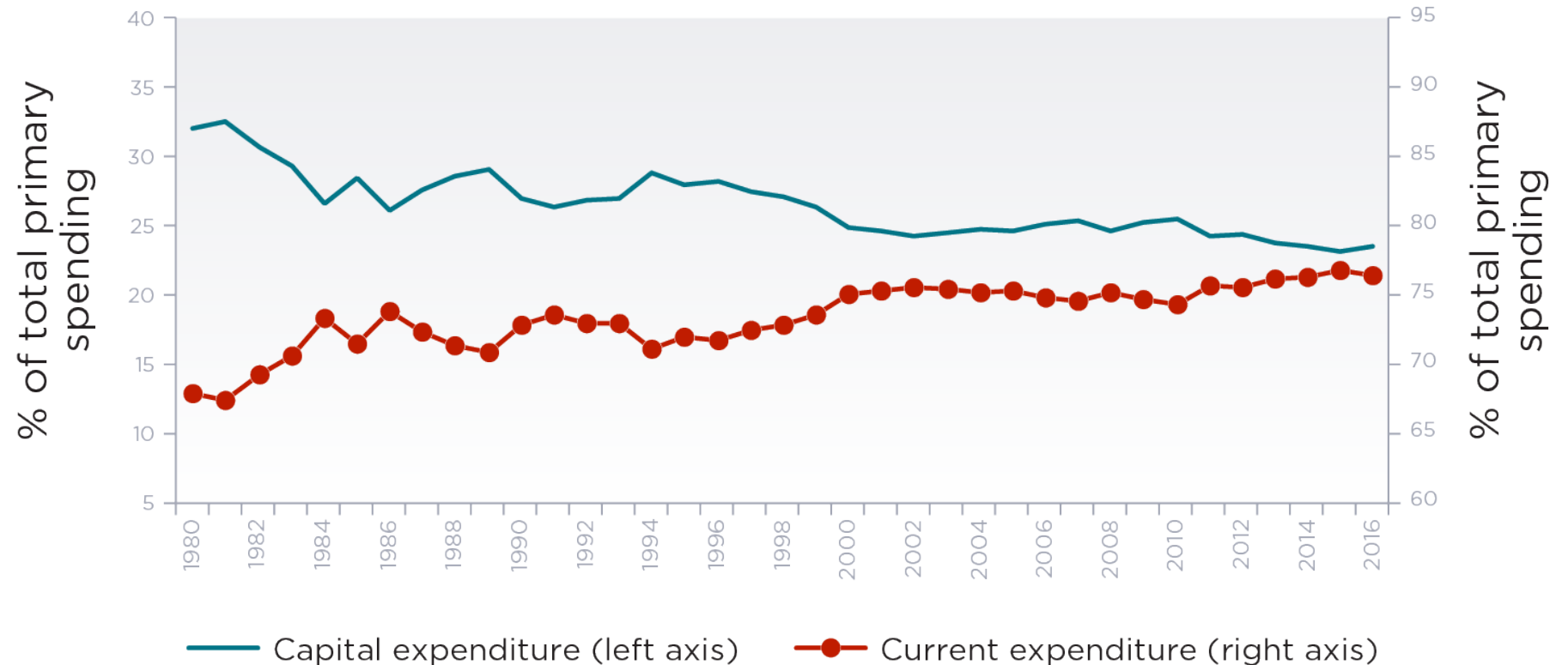


Better Spending for **Better Lives** - How Latin America and the Caribbean Can Do More with Less

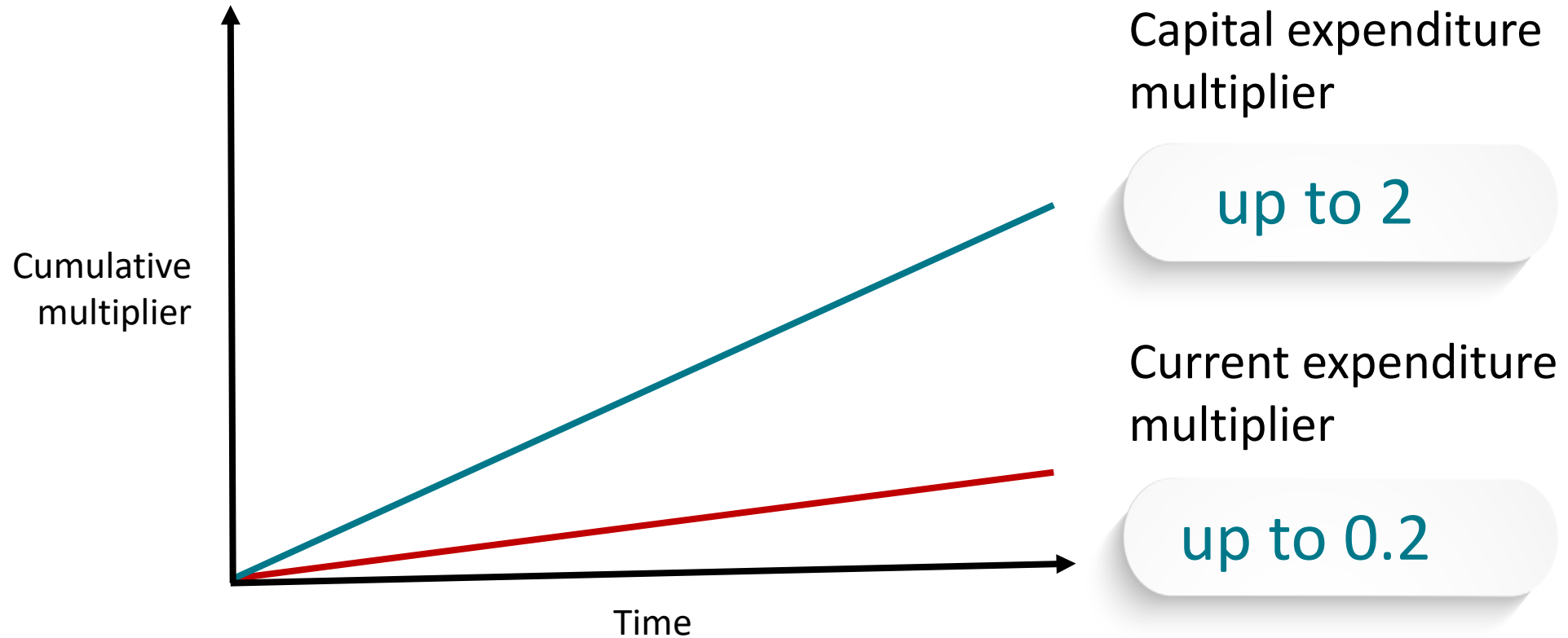


» Shortchanging the Future: Current vs. Capital Expenditure

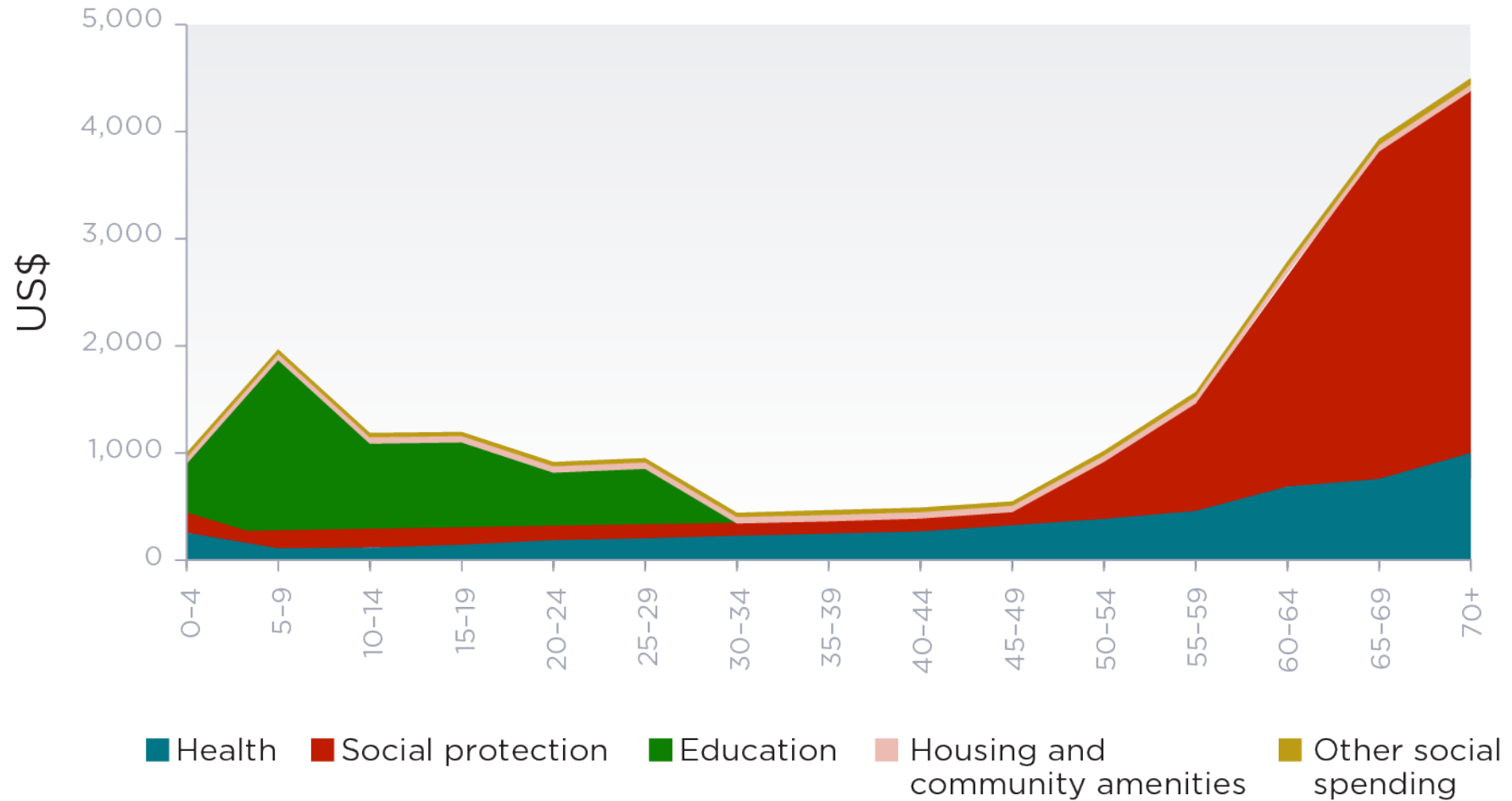
Developing
Economies



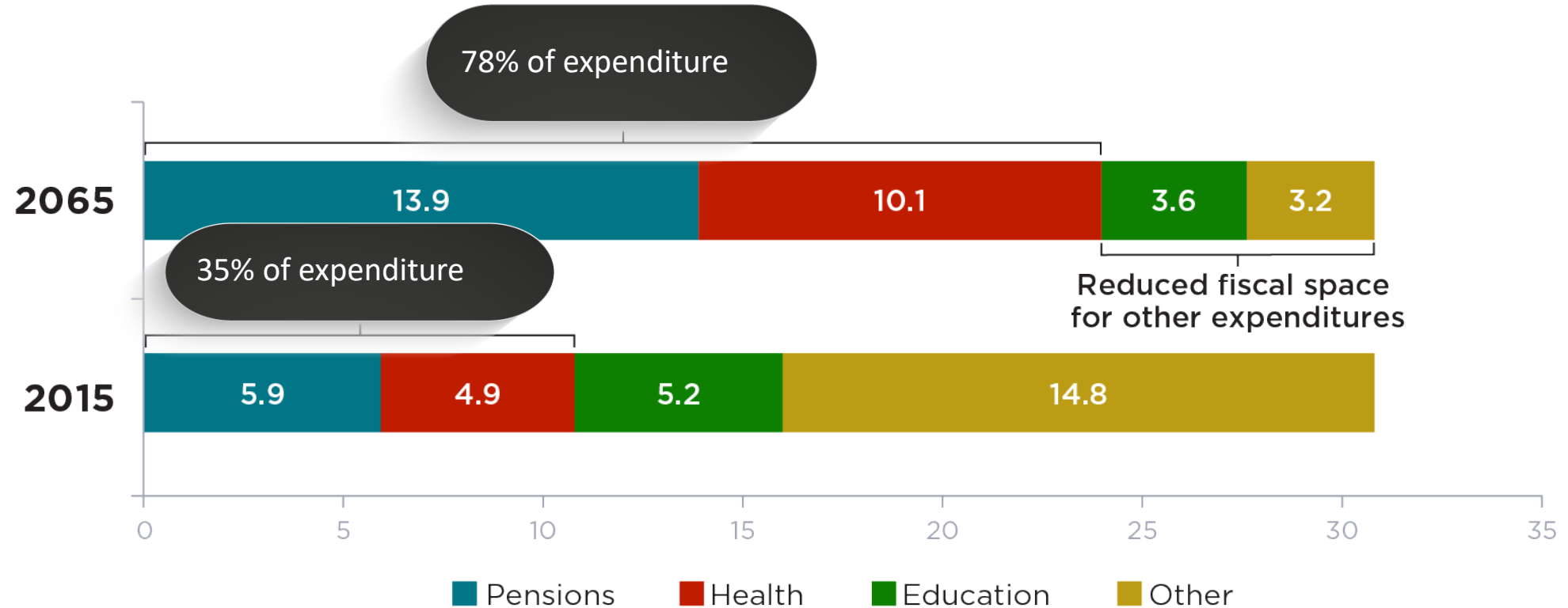
» The Power of Multipliers



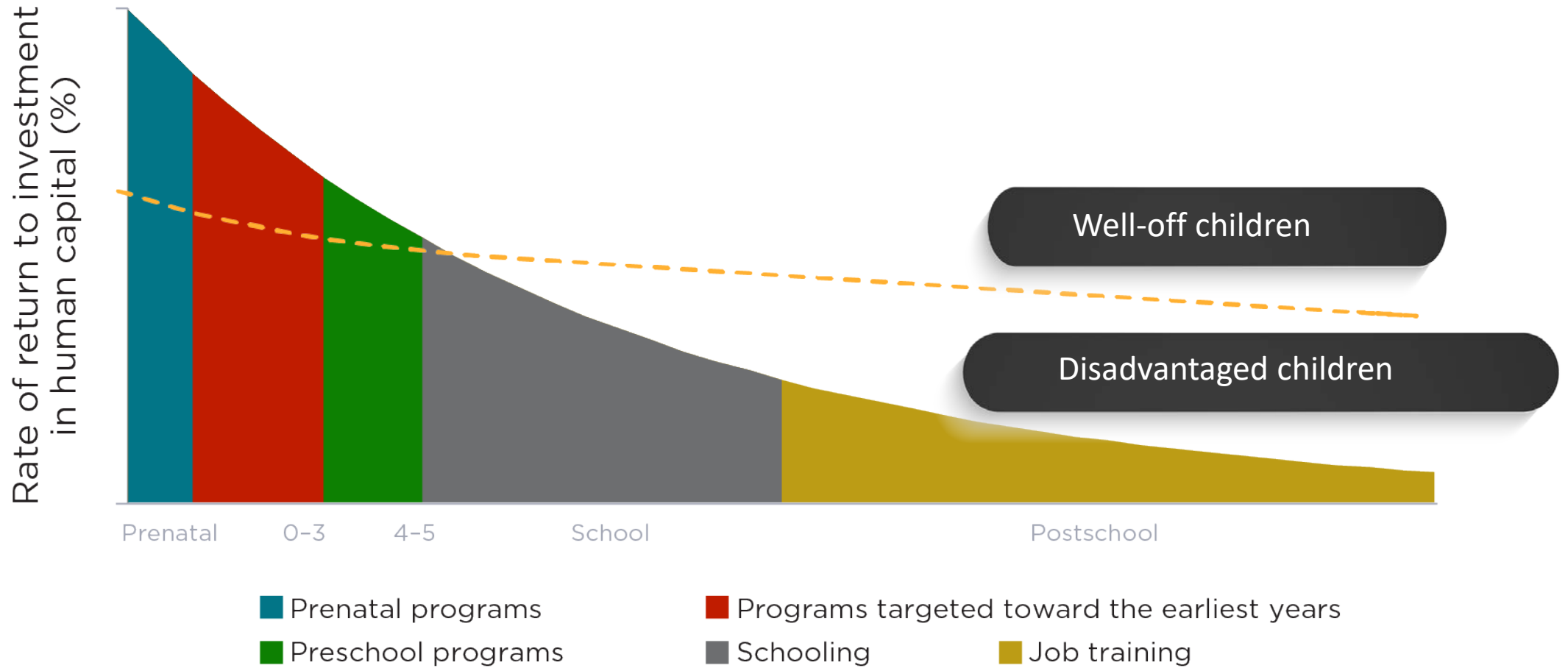
» Young vs. Old



» Expenditure and Old Age



» Early vs. Tertiary Education



» National vs. Subnational Governments



Large spending decentralization
with little local revenues

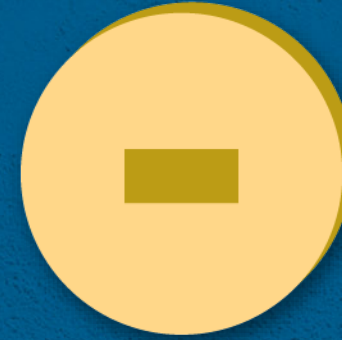
=

Less efficiency and
excessive civil service

» What favors growth?



Capital expenditures
Quality human
capital



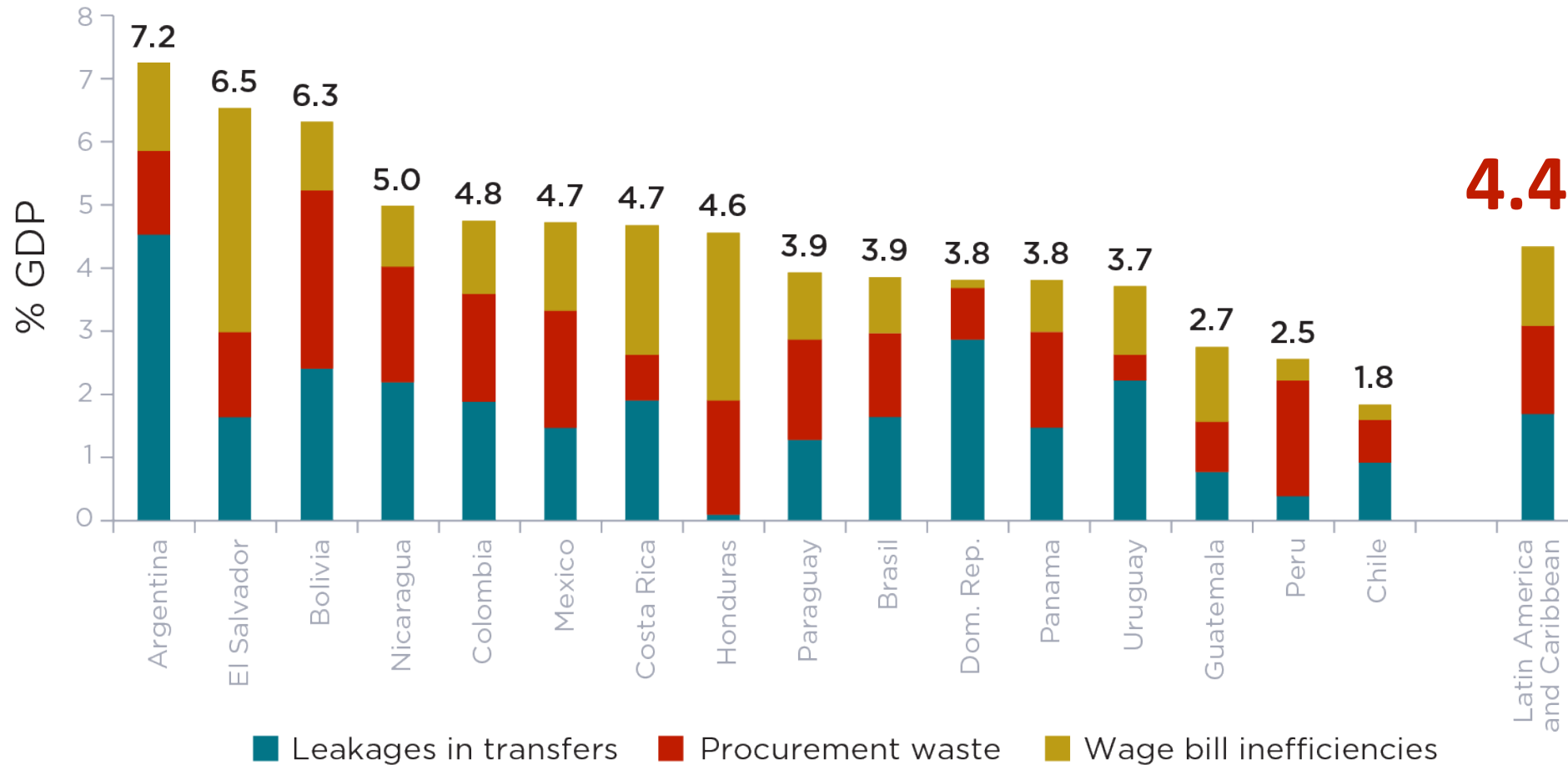
Excessive transfers
Large expenditure
without good management



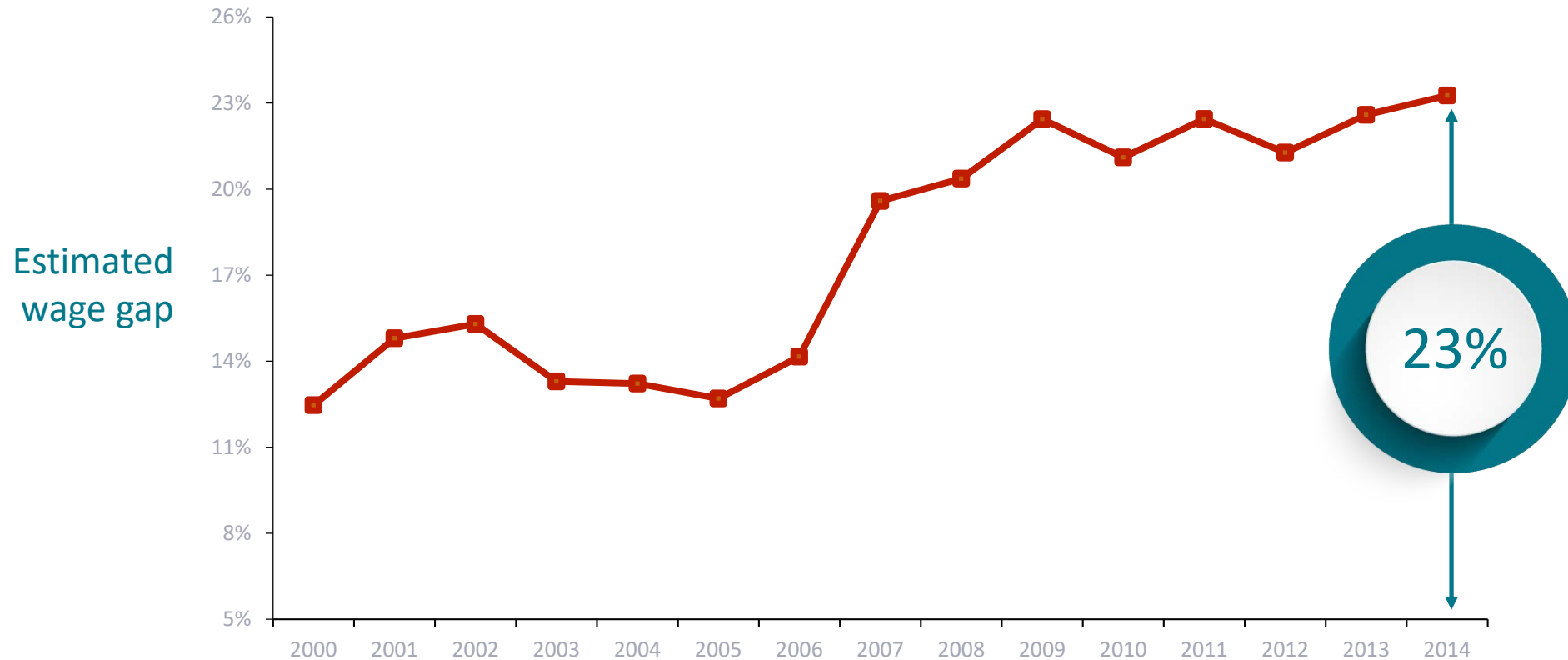
Better Spending for **Better Lives** - How Latin America and the Caribbean Can Do More with Less



» Transfers, Procurement, and Wages: Large Potential Gains



» Wage Gap between Public and Private Sector



» Further Inefficiencies in Transfers

- » Transfers fall in bad times

- » **Social security systems** are indexed to wages and revenue

- » Little spending on **unemployment insurance**

» Cost Overruns and Delays in Infrastructure

O
V
E
R
R
U
N
S

48%
in LAC

-

20%
in multi-
laterals

=

0.7%
of regional
GDP

D
E
L
A
Y
S

0.5% of regional GDP

» What Encourages Efficiency? The Case of Education



- » Teacher numeracy and literacy skills
- » Free school choice
- » Pay premium for top teachers



- » Share of wages in education spending
- » Standardization of pedagogical content



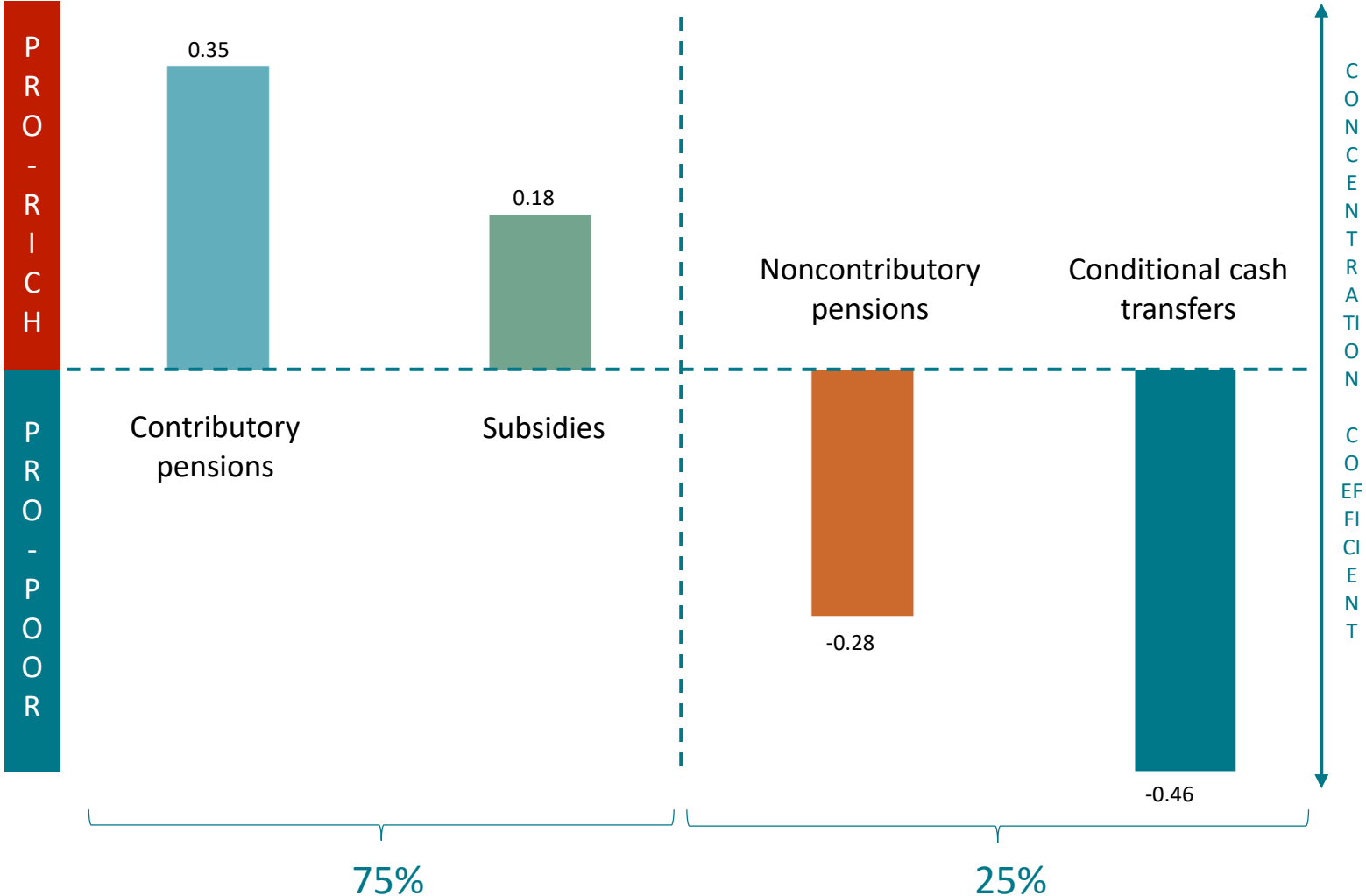
» Reducing Inequality through Transfers and Direct Taxes

4.7%
in Latin
America



38%
in OECD
and EU

» Many Transfers Favor the Rich



» Unintended Effects in Noncontributory Programs **Universal Allowance per Child (AUH)**

Spending
on AUH

0.72%

of GDP

Apparent
benefit

2.8 pps

poverty
reduction

Unintended
effect

0.6 pps

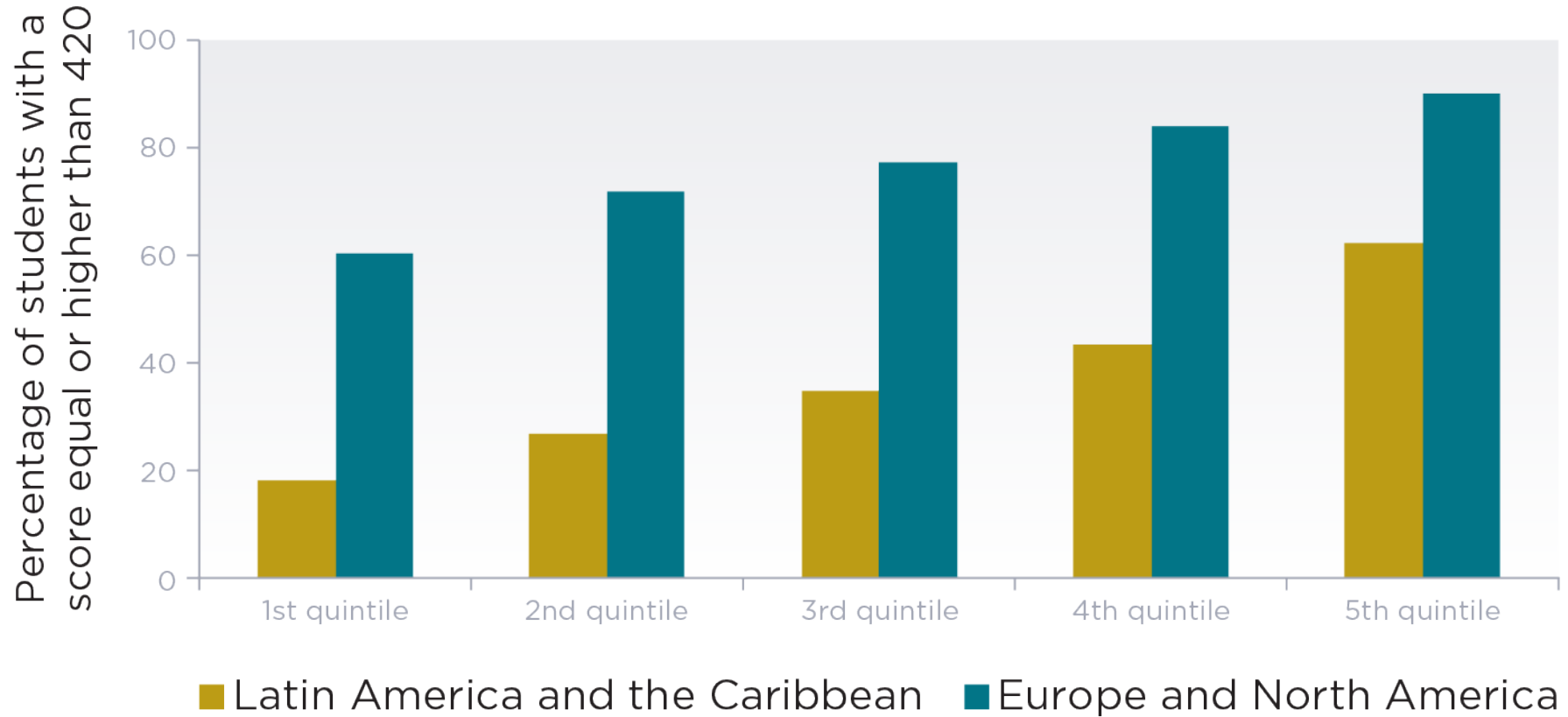
poverty
increase
from informality

True
benefit

2.2 pps

poverty
reduction

» More Equity in Spending on Education, but Inequality in Results



» Recommendations



» **Build Trust: A Bird in the Hand...**

Congressmen

Voters

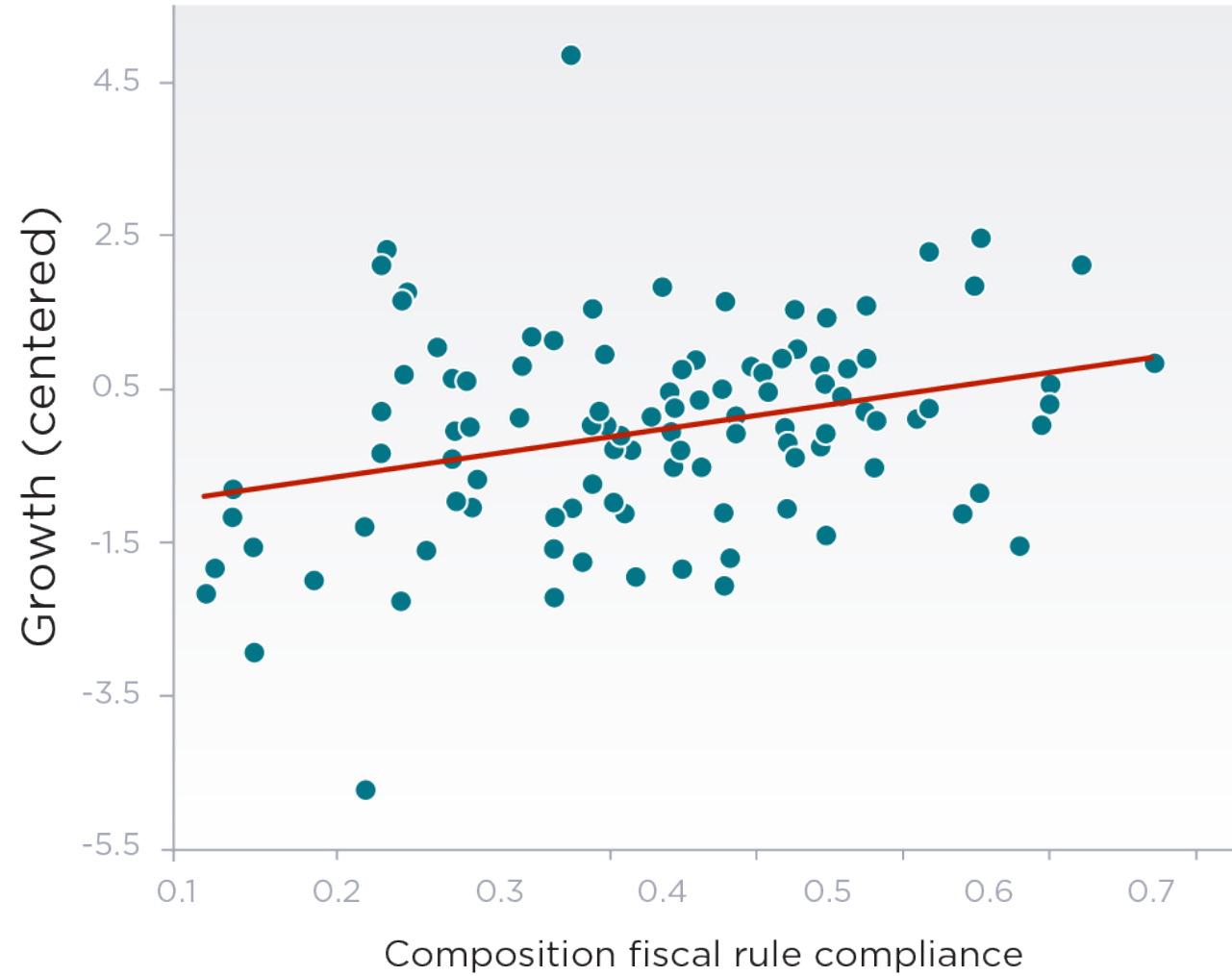
Latin America: 52%

Brazil: 70%

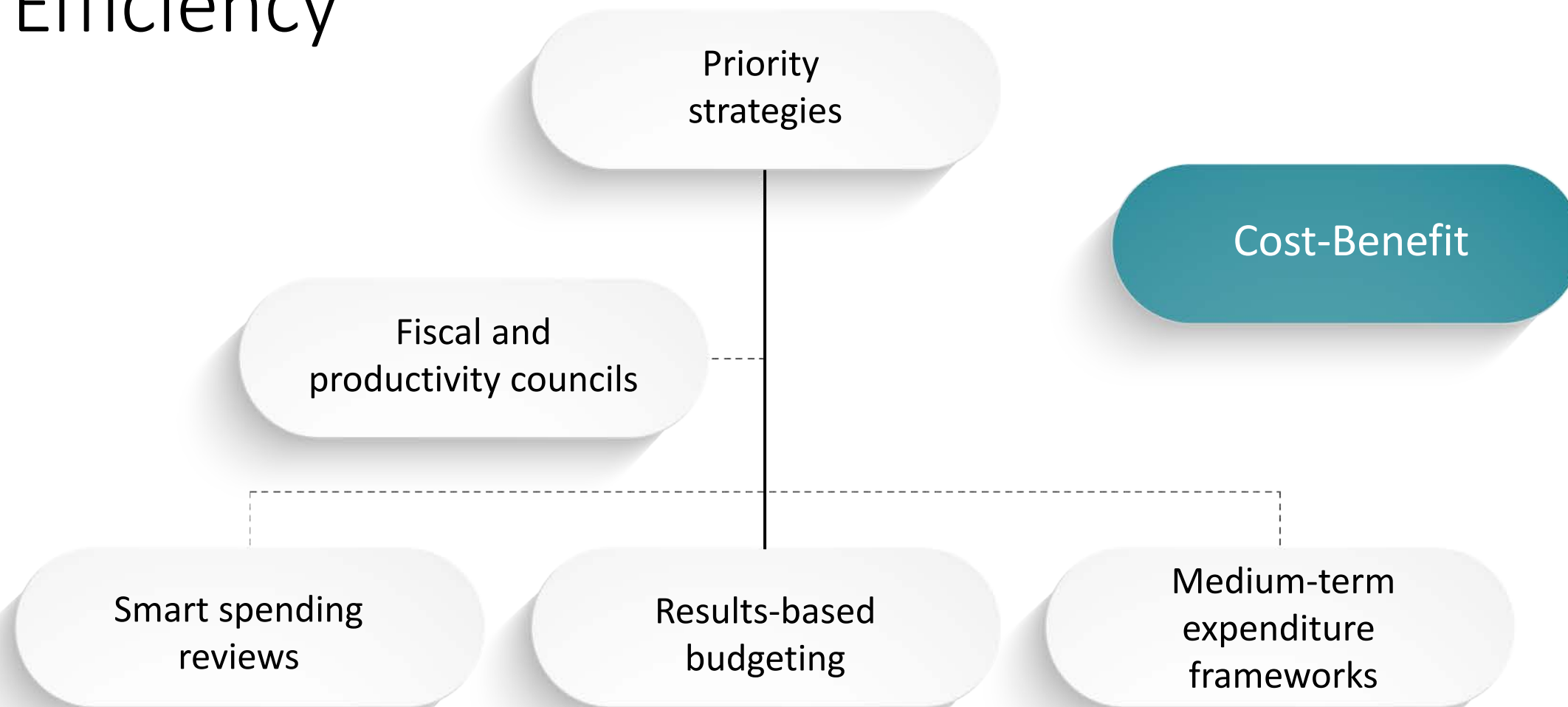
Canada: 24%



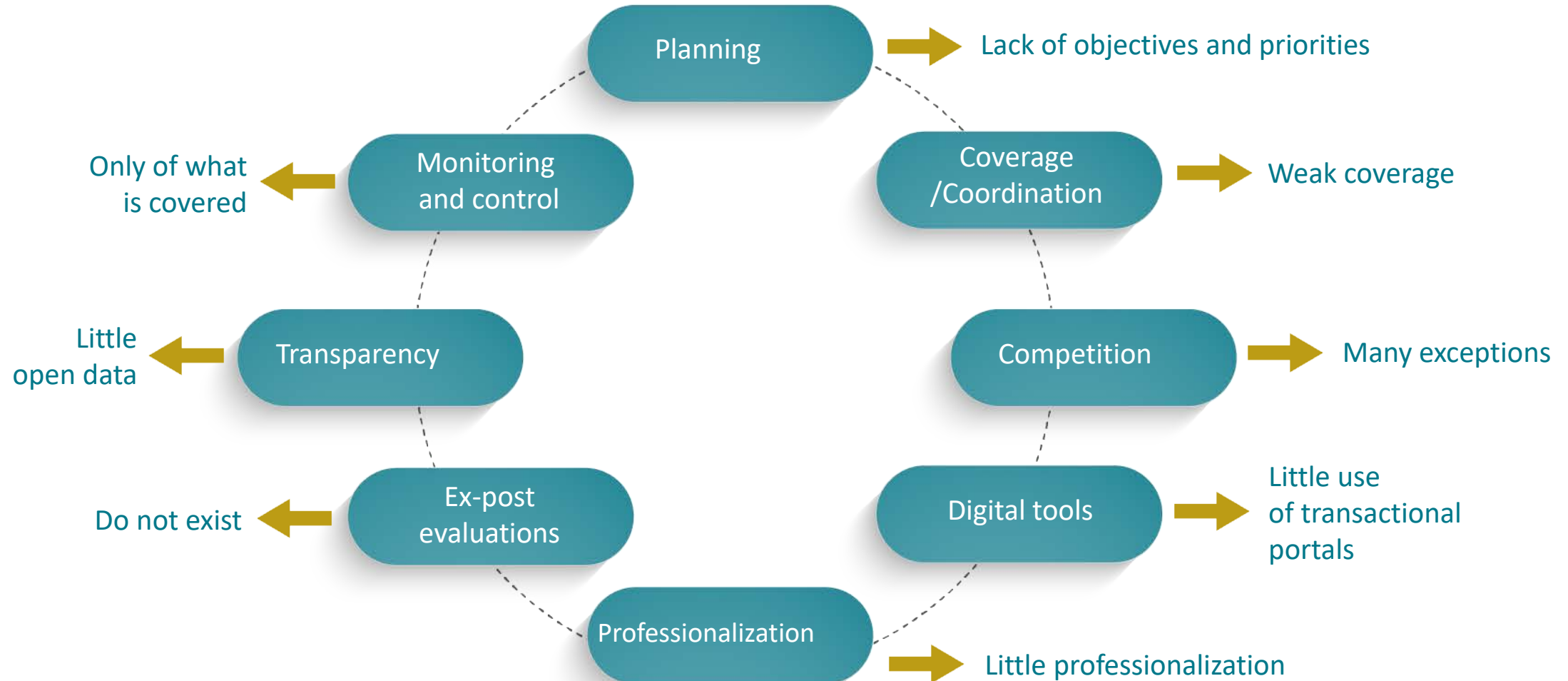
» Promote fiscal rules that **protect investment**



» Strengthen Institutions for Allocative Efficiency



» Build Efficient Institutions: The Case of Procurement







47%

under-five
mortality



30%

violent
crime



17%

PISA
scores



1.2%

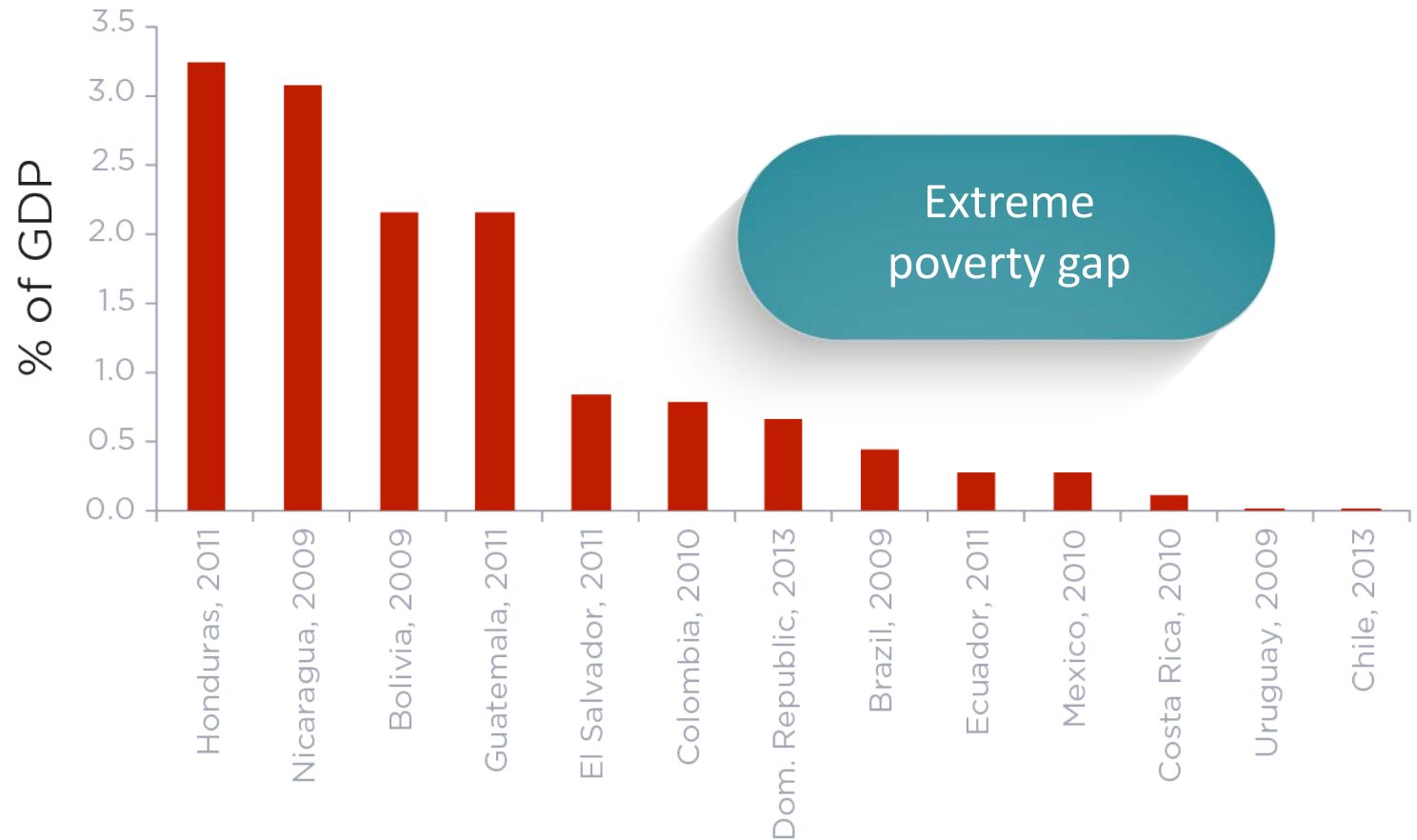
of GDP in
infrastructure

Rewards across Different Sectors

» More Rewards

4.4%

of GDP
in efficiency
savings

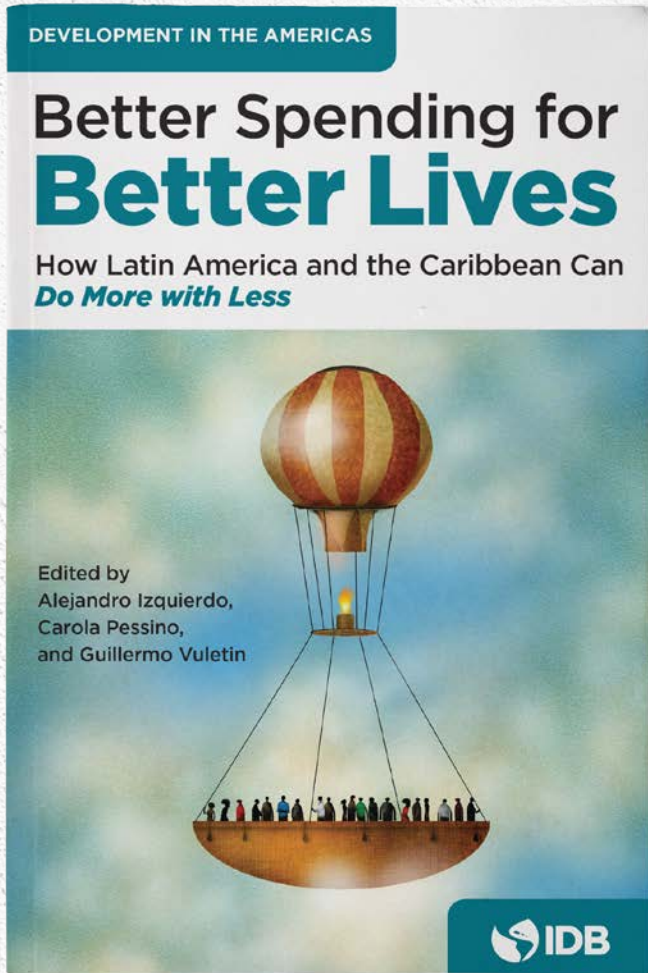


» Better Spending for Better Lives

- » Protect public investment
- » Invest in human capital
- » Avoid inefficient transfers

To grow more





www.iadb.org/DIA2018spending

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