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Conference “Winning the Tax Wars”

Wealth Taxes in Developing Countries

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Governance Global Practice

the World Bank

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1. Introduction

Growing inequality throughout the world has spurred renewed interest in wealth taxation as an instrument to raise revenue and reduce disparities in income and wealth. While levels of inequality have increased in most countries, the timing and the size of the increases vary by country. Countries also vary in their ability to use tax and spending

measures to reduce inequality. Looking at estimates of pre-tax and pre-transfer inequality and after-tax and after-transfer inequality, such as Gini coefficients, ratios of top deciles or quintiles to lower groups (such as 90/10 and 90/50 ratios), and the share of income or wealth held by the top 1%, confirm that levels of inequality have increased greatly over the last 30 years.¹ While the primary focus has been on income inequality, in many countries, the levels of wealth inequality are twice as high as the levels of income inequality.²

Scholars have identified several factors that may contribute to increased inequality, including globalization, skill-biased technological change, decline in labor market protection, increased migration from rural to urban areas, and changing demographics (including the aging of populations and the rise of single person households). While one can list potential factors that may result in higher levels of inequality, establishing a causal connection between these factors and actual increases in inequality is more challenging. What is likely is that factors influencing changes in levels of inequality vary by country, and within each country, the individual determining factors have different consequences for different segments of the population.

While scholars have extensively examined the role of income and consumption taxes in both developed and developing countries, less attention has been given to the role of wealth taxation. At the World Bank conference “Winning the Tax Wars,” Eric M. Zolt (Michael H. Schill Distinguished Professor of Law, UCLA School of Law), Richard Murphy (Professor of Practice in International Political Economy, City University, London), and Joe Thorndike (Director of the Tax History Project at Tax Analysts and contributing editor for Tax Notes magazine), presented some preliminary thoughts on the fundamentals of wealth taxes. They discussed why wealth taxes might be desirable on equity and efficiency grounds, and the political and economic challenges of increasing use of wealth taxes. They also highlighted how recent economic, political, and technological changes likely increase the desirability and administrative feasibility of expanded use of wealth taxation.

This chapter reviews the main issues addressed at the conference and seeks to provide a foundation to encourage further examination of the increased role of wealth taxation in the fiscal architecture of developing countries.

Recent developments provide a strong basis for increasing the role of wealth taxes in both developed and developing countries. Throughout the world, greater political awareness exists about high levels of income and wealth inequality as well as the tax avoidance and evasion strategies of multinational corporations and high-wealth individuals. Recent OECD initiatives on automatic exchange of information, greater use of registries on

beneficial ownership of financial assets, greater access to bank information (resulting from the U.S. and other countries efforts to require banks to disclose foreign accounts), and the decline in bank secrecy laws should provide taxing authorities with greater ability to monitor the income and wealth of individuals residing in their countries. Technological advances have also made it easier for taxing authorities to identify and value assets, and emerging technologies will dramatically improve governments' abilities to track them.

For developing countries, increased use of wealth taxation provides an opportunity to improve the progressivity of the tax system and to raise additional revenue to fund public social spending programs targeted to reduce rising inequality. Wealth taxes may also mitigate increasing intergenerational transmission of inequality and the growing inequality of opportunity. This chapter seeks to highlight key issues about wealth taxation and to further the debate about the increased role of wealth taxes in raising revenue and reducing inequality.

2. Why are Wealth Taxes Desirable?

Several factors support higher taxes on the wealthy (including annual wealth taxes on specific assets), especially in times of increasing inequality. The discussion below highlights the common arguments that support the increased use of wealth taxes, as well as some of the qualifications and challenges that might apply.

2.1. Equity Justifications

Higher taxes on the wealthy are often justified based on the “ability to pay” principal and the “benefit” principle. In determining relative ability to pay, wealth taxes can play an important role in supplementing income taxes, especially in those countries where the income tax plays a relatively minor role in redistributing income. As wealth is essentially multi-year accumulation of income, countries could address extreme concentration of wealth by taxing income more progressively. For countries that do not tax income from capital effectively, wealth taxes (whether in the form of annual wealth taxes on specific assets or an estate or inheritance tax) can serve to improve the fairness of the tax system by increasing the tax burden on accumulated capital. In addition, because an individual's tax capacity reflects both income and net wealth, using both income and wealth taxes may better approximate an individual's ability to pay than just using personal income taxes. Equity concerns may also support wealth taxes where a disproportionate share of a country's economic gains are received by the wealthy or where the wealthy have used tax avoidance and evasion strategies to minimize their tax liability under the personal income tax.

The benefit principle also provides support for the use of wealth taxes. The creation of private wealth depends on governments providing public goods and services such as security, protection of property rights (including intellectual property rights), infrastructure improvements, and education and health services to develop and support a qualified workforce. Murphy observes that those at the high end of the income and wealth distribution benefit greatly, and perhaps disproportionately, from these government-provided goods and services. In many countries, there is also a strong perception that the wealthy have benefitted from government policies for their financial advantage. As Murphy notes, the wealth tax can be justified as a tax on the economic rents that wealth enjoys from government protection.

While fairness concerns may justify higher taxes on the wealthy, Zolt emphasizes that it is not clear what approach countries should follow in increasing the tax burden on the wealthy. For some countries, introducing a new annual wealth tax on specific assets (or strengthening an existing wealth tax) may be the best strategy for improving the level of equity in the tax system. For other countries, there may be greater payoff from improving the taxation of income from capital under the personal income tax system or increasing the tax rates and effectiveness for current taxes on real estate rather than adopting an annual wealth tax on specific assets.

2.2. Efficiency Justifications

The discussants reviewed some of the possible efficiency justifications for wealth taxes. Some contend that wealth taxes can result in more productive use of assets by encouraging owners to develop under-utilized assets. Increasing the tax costs of holding portfolio assets in low or no tax jurisdictions may also create incentives to invest resources domestically. Wealth taxes may also be less distortionary than other types of taxes. To the extent the burden of wealth taxes falls primarily on economic rents, the distortionary effects will be small. But wealth taxes also generate efficiency costs. For example, they create incentives to move assets out of the country and to use offshore entities and other opaque legal structures to disguise ownership.

Discussants also highlight the difficulty of determining economic consequences of wealth taxes without a better understanding of who actually bears the economic burden of these taxes. They note that the incidence of wealth taxes likely varies by the type of wealth tax as well as by country-specific factors.

2.3. Political Economy Benefits

Discussants also note the political and social economic gains that may result from adopting wealth taxes. Since the 19th century, scholars have examined the effects of income inequality on a country's prospects for democratization. In his recent book *Capital in the Twenty-First Century*, Thomas Piketty highlights the dangers of excessive wealth concentration, including that high concentration of wealth may increase the risk of capture of the political system, with adverse implications for the proper functioning of a modern democracy.³

Even the appearance of progressive taxation (whether in the form of progressive tax rates or wealth taxes) plays an important role in establishing the social legitimacy of the tax system. This is essential to promote social and political cohesion, and improve levels of tax compliance. Thorndike highlights that the success of wealth tax initiatives has relied on desirable social objectives: the reallocation of fiscal burdens, the fairness of the tax system, and the minimization of wealth concentration. These are all crucial components in building an enduring democracy.

2.4. Administrative Gains

The adoption of a wealth tax on specific assets and increasing effectiveness of existing taxes on real estate and improvements may also result in significant administrative gains. Wealth tax systems generally require taxpayers to provide a listing of certain assets and to value those assets. The collection of this information will be useful to tax authorities in administering income and consumption taxes. Disclosure of assets will allow taxing authorities to match reported taxable income with accumulation of assets, information that will prove helpful in identifying tax avoidance and evasion strategies used by taxpayers. Wealth taxes may also be a useful tool for anti-corruption efforts, particularly in those countries that require political candidates and government officials to file reports disclosing personal and family assets.

3. Wealth Taxes

3.1. Types of Wealth Taxes

Wealth taxes come in various forms and sizes.⁴ They could cover such assets as cash and cash equivalents, corporate stock, corporate and government debt, privately held businesses, owner-occupied housing, commercial real estate, collectibles, retirement assets, and life insurance. A narrow view of wealth taxes would include annual taxes on real property and improvements, annual wealth taxes on other types of investment assets, and estate or inheritance taxes (including supporting taxes on lifetime transfers). A

broader view of wealth taxes could include any tax on assets, including taxes on income from capital under the personal income tax and corporate income taxes.

At a general level, three categories of wealth taxes exist: taxes imposed on the holding of assets; taxes imposed on the transfer of assets; and taxes imposed on the appreciation of assets.

1. **Taxes on the holding of assets** include taxes on real property and other types of investment assets. Countries generally assess these taxes on an annual basis, but in some cases, countries assess taxes as a one-time charge or on a temporary basis during periods of war or financial crises.
2. **Transfer taxes** include estate or inheritance taxes on death (levied either on the decedents' estate or on the beneficiary of property received) as well on certain lifetime gifts. Transfer taxes also include taxes related to transfers of real property and certain other financial assets (real estate transfer taxes, stamp taxes, and financial transactions taxes).
3. **Taxes on the appreciation of assets** include capital gains taxes on realized gains under the personal income tax system. Some countries also treat transfers on death or gift as a realization event for income tax purposes.⁵

Countries differ greatly in their experience with taxing wealth. Taxes on real property and improvements are the most common type of wealth taxes. Many countries assign these taxes to subnational governments. While taxes on real property raise a relatively small percentage of total tax revenue, they are often the largest source of local discretionary revenue and therefore a critical resource in the provision of local public infrastructure and services. Several possible explanations exist for the relatively small revenue yield, including the unpopularity of property taxes, challenges in determining and collecting property taxes, challenges in valuing property, and the lack of political will to increase significantly the tax burden on real estate.⁶ Because real property and improvements likely represent a large percentage of wealth in many developing countries, any meaningful wealth tax reform would require achieving political consensus to improve the administration of real property tax systems and to increase the tax burden on such property.

Murphy notes that other forms of tax on the holding of assets are rare, but he believes that introducing such taxes merits consideration. He also suggests that a self-assessment basis of valuation with penalties for under-valuation could improve compliance rates.

All discussants acknowledge the many challenges associated with transfer taxes in both developed and developing countries. While compliance rates are relatively high in many developed countries because of effective enforcement mechanisms, in other countries the levels of avoidance and evasion are sufficiently high to undermine the legitimacy of these taxes. Murphy notes that estate and inheritance taxes are unpopular and widely avoided, through transfer of assets either during the owner's lifetime or through use of trusts and offshore arrangements. In many countries, transfer taxes create incentives to drive transactions underground or to misreport the true value of the transferred assets, sometimes in collusion with tax officials and public notaries.

The discussants note taxes on capital gains are an important part of most tax systems, but the revenue yields are generally relatively low. In many tax systems, the primary role of capital gains taxation is not to raise revenue but to prevent leakage from the personal tax system. Murphy observes that in recent years many countries have reduced capital gains tax rates to spur investment and entrepreneurship, despite the lack of any clear evidence about the effectiveness of such measures.

3.2. Role in Tax System

At a general level, there are three major bases for taxation: income, consumption, and wealth. Zolt highlights that countries can use wealth taxes to either supplement existing income or consumption taxes, or to replace existing taxes. For example, countries can retain current taxes on income and consumption but impose an additional wealth tax targeted at certain assets or high-wealth individuals. The combination of wealth taxes and income taxes may allow countries to use revenues from a wealth tax to reduce marginal tax rates under the income tax. Countries can also use wealth taxes to tax certain investment assets on a presumptive basis, or as a minimum tax for income tax purposes (for individuals and corporations).

Scholars have proposed using wealth taxes to replace existing taxes.⁷ For example, countries could combine a progressive consumption tax with an annual wealth tax to replace the income tax. Countries can also de-link the taxation of income from labor and income from capital,⁸ and consider using wealth taxes to tax income from capital either on a mark-to-market taxation basis or as a retrospective tax on capital.

Zolt notes that the Netherlands' tax on portfolio income provides an interesting example of a wealth tax as part of the personal income tax system. In 2001, the Netherlands adopted a schedule approach in their personal income tax system dividing income into three boxes:

Box 1: Taxable income from labor and homeownership taxed at progressive rates;
Box 2: Taxable income from substantial business interest taxed at a flat rate; and
Box 3: Taxable income from portfolio investments taxed at presumptive tax rates.

The presumptive tax rate for Box 3 assumes that net assets generate a return of 4% and are subject to a 30% tax rate. While this is part of the personal income tax system, it is effectively a wealth tax on portfolio investments taxed at an annual tax rate of 1.2%.

3.3. Design Issues in Adopting a Wealth Tax

The discussants reviewed some of the major design issues in adopting an annual tax on assets. These include determining the scope of the tax, identification and disclosure of assets, valuation of assets, treatment of liabilities, and addressing liquidity concerns.

The initial question is determining who is subject to the tax and what assets are included. For example, Zolt notes that countries could assess an annual wealth tax of specific assets on individuals, households, families, or entities. For many closely held businesses, ownership interests are spread among many different family members. It will often be easier to determine the valuation of the entire business than in valuing the interests held by a single individual. Particularly in developing countries, using the family (broadly defined) as the unit of taxation may make it easier to impose wealth taxes on large family enterprises.

Discussants also reviewed the types of assets that could be subject to an annual wealth tax. Determining which assets are subject to a wealth tax may depend on several different factors, including valuation challenges, challenges in identifying assets, political resistance, and effectiveness in taxing high-wealth individuals.

Another important issue in designing wealth taxes is the treatment of debt used to acquire or hold assets. Countries could impose taxes on a gross basis (for example, taxes on real property) or on a net basis that provides for offsets for debt incurred on the acquisition or holding of assets (such as some annual wealth taxes of investment assets). While allowing an offset for debt would be more effective in taxing the net wealth of the taxpayer, allowing adjustments for debt presents additional challenges in administering a wealth tax. Because of the fungibility of money, allowing debt adjustments will encourage taxpayers to allocate debt to those assets that are subject to the wealth tax, even if the debt is not related to those assets.

Finally, policy makers may need to consider some measures to address challenges related to liquidity for those taxpayers who have substantial assets, but lack the cash to pay the taxes. While liquidity challenges most often arise with respect to estate or inheritance taxes imposed on the value of closely-held businesses and family farms, it is still a concern with respect to annual real property taxes, particularly for elderly taxpayers.

4. Challenges in Adopting Wealth Taxes

This section examines some of the challenges and risks of adopting wealth taxes. These include the political challenges in taxing wealth, the lack of popular support for wealth taxes, and administrative challenges facing developing countries.

4.1 Political Challenges in Taxing Wealth

Countries vary greatly in their relative use of tax instruments to fund government operations and in their ability to impose higher taxes on the wealthy. With some exceptions, the percentage of tax revenue raised by income taxes in developing countries is much lower than the percentage in developed countries.⁹ The variation is even greater if one examines the relative revenue raised by personal income taxes, especially the relative revenue collected under the personal income tax system on income from capital.

Several possible explanations exist for the relatively low tax burden on the wealthy in developing countries. These include administrative challenges facing tax authorities in collecting taxes on income from capital (held both domestically and abroad) and the tax avoidance and evasion strategies used by high-net-worth individuals in avoiding tax liability. However, a major reason for the low levels of taxation is the lack of political feasibility to increase taxes on the wealthy.¹⁰

While countries continue to impose annual taxes on real property and transfer taxes on property (and in some countries, financial transactions), relatively few countries impose annual wealth taxes on specific investment assets, and several countries have abolished these types of taxes over the last 30 years. Similar trends exist for abolishing or reducing inheritance and estate taxes. Even in those countries that use wealth taxes, the tax revenue generated from annual wealth taxes on specific investment assets, property taxes, and inheritance or estate taxes are remarkably small compared to revenue generated by other types of taxes.

4.2 Lack of Popular Support for Wealth Taxes

While few taxpayers like income and consumption taxes, wealth taxes rank at or near the bottom in terms of popularity, even among those who will likely never have to pay them. In his examination of the development of early forms of property and estate taxes in the United States, Thorndike outlines important political and economic factors that influence the rise and fall of these taxes. Box 1 sets forth Thorndike's historical account of the U.S. estate tax. He finds that arguments based on the fair allocation of tax burden are more likely to be persuasive with voters than arguments based on redistribution. While increasing inequality may have played a role in the debates about wealth taxes in the U.S., Thorndike finds that inequality concerns are of limited importance in influencing tax policies.

Uneasy Invention: The Politics of Wealth Taxation in the United States

- Joseph J. Thorndike

In the U.S., estate and inheritance taxes have been the principal instruments for taxing wealth for a long time. Early American experiments with wealth taxes have been precipitated primarily by wars and crisis. In the wake of the Quasi-war with France, a small estate tax, called the stamp tax - a tax proposed a few years ago - was adopted in 1797 to fund the war. It set a graduated property tax of 0.2% on houses, land and slaves worth \$100, up to 1% on property worth more than \$30,000. But, it was plagued with huge administration costs. It was repealed in 1802.

To help pay for the Civil War, Congress imposed a "legacy tax" in 1862. It applies to the transfer of property after death and imposes a gradual tax, ranging from a low of 0.75 to a high of 5% by the degree of kinship. It was, however, considered a failure because it generated revenues far shorter than expected and was easy to evade. Though there are arguments about its successes and failures, it was repealed in 1870. There was a rising momentum in Congress to cut taxes culminating in the repealing of transfer taxes as well as legacy and succession taxes, until another war.

Taxation of inherited wealth found a foothold in the law again in the wake of another war - the Spanish American War of 1898. Congress imposed a new gradual estate tax, levied on the value of all personal property in an estate. Though it is considered a success, it was soon repealed by law makers in 1903. The early history of wealth transfer taxes is a story about revenue and not reform. It was designed to address the particular challenge of funding wars, and was not based on a solid economic rationale. As a result, it did not have a stronghold in the fiscal architecture. The progressivity of the estate taxes aimed to ensure that wealth paid its fair share of the overall tax burden.

September this year marked 100 years since the modern-day estate tax was introduced in The Revenue Act of 1916, which also introduced the modern-day income tax. Revenue was still the driving force in the wake of World War I. In addition to the main drive to raise revenue and a fair distribution of the burden of taxation, there were emerging arguments by members of Congress that it also had a redistributive role. In 1935, the estate tax was raised. Issues of concentration of wealth and the inherent distaste for the transmission of inequalities across generations predominated arguments favoring the increase in the tax. "The transmission from generation to generation of vast fortunes by will... is not consistent with the ideals... of the American people," noted Roosevelt. He also cautioned about the subsequent "perpetuation of great and undesirable concentration of control in a relatively few individuals." The later history of the estate tax in the 1990's and 2000's was largely dismal.

Whether recent economic and political developments will change popular perception of the desirability of different types of wealth taxes is uncertain. As discussed below, in many countries, the chances for adopting wealth taxes to raise revenue and reduce inequality are likely higher now than in the last several decades.

4.3 Administrative Challenges

The administrative challenges of designing and implementing wealth taxes depend primarily on the type of wealth taxes adopted and the tax environment within specific countries. Murphy emphasizes that wealth taxes generally require tax authorities to locate the asset, to identify the owners, to value the asset, and to collect the tax. He states that countries that have access to high quality information of investment income, automatic information exchange regimes with key financial centers and offshore financial centers, and relatively high rates of compliance with regard to declaring investment income under personal tax regimes will have a much easier time collecting and enforcing wealth taxes than those countries that do not.

An annual wealth tax on specific assets also raises identification and disclosure issues. Challenges exist in identifying a taxpayer's assets, as taxpayers can physically hide assets (such as gold, diamonds, and fine arts), and use many techniques to obfuscate ownership (including the use of shell corporations, trusts, foundations, and family partnerships). There are also challenges in getting taxpayers to disclose ownership of assets. While many types of assets are subject to registration requirements (such as real property tax registries and financial asset registries), other types of assets are not included. As Murphy notes, any wealth tax system would need to provide for higher penalties for failure to

disclose assets, perhaps in the form of additional assessments for failure to disclose or higher tax rates for undisclosed assets under either capital gain taxes or inheritance taxes.

Substantial challenges also exist on valuing assets. Assets can be divided into three general categories: (i) those assets that are easy to value, such as publicly traded stock; (ii) those assets that are somewhat difficult to value, but where estimates of value would fall within some reasonable range (for example, most types of real estate); and (iii) those assets that are hard to value, including stock of closely-held corporations and complex financial instruments.¹¹ Improvements in and the greater availability of online markets and online valuation platforms (such as Zillow and Redfin) provide taxing authorities greater ability to check estimates of taxpayers' valuation. In those countries where the markets for certain assets are less robust, this may limit the type of assets that could be subject to wealth taxes. In all countries, taxpayers will become more aggressive in holding assets in different ownership structures (such as trusts, family partnerships, and offshore entities) that will result in increased difficulties in identifying and valuing assets.

A good predictor of a country's likely success in administering a wealth tax is the relative effectiveness of collecting taxes on income from capital under the personal income tax regime and collecting taxes on real property and improvements. Those countries with relatively low revenue yields and high levels of non-compliance under these taxes will have significant difficulties in administering many types of wealth taxes. Additional challenges exist in those countries where domestic bank secrecy laws or practice limit tax authority's access to taxpayer-specific financial information. Finally, some developing countries may lack sufficiently robust capital and real estate markets to allow for effective valuation of different types of non-publicly traded property.

5. The Changing Environment for Wealth Taxes

The desirability and feasibility of increased use of wealth taxes in both developed and developing countries has increased significantly over the last few years. The combination of greater popular and political awareness of high levels of income and wealth inequality, with the greater exposure of the tax avoidance and evasion strategies of multinational corporations and high-net-worth individuals, provides a window of opportunity for countries to reform their tax systems to increase the tax burden on the wealthy. These developments provide greater support for tax reform than existed just a few years ago. But challenges remain in achieving the political consensus to adopt wealth taxes. In all countries, the wealthy are politically powerful and they have the resources and incentives to block increased wealth taxes.

Key to the successful implementation of any tax is access to information. Here again, the discussants noted several developments that improve the ability of taxing authorities to access information about the income and wealth of individuals residing in their countries and that increase the difficulty of wealthy individuals to hide their assets in tax haven countries. The recent OECD initiatives on automatic exchange of information, greater use of registries on beneficial ownership of financial assets, increased disclosure by financial institutions of accounts held by non-residents, the decline in bank secrecy laws both domestically and in tax haven jurisdictions, and the greater willingness of the international community to challenge practices of tax haven countries in facilitating tax avoidance and tax evasion, all contribute to increasing a country's ability to successfully implement and enforce different types of wealth taxes. Technological improvements provide taxing authorities greater ability to identify and value assets, and emerging tools, such as block chain technology, will dramatically increase the ability to track assets.

Finally, several countries in the last few years have adopted tax amnesty programs under the personal income tax to encourage wealthy individuals to declare assets to tax authorities rather than face harsher tax penalties. The information acquired under these tax amnesty programs will provide taxing authorities a strong foundation for taxing these assets under either a separate wealth tax or a Netherlands-style presumptive tax on wealth included in the personal income tax system.

6. Conclusion

In both developed and developing countries, the rising levels of inequality and the need for additional tax revenue have policy makers evaluating options for increasing the tax burden on the wealthy. One key component is to increase the tax burden on capital, either through the personal income tax system or through separate taxes on wealth. While the political, economic, and administrative environments vary greatly among countries, the desirability and the administrative feasibility of wealth taxes is much greater now than even just a few years ago.

For Murphy, the changing global environment provides an exciting opportunity for developing countries to use wealth taxes to raise revenue and reduced inequality. If properly designed and administered, wealth taxes can raise substantial revenues that can serve to reduce aid dependency and to reclaim tax sovereignty. This additional source of revenue could fund social spending programs to reduce inequality.

Zolt shares Murphy's enthusiasm for increasing the use of wealth taxes but lacks Murphy's optimism. For some countries, adopting annual wealth taxes on specific assets and adopting or strengthening estate or inheritance taxes may be the best approach to reduce inequality and raise revenue. Here the revenue and political benefits from adopting wealth taxes exceed the political, economic, and administrative cost associated with these taxes. In other countries, however, there may be greater revenue gains from improving existing personal income taxes (especially taxes on income from capital) and making more effective use of taxes on real property and improvements. For example, several options exist for increasing the tax on capital under the personal income tax system. These include increasing the capital gains tax rate, increasing the tax rates on dividends and interest income, adopting a mark-to-market system that taxes accrued but not realize gains, and treating transfers by gifts and inheritance as realization events under the personal income tax.¹²

Rather than adopt a new tax regime for taxing wealth, countries may be able to raise more revenue from changes to their income and property taxes. This additional revenue could fund public social spending programs targeted to reduce levels of inequality. This approach does not preclude countries from including "wealth-type" taxes under the personal income tax, either as a minimum tax or as a Netherlands-style presumptive tax on income from portfolio assets.

For both Murphy and Zolt, what matters is not the progressivity of the tax system but the progressivity of all government policies, whether on the tax or expenditure side.¹³ To reduce inequality, government policies are needed to make the poor richer. Redistributive tax policies are only part of the solution. In all countries, the toughest challenge is how to reduce pre-tax and pre-transfer levels of inequality. Here, designing more effective and well-targeted spending programs on health, education, and other social services are necessary to reduce inequality and poverty and increase economic mobility.

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