

Social Spending, Taxes and Income Redistribution in Paraguay

Sean Higgins and Nora Lustig (Tulane),
Julio Ramirez (CADEP),
Billy Swanson (UC Davis)

Presented by Jose Manuel Gomez (CADEP)

Commitment to Equity: Fiscal Policy and Income
Redistribution in Latin America

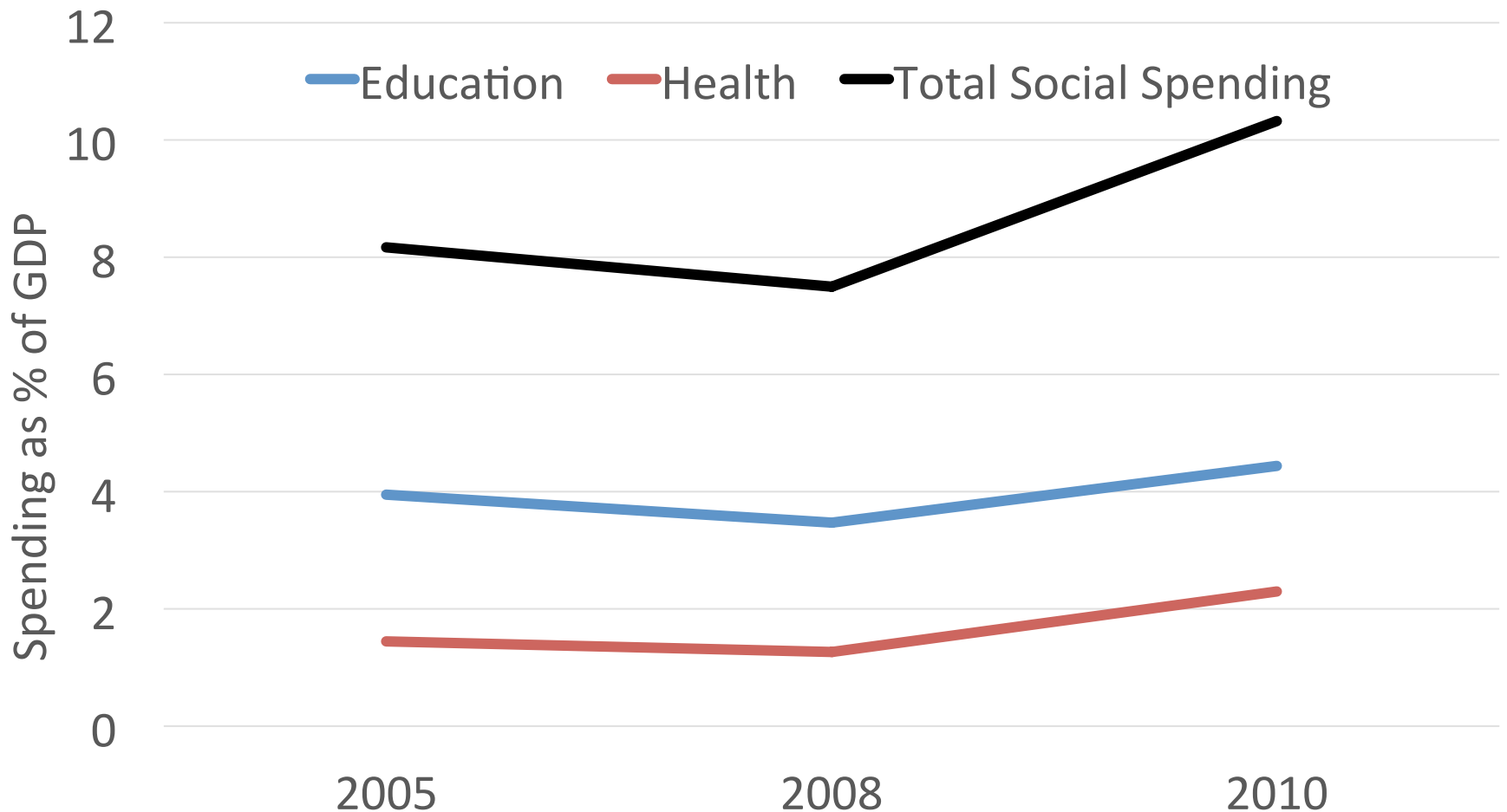
Tulane University, New Orleans, October 18, 2013

Summary of Taxes

- No income tax in 2010
- VAT accounted for 33.8% of total government revenues and 6.4% of GDP
- Farming income tax represents 0.3% of government revenues
 - Lack of coherence: agriculture and livestock contributes 18% of GDP

Summary of Spending

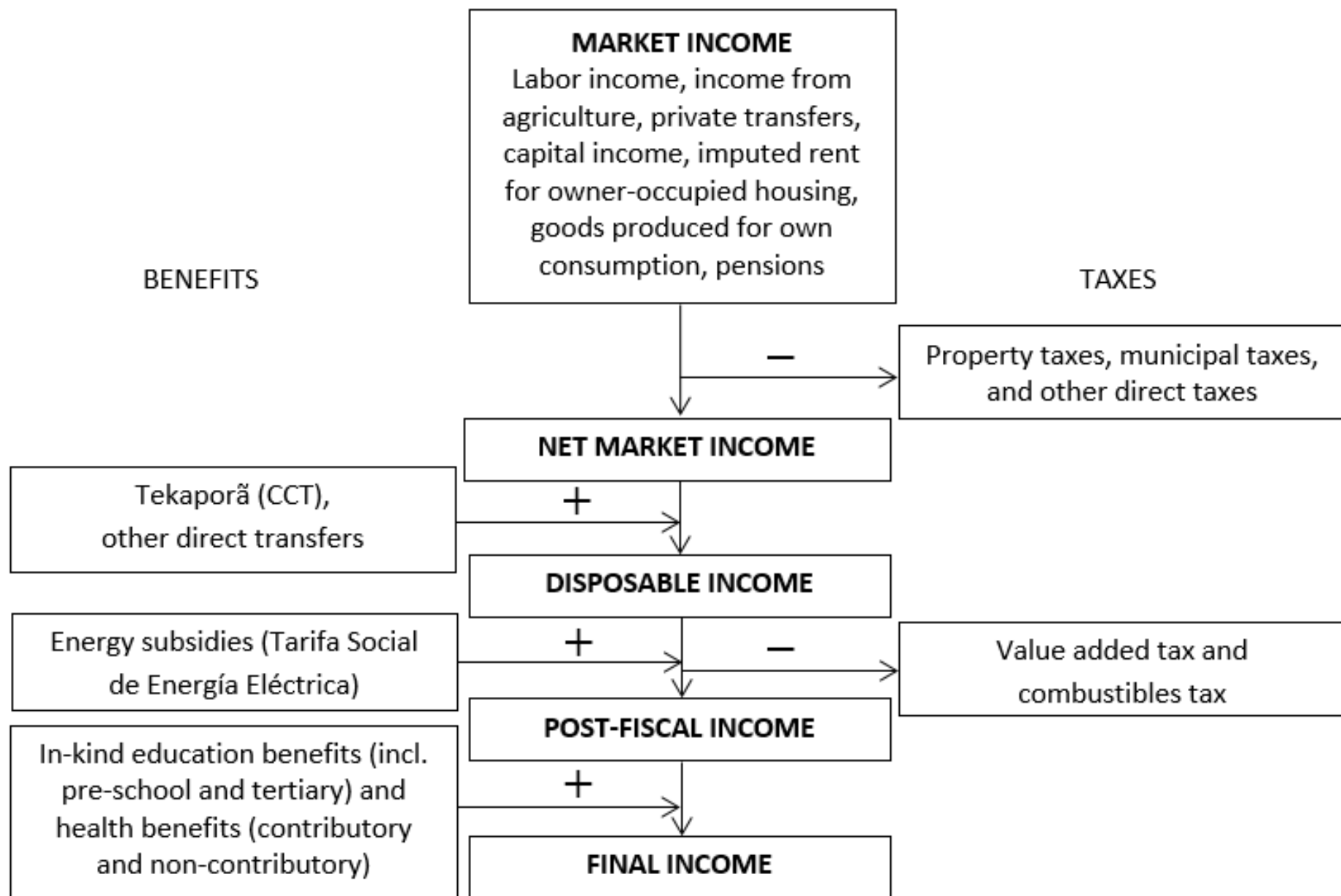
- Spending as % of GDP has grown 2005-2010



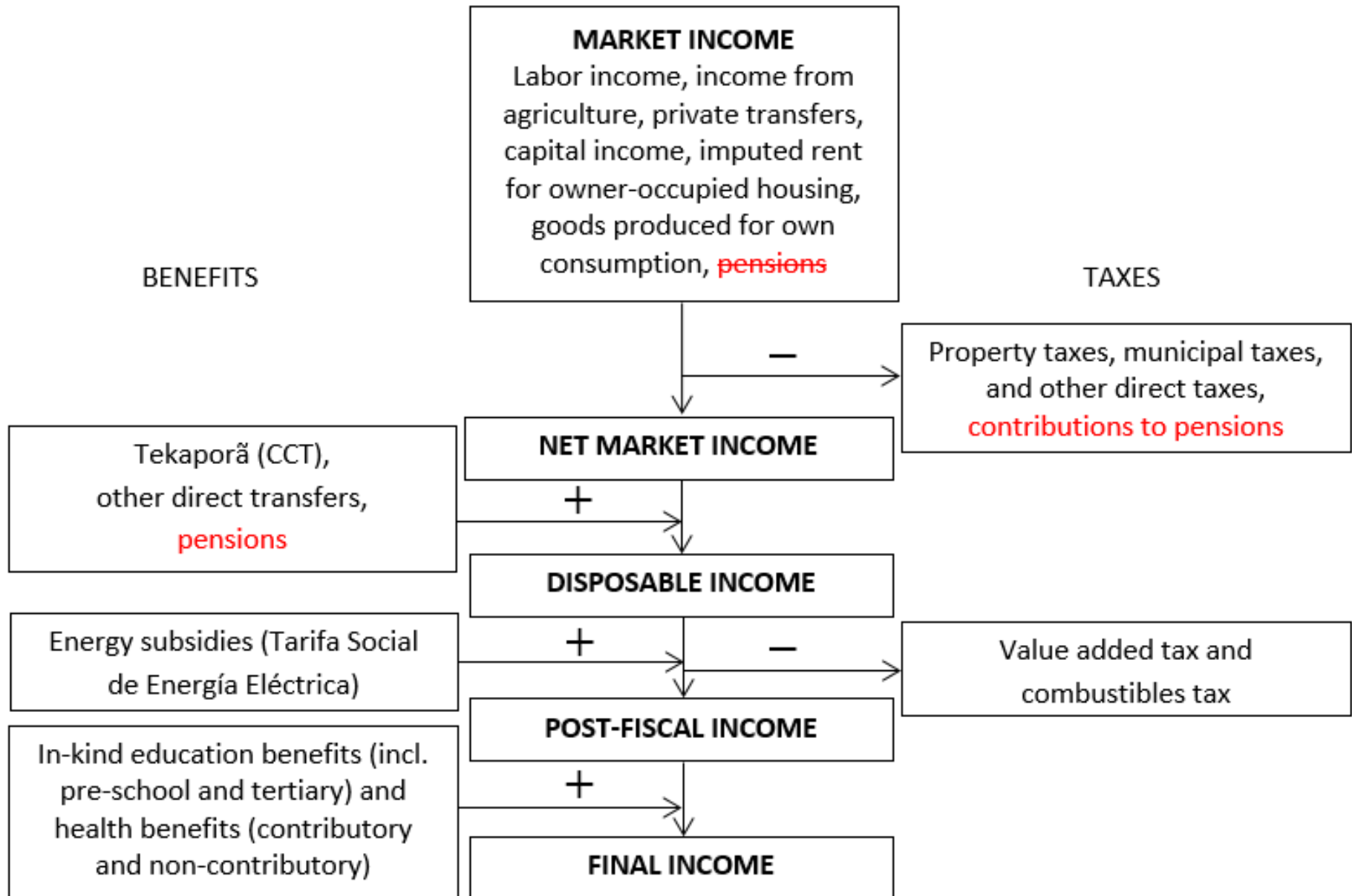
Summary of Spending

- Conditional cash transfer program Tekoporã began in 2005
 - 0.4% of GDP (same relative size as Bolsa Família)
 - Targeting is based in the most vulnerable regions and extreme poor households
- Health
 - Contributory system through social security institute (IPS)
 - Free public health care system
 - Expanded dramatically in 2009

Definition of income concepts: Benchmark case



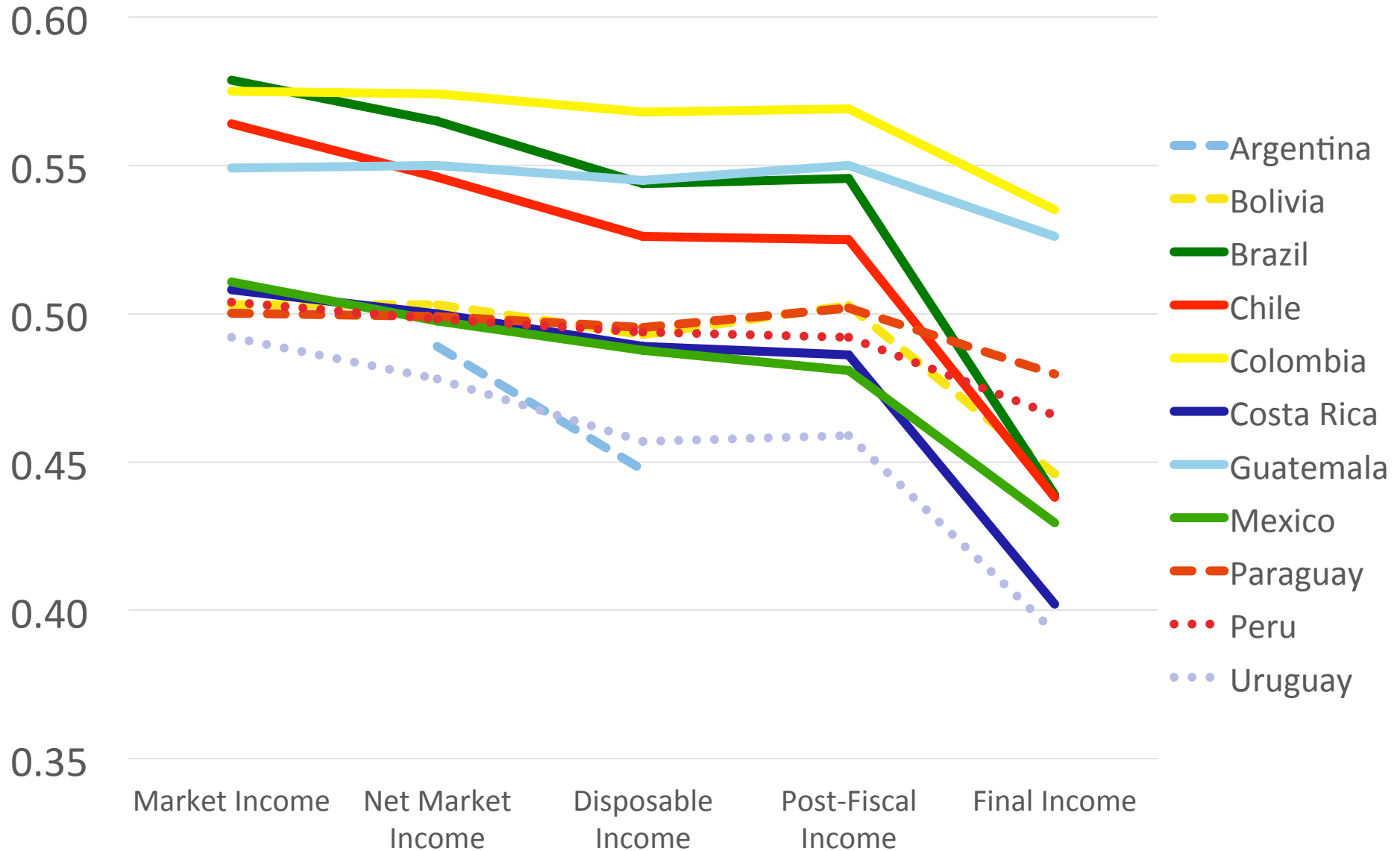
Definition of income concepts: Sensitivity analysis



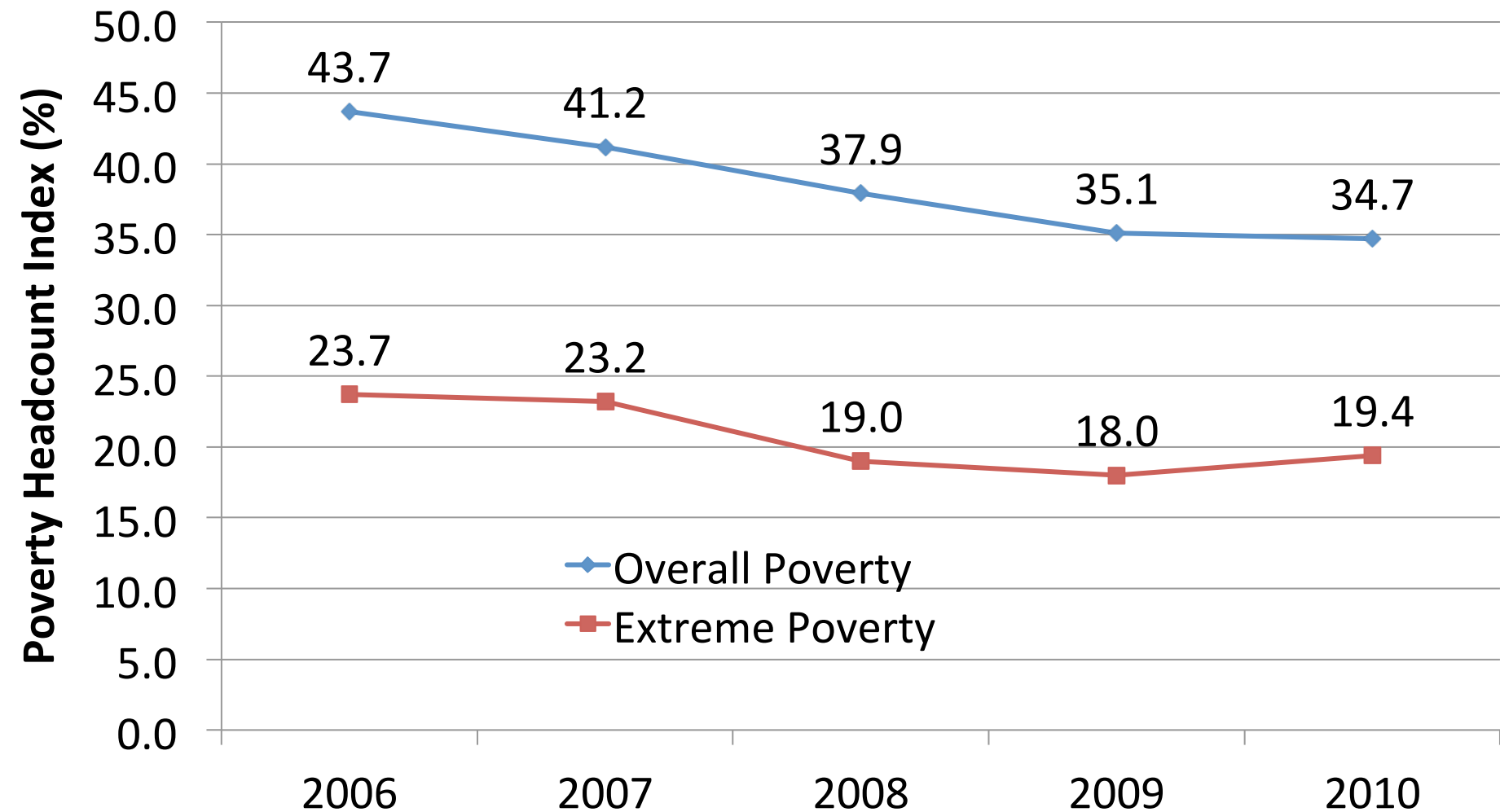
Additional Limitations

- Social programs captured by one “catch-all” question
 - Use inference to separate Tekoporã from other direct transfers
- Pensions
 - Complicated rules for non-contributory pensions
 - Lack of necessary survey questions
 - impossible to separate non-contributory and contributory pensions
- No consumption data
 - Secondary sources for incidence of VAT and combustibles taxes by decile based on 2001 data

Inequality Reduction

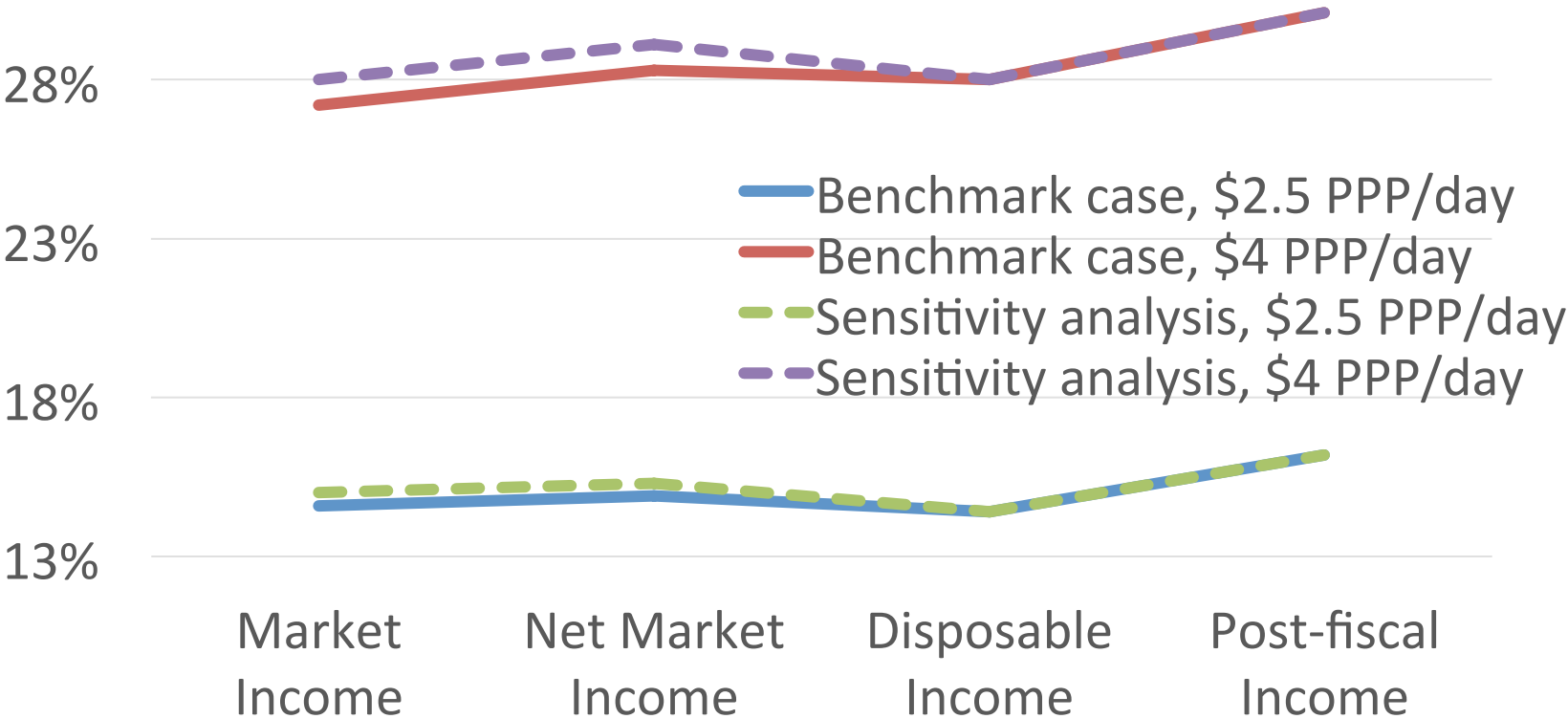


Evolution of Poverty over Time



Source: Dirección de Estadística, Encuestas y Censos

Poverty



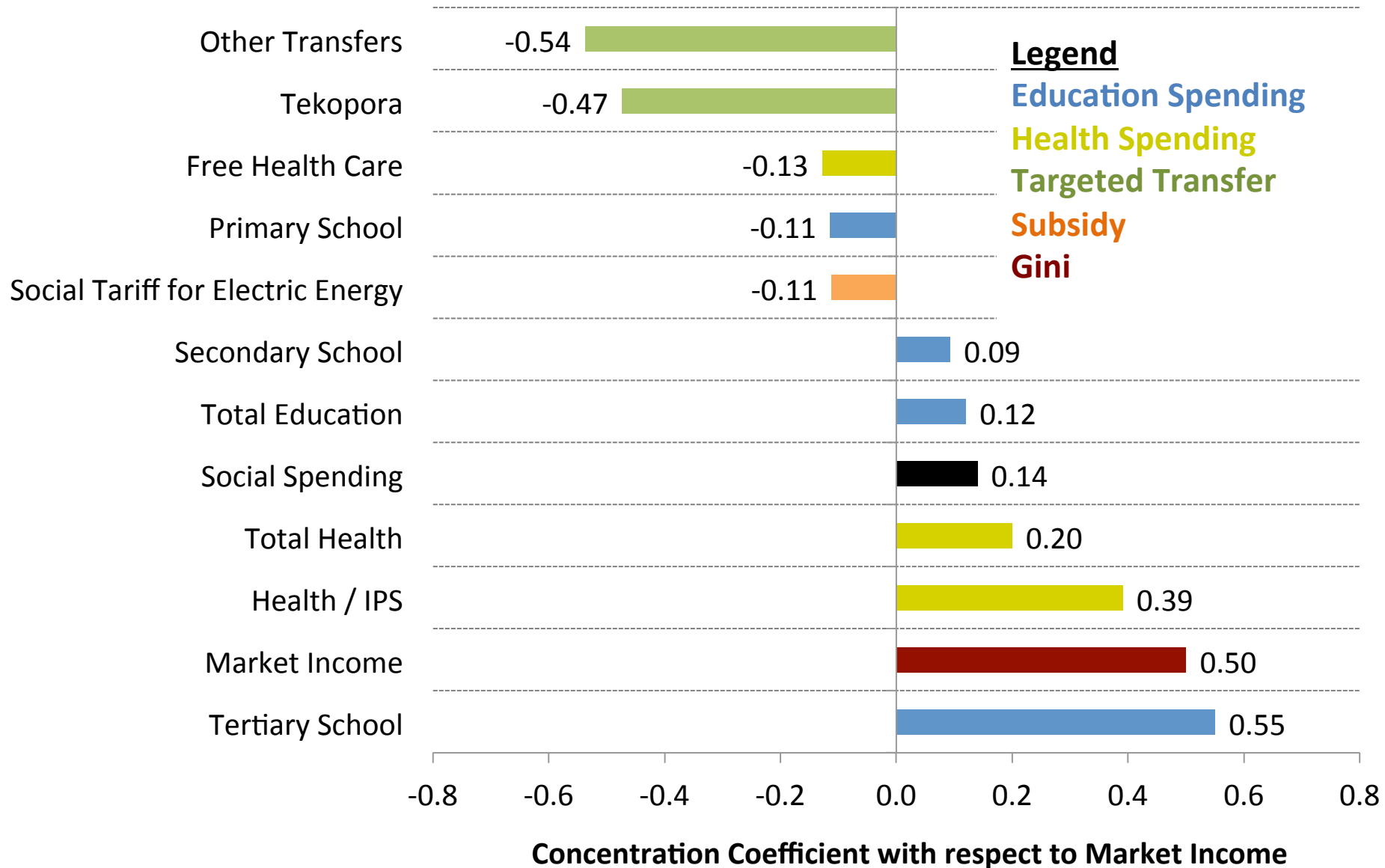
Incidence of taxes and transfers

Deciles	Direct Taxes	Net Market Income	Flagship CCT	Other Direct Transfers	All Direct Transfers	Disposable Income	Indirect Subsidies	Indirect Taxes	Post-Fiscal Income	In-kind Education	In-kind Health	Final Income
1	-1.2%	-1.2%	5.6%	3.5%	9.1%	7.9%	0.4%	-28.0%	-19.7%	12.9%	18.6%	11.8%
2	-2.5%	-2.5%	1.7%	0.3%	2.0%	-0.5%	0.2%	-6.9%	-7.2%	6.5%	10.2%	9.5%
3	-1.3%	-1.3%	0.7%	0.5%	1.1%	-0.2%	0.2%	-7.6%	-7.6%	4.7%	9.9%	7.0%
4	-2.2%	-2.2%	0.4%	0.0%	0.4%	-1.8%	0.1%	-6.1%	-7.8%	4.4%	7.9%	4.6%
5	-1.7%	-1.7%	0.3%	0.1%	0.3%	-1.4%	0.1%	-7.2%	-8.5%	3.2%	7.4%	2.1%
6	-2.9%	-2.9%	0.2%	0.1%	0.3%	-2.7%	0.1%	-6.1%	-8.7%	2.5%	5.5%	-0.7%
7	-2.0%	-2.0%	0.1%	0.0%	0.1%	-2.0%	0.1%	-5.9%	-7.8%	2.9%	6.0%	1.1%
8	-2.9%	-2.9%	0.0%	0.0%	0.0%	-2.9%	0.0%	-5.1%	-7.9%	2.6%	6.0%	0.6%
9	-3.1%	-3.1%	0.0%	0.0%	0.0%	-3.0%	0.0%	-5.5%	-8.5%	2.3%	4.6%	-1.7%
10	-4.8%	-4.8%	0.0%	0.0%	0.0%	-4.8%	0.0%	-5.2%	-10.0%	1.1%	1.9%	-7.1%
Total Pop.	-3.3%	-3.3%	0.2%	0.1%	0.3%	-3.0%	0.1%	-6.1%	-9.0%	2.5%	4.9%	-1.6%

Progressivity of Taxes and Spending

- Overall, taxes are slightly **regressive**
 - High reliance on regressive VAT
 - In other Latin American countries, taxes are progressive overall
- Direct transfers are **progressive in absolute terms**
- Total spending on education and health is **progressive in relative terms** only
 - In contrast, in most Latin American countries it is progressive in absolute terms
 - Tertiary education spending is **regressive**
- Social spending **progressive in relative terms**

Progressivity of Taxes and Spending

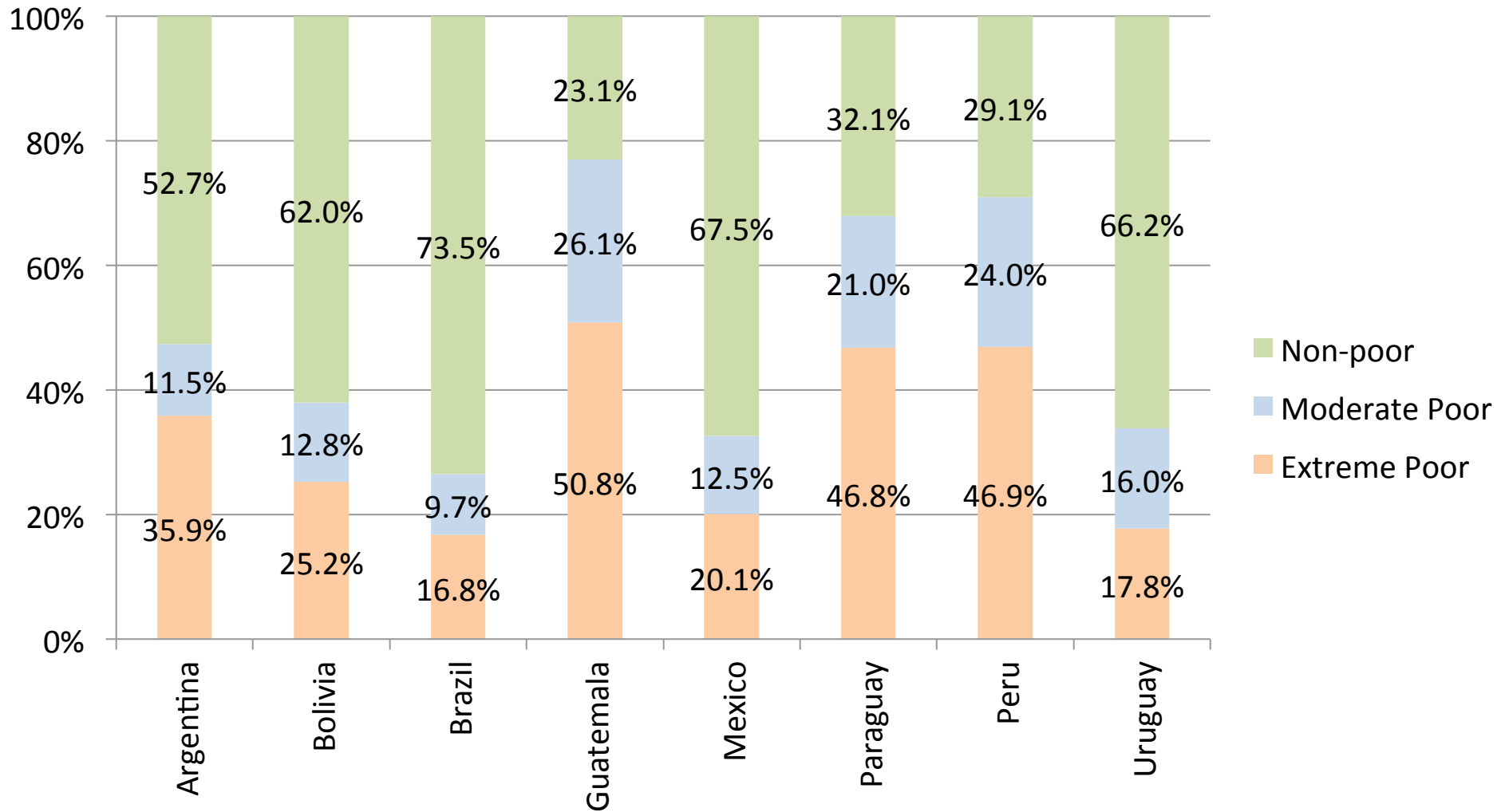


Possible Improvements

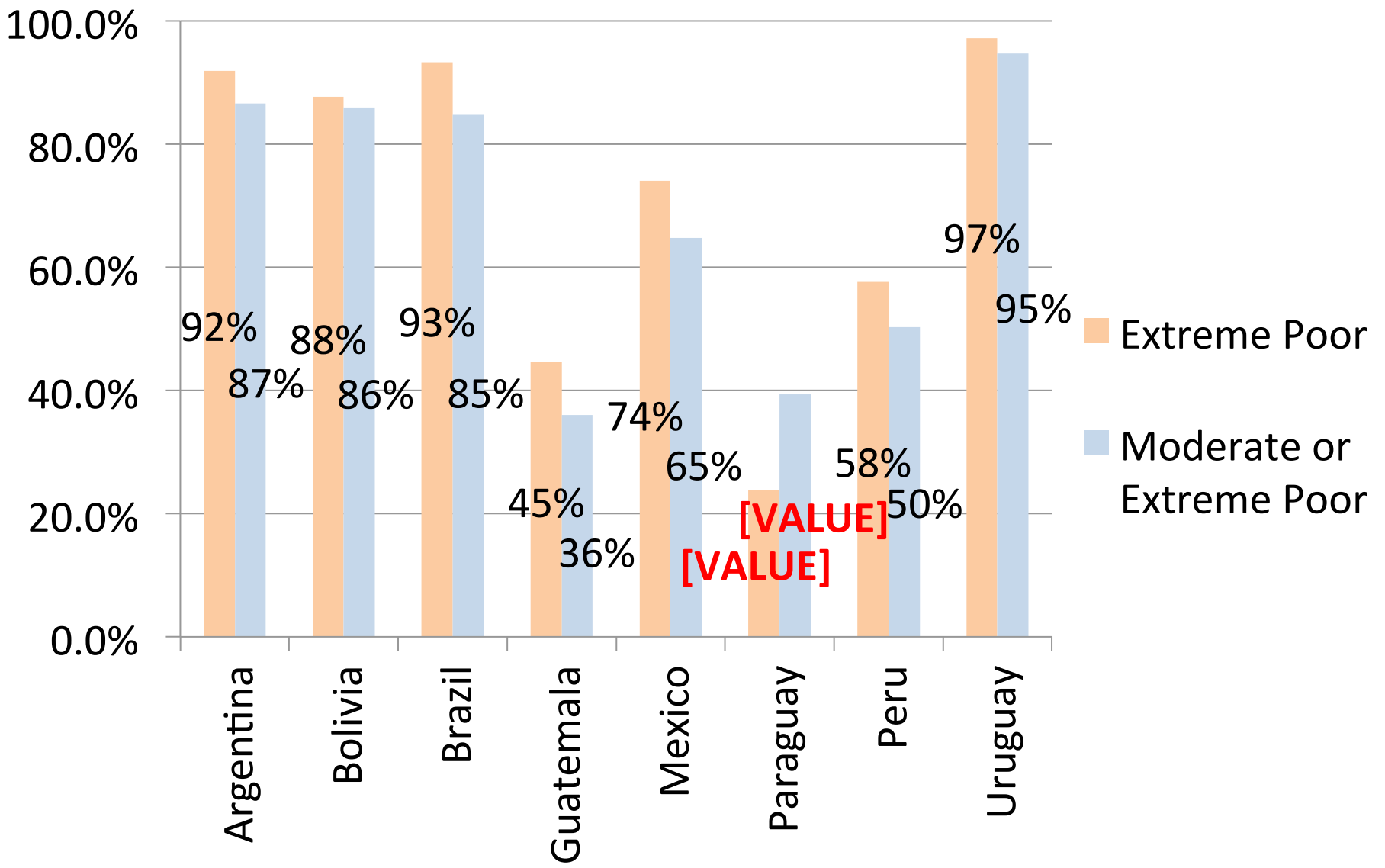
- Could the low reduction of inequality and absolute poverty caused by direct transfers be improved?
 1. Do a large portion of direct transfers go to the poor?
 2. Are a large portion of the poor covered by direct transfer programs?
 3. Do the poor who are covered by the safety net receive enough to escape poverty?

- Do a large portion of direct transfers go to the poor?

Yes



- Are a large portion of the poor covered by direct transfer programs? **No**



- Do the poor who are covered by the safety net receive enough to escape poverty? **No**

Average amount received per household member in beneficiary households

	Groups: $y < 1.25$	$1.25 < y < 2.5$	$y < 2.5$	$2.5 < y < 4$	$y < 4$
Tekoporã	\$0.32	\$0.37	\$0.35	\$0.40	\$0.36
Other Direct Transfers	\$0.71	\$0.67	\$0.69	\$0.68	\$0.69
Tekoporã + Other					
Direct	\$0.38	\$0.39	\$0.38	\$0.08	\$0.18
Social Tariff for Electric Energy	\$0.01	\$0.01	\$0.01	\$0.01	\$0.01

Conclusions

- Paraguay reduces inequality little compared to other Latin American countries
- Poverty is essentially not reduced by direct transfers
 - When indirect taxes and subsidies are considered, post-fiscal income poverty is always **higher** than market income poverty
- Overall, taxes are **regressive**
- Room for improvement
 - Expanded coverage
 - Possibly larger transfers