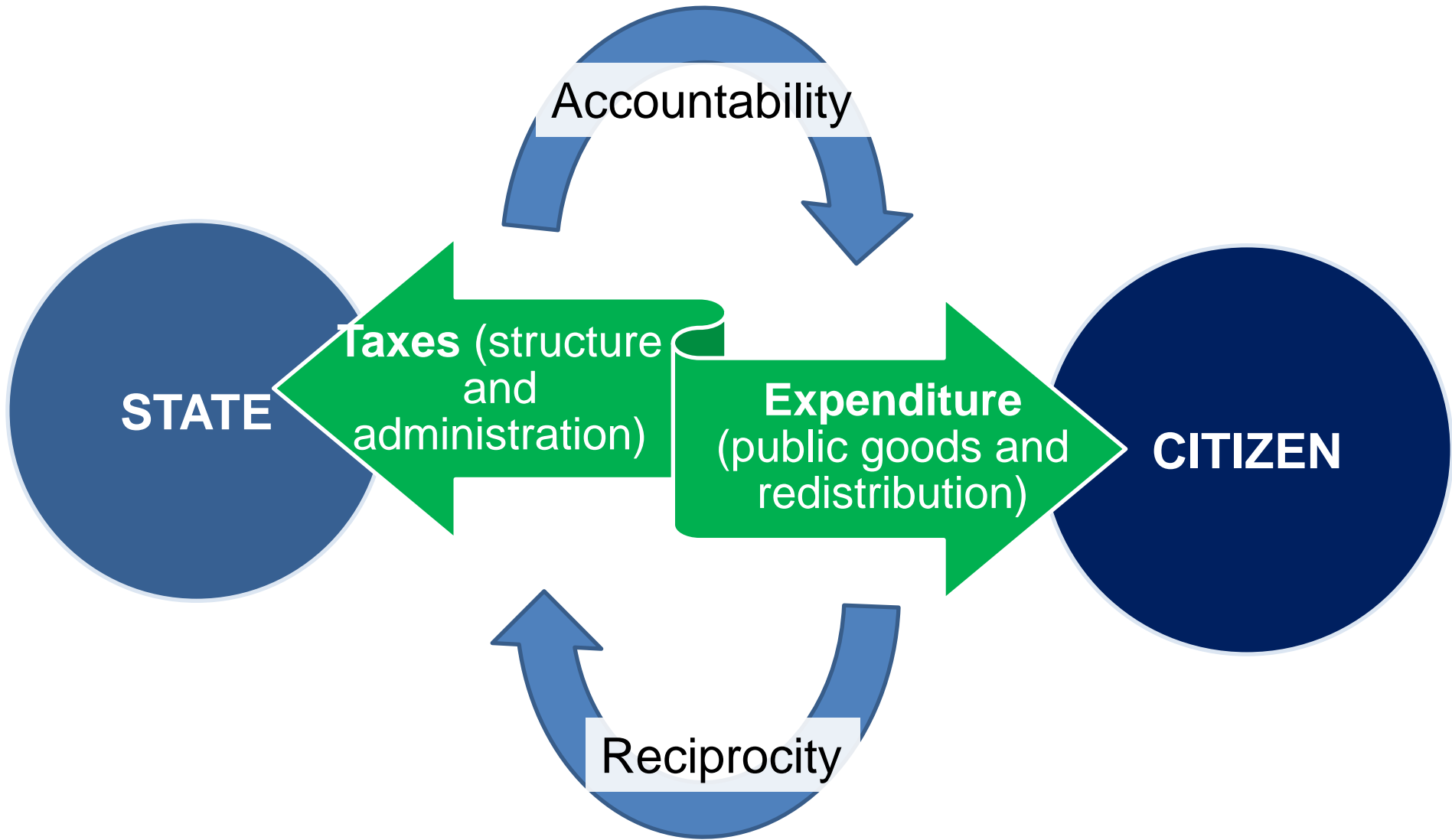




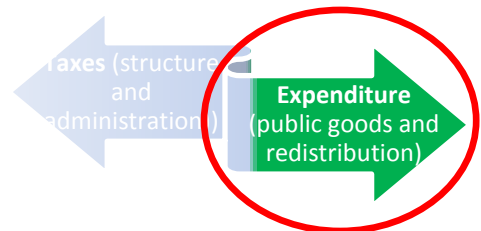
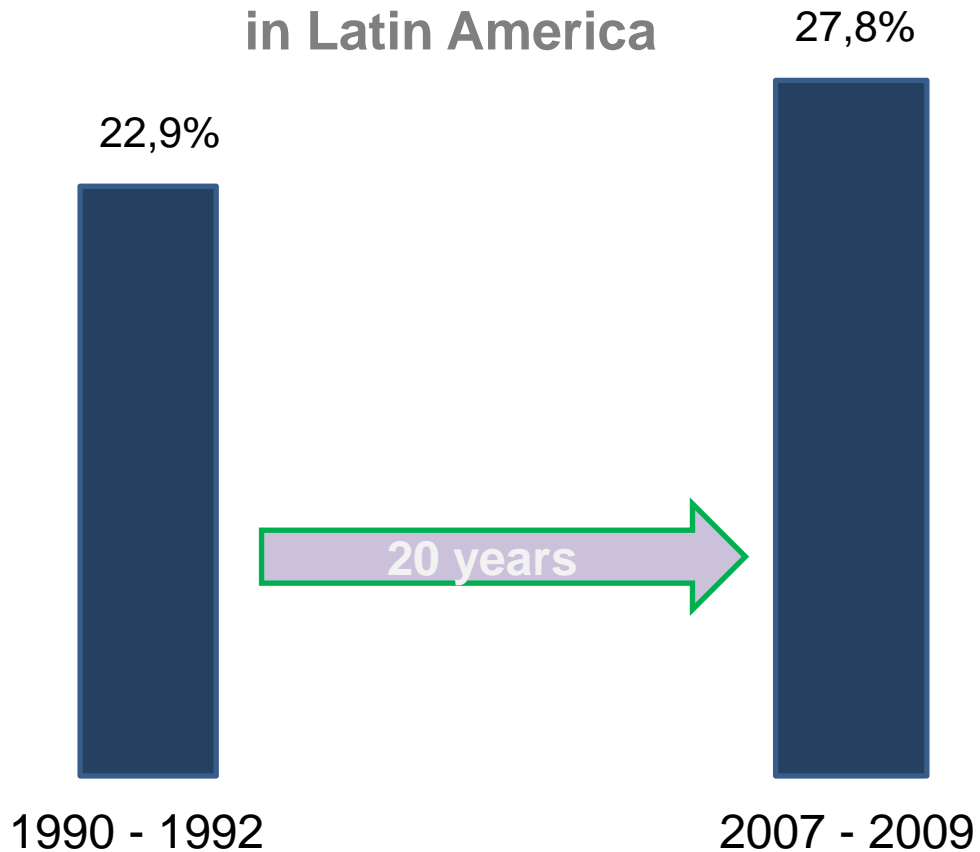
Public finance for development:
Strengthening the connection between revenues and
expenditures

Pablo Sanguinetti
Research Director
CAF- Development Bank of Latin America

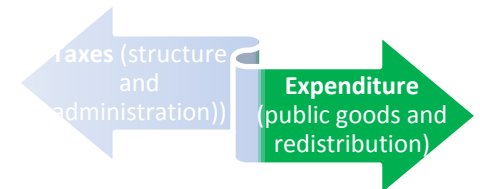
Brookings Institution
June, 24th, 2013

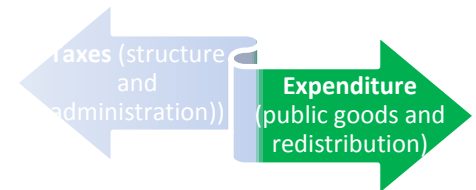
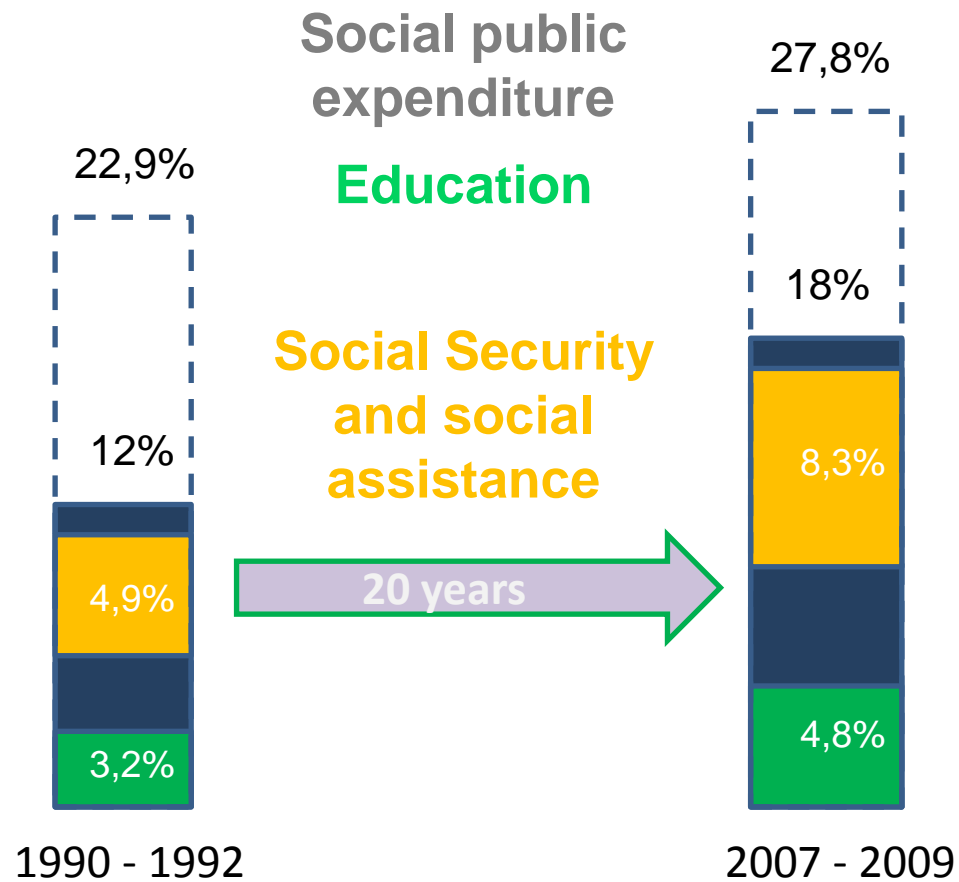


Public Expenditure as a % of the GDP in Latin America



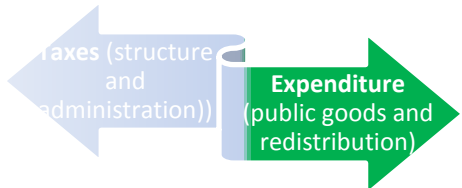
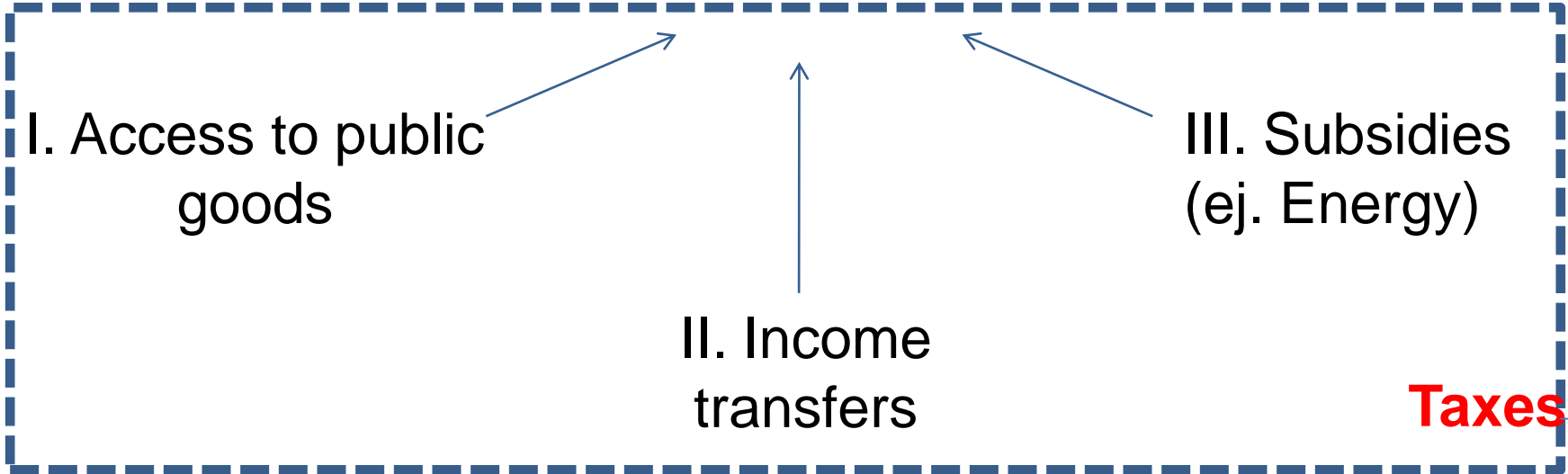
Social public expenditure explained most of the growth in public expenditures during 1990-2009



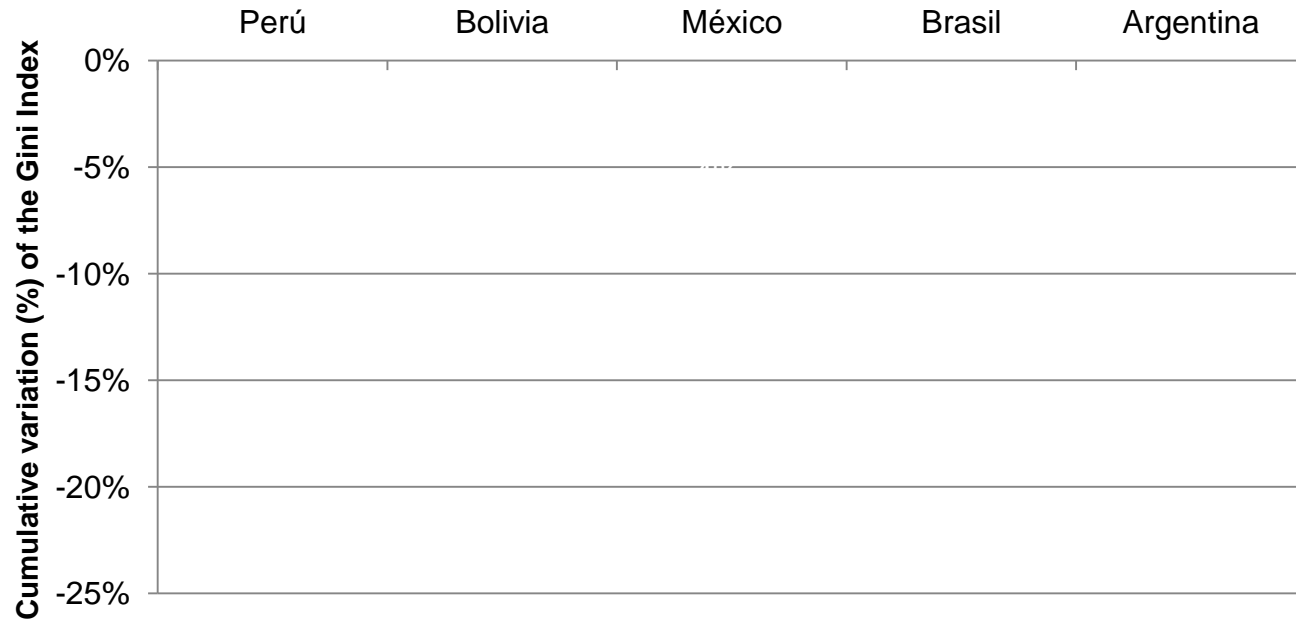


Public Expenditures

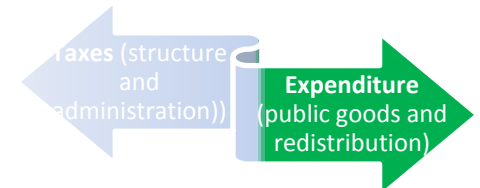
Improves income distribution



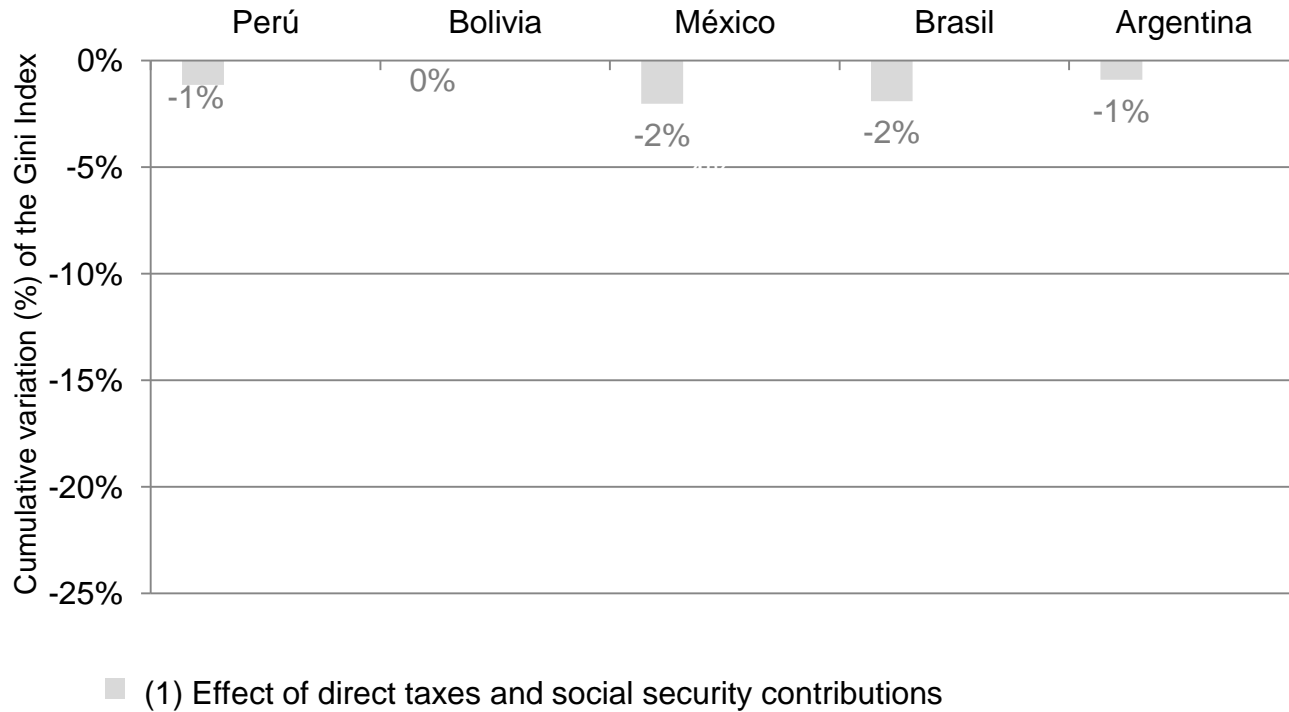
Total redistributive effect of public expenditure (and taxes) in selected countries



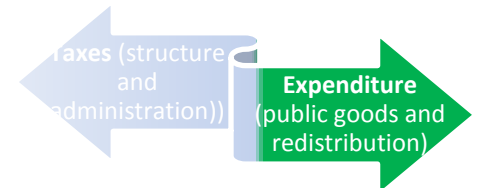
Source: own elaboration based on Lustig (2012).



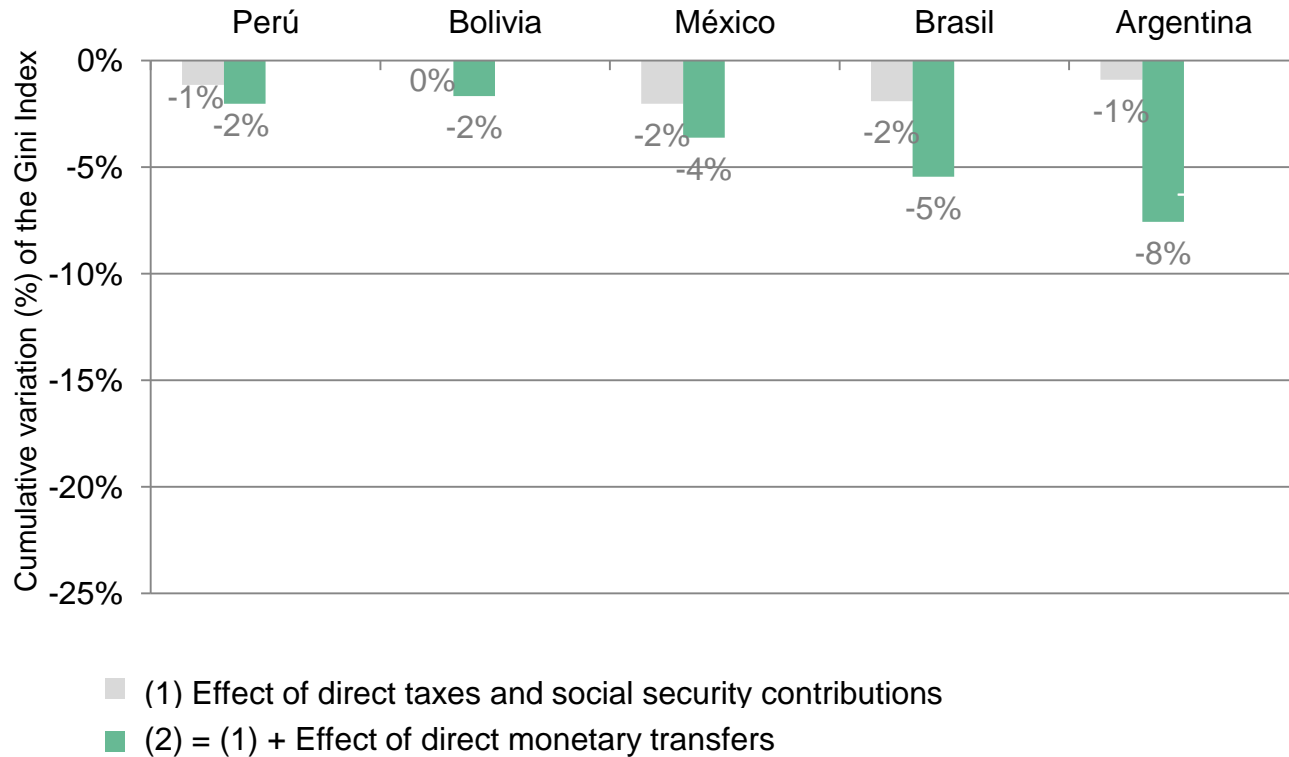
Total redistributive effect of the public expenditure (and taxes) in selected countries



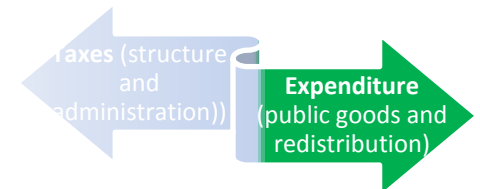
Source: own elaboration based on Lustig (2012).



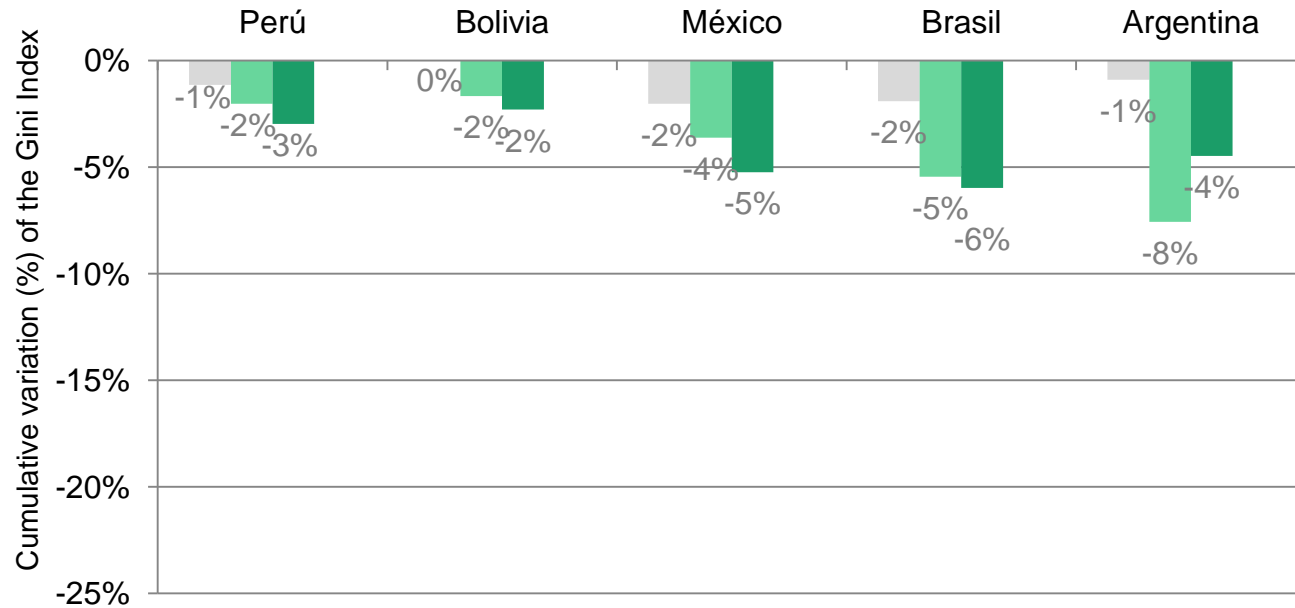
Total redistributive effect of the public expenditure (and taxes) in selected countries



Source: own elaboration based on Lustig (2012).

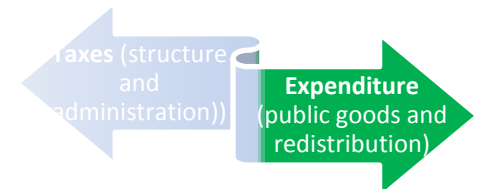


Total redistributive effect of the public expenditure (and taxes) in selected countries

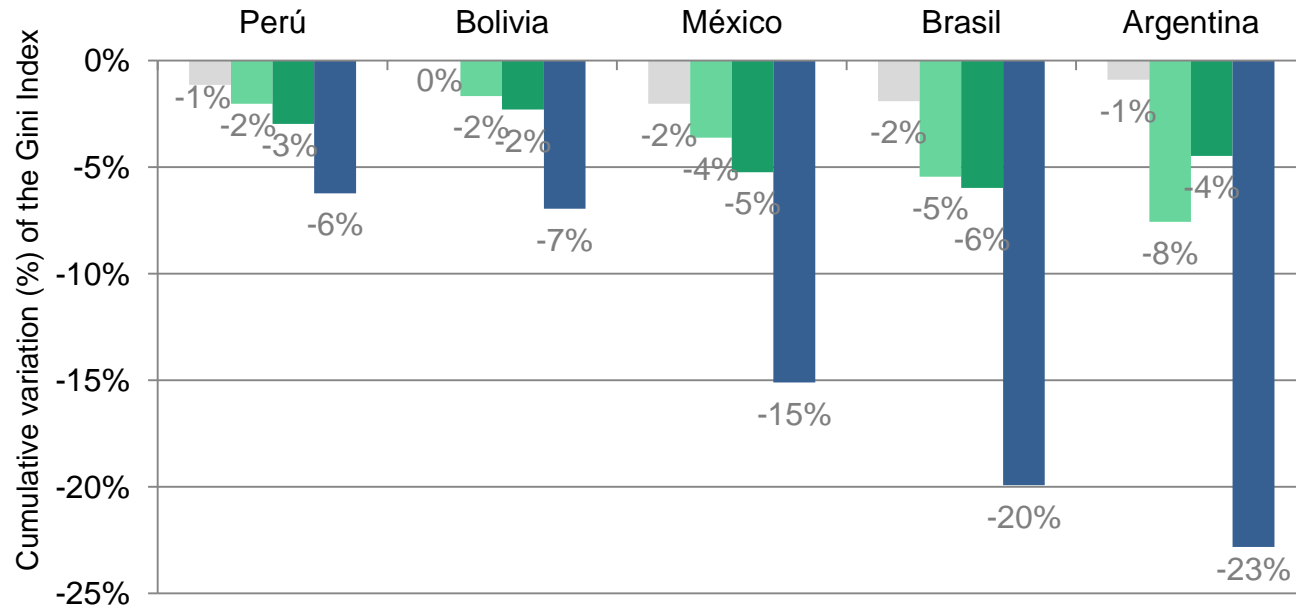


- (1) Effect of direct taxes and social security contributions
- (2) = (1) + Effect of direct monetary transfers
- (3) = (2) + Effect of indirect taxes and subsidies

Source: own elaboration based on Lustig (2012).

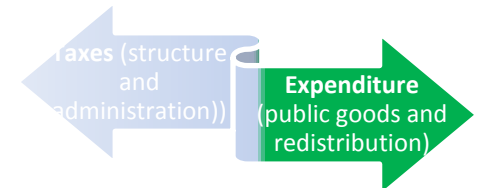


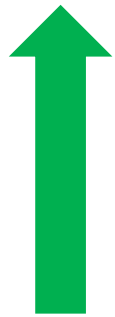
Total redistributive effect of the public expenditure (and taxes) in selected countries



- (1) Effect of direct taxes and social security contributions
- (2) = (1) + Effect of direct monetary transfers
- (3) = (2) + Effect of indirect taxes and subsidies
- (4) = (3) + Effect of non cash income transfers (education, health, etc.)

Source: own elaboration based on Lustig (2012).





Expenditure



Access to public goods and services, transfers and subsidies



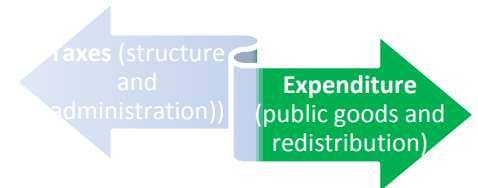
Equality in income distribution

An efficient management is a moral obligation for public administrators

But efficiency also matters

Permits the saving of resources and improves the impact of redistributive programs

Efficiency of public expenditure is important to strength reciprocity



¿ Efficiency ?

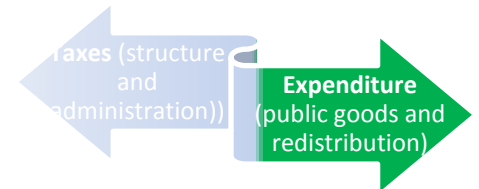
Inputs

Enviroment

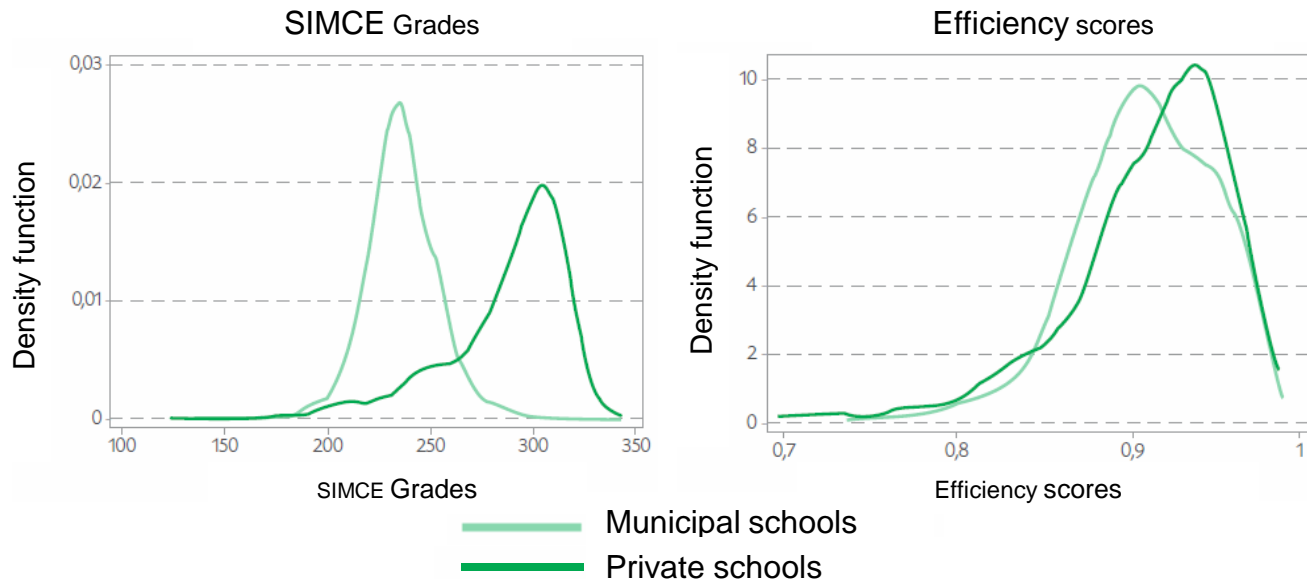


Results

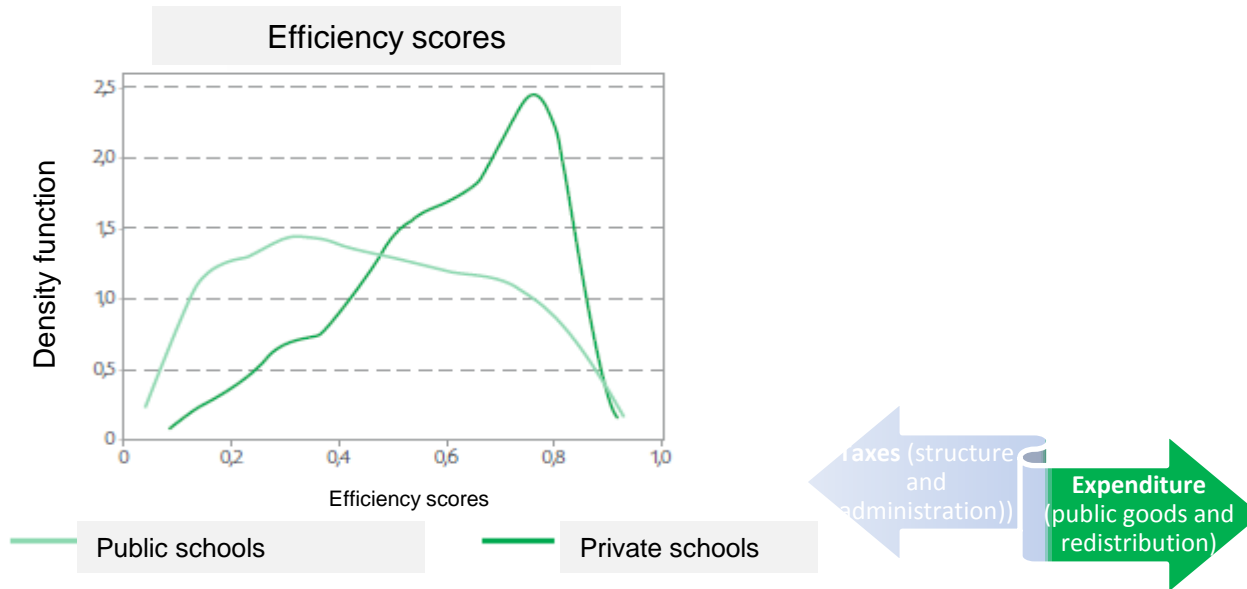
Efficiency



Distributions of the SIMCE grades and efficiency levels by type of institution (average 2004-2010)

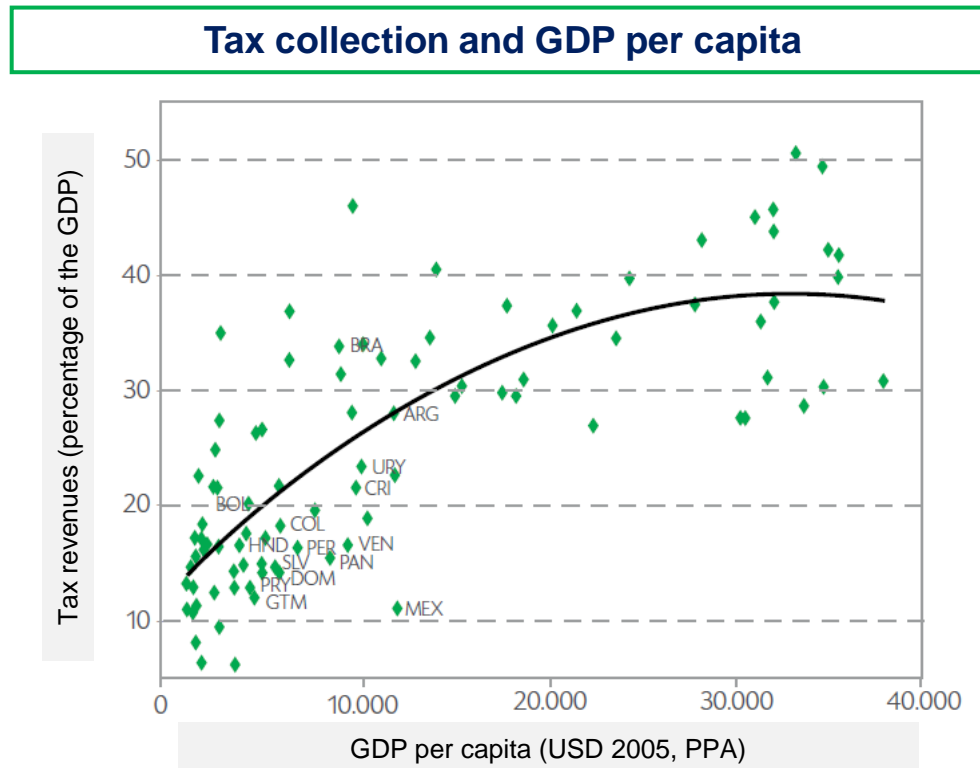


Perú (2010)



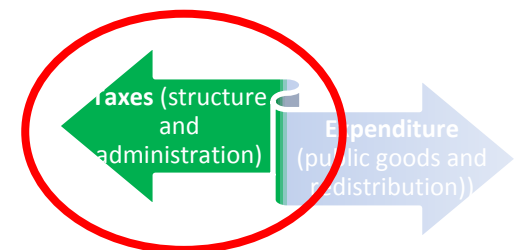
Improving the quantity and quality of public goods requires the strengthening of the tax collection

Is Latin America making all the necessary effort at tax collection?



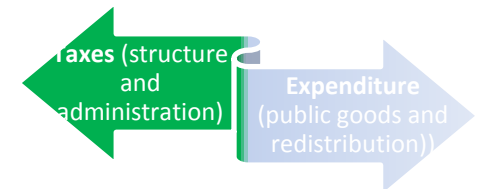
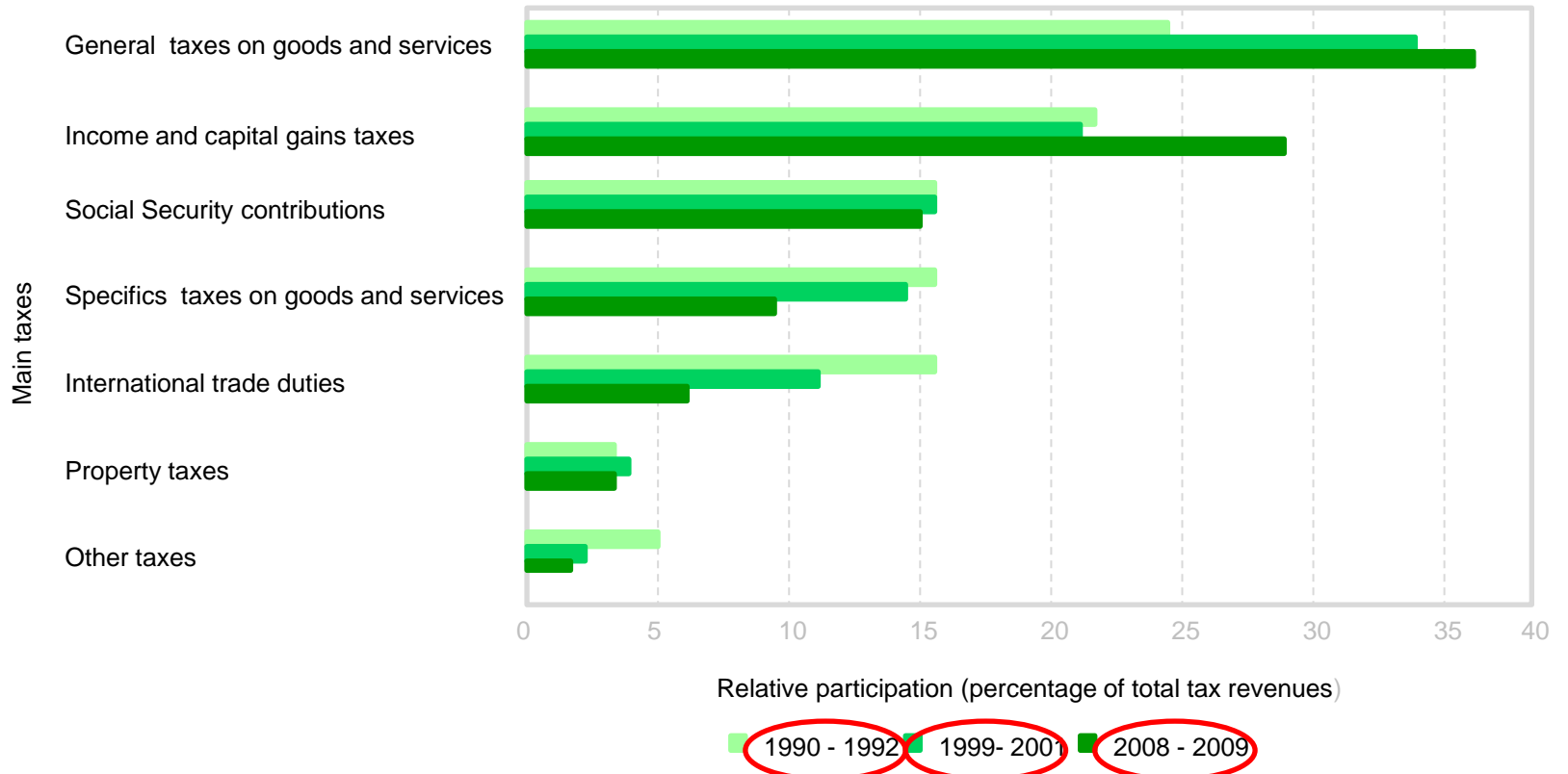
Main determinants:

- 1. Tax Structure**
- 2. Tax Administration**



The low tax effort is originated, in part, by a low participation of direct taxes in total tax revenues:

Evolution of main taxes inside the average tax structure of Latin America (% of total tax revenues)



38% in Nicaragua

The tax evasion rate
of the VAT in Latin
America is 27%

11% in Chile

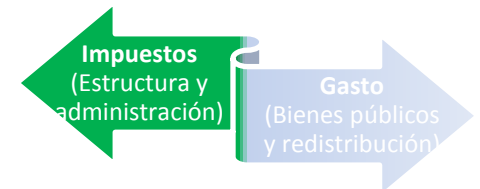
The low tax effort is also related with

The evasion rate in
weaknesses in tax control
USA is 16%

64% in Ecuador

41,6% in
Mexico

The evasion rate of
the income tax in
Latin America is
51,4%



¿Virtuous circle?



Accountability

More taxes, more empowerment and accountability

STATE

Taxes (structure and administration)

Expenditure (public goods and redistribution)

CITIZEN

Reciprocity

Better expenditures, more willingness to pay taxes

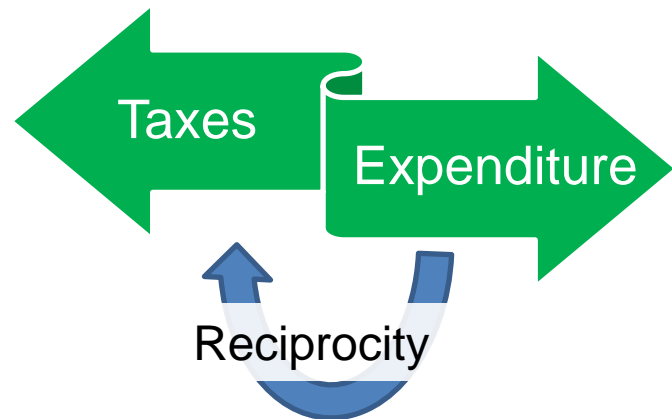
According to the CAF survey, the families in Latin America “are more willing to pay taxes” if the government performs better
(www.caf.com/investigacion)

Remove corruption: 11,5%
will pay more

Better health and
education: 11,5%

More citizen
security: 11,4%

More protection to the poor:
9,2%



Complementary evidence:

Experiment in 17 cities of the region: random assignment of information about the performance of local governments

Rio de Janeiro: positive information about the local government

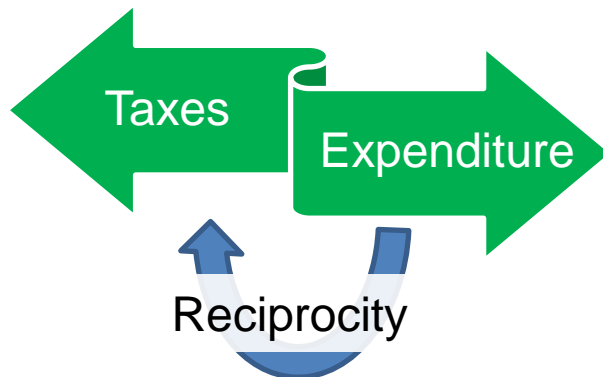


Increase willingness to pay taxes on vehicles and to reduce VAT evasion

Timmons, 2011 : Corruption reports in Brazilian Municipalities



Lower tax collection after the information was made public



But when citizens pay taxes, they feel they have more rights to ask for a good public administration



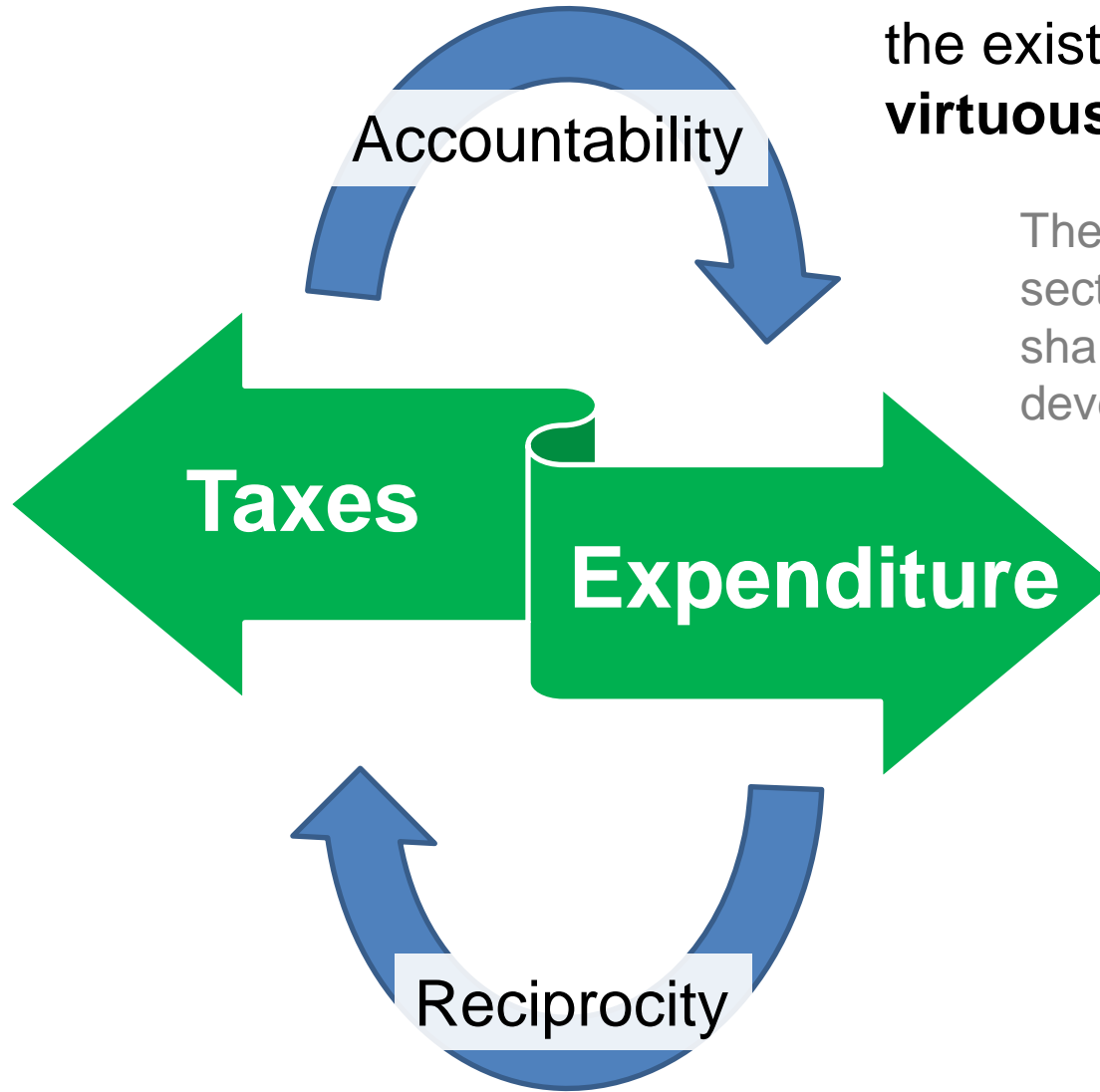
72,6% of households in Latin America have this opinion

Citizens doesn't like to pay taxes
Historical evidence: independence episodes



NO TAXATION WITHOUT REPRESENTATION





Evidence supports the existence of this **virtuous circle**:

The size of the public sector increases as a share of GDP along the development path

Direct Taxes

Transparency in the use of
natural resources revenues

A professional and independent
Tax Administration

Taxes strengthen democracy

