## SIMPLIFY TAXES TO REDUCE THE BURDEN OF INFORMALITY

Informality is an important and persisting feature of Latin American economies. Informal workers are not all simply tax evaders: many are poor workers, excluded from formal labour markets and deprived of economic rights. Enforcement is essential, but simplified regimes that align the costs of formality with its benefits, together with the provision of social services to formal and informal workers on a more equal footing, can help Latin American fiscal systems to deal better with informality.

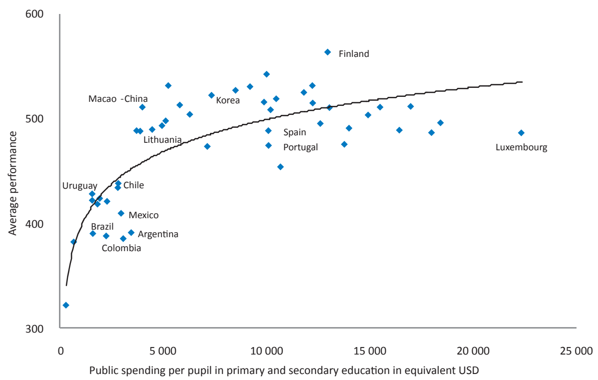
**DID YOU KNOW?**
**More than half of Latin American workers are not entitled to pension rights through their jobs.**

## IMPROVE THE QUALITY OF PUBLIC SPENDING

Social spending is rising in Latin America, but the region still needs to improve the quantity and quality of publicly provided goods and services. More money matters, but how that money is spent matters as much or even more. The OECD experience in areas where public spending contributes to development, such as education, shows that there is not necessarily a trade-off between performance quality and equity. Nevertheless, the policies that matter most for student learning are often under-emphasised in Latin America.

**DID YOU KNOW?**
**Education spending per pupil is still five times lower in Latin America than in OECD countries.**

**Public Spending on Education and Performance in PISA**




*Source:* OECD Development Centre (2008); based on PISA 2006 Science Competences for Tomorrow's World (OECD, 2007), and OECD and UNESCO World Educational Indicators.



OECD

CENTRE DE DEVELOPPEMENT / DEVELOPMENT CENTRE

# 2009 LATIN AMERICAN ECONOMIC OUTLOOK

## The 60-second guide

Latin America could do a lot more to use fiscal policy to promote development. *The OECD Latin American Economic Outlook 2009* explains how governments in the region can go beyond using fiscal policy uniquely for macroeconomic stabilisation and begin to maximise the potential of debt management, tax systems and public spending to combat poverty, prevent social exclusion and provide more equal opportunities.

**ISBN: 978-92-64-03917-9 / 200 pages / Price: €20 $30**

Buy this book at our online bookshop:
**www.oecd.org/bookshop**

For more on LEO2009:
**www.oecd.org/dev/publications/leo2009**
Contact us at :
**+33 (0) 1 45 24 85 97 / dev.leo@oecd.org**
**www.oecd.org/dev/leo**

## USE FISCAL POLICY AS A DEVELOPMENT TOOL

Latin American governments have not neglected fiscal policy as a macroeconomic stabiliser, but taxation, public spending and public debt management can also be deployed to reduce poverty and inequality. Transparent and progressive tax systems and high-quality public goods and services are signs of a healthy social contract and consequently assets for democratic legitimacy. The potential of fiscal policy to promote development and consolidate this democratic legitimacy is still substantially unrealised in the region.

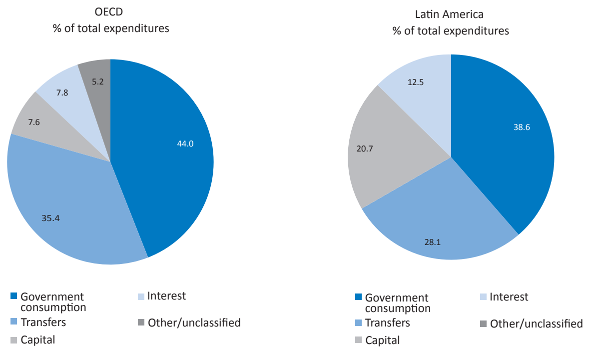
**DID YOU KNOW?**
**Fiscal systems currently fail to reduce inequality in Latin America. While taxes and transfers reduce inequality by 19 Gini points in Europe, the reduction is only 2 Gini points in Latin America.**

## IMPROVE FISCAL PERFORMANCE

Since the end of the debt crisis of the 1980s, Latin American governments have reduced deficits, lowered fiscal volatility, increased public expenditure and pioneered fiscal innovations. However, important problems remain: revenue generation relies on volatile non-tax sources and regressive indirect taxes, while public spending and social transfers play a very limited distributive role. The performance gap with OECD countries is still high.

**DID YOU KNOW?**
**Government revenues in Latin America averaged 23 per cent of GDP between 1990 and 2006, compared to 42 per cent in OECD countries. Public spending tells a similar story: it averaged only 25 per cent of GDP in the region, against 44 per cent in OECD countries.**

**Composition of Expenditures in OECD and Latin America Countries**




*Source:* OECD Development Centre (2008); based on the ECLAC ILPES Public Finance database, the OECD Revenue Statistics database (2007) and OECD General Government Accounts data (2008).

## DECOUPLE DEBT MANAGEMENT FROM POLITICS

Latin American political cycles affect sovereign bond markets as investors worry about the effect of elections on debt management: investors fear an increase in public spending by incumbent politicians as well as the economic policies platforms of populist candidates. Although recent democratic consolidation and the development of domestic bond markets have eased the effect of politics on capital markets, sounder public debt management and information flows around elections remain a challenge.

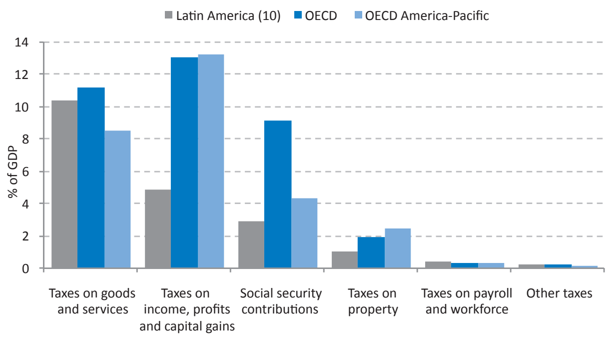
**DID YOU KNOW?**
**During 1990-2006, fiscal expenditure increased by 0.7 GDP percentage points in Latin America during election years. In contrast, the public-spending impact of elections was essentially zero in OECD countries.**

## DIVERSIFY TAX REVENUE SOURCES

Fiscal revenues have increased in Latin America during the last decade, though countries' experiences vary within the region and most governments still strive to improve tax collection. In particular, too little revenue comes from personal income taxes and too much from regressive indirect taxes, which explains in part why tax systems do so little to reduce inequality. This pattern of public revenues is in large part the consequence of low average incomes and an unequal income distribution.

**DID YOU KNOW?**
**Only one out of three Latin Americans is subject to income taxation.**

**Tax Revenues in Latin America and OECD Countries**




*Source:* OECD Development Centre (2008); based on OECD Revenue Statistics database for OECD countries (OECD, 2007) and OECD Development Centre calculations for Latin America.



www.oecd.org/dev/publications/leo2009