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**Gendered Implications of Tax Reform in Latin America:
Argentina, Chile, Costa Rica, and Jamaica**

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In Latin American and Caribbean countries, poverty and inequality have been long-standing problems, and the momentous economic and social policy changes over the past two decades have done little to correct these trends.* The most effective means for reducing class- and gender-based poverty and inequality would be citizenship-based entitlements to basic (i.e. allowing basic subsistence) income support, health care, and education. In advanced industrial societies, public spending is an extremely important instrument for the alleviation of class- and gender-based poverty and inequality (Moller et al. 2003; Bradley et al. 2003; Huber et al. 2001), and it could potentially play a similar role in Latin America and the Caribbean. However, responsible, that is, non-inflationary financing of such programs requires a sound system of taxation, something that is scarce in developing countries, including in Latin America and the Caribbean. Systems of taxation on their part have important implications for class and gender equity. This chapter explores changes in the systems of taxation in four Latin American and Caribbean countries – Argentina, Chile, Costa Rica, and Jamaica – from the point of view of their gendered impact.

The starting point of the argument is that effective tax collection is a necessary, though not sufficient, condition for the amelioration of gender-based poverty and inequality. Low aggregate tax collection hurts women because it prevents the establishment of programs that counteract market distribution of income, in which women are generally disadvantaged. They are disadvantaged in market income because they provide the bulk of the non-paid care work, because their paid work takes place in the informal sector to a greater extent than men's paid work, and because – if they work in the formal sector – they tend to be employed in smaller enterprises and to earn less than men.

Latin American countries as a whole have been undertaxing their populations, with an average tax burden of 14% of GDP in the first half of the 1990s, compared to 17% of GDP in a group of East and Southeast Asian countries (IADB 1996: 128). Direct taxes amount to about 25% of tax revenue only, and of this amount some 60-80% typically come from corporate tax payments, while only 10-15% come from private individuals (ECLAC 1998: 72). Interestingly, the situation in the English-speaking Caribbean has been very different, with an average tax burden in the first half of the 1990s of 27-28% of GDP, essentially double the rate of Latin America, and direct taxation on individuals and corporations accounting for some 40% of tax revenue (ECLAC 1998: 66-72). This contrast suggests that the fundamental reasons for the poor tax collection performance in Latin America are poor policy choices, rather than low levels of economic development and technological capacity.

The first task of this chapter is to outline changes in the systems of taxation in these four cases since the 1970s and to diagnose new and persistent problems in these systems. Then, the chapter will look at studies of incidence of taxes, all of which look at incidence across income or occupational categories, or classes, and none of which even consider gender. The way to arrive at some estimates about the gendered impact of tax reform, then, is to look at women's representation in the different income categories and in different positions in the labor market, and to make some assumptions about household

* I would like to thank Inés Valdez for excellent research assistance.

budget-making. A look at the politics of tax reform over the past two decades will suggest some reasons for the neglect of gender issues in the design of these reforms. Finally, some policy lessons will emerge from this analysis.

Changes in Tax Structures since the 1970s

The dominant pattern of tax reforms over the past three decades in Latin America and the Caribbean, which – with some exceptions – holds true for our four cases, has consisted of reductions of marginal tax rates on corporate and individual incomes and attempts to broaden the tax base, but these have not succeeded in significantly increasing income tax collection. At the same time, revenue from imports and exports and other international transactions declined significantly in many cases due to the lowering of tariff rates and other forms of deregulation. To make up for this decline and to facilitate tax collection, most countries have shifted more weight to value added taxes (VAT). There has been more variation in the treatment of social security contributions, corresponding to the different approaches with regards to social policy reforms.

Advocates of this pattern of tax reform, prominent among them representatives of the World Bank, have argued that reduction of marginal tax rates reduces the incentive for tax evasion (not declaring income or transactions) and tax avoidance (maneuvering within the tax code to reduce tax liability) and that broadening of the tax base reduces non-neutral tax treatment that encourages resource shifts to relatively low tax activities and thus distorts resource allocation. Moreover, reducing the complexity of the tax structure makes tax collection less costly and more effective (Thirsk 1997: 8-11). The VAT in particular is supposed to be easy to collect and – if broadly based – not to have distorting effects on resource allocation.

In all these countries, though, tax evasion and avoidance have remained fundamental problems. Both individuals and corporations continue regularly to engage in both. Despite administrative reforms to upgrade the status, equipment, and quality of personnel of the tax administration agencies, these agencies have fewer human resources and smaller budgets but higher collection costs than their counterparts in the more developed countries (ECLAC 1998:83).

Tax Categories	
Direct Taxes	
	Income, individual
	Income, corporate
	Property, wealth and inheritance
Indirect Taxes on Consumption	
	Value Added (VAT)
	Sales
	Excise on selective products; “sin” taxes, e.g. alcohol, tobacco
Trade Taxes	
	Import duties
	Export duties
Social Security Taxes	
	Employees/ self-employed in formal sector
	Employer payroll in formal sector
Other Taxes	

Data and Sources: Table 1 shows the overall level and the composition of taxes in 1980-81, before the onset of the general Latin American debt crisis, and in 1999-2000, after a decade or more of economic reforms. A note of caution is in order here. These data come from the IMF International Financial Statistics (1991, 1997, 2003) and Government Finance Statistics (1988, 1991, 1995, 2003). I decided to use them because these sources provide time series and data for all four countries (as well as many others), and they can be assumed to be most comparable. However, other authors cite other data that vary quite considerably from those presented here. For instance, Tanzi (2000) cites ECLAC, based on official data, as the source for time series data that show total tax revenue of the central government as a percentage of GDP much lower for Argentina, Chile, and Costa Rica in 1980 and 1981 than the data in Table 1. His data for Argentina show total tax revenue of 9.1% of GDP for 1980 and 12% for 1981, compared to 13.5% for 1980-81 in our data; Chile with 17.4% and 19.2% compared to 25.7%; and Costa Rica with 11.2% and 12% compared to 16.8%. For 1999, the last year in his series, he shows a higher figure for Argentina, with 17.6% compared to our 12.7% in 1999-2000, but lower figures for Chile, with 16.9% compared to 17.4%, and Costa Rica, with 12.5% compared to 18.2%. Thus, his data for Chile and Costa Rica in the earlier period and for Argentina and Costa Rica in the later period show significant discrepancies to our data.

Table 1 about here

In contrast, Carciofi and Centrángolo (1994), citing Tanzi (1987), present data for 1980/82 for Argentina that are much higher than ours, with total tax revenue accounting for 19.9% of GDP.¹ Presumably, they include tax revenue of provincial governments, as they have some countries in their table marked as “central government data” but not Argentina. Their data for Chile and Costa Rica are much closer to ours, with 24.8% for Chile in 1981/83 and 17.5% for Costa Rica in 1978/80. Sabaini et al. (2002) present figures for Argentina for 1997 that show central government tax revenue as 19.7% of GDP, provincial tax revenue as 3.7% of GDP and municipal revenue as 1.2%, so – assuming that this ratio is more or less constant over the past two decades – one would have to add about 25% to the total central government revenue figures to arrive at the total tax burden. For 1997, then, according to their figures total tax revenue for all levels of government in Argentina was 24.6% of GDP. If we add the 25% correction for provincial and municipal taxes to our figure of total central government revenue of 12.5% of GDP for 1995-96, the closest time period to theirs, we arrive at 15.6% of GDP. This is still a remarkable difference, even if one assumes some variation in tax receipts from year to year in accordance with economic fluctuations. These discrepancies most probably stem from a combination of different figures for tax revenue and for GDP. GDP figures are often revised repeatedly as new information becomes available, and in the case of Argentina in the second half of the 1990s, GDP figures were significantly revised.

There is a further problem having to do with comparability of tax revenue data from different sources. Different authors and institutions may classify certain taxes differently. For instance, in our Table 1, Argentina shows no individual or corporate income or property taxes at all for 1980-81, but 4.4% of GDP or 32.1% of total tax revenue coming from “other” taxes. Carciofi and Centrángolo (1994) show individual and corporate income taxes together as negligible for the same period, contributing only 0.3% of total tax revenue, but other income taxes and property taxes together accounting for 20.8% of total tax revenue, and “other” taxes for 8.6% only. Thus, they seem to have classified some of the taxes that the IMF classified as “other” under “other income” taxes. We shall encounter a similar discrepancy in the classification of foreign trade taxes below.

Having acknowledged these data problems, we can make three points to affirm the usefulness of the comparisons across countries and across time to be made here. First, our data all come from the same source and thus are more comparable than data pieced together from different sources. Second, IMF figures are important because they are used in setting targets for governments in the formulation of fiscal policy. Third, if we look at the pattern of change in composition of tax revenue over time, and if we are attentive to and correct for different classification decisions, the various sources and authors paint a similar picture: They show a decrease in reliance on foreign trade taxes and an increase in reliance on indirect taxes, with the share of direct taxes remaining roughly constant. The important exception is Jamaica.

The Incidence of Different Categories of Taxes: In general, the following assumptions are made regarding the incidence of different kinds of taxes. Direct taxes on income, profits, and property tend to be universally progressive and indirect taxes generally

¹ They do not present time series, so the years are not entirely comparable.

regressive, though the degree to which they are regressive varies with the exemption of basic goods and services. If such exemptions are targeted narrowly on a basket of basic goods and services consumed by low income earners, indirect taxes such as sales taxes or VAT become less regressive (Hossain 2003).

Social security taxes are ambiguous; the share paid by employees is generally tied to earnings and thus proportional, but since there are often caps on contributions, these taxes become regressive at the upper end. This is so because where income is taxed for social security up to a certain limit only, earners whose income surpasses that limit clearly pay a lower share of their total income as social security taxes. Even though these limits are generally quite high, they still advantage the highest income earners. The share of social security taxes paid by the employer may be passed on to the final price of the product and thus at least partly shared by the consumer. However, in the new open economic environment, possibilities for passing on these costs to the consumer are more limited, so we can assume that a larger share is carried by the employer and – even more likely – the employee (in the form of lower wages to absorb some of the employer's share). Again, we would expect that lower paid employees would absorb a larger share in proportion to their income than the highest paid employees.

The financing of social security systems has a further regressive feature. Typically, governments supplement social security taxes paid by employees and employers with contributions out of general revenue. The self-employed who join social security systems on a compulsory or a voluntary basis have to pay both the employee and the employer contribution, which makes it very expensive. In practice, the only segments of self-employed who join social security systems are professionals in the formal sector. Since social security coverage is limited to employees and self-employed people in the formal sector but people in the informal sector contribute to general tax revenue through indirect taxes, this system of financing redistributes money from informal to formal sector workers. Since formal sector workers on average have higher incomes than informal sector workers, this is a regressive mechanism of financing.

The Situation in the Early 1980s: When situating the discussion in the framework of the debt crisis and subsequent economic reforms, it is important to note that Jamaica and Argentina had very severe debt and economic problems going back to the late 1970s. In Chile, the economic downturn began in 1982 and in Costa Rica in 1981. In 1980-81, Chile and Jamaica were clearly at the upper end of Latin American countries in total tax collection as a percentage of GDP, with central government tax revenue accounting for 25.7% of GDP and 28.8% respectively, whereas Costa Rica with 16.8% of GDP and Argentina with 13.5% of GDP were closer to the mean. It is further important to note that Chile had already undergone radical economic reforms and a tax reform by this point. Indeed, Chile already relied on indirect taxes for close to half of total tax revenue, with 47%. Direct taxes, that is, income and capital gains taxes on individuals and corporations and property taxes, amounted to between 16% of total tax revenue in Costa Rica and 38% in Jamaica.² The figure for Jamaica is inflated because some earmarked

² In Table 1, property taxes are included in the category of direct taxes, along with individual and corporate income taxes. They are low everywhere, between 4% of total tax revenue of the central government in

taxes for social policy are added to the income tax, which in other countries would be classified as social security taxes.

Chile and Argentina had already lowered taxes on foreign trade by the early 1980s, whereas they continued to play a very important role in Costa Rica, more important than income taxes. For Jamaica, we are dealing with a classification problem. Bahl (1989), for instance, shows 25.5% of total government revenue in the early 1980s coming from export duties. In addition, he shows 20% coming from import duties, so the total contribution of foreign trade taxes to government revenue in his data is 45.5%, like in Costa Rica clearly higher than income taxes. In the IMF data, stamp duties on imported goods must be classified under taxes on goods and services and thus greatly inflate that figure. If we count them as taxes on foreign trade, then Jamaica is in an intermediate position with regard to the relative share of foreign trade and domestic indirect taxes, compared to Chile and Argentina on the one hand and Costa Rica on the other. The former two countries have a low share of total taxes coming from foreign trade and a high share from domestic taxes on goods and services, and the latter has a comparatively higher share coming from foreign trade and a lower one from domestic taxes on goods and services.

Tax reform in Argentina: In Argentina, one really cannot speak of a particular episode of tax reform, but rather has to consider a protracted process of changes in the tax system, responding to fluctuations and shocks in the macroeconomic environment.³ In the 1980s, changes in the tax system responded primarily to the need for higher tax revenue. The crushing debt burden, runaway inflation, and recession required efforts to increase tax revenue. In 1985 the government imposed a forced savings scheme and attempted to strengthen the income tax that had fallen to less than 1 percent of GDP in 1984. In 1987 deteriorating terms of trade forced a lowering of export taxes, but at the end of the decade it became possible to re-impose higher export taxes to capture gains of exporters from the devaluation. The successful stabilization program of the early 1990s then opened the way for a more coherent tax reform program focused on increasing overall tax receipts and relying heavily on the VAT.

From the mid-1990s on, several minor tax changes were implemented in response to recessions and growing budget deficits, but they had generally little impact (Gaggero and Gómez Sabaini 2002: 38). The VAT rate rose from 16% in 1980 to 18% in 1991 and 21% in 1995. In 1998 the base for the VAT was expanded to include new services, but at the same time the rate was lowered for agricultural products and some others. The top personal income tax rate, which had been lowered from 45% in 1985-86 to 30% in 1992 was raised slightly again to 35%, and the corporate income tax rate went from 33% in 1985-86 to 20% in 1992 and 35% in 2000. Also, efforts were made to make the income

Chile (Engel et al. 1998), 2% in Jamaica (Bahl 1997: 212), and less than 1% in Argentina. In addition, in Argentina there are provincial and municipal real estate taxes; expressed in % of GDP they amounted to 1% of GDP, compared to 0.2% for property taxes going to the central government in 1997 (Gómez Sabaini et al. 2002). Thus, including the local property taxes in Argentina does not significantly alter the comparative picture of tax composition.

³ This section relies heavily on information provided by Carciofi and Centrángolo (1994), Gaggero and Gómez Sabaini (1999), and Gómez Sabaini, Sanieri, and Rossignolo (2002).

tax more progressive by eliminating several exemptions and making deductions decrease with rising income.

As Table 1 shows, the most remarkable change in the tax structure between the early 1980s and 1999-2000 was the increase in revenue from indirect taxes, from 41% of the total to 47%. However, expressed as a percentage of GDP, the increase in revenue from indirect taxes was only slight, from 5.4% to 5.9% of GDP, because total tax revenue of the central government as a percentage of GDP declined slightly. Nevertheless, this category of taxes is by far the biggest source of tax revenue, bringing in more than twice the revenue from income taxes. Tax revenue of the central government by the end of the 1990s was virtually back to the level of the early 1980s, after having declined significantly in the mid-1980s. As a reminder, we should add tax revenue at the provincial level and at the municipal level amounting to roughly 25% of tax revenue of the central government, so that by the late 1990s total tax revenue for all levels of government reached roughly 16% of GDP. This is still lower than tax revenue in Chile, Costa Rica, and Jamaica. Taxes collected at the provincial and municipal levels as a proportion of taxes collected at the national level changed little over the 1980s and 1990s, despite the fact that an increasing share of expenditures was devolved to subnational levels (Gaggero and Gómez Sabaini 2002).

A study of the distributive impact of the tax system, based on the 1997 household survey in urban areas and a survey of the consumption structure, shows that it is slightly regressive (Gómez Sabaini, Santieri, and Rossignolo 2002). Argentina is highly urbanized, with 88% of the population residing in urban areas (World Bank 2003); thus, these data characterize the tax system as it affects close to nine tenths of the population. The GINI index for income distribution among deciles increases from .55 before taxes to .58 after taxes. The two lowest deciles (the first two, with deciles being counted from the bottom up) carry a clearly above average tax burden, the top decile (the tenth) a below average burden, and the middle deciles roughly average. This is mainly due to the VAT burden that weighs particularly heavily on the lowest decile and least on the highest. The structure of social security contributions is equally regressive, though it has a somewhat lower weight on the lowest decile than the VAT. The income tax burden is progressive, rising in the three highest deciles and particularly in the highest. However, since the VAT has such a central role in the tax structure, the system as a whole is shaped by its incidence. Thus, looking at changes in the tax system from the early 1980s to 1997, with the growing role of the VAT and of social security contributions, we can conclude that it has become more regressive. Indeed, the authors analyzed data from 1986 with the same methodology as the 1997 study and found that the degree to which the tax system was regressive was more marked in the later period (Gómez Sabaini, Santieri, and Rossignolo 2002: 67).

Tax reform in Chile: In Chile, major reforms of the tax system began comparatively early, as part of the neoliberal restructuring of the Chilean economy under the dictatorship of Pinochet. In 1975, Chile introduced the VAT at a rate of 20 percent, the highest rate in Latin America and the Caribbean at the time. As of the early 1980s, close to half of Chilean tax revenue came from domestic taxes on goods and services (Table 1),

and by far the largest share of it from the VAT alone. The VAT remained broadly based and there were very few exemptions; the rate fluctuated between 20 and 16 percent, depending on perceived revenue needs. In 1984, the government lowered the income tax, reducing the marginal tax rate and widening the tax brackets. Savings were exempt from the tax base and deductions for some financial investments were introduced, clearly reforms benefiting upper middle and upper income earners.

Tax reform and increases in social spending became a major issue in the elections of the first democratic government. In negotiations with business and the opposition, the newly elected government arrived at an agreement that allowed it to raise taxes temporarily, for a period of four years, to finance an increase in social expenditures. In 1990, the government raised the VAT rate from 16 to 18 percent and reversed some of the more regressive changes in the income tax that had been implemented in 1984. It also closed some loopholes in corporate taxation and imposed taxes on all business profits, raising the rate for 1991-93 from 10 to 15 percent. The increase in tax revenue resulting from this reform was estimated at 1.5 percent of GDP, which in turn allowed an increase in social expenditures of 17.4 percent over the original budget for 1990, and an increase in real expenditures on social investment, mainly in health care, education, and housing, of 12.2 percent from 1990 to 1991 (Schkolnik 1992: 27-28). Tax revenue as a percentage of GDP increased from 14.5 percent in 1990 to 18 percent in 1993, fluctuating for the remainder of the decade between 17 and 18 percent.

Similar to Argentina, the tax structure in the second half of the 1990s emphasized indirect taxes, particularly the VAT, and deemphasized direct taxation, particularly individual income taxes. The VAT rate remained at 18 percent, and revenue from this and other indirect taxes amounted to 57% of total tax revenue and 10% of GDP, almost three times more than the direct income and property taxes with 3.8% of GDP (Table 1). This was the case despite the fact that the top rate of the personal income tax rate was 45 percent. One of the main reasons for the small contribution made by income taxes is the fact that declared incomes are low, even in the top decile. Wealthy Chileans have the option of forming a company, transforming part of their personal incomes into business income, computing various expenses as costs, buying assets that are used in personal consumption, and paying the flat 15 percent business tax on profits. This is a perfectly legal form of tax avoidance (Engel et al. 1998).

It is no surprise, then, that the tax system as a whole is somewhat regressive, just like in Argentina. The GINI index before taxes in 1996 was 0.49, and after taxes 0.50 (Engel et al. 1998). Again, the income tax is clearly progressive and the VAT clearly regressive, but since the VAT accounts for a much larger share of taxes, the system as a whole is regressive. Sabaini et al. (2002) cite results from studies of tax incidence in Chile in 1969 (Foxley et al. 1980) and 1997 (Engel et al. 1998), which clearly show that the system was somewhat progressive in 1969 and became significantly more regressive with the series of reforms since the 1970s. In 1969, the lowest decile paid 18.5 percent of its income in taxes and the highest decile paid 26.7 percent. In 1997, the lowest decile paid 16.4 percent and the highest decile paid 15 percent. What is important to note is that public expenditures in Chile do ameliorate inequality; Engel et al. (1998) estimate the

GINI index to fall from 0.5 after taxes but before spending to 0.43 after taxes and spending.

Tax reform in Costa Rica: In Costa Rica, the same general pattern is visible as in Argentina and Chile, with a decline of reliance on international trade taxes and an increase in reliance on indirect taxes, the latter rising from 5% to 8% of GDP and 30% to 44% of all tax revenue between the early 1980s and the end of the 1990s (Table 1). It is interesting to note here that Costa Rica does not have a generalized VAT; it only exists in some industries. Most of the indirect tax revenue comes from sales and excise taxes. Tax reform was part of the three structural adjustment agreements that the country entered into with the World Bank covering the period 1985 to 1998 (Quesada et al. 1999: 109-12). Despite the economic decline of the early 1980s, the urgency of economic reforms in Costa Rica was dampened to some extent by the massive inflow of aid from the United States between 1985 and 1989, due to Costa Rica's strategic position during the Central American conflicts. Thus, the major adjustments came in the 1990s. The two motives for tax reform were stimulation of non-traditional exports and increases in tax revenue in order to reduce the budget deficit. Under the 1985 agreement with the World Bank, taxes on profits from non-traditional exports were eliminated, as were import taxes on inputs for export production, and customs duties in general were lowered. These efforts were continued under the following two agreements, with an emphasis on simplification of the tax system, broadening of the tax base, and efforts to strengthen tax administration. The top income tax rate was lowered from 50% to 25%. In 1995, the rate of the sales tax was increased from 10% to 15%. In 2003, a new tax reform project was accepted by a congressional committee, envisioning the introduction of a VAT with a rate of 13%, and a uniform company tax with a rate of 18% (www.nacion.com; December 1, 2003).

In contrast to Chile and Jamaica, where total tax revenue as a percentage of GDP fell rather markedly between 1980-81 and 1999-2000, Costa Rica managed to increase revenue slightly in this period, from 16.8% to 18.2% of GDP, which put it second only to Jamaica among our four countries. What makes Costa Rica distinctive is the high share of total tax revenue accounted for by social security taxes. Social security taxes increased their share from 29% to 34% of the total in this period, whereas they increased also, but at a lower level, from 20% to 26% in Argentina but declined from 19% to 8% in Chile. The large decline in Chile is heavily due to the fact that employer contributions were abolished when the pension system was privatized.⁴ In Argentina, in contrast,

⁴ The Chilean social security system is different from those of the other three cases. The pension system was completely privatized by the Pinochet dictatorship and thus essentially ceased to be a social security system. Rather, it turned into a compulsory private savings scheme where issues of redistribution are eliminated. Each individual's pension will be determined exclusively by his/ her contributions, the investment performance of the private pension fund chosen, and the service fees imposed by that pension fund. Employer contributions to the pension system were abolished altogether when the system was privatized. Health insurance was partially privatized; employees pay 7% of their income either to the public or a private health system. The private health systems, which operate like health maintenance organizations, charge additional fees, which means that only upper income earners can afford to join them. This has consolidated a two-class health system, with well-funded private and sorely underfunded public

employer contributions continued to be part of the financing structure after the pension reform. As noted above, the data for Jamaica are not comparable because taxes designated for social insurance and services are included under income taxes. Like in Chile, direct taxes on income, profits, and property retained a roughly constant share of the total in Costa Rica, with 16% percent.

I was not able to find any studies of the incidence of taxation in Costa Rica. However, if we look at the composition of taxation in Costa Rica and Argentina in 1999-2000, we find a remarkable similarity. The largest contribution comes from indirect taxes, 44% and 47%, the second largest from social security taxes, 34% and 26.5%, the third from direct taxes, 16% and 21%, and the lowest from taxes on international trade, 6% in both cases. Thus, based on the assumptions about the incidence of different kinds of taxes outlined above, we might assume that the distributive impact of the tax system is similar. However, this assumption would ignore the differences in the structure of indirect taxes in the two cases shaped by exemptions, as well as the differences in social security taxes.

In Costa Rica, a basket of basic goods, veterinary products, and agricultural inputs are exempt from the sales tax. In Argentina, a wide range of goods and services is exempted from the VAT, but these exemptions tend to benefit all income groups, rather than being focused on low income groups (CIPPEC 2002). Since the basket of basic goods and agricultural inputs absorb a large part of the income of low income groups but not of high income groups, these exemptions make the Costa Rican sales tax less regressive than the Argentine VAT.

As noted, Gómez Sabaini et al. (2002) found social security taxes to be regressive in Argentina. They are high, with employees paying 11% of earnings for pensions, employers 16%, and the self-employed 27%, and they have caps. Thus, these high contributions weigh disproportionately on low and medium income earners. Social security taxes in Costa Rica are much lower, with employees paying 2.5% of earnings for pensions, employers 4.75%, and the self-employed between 4.5 and 7.25%, and there are no caps (Social Security Administration 1995). Thus, these taxes are proportional to income.

Given the similarity in weight but differences in the structure of indirect taxes and social security taxes between Costa Rica and Argentina, with exemptions from the sales tax more focused on goods consumed by low income groups and social security taxes proportional to income in Costa Rica, we would expect the Costa Rican tax system as a whole to be distributionally neutral or slightly progressive. In addition, we need to keep in mind that redistribution happens mostly on the expenditure side, and thus the fact that Costa Rica has the second highest level of total taxation, behind Jamaica, puts the country in a comparatively favorable position to effect redistribution. Indeed, in studies of household income, Costa Rica along with Uruguay consistently shows the lowest Gini

health facilities and services, despite partial subsidies to the latter. Employers contribute nothing to health insurance either.

indices for income distribution among 17 Latin American and Caribbean countries in the 1980s and 1990s (Morley 2001).

Tax reform in Jamaica: In Jamaica, tax reform was also begun and shaped in the context of structural adjustment programs negotiated with the IMF, the World Bank, and USAID by the Seaga government in the 1980s. Indeed, the U.S. government provided the funding for the comprehensive tax reform project (Bahl 1991: 9). Given the comparatively high level of taxation in Jamaica in the early 1980s, with 29% of GDP, the primary motivation was not to increase revenue but rather to simplify the tax system and make it consistent with a more liberalized economy. Among other things, this meant reducing taxes on high income earners and corporations who might be more likely to invest their money abroad in the more liberalized economic environment. Accordingly, the reform, which was introduced in phases beginning in 1986, introduced broader-based and flatter tax rates and eliminated a number of important exemptions.

The progressive rate structure of the personal income tax, with a top rate of 57.5%, was replaced by a flat tax rate of 33 1/3% in 1986, and in 1992 it was reduced to 25%. A system of multiple tax credits was replaced by a standard deduction; the size of this deduction was increased in 1992, when the rate was lowered. In addition, before the reform Jamaican firms had offered their employees a number of nontaxable “allowances,” such as cars, to reduce both the firms’ and the employees’ payroll tax liability. Most of these “allowances” were made taxable. Also, the tax reform included interest as taxable income and abolished the preferential treatment of overtime pay. The tax rate on corporations was lowered also, from 45% to 33 1/3%. On the other hand, there was little change in various payroll tax schemes (for education, training, housing, and social security), which generated revenue roughly equivalent to half of individual income tax collection (Bahl 1991: 38). Thus, if we look at the total effect of the tax reforms in the 1980s and 1990s, the share of direct taxes, including the payroll taxes that in other countries would be considered social security taxes, actually increased from 38% to 41% of total tax revenue.

Jamaica’s system of indirect taxation was exceedingly complex, and indirect taxes accounted for a majority of tax revenue in the early 1980s already. A variety of different taxes were administered by different divisions within the Customs and Excise Department under different rules and regulations. Thus, simplification was urgent. In 1991, Jamaica introduced a general consumption tax with a rate of 10%; by 1993 the rate had risen to 12.5% and by 1997 to 15%. Nevertheless, the share of indirect taxes as a proportion of total tax revenue was lower at the end of the 1990s than it had been in the beginning of the 1980s, down from 50% to 41%.⁵ Before the reforms, 80% of indirect taxes came from excise taxes, and the largest share came from alcohol, tobacco, and gasoline. The emphasis on these tax sources was maintained in the design of the tax reforms.

⁵ The decline is not as steep if we remember that some of these indirect taxes in 1980-81 were really taxes on imported goods, i.e. taxes on foreign trade.

The share of taxes on international trade in total tax revenue more than doubled over the two decades of the 1980s and 1990s, despite pressures from the World Bank to the contrary (Bahl 1997).⁶ Compared to the other three countries, it had started at the lowest level but ended up at the highest, with close to 10%, followed by Chile with 8%. Stamp duty on imports had actually been increased quite dramatically in 1985 as an emergency revenue generating device, but a World Bank structural adjustment loan required a lowering of the rate and a simplification of the rate structure, beginning in 1987. By 1993, stamp duty on imports was insignificant, but customs duties had increased (Bahl 1997: 210).

According to figures presented by Bahl (1997: 219), based on Wasylenko (1991) and Sjoquist and Green (1992), the tax system as a whole was progressive before the reforms and was made slightly more progressive by the reforms, at least up to 1991 (when the data for these studies were collected). The system was clearly progressive up to the seventh and eighth deciles, but then it became somewhat regressive at the top. The lowest decile of income earners paid 22% of its income in taxes before and 20% after the reforms; the highest share of taxes was paid by the eighth decile with 37% before the reforms and by the seventh decile with 39% after the reforms. The ninth and top deciles paid 35% and 32% of their income in taxes, respectively, before the reforms. After the reforms, the eighth decile paid 37%, the ninth 30%, the next quintile 27%, and the top quintile 35%. As to developments after 1991, we can outline several factors that had countervailing effects: The income tax rate was reduced to 25%, which benefited higher income earners, but at the same time the standard deduction was increased, which benefited lower income earners. The general consumption tax rate was increased, but other indirect taxes were decreased. The exemption from the general consumption tax of food stuffs, health supplies, and books and materials for education, among other categories, certainly cushioned the burden on lower income earners.

Looking at the composition of tax revenue as a whole at the end of the 1990s and comparing it with the composition in the early 1980s, we can venture the assessment that the tax system developed in a slightly more progressive direction, with direct taxes increasing their share and taxes on goods and services decreasing. These developments stand in contrast to the other three countries, where the share of taxes on goods and services increased, sometimes dramatically so, whereas the share of direct taxes remained stagnant. Looking just at direct taxes on income, profits, capital gains, and property (Table 1), their share in total tax revenue was roughly twice as high in Jamaica as the average of the other three countries, though we have to keep in mind that social security taxes are included here. If we add the shares of direct and social security taxes together, then this share is highest in Costa Rica with 50.1% of total tax revenue, followed by Argentina with 47.4% and Jamaica with 40.6%; Chile is by far the lowest with 30%. If we look at the sum of direct taxes and social security taxes as a percentage of GDP, a pronounced difference emerges between Jamaica and Costa Rica on the one hand and Argentina and Chile on the other. In Jamaica they accounted for 9.2% of GDP at the end of the 1990s and in Costa Rica for 9.1%, compared to 5.2% in Chile and 6.1% in

⁶ Again, if some of the indirect taxes in 1980-81 are reclassified as taxes on foreign trade, this increase appears considerably lower.

Argentina. Thus, the Jamaican and Costa Rican tax systems were clearly more effective in collecting direct and social security taxes.

Politics of Tax Reform and Enforcement

Despite the tax reforms, all four countries continue to suffer from wide spread tax evasion and avoidance. The tax administrations all lack sufficient qualified personnel and equipment for effective monitoring of tax compliance and for auditing tax returns. There are many potential tax payers, both individuals and corporations, who are not even registered. Of those who are registered, only a fraction actually file returns, and most of them underreport their income. For instance, Bahl (1997:220) points out that in Jamaica in 1992 there were about 80,000 registered self-employed tax payers, and of those only about 25% filed returns. In a random sample of self-employed people from nine occupations, the percent of income tax filers was 17% in 1982 and 11% in 1983. The highest percentages were in real estate and transports, the lowest in customs brokerage, auto parts, and hair care (Alm, Bahl, and Murray 1991: 196). Only 20% of companies filed for company tax and only 50% for payroll taxes on behalf of their employees. Among large enterprises, compliance with the general consumption tax was around 85%, among all other enterprises it was in the low 60% range (Bahl 1997). For Chile, Engel et al. (1998) estimate that around 23% of the total tax base is not reported. This is rather staggering for a country like Chile, recognized by experts in taxation as having one of the most effective tax collection agencies. In Costa Rica, a report issued by the Controller General's Office found that sales tax evasion in 2002 amounted to 46% of the total, or roughly 2% of GDP (La Nación, March 8, 2004). The evasion rate for the VAT on domestic transactions in Argentina in 1993 was estimated at 32%, a huge improvement from the 62% in 1989, but still a huge gap (Rosenwurcel 2000: 45). Gaggero and Gómez Sabaini (1999) argue that non-compliance with tax laws is the biggest financial problem for Argentina.

Clearly, understaffing and lack of adequate equipment are part of the reason for continued tax evasion. Another part, though, is the reluctance of governments to punish tax evasion, particularly among large tax payers. The example of Jamaica shows that low tax collection as a percentage of GDP is not primarily due to insufficient technical capacity of governments at intermediate or low-intermediate levels of development. In 1980-81, Jamaica collected 29% of GDP in tax revenue, with GDP per capita at US\$3,452 in 1980. In 1999-2000, Chile collected 17% and its GDP per capita in 1999 stood at US\$9,568, and Argentina collected 13% with a 1999 GDP per capita of US\$11,181.⁷ It is clearly not technically feasible to enforce total compliance (this is true for any of the advanced industrial democracies also), but it is feasible in all four countries to improve tax collection capacity, if governments develop the political commitment and support to do it.

If we look at the politics behind the tax changes, we find that these changes were for the most part treated as a necessary component of general economic reforms. In Costa Rica

⁷ Data for GDP per capita are from the Penn World Tables, in constant dollars, adjusted for purchasing power parity.

and Jamaica, they were explicitly and openly tied to donor conditionality. In Argentina and Chile, the influence of the IFIs was exerted more through technocratic networks of the sort analyzed by Teichman (2001). She traces the establishment of networks among officials of IFIs, particularly the World Bank and the Inter-American Development Bank, and high level government officials in Argentina, Chile, and Mexico. Through regular interaction over long periods of time these networks became the carriers of neoliberal ideas and thus shaped reform designs in a neoliberal direction even in the absence of explicit conditionality. The fact that many of the high-level government officials shared educational backgrounds with the IFI officials, i.e. Ph.D. degrees in economics from U.S. universities, made them more susceptible to the transmissions and reinforcement of neoliberal ideas.

There are two different paths to tax reform, exemplified by Argentina and Jamaica. In Argentina, tax changes were generally ad hoc reactions to economic changes, whereas in Jamaica they were part of a major coherent reform of the entire system of taxation. Even in Jamaica, though, the implementation of the recommendations of the reform group came in steps over several years. In all four countries, the debates about tax reform were generally confined to a relatively small circle of technocrats in the ministry of finance or economics, with minimal public involvement. Parliamentary debates tended to be comparatively short also. Compared to other economic reforms, such as reduction of subsidies for basic goods, energy, etc., or privatization of state-owned enterprises, tax reforms stimulated little popular protest. These other reforms had much more direct, sudden, and visible impacts on the population than the tax reforms that were phased in more gradually. In Jamaica the reforms were designed to be revenue neutral and to protect the relative position of the lower income groups, so there were no clear winners and losers who would have had reason to engage in protest behavior. In some cases, such as the forced savings scheme in Argentina introduced in 1985, there were protests, but mainly after the fact.

Of course, one should also ask why Jamaica started from such a different pre-reform position and remained more concerned about protecting lower income earners than Chile and Argentina. The key is the strength of the People's National Party (PNP), a democratic socialist/ social democratic party that alternated in office with the Jamaica Labour Party (JLP). The PNP has had a clear commitment to reduction of poverty and inequality and when in office oriented both tax and expenditure policies towards those goals (e.g. Manley 1982, Stephens and Stephens 1986).⁸ Particularly from 1972 to 1980, under Prime Minister Michael Manley, the government made major efforts in these areas. Moreover, both the PNP and the JLP had close links to labor unions, so the JLP governments were constrained in rolling back programs that the PNP had established. Even the tax reform discussed here, under JLP Prime Minister Edward Seaga, had as one of its goals not to make the lower classes worse off (Bahl 1997: 186). The National Liberation Party (PLN) in Costa Rica used to play a similar role in promoting social

⁸ We know from comparative studies of advanced industrial societies that incumbency of social democratic and Christian democratic parties is a strong predictor of generous welfare states (Huber and Stephens 2001).

programs and a mode of financing these programs that would protect lower income earners.

In Chile, in contrast, major reforms of social policy and the tax system were carried out under the dictatorship of Pinochet and were oriented towards stimulating economic growth in the private sector and reducing responsibilities of the state for social welfare, with no regard for their distributional consequences. Since unions and left parties were ruthlessly repressed, these reforms could be carried out without having to deal with real opposition. In Argentina, the major neoliberal reforms of economic and social policy were carried out by President Menem, ironically from the Peronist party, the traditional pro-labor party in the country. The party, however, had always been highly personalistic and had turned into a non-programmatic, clientelistic party. Plans for following the Chilean model of pension privatization were derailed and changed to partial privatization by opposition from labor unions and their representatives within the Peronist party. In contrast, major changes in the tax system towards increasing reliance on indirect taxes had already been effected by the military government, and the various steps going further in this direction with complicated packages of changes in coverage and rates of indirect and direct taxes did not evoke much protest.

Given the general absence of public debate about tax reform, it is little surprise that concerns about the gender-specific impacts of the changes were hardly raised at all. Effects of tax changes were not near the top of the agenda of women's movements in these countries. In Argentina and Chile, human rights, democratization, and cooperative economic survival strategies dominated the agenda. To the extent that women protested against economic policy in all of the four countries, it was mostly against the general austerity measures, visible in higher unemployment and higher prices. Deteriorating pensions and deteriorating health care were additional issues that elicited protests from women (as well as men). In short, there were so many policy decisions taken to transform these economies in a neoliberal direction, in addition to general austerity measures, that tax reform decisions did not stand out in any major way in the public mind in general and in the mind of women activists in particular. This may be in part cause and in part effect of the lack of studies of the gender-specific effects of tax reforms in Latin America.

Gender-Specific Effects of Tax Reforms

In the absence of disaggregated data, tracing the implications of changes in tax legislation by necessity has to be based on logical reasoning and educated guesses as to tax incidence. As ECLAC states, in its most authoritative publication on the issue, "...the skepticism of the 1980s and early 1990s with respect to the redistributive capacity of taxation has resulted in an almost total lack of up-to-date, detailed empirical studies on the implications and distributional effects of various taxes or combinations thereof in countries of the region. After almost two decades of intensive and far-reaching reforms of the tax, tariff and social security systems, there is not enough data to permit an informed assessment of such issues" (1998: 96-7). The main results of the few studies that exist for our countries were discussed above. All of them looked at incidence on income

groups, not a single one contained any data on gender. Thus, the attempt to improve our understanding of the gender-specific implications of these changes is more speculative, based on a combination of theoretical and comparative knowledge and reasoning.

Many analysts would argue that the most important issue for married women is whether taxes of married couples have to be filed jointly or can be filed separately. Joint taxation in the presence of a progressive income tax works as a disincentive for married women to join the labor force.⁹ From that point of view, all four cases are gender-egalitarian. In Chile, the wage tax and general income tax are personal, levied on individuals and not on households (Engel et al. 1998). In Argentina and Costa Rica married couples are taxed separately on their income, but only one of them (in Argentina the husband) is taxed on property income and property, and only one of them can take deductions for dependents (in Costa Rica deductions for dependents can be claimed by either spouse). Where there is a flat rate income tax, as in Jamaica, individual or joint filing does not matter. However, if we keep in mind that income tax rates and their progressiveness have been lowered in these countries and that a large proportion of the population do not pay income tax to begin with, the importance of this issue is reduced.

In order to assess the gendered implications of the changes in the tax structure, we have to begin by situating women in the occupational and earnings structure of their countries. In every one of our four countries, female labor force participation is lower than male. Though female labor force participation increased significantly between 1990 and 2000 in Chile and Costa Rica, from 35% and 39% to 42% and 43%, respectively, and in Argentina slightly from 44% to 45%, this rate remained clearly below the male rate, which varied from 73% to 77% (ECLAC 2002). The women who are in the labor force are more likely to work in the informal economy, that is, in small unregistered enterprises, own account and non-remunerated labor, and as domestic workers. As Table 2 shows, in Buenos Aires, Argentina, in 2000, 35% of the employed male population worked in these sectors compared to 41% of the employed female population; in Chile the figures for the male and female urban employed populations were 24% and 37%, and in Costa Rica 31% and 38%, respectively.

Table 2 about here

Women who work in the formal sector are overrepresented in the public sector, most probably as teachers and nurses. In the private sector, they have roughly equal representation in professional and technical jobs to men (between 8 and 12% of the employed economically active female population in urban areas) but are greatly underrepresented in medium and large enterprises, that is, enterprises that employ more than five workers. In Argentina, 32% of the employed economically active male population in urban areas works in this type of enterprises compared to 21% of the

⁹ One might argue that this factor is less important in countries where a relatively large proportion of lower class women never marry even when they have children, which is the case in Jamaica. However, since most of the direct income taxes are paid by middle and higher income earners to begin with, who are also more likely to marry, this issue remains relevant.

female; in Chile the figures are 43% and 28%, and in Costa Rica 35% and 25% (ECLAC 2002: 179-82).

Finally, open unemployment is higher among females than among males. The figures for open unemployment in 2000 in urban areas were 13.4% for males and 17.2% for females in Argentina, 9.9% and 11.6% in Chile, and 4.6% and 6.3% in Costa Rica (ECLAC 2002: 207). Accordingly, women earn less than men, and the differences are greater if we look at the entire employed population than just at wage earners. In 1999-2000, the ratio of average female to male incomes among the entire employed population in urban areas was 61 in Chile, 65 in Argentina, and 70 in Costa Rica; among wage earners the ratios were 72, 79, and 78, respectively (ECLAC 2002).

Given the lower labor force participation rates and lower earnings of employed women, the low share of revenue that comes from direct taxes clearly favors males, because they are higher income earners and more likely to be owners of corporations or shares in corporations than women. Accordingly, men constitute a stronger tax base and would have to pay more if the rate structure was more progressive and exemptions lower, and – most of all – if the laws were enforced. The same is true for the low share of total taxes coming from property taxes. Social security taxes are tied to earnings of employees and of those self-employed who are covered, so their incidence on males and females should be similar to the incidence of income taxes. However, to the extent that social security taxes have a cap and men tend to be higher income earners, the effect of social security taxes is more likely to be regressive on women than on men. Moreover, we need to keep in mind that social security taxes also entitle the payers to benefits and that the relationship between social security taxes and benefits is much closer than the relationship between general taxes and benefits from all government activities. This means that men will tend to benefit more from these taxes than women.

The implications of the changes in tax legislation regarding direct taxes are partly contradictory. Clearly, the reduction of marginal tax rates and of payroll taxes benefited mostly men, because they are the high income earners and formal sector employers and employees. On the other hand, to the extent that exemptions and loopholes were closed, such as car allowances, these changes affected men more negatively than women, as men were more able to take advantage of those means before the reforms to reduce their tax payments. If we look at the overall picture and note that the share of direct taxes remained roughly constant, we can assume that the burdens of direct taxes on men and women remained roughly unchanged. If we introduce social security taxes into the picture, we see an increase in the share of these taxes in Argentina and in Costa Rica, and a decrease in Chile. Accordingly, we would conclude that the total tax burden on men, from direct taxes and social security taxes, was increased in Argentina and in Costa Rica to a greater extent than on women, and that men experienced a greater decrease in their tax burden than women in Chile. Jamaica needs to be analyzed separately because social security taxes in Jamaica are classified along with income taxes. The decline in social security taxes equals the increase in income taxes, so the presumed increase in the tax burden on men from direct taxes is offset by a presumed decrease in the tax burden from

social security taxes, and the total effects of changes in income and social security taxes in Jamaica appear to be gender neutral.

The incidence of indirect taxes, and thus the gendered effect of the shift to greater reliance on this kind of taxes, is difficult to assess. To the extent that indirect taxes are regressive, which they clearly are in Argentina and Chile (Engel et al. 1998, Gómez Sabaini et al. 2002), we can assume that women as lower income earners are more disadvantaged. Where the degree to which they are regressive is tempered through exclusions focused on basic goods and services in health and education, as in Costa Rica and Jamaica, the incidence is presumably more gender neutral. To the extent that a large share of indirect taxes comes from excise taxes on alcohol and tobacco, women as lower consumers of these goods would enjoy an advantage – assuming that expenses for alcohol and tobacco do not come out of the shared household budget. This forces us to think more about women's position in the household and about the determination of household budgets, a topic to which I shall return momentarily.

The final incidence of taxes on foreign trade is equally difficult to assess, as it depends on assumptions about the share that is passed on to the final consumer. In the case of import taxes on consumer goods, they simply increase the price of those goods in the domestic market, and the incidence depends on whether these goods are essential to the poor, that is, in the basic needs basket or related to health and education. Import taxes on intermediate and capital goods increase the price of goods manufactured with the imported ones, and the extent to which those increases are passed on to consumers depends on the competitiveness of markets. In more competitive markets, presumably a greater share of the import taxes for intermediate and capital goods would be absorbed by the manufacturers, and in less competitive markets a greater share would be passed on to consumers. In the latter case, we would again need to know whether those goods are part of the necessary consumption of poor households. Everything else equal, a lowering of taxes on imports should have lowered prices to the consumer and thus partially offset an increase in VAT, sales, or consumption taxes.

In order to advance further in assessing the gendered impact of changes in the tax systems towards greater reliance on indirect taxes, we need to situate women not only in the occupational and earnings structure, but also in the structure of households. We can think of at least eight combinations of marital status (married/ cohabiting in stable relationship or single/ widowed/ divorced), labor force participation (working or not working), and children (with or without children).¹⁰ For all married/ cohabiting women, working or not working, with or without children, it seems that the crucial distinction is between household budgets that are fixed by the husband/ partner and those that are consensually decided upon. If a married woman is working, we can assume a greater probability that the household budget will be consensually decided upon, and this probability increases with the share of total income earned by the woman. In the case of

¹⁰ One could add further variation by introducing working and non-working husbands, but for the argument developed here about household budget decision-making it is the woman's labor force status that matters. Similarly, in non-nuclear households there are likely to be more income earners, but again to assess the woman's leverage in household budget decisions, we need to look at her earning capacity.

consensual budget-making, one could assume that income and expenditures are shared and thus the final experienced incidence of taxation is the same for both spouses/ partners, whether the woman works or not, and whether children are present or not. In real life, it is probable that the woman will be in charge of administering the commonly decided upon household budget and thus will experience price increases caused by rising indirect taxes more directly. It is also probable that she will spend more time and energy to compensate for these rising prices.

In the case of unilateral budget-making, where the woman gets a certain amount of money to take care of the needs of the household and the husband/ partner retains the rest for personal consumption and investments, we can distinguish gendered impacts of indirect taxes even more clearly. To the extent that the fixed household budget is small, women will be disproportionately affected by indirect taxes that increase the price of basic food items and health and education, and that effect will be magnified by the presence of children. Again, where these items are exempt from the VAT or sales or consumption taxes, as they largely are in Costa Rica and Jamaica, the gendered impact of indirect taxes is mitigated.

Excise taxes on gasoline affect bus fares and other transportation costs. Similar to other indirect taxes, women on low fixed household budgets will be more affected than their husbands/ partners, given that they bear the responsibility for getting the children to where they need to go and for procuring household goods that may require considerable journeys. On the other hand, among middle and upper income earners, men/ husbands are more likely to own and use cars and thus to carry the burden of taxes on gasoline.¹¹ The gendered impact of excise taxes on alcohol and tobacco depends on one's assumptions about their effect on the share of total household income designated by husbands/ partners for household needs versus their personal consumption. In general, women are less likely to consume alcohol and tobacco than men, so they are less directly affected. For low income earners, it seems reasonable to assume that higher excise taxes will shrink the share of the budget allocated by men for household needs and thus will affect women with fixed budgets negatively. However, in a study of the impact of indirect taxes on poor households in Jamaica, the authors found that excise taxes on alcohol and tobacco, which were comparatively high, did not have a major impact, as reported expenditures on alcohol and tobacco constituted only 2.2% of total expenditures for the sample of low income households in 1983-84 (Bird and Miller 1989).

Single working women without children are affected primarily by the greater probability of earning lower incomes than men and thus are disadvantaged by regressive taxes of all kinds, direct and indirect. Single women with children are generally in the economically weakest positions; not only are they likely to be disadvantaged in the labor market but they also bear the responsibility of providing for their children. Thus, they tend to have low incomes and have to spend more time and energy to provide for the needs of their families if prices increase due to tax increases. Unless the exemptions from the indirect

¹¹ This is important to point out from the point of view of policy lessons; it may be better to keep high excise taxes on gasoline and subsidize bus transport and transport of basic foodstuffs, both from a class and gender point of view. Again, we have to consider the expenditure side along with the tax side.

taxes are heavily directed towards basic foods, transportation, health, and education services, single women with children will shoulder the greatest burden from increases in indirect taxes, that is, they will pay the largest percentage of their income for these tax increases.

Summary and Policy Lessons

We could detect two clear tendencies as a result of the tax reforms effected in Argentina, Chile, Costa Rica, and Jamaica, over the last two decades of the twentieth century. First, in three of the countries overall tax receipts as a percentage of GDP fell; the exception is Costa Rica. Second, three of them came to rely more heavily on indirect taxes levied on domestic goods and services; the exception here is Jamaica. Both of these developments are negative from the point of view of reduction of poverty, inequality, and gender-based disadvantages through state intervention. Lower tax revenue means a reduced capacity of the state to correct market outcomes that disadvantage the poor and women by financing health and education services and anti-poverty programs. Indirect taxes are generally regressive, though the extent to which they are regressive depends on exemptions of basic goods and services. Women as lower income earners and as mothers responsible for the needs of the family, particularly if on fixed budgets, are more negatively affected than men by changes that increase regressive indirect taxes.

In this light, Chile and Argentina have clearly done worse by their low income earners and by women than Costa Rica and Jamaica. They both lowered their tax burden, which now is lower than in both Costa Rica and Jamaica, even though their GDP per capita is much higher (in 1999, US\$11,181 in Argentina and US\$9,568 in Chile, compared to US\$5,864 in Costa Rica and US\$3,716 in Jamaica). They both increased their reliance on indirect taxes on domestic goods and services, and their share from these taxes is higher than the shares in Costa Rica and Jamaica. Their structure of exemptions does not focus on basic goods and services to the same extent as that in Costa Rica and Jamaica. Accordingly, their tax systems are regressive, whereas the Jamaican tax system is progressive. Studies cited above have shown that they are regressive across income classes, and we can conclude that they are also regressive in gender terms. The lesser reliance on indirect taxes on domestic goods and services and the more focused exemptions from these taxes prevent the indirect taxes in Costa Rica and Jamaica from making the whole tax systems regressive, from both a class and gender point of view.

Two major policy lessons emerge from this analysis. First, it is possible to construct overall progressive tax systems that are effective in raising at least moderate levels of tax revenue, even in Latin American and Caribbean countries, and even at comparatively low levels of development, as demonstrated by the example of Jamaica. The keys are reliance on direct taxes with an adequate standard deduction and few special deductions for higher income earners for an important share of the total, a structure of indirect taxes that exempts only basic goods and services, and social security taxes without a cap. In Argentina and Chile, income taxes are progressive but the tax systems on the whole are regressive, because of the heavy reliance on and the regressive structure of the VAT. However, the extent of redistribution that can be achieved through the tax system in

practice seems to be limited. In particular, the very top incomes are difficult to tax for political reasons. The wealthiest (potential) tax payers are also investors who need to be cultivated by governments in order to generate economic growth, and they are also donors to political campaigns and need to be cultivated by politicians to win elections. Moreover, in this era of liberalized capital markets and internationalized production it has become more difficult to tax corporations. Simulations by Engel et al. (1998) show that even with elimination of legal tax deductions and underreporting of income in Chile, where the top personal income tax rate is 45%, the effect on income distribution would be limited. However, they only assume closing of legal tax deductions, not a change in the legislation that allows wealthy Chileans to form corporations and channel part of personal income into these corporations, for which they can claim a 15% business tax rate. It is laws such as these that would be politically exceedingly difficult to change.

Second, it may be as important to enforce the tax laws that are on the books as to spend energies and political capital on changing the tax systems in a major way, such as by introducing a VAT or increasing its importance on the grounds that the VAT is easier to collect than other kinds of taxes. This does by no means imply abandoning efforts to improve the distributive profile of tax systems, such as by changing the structure of the VAT to focus exemptions on basic goods and services or by eliminating caps on social security taxes, but it does mean to make enforcement a priority. Arguably, the low capacity to enforce tax legislation remains the key problem for Latin American tax systems, including those in our four countries. It is not a new problem, but the reforms since 1980 have not been able to solve it. Low enforcement of legislation and consequent low tax collection clearly are detrimental to the poorer sectors and to women, because redistribution is in practice accomplished mostly on the expenditure side, and solid tax revenue is needed to finance expenditures on transfers and social services. In theory, we can think of tax systems that could be highly redistributive, but in practice all tax systems tend to be at best mildly progressive. In part, this can be explained by the structural dependence of governments on capital and of politicians on campaign contributions, and in part by the prevailing economic doctrines on the matter. As a World Bank study puts it, “most economists and policymakers consider that high tax rates not only significantly discourage and distort economic activity but are largely ineffective in redistributing income and wealth” (World Bank 2004: 130).

The degree to which social expenditures in Latin America are redistributive depends on the category of expenditures. Expenditures on health and education tend to benefit lower income groups more than upper income groups in relation to their incomes, whereas social security expenditures tend to favor middle and upper income groups (World Bank 2004, ch.4). The same argument can be made for women and men; if women on a fixed budget are predominantly responsible for providing for the health and education of their children (and for their own health care), better public health services and educational facilities will benefit them. In contrast, women are less likely to be covered by social security schemes as they are constructed at present because they are more heavily represented in the informal sector. Since benefits are generally earnings-related, even those women who are covered are disadvantaged as lower income earners. Thus,

¹² According to a World Bank study, “most

increased tax revenues devoted to high quality and highly accessible education and health services and to anti-poverty policies, such as non-contributory flat-rate family allowances paid to mothers, pensions, unemployment, and disability schemes, are the most promising avenue for mitigating the class and gender inequalities so prevalent in Latin American and Caribbean societies.

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Table 1

Taxes as a Percentage of GDP

Tax category	Argentina		Chile		Costa Rica		Jamaica	
	1980-81	1999-2000	1980-81	1999-2000	1980-81	1999-2000	1980-81	1999-2000
Income, Profits, Capital Gains & Property	0.0% *	2.7%	5.5%	3.8%	2.7%	2.9%	10.8% +	9.2% +
Goods & Services	5.4%	5.9%	12.0%	10.0%	5.0%	8.0%	14.5%	9.3%
International Trade	0.9%	0.7%	1.5%	1.4%	4.1%	1.1%	1.3%	2.2%
Social Security Contributions	2.7%	3.4%	4.8%	1.4%	4.8%	6.2%	1.2%	0.0%
Other	4.4% *	0.0%	1.8%	0.8%	0.2%	0.0%	1.0%	2.0%
Total	13.5%	12.7%	25.7%	17.4%	16.8%	18.2%	28.8%	22.8%

Taxes as a Percentage of Total Revenue

Tax category	Argentina		Chile		Costa Rica		Jamaica	
	1980-81	1999-2000	1980-81	1999-2000	1980-81	1999-2000	1980-81	1999-2000
Income, Profits, Capital Gains & Property	0.0% *	20.9%	21.5%	21.8%	15.8%	15.8%	37.6% +	40.6% +
Goods & Services	41.1%	46.7%	46.8%	57.3%	29.8%	44.0%	50.3%	40.9%
International Trade	7.1%	5.8%	6.0%	8.8%	24.4%	5.9%	4.5%	9.7%
Social Security Contributions	19.6%	26.5%	18.7%	8.2%	28.7%	34.3%	4.1%	0.0%
Other	32.1% *	0.1%	7.1%	4.7%	1.4%	0.0%	3.5%	8.9%
Total	100.0%	100.0%	100.0%	100.7%	100.0%	100.0%	100.0%	100.0%

* Cardozi and Cetrangolo (1995) show a different figure in "Income, Profits, Capital Gains & Property," and a lower in "Other".

+ Includes some payroll taxes that are social policy schemes.

Source: IMF Government Finance Statistics, and IMF International Financial Statistics

Table 2

Population employed in the urban informal sector

Year	Country	Total	Wage earners in businesses	Own-account and non-remunerated	Domestic servants
Argentina**					
1990	Men	37.3	12.4	23.1	1.8
	Women	45.4	10.2	22.7	12.5
1994	Men	35.7	14.5	20.8	0.4
	Women	42.5	11.5	18.7	12.3
1997	Men	34.1	17.5	16.2	0.4
	Women	39.8	9.6	17.5	12.7
1999	Men	34.2	15.9	18.1	0.2
	Women	38.3	10.3	15.3	12.7
2000	Men	35.1	16.4	18.6	0.1
	Women	40.6	12	15.7	12.9
Chile					
1990	Men	32.2	10	22	0.2
	Women	45.5	8.2	18.2	19.1
1994	Men	27.5	9.1	18.3	0.1
	Women	40.3	7.7	15.8	16.8
1996	Men	26.9	9.7	17	0.2
	Women	39	8.2	14.5	16.3
1998	Men	26.2	9.7	16.4	0.1
	Women	38.1	9.7	13.2	15.2
2000	Men	23.8	7.9	15.8	0.1
	Women	36.7	7.4	13.3	16
Costa Rica					
1990	Men	28.6	10.3	18.1	0.2
	Women	37.2	8.6	16.6	12
1994	Men	28.6	11.6	16.7	0.3
	Women	36.5	10.3	16.1	10.1
1997	Men	29.7	12.4	17.1	0.2
	Women	37.1	9.2	18.7	9.2
1999	Men	30.4	13.3	16.7	0.4
	Women	40.1	9.4	18.1	12.6
2000	Men	31.2	12.4	18.5	0.3
	Women	38	10.9	15.7	11.4

* Does not include professional and technical jobs.

** Covers Greater Buenos Aires only.

Source: Tables 4.1 and 4.2 in Panorama Social de América Latina 2001-2002 - ECLAC 2002.

