Demonstration of the Fiscal Justice Movement in the Dominican Republic, during the campaign ‘No to the fiscal measures’, in 2012.

FISCAL JUSTICE TO REDUCE INEQUALITY IN LATIN AMERICA AND THE CARIBBEAN

Tax collection in Latin America and the Caribbean is low in relation to its potential and does not reflect the huge social needs in the region. Public finances reflect an inequitable social and economic model, which perpetuates power concentration and discrimination, and are undermined by high rates of tax evasion and avoidance. Courageous reforms are urgently needed in order to achieve fiscal policies to help reduce entrenched inequalities in the region.

SUMMARY

Despite economic growth and the reduction of both poverty and inequality that Latin America and the Caribbean (LAC) has experienced during the last decade, it still remains the most unequal region in the world.

LAC political and economic elites have shaped fiscal systems which, in general, have either very limited effectiveness in correcting inequalities, or actually serve to deepen them. For inequality and exclusion to be overcome, this fiscal injustice must urgently be confronted. It is characterized by:

- Insufficient tax collection and unsustainability: in general, less money is collected than should be, and there is a strong dependence on unstable public revenue sources, which are unpredictable and socially and environmentally unsustainable;
- Regressive taxation and imbalance in the contributions of the different activities and economic agents: which manifest in a higher effective tax burden on wages and consumption than on income and wealth;
- Inefficiency to promote decent and sustainable economic progress and upward social mobility of the majority of the population;
- Fiscal policy often reflects traditional views about women's role in society, thereby broadening existing gender gaps;
- High propensity for tax evasion and avoidance;
- Weak institutions and representativeness: which manifest in persistent corruption, poor accountability at all levels, a lack of transparency in the planning and implementation of fiscal policies, and also a low tax culture.

A fair and equitable fiscal system is one that consistently combines tax and public spending policies with tax and budget management in order to meet the following general principles:

1. **Full compliance with the redistributive function of the state through public budgets**. That is, sufficient and stable public spending to support quality and well-oriented basic social services, as well as strong mechanisms of social protection and reinforcement of the resilience of population groups vulnerable to internal and external shocks.
2. **The attribution of increased prominence to the role of tax systems as the instruments of redistribution of wealth in a country**, and a reduction in the negative impact that regressive and unbalanced tax systems have on the relatively poorest people in terms of the contributions made by the different economic agents to the public coffers. Tax systems should be balanced toward more progressive models, in which wealth and property and not only consumption and wages are taxed more.

3. **Expansion of the taxable base and the scope of national tax systems**. Rationalization of existing tax benefits is required, while reducing to a minimum those that have no clear positive social benefits. It is essential that tax collection is in line with the need to sustainably finance measures to reduce poverty and inequality.
4. **Reduction of the high levels of tax evasion and tax avoidance** by ensuring that fiscal policy is supported by a tax administration system that can monitor tax obligations and facilitate compliance. Related to this, it is essential to ensure effective fiscal cooperation and coordination at the regional and subregional levels, and further strengthen the enforcement capabilities of these institutions.
5. **Along with other public policies, the fiscal system must promote dignified progress for a wider base of the population**, making economic opportunities a reality for areas such as small- and medium-sized enterprises (SMEs) in agriculture or manufacturing, thereby contributing to the configuration of non-exclusive and more cohesive social models. We must put an end to the use of instruments such as tax benefits, subsidies, incentives, among others, for the unrestricted promotion of the excluding extractive model.
6. **Clear benefits must be generated to promote the progressive formalization of companies and working poor people who are invisible to the state**. While it is essential that the majority of citizens and economic sectors are taxed, it is also necessary that this is done in a manner consistent with their ability to pay, the socioeconomic situation in which they find themselves and the way they secure their income or earnings.
7. In coordination with other public policies, **promoting economic diversification and development of environmentally responsible activities that generate quality jobs.**
8. Contributing to national efforts to **dismantle discriminatory views that restrict – for reasons of race or gender – significant sectors of the population from attaining real opportunities for improvement**. In particular, further work must be carried out to study the explicit and implicit impacts of fiscal systems that reinforce traditional roles of women in society, and which deepen the gender gap.
9. **Contributing to the decentralization of political power in the societies of the region**. In this regard, it is crucial that a fair fiscal system, throughout the design, implementation, and monitoring and feedback of the designed policies, draws on an effective citizen participation that represents the interests of historically disadvantaged groups, on the basis of a framework of government transparency and responsible accountability at all levels.
10. In connection with the foregoing, we must **ensure transparency in fiscal reforms** and effective mechanisms to facilitate broad public debate on these reforms.

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