

Fiscal Policy Incidence: Evidence from Tunisia

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Paper Abstract: Since 2011, the economic recovery of the Tunisian economy depends on the increasing and pressing social expectations. It is therefore necessary to ensure effective management of public resources to enhance equity, growth and job creation. Since then a substantial need for a deep policy reforms has characterized the policy debate in order to identify policies that will guarantee more equity and poverty reduction. The area of fiscal policy reform remains the most important tool that will significantly shape and equally reinforce the current revenue distribution. Until now the government has some difficulty to propose fiscal reforms and convince different stakeholders in Tunisia about the efficiency of these reforms to reduce inequality and poverty between the different regions and different population categories (the last financial law has been accused not to be pro poor and parties required a supplementary financial law).

To address this deficiency, this paper aims to analyze the incidence of the fiscal policy in Tunisia with a view to distilling policy lessons to inform future growth policy. In particular, this paper will seek to respond common questions asked by policy makers and civil society like: (i) How progressive are the current tax and transfer systems? (ii) Can public taxes and expenditures better redistribute opportunities so that a more equitable system promotes sustained growth? (iii) Who benefits the most from public services (e.g., education, health, etc.)? and (iv) What can be done to ensure that these efforts are fiscally sustainable?

This analysis attempts to cover a very broad spectrum of taxes and transfers in the individual level and analyzes their impact on inequality and poverty. Taxes include direct and indirect taxes, and transfers include direct and subsidies as well as in-kind transfer.

We found in the literature few papers have dealt with the case of Tunisia and responded to this question in a comprehensive manner. While these papers treated only a small part of the subsidy system like food subsidy (AfDB, 2013) and direct monetary subsidies (AfDB, Mars 2013) and energy subsidy (World Bank, November 2013), our paper focuses on both components of the fiscal policy: the tax system and the subsidy system. Particularly, it gives us the whole picture about what the consumer pays as tax and receives as subsidies in the same time. For example, can we say that a given consumer is suffered when he receives low subsidies but he pays low taxes? also or he pays more taxes and receives more subsidies? In this regard this study

will shed lights on whether the consumer distribution of revenue incurs inequality or not and where the government can intervene to reduce poverty gap by considering taxes and subsidies in the same time.

The paper is structured as follows, in the section 2 we briefly describe the social programs in Tunisia. Section 3 presents the data and methodological clarifications. Section 4 presents the main results of our incidence analysis. Section 5 discusses the fiscal sustainability of Tunisia's growing public spending. The main conclusions are summarized in section 6

METHODOLOGY:

This study uses a micro-simulation methodology following the multi-country Commitment to equity project (CEQ) . It consists of constructing five basic income concepts. Then it assesses the impact on different concepts of inequality and poverty reduction and simulates different scenarios of redistribution of taxes and subsidies in Tunisia. The five basic concepts include: the market income, the net market income, the disposal income, the post fiscal income and the final income. Each concept includes a particular distribution of taxes and transfers applicable to revenue, consumption or inputs. To have an idea about the composition of each revenue concept (see Lustig and Higgins 2013 handbook)

This methodology only considers first order effects and do not account for behavioral or general equilibrium effects. It includes two scenarios (benchmark and sensitivity analysis) depending on whether contributory social security pensions are considered as part of the market income or as a government transfer.

DATABASE :

This study is data intensive and requires many categories of macro and micro data. An effort was provided to use as maximum as possible official data in order to minimize judgment and ad-hoc estimation. In the case of Tunisia, surveys on revenues are not available and the only existing file on revenue data is completely disconnected from the consumption survey. For this reason, we use the consumption survey to estimate revenue by including expenditures on non-durables goods plus auto consumption plus the imputed rent for owner's occupied housing. We used the survey of 2010 with its three components: Budget, services and food. We kept from these three sub surveys only individuals who exist simultaneously in the three surveys. Our final database accounts for 23764 individuals.

In order to estimate taxes and transfers for the case of Tunisia, we relied to macroeconomic data from the Ministry of Finance. Data on indirect taxes and subsidies for primary products and energy were taken from the DGELF of the Ministry of Finance. Data on direct taxes includes only income tax and were estimated according to the tax rate of each level of income. Data on social security contributions were estimated depending whether the household is a salaried or non-salaried and work in agriculture or non-agriculture sector. Data on direct transfers take up as reported in the survey and include the PNAFN program (for poor families) and the scholarship program for students. These data are taken from CRES , a public Research Center for Social Studies, for PNAFN and from the ministry of high education for the

scholarship program. In-kind transfers were estimated from the budget of ministry of high education for tertiary education, from ministry of education for primary and secondary education and from ministry of health for health expenditures. For each indicator we include current and capital expenditures for 2010, as published in the website of the ministry of finance.