

## **Abstract for “Comparing Taxation, Transfers, and Redistribution in Brazil and the United States”**

**Sean Higgins (Tulane University, USA)**  
**Grant Driessen (Tulane University, USA)**  
**Nora Lustig (Tulane University, USA)**  
**Timothy Smeeding (University of Madison, USA)**

How much redistribution does Brazil accomplish through social spending and taxes, and how does this compare to redistribution in the United States? How progressive are revenue collection and social spending in the two countries? Detailed fiscal incidence analyses in the two countries produce a number of interesting results. The analyses include direct taxes, direct transfers, indirect taxes, indirect subsidies, and the value of in-kind benefits from government-provided health and education.

We use household survey microdata from each country to perform the incidence analyses. In the U.S., we use the Current Population Survey from 2010, and in Brazil, the Family Expenditure Survey (POF) from 2008-2009. We allocate taxes and benefits to households using a variety of methods: direct identification from the survey, simulation, imputation, inference, and alternate surveys. As an example of the latter method, in Brazil we lack information about the use of public health facilities in our data so we use the National Household Sample Survey (PNAD) 2008 in combination with a matching method to impute health benefits back to our original data; in the U.S. we lack information about whether the schools children attend are public so we use the National Household Education Survey.

Brazil starts with a much more unequal distribution of income than the U.S.: the Gini coefficient of income before taxes and transfers, for example, is 0.57 in Brazil compared to 0.48 in the U.S. In Brazil, direct taxes and transfers account for a 5.5% reduction in the Gini coefficient, compared to a 13.9% reduction in the U.S. The lower reduction in Brazil is a result of two factors: first, direct taxes (which are progressive) make up a low proportion of the overall tax burden compared to the U.S. Second, the most progressive direct transfer programs in Brazil (the conditional cash transfer program Bolsa Família and the noncontributory pension program Benefício de Prestação Continuada) are small—they combine to less than 1% of GDP.

In terms of poverty reduction, the United States has very low levels of poverty using any of the lines commonly used in Brazil (converted at purchasing power parity adjusted exchange rates), so we instead compare poverty reduction using the prevailing national poverty line in each country. In the U.S., direct taxes analyzed in isolation increase poverty substantially (this is not the case in Brazil, where direct taxes are low. When direct transfers are also considered, poverty is reduced by about a third. In Brazil, poverty is reduced by about a fourth by direct transfers. However, much of this poverty reduction is offset by high indirect taxes on consumption goods: the poverty rate after all (direct and indirect) taxes and direct transfers is only 4% lower than the

market income poverty rate. In the U.S., indirect taxes are lower and have a less pernicious effect on poverty.

While both countries have some highly progressive transfer programs (e.g., the conditional cash transfer program Bolsa Família in Brazil and the Supplemental Nutrition Assistance Program (“food stamps”) in the U.S.), in Brazil a large portion of direct transfer spending goes to programs that are not progressive in absolute terms. The concentration curve for direct taxes does not lie everywhere above the 45-degree line in Brazil; it lies above the 45-degree line for about the poorest third of the population and below the line for the rest of the population. In the U.S., on the other hand, the concentration curve lies everywhere above the 45-degree line, indicating that direct transfers are unambiguously progressive in absolute terms. (Note that in both countries, pensions from the social security system were not treated as a government transfer.)

In sum, direct taxes and transfers are more effective at reducing poverty and inequality in the U.S. than in Brazil. The paper will also explore in more depth the incidence of indirect taxes, indirect subsidies (for electricity and housing) and government-provided health and education benefits.