The open panel on "Progress and Challenges on Tax Justice and Social Justice in Uruguay", put together by Development Alternatives with Women for a New Era (DAWN), Center of Concern, Social Watch and the Association for Women's Rights in Development (AWID) - all members of the Righting Finance Initiative - together with the International Council for Adult Education (ICAE) took place on Friday, August 16, 2013.

Eduardo Brenta, Labour and Social Security Minister and Pablo Ferreri, Director of the Directorate-General for Taxation (DGI) discussed the impact of Uruguay tax and labor polices in terms of redistribution and the future challenges together with academics, feminist and human rights activists.

DAWN member Nicole Bidegain framed the activity in the current Uruguayan and regional context in terms of taxation and equity. She called to mind the ECLAC recommendations on the need to increase tax base and progressivity in the region while also reducing evasion. She highlighted that in recent years, Uruguay has pioneered progress towards a more progressive tax structure in the region, implementing tax on personal income, reducing the weight of consumption taxes. However also pointed out that a low tax burden on income derived from capital and business revenue and assets persists as well as and the existence of different benefits and tax exemptions to promote investments. She added that economic reprimarization processes - in Uruguay and the region at large - and the expansion of the financial system reopen the debate on the fiscal capacity of
higher income sectors and also on the importance of providing incentives for diversifying quality and environmentally sustainable production in labor-intensive sectors.

Ferreri said, "Collecting is not enough, what matters is how and from whom". From an income perspective, the reform implemented in 2007 strove to make the tax system more efficient and equitable in order to "raise revenue in the fairest way possible but also in a way that alters economic decisions the least". Ferreri reminded the audience that under the previous tax system, 80% of the poorest population held 50% of the income and paid 60% of the taxes. Under the new system, it is paying 50% of the taxes. Likewise, the richest 20% was paying 40% of the taxes and is now paying 50% which is more consistent with income percentages. The system has also been oriented to encourage productive investment to create labor and added value. Historically Uruguay has had low investment and saving rates. In recent years, steps have been taken to attract foreign direct investment that has increased their contribution to the GNP from 10% to almost 25%.

From an expenditures perspective, the last two left-wing governments have focused on correcting inequality and ensuring the realization of rights, increasing expenditures from 20 to 25%. According to the Directorate General for Taxation, unlike what happened in the 90s, since 2003 Uruguay is growing economically, and since the new tax reform was introduced in 2007, inequality has been reduced and is now at its lowest in the last 30 years.

The DGI Director said, "A society can only guarantee long-term growth if it distributes the fruits of its prosperity in an appropriate manner among all citizens and members. But it can only ensure the conditions for redistribution and for improving equity and social cohesion through securing significant growth rates during a prolonged period". In terms of income, the challenge Ferreri raises is to move ahead in progressivity increasing the weight of direct taxes, not only on earned personal income but also on income capital and business revenues. In terms of expenditures, the challenge is to address issues like innovation, education and developing infrastructure skills. According to this high-ranking officer, this requires encouraging private sector investments to be able to allocate public expenditure towards eliminating inequity.

Minister Eduardo Brenta presented key advances in terms of employment and social security. Firstly, he highlighted legal reforms including the laws on collective bargaining, protection for union organizing, domestic work, 8-hours of work for rural workers and outsourcing. Then, he referred to the improvements in employment, unemployment and salary indicators for Uruguay. The country has reached its highest employment rate in history, with unemployment staying at about 5%, below what is known as the structural unemployment rate, which means that sectors that were formerly excluded from the labor market are now included. The Minister also presented the positive evolution of the real wages (a 40% increase since 2002) and the national minimum wage (that will have grown 108% during the current administration, from 5,000 to 10,000 Uruguayan Pesos). Brenta considered that this situation refutes a paradigm: "Reality has shown that we have managed to grow and at the same time distribute wealth through a set of policies", including tax and labor policies.

However, women and youth still face challenges in entering the labor market and are over-represented in informal employment. The Minister mentioned a series of laws that the government will promote to improve these groups’ inclusion in the labor market, including prolonging maternity and paternity leave, creating parental leave and a youth employment law. He also highlighted the need to create a National Care System that "we will probably be able to consolidate in the next term". The Minister sees this as a strategic national goal: "We must not only build equality but also ground that equality in a sustainable economic model (...) because the resources available in Uruguay still lie with women and youth. The country can not afford these resources to not play a significant role in the development process".
Researcher Florencia Amábile presented the findings from the research studies conducted by the Economy Department of the Social Sciences Faculty at Universidad de la República, whose goal was to analyze the redistribution effect of household taxes and the social expenditures (2009). The conclusions presented by Amábile show that in terms of inequality, Uruguay is the second country that has reduced the Gini Index the most, but drops to the fourth place in effectiveness. In relation to poverty, Uruguay is placed first both in reduction and in effectiveness. Combining taxes and transfers, "Uruguay has managed very well to combat poverty in terms of effectiveness of its expenditures, but its performance in terms of inequality has not been equally good", said Amábile. In terms of reducing inequality and poverty, even though in-kind transfers for health and education are important, effective spending is achieved through direct transferences (non-contributory pensions :disability and old age pensions, family allowances and other BPS - Social Welfare Bank - subsidies). She highlighted that the households receiving non-contributory pensions are usually childless and with fewer members.

Even though the international comparison shows that poverty rates have been lowered and social expenditure has contributed to it, poverty has not been eradicated. Only 5% of the poor are not getting any direct transfer. This shows that the persistence of poverty does not appear to be related to lack of coverage or to the per capita value of the transfers. Amábile thinks that policies need to be more focalized and there is also a need to consider if other interventions are required.

International expert Aldo Caliari, from Center of Concern, commented on the previous presentation and was interested in the tax and public policy progress made by Uruguay. He said there is a need to learn from the international context about the importance of altering market mechanisms; otherwise having to correct them for tax policies might could lead to fiscal unsustainability and debt. He also stated that eradicating inequality is not only an ethical issue but also an element of good economic policies. It is key to guarantee a "universal social protection floor" for all people.

And he highlighted the importance of addressing social and tax policies in a comprehensive way and from a rights perspective - a priority issue for Righting Finance Initiative. This perspective is part of a change in the regional agendas towards prioritizing rights and social agendas over tax policies.

In terms of taxation in the region, Caliari said that fiscal capacity has been broadened while distribution was left "for later", and considered this approach, "meant doing what was easier politically". He also said, "The crisis has shown how the financial sector is being under taxed, considering the safety net the State provides to it", in reference to the financial rescues. In his view, even though it would seem like an agenda for the North and not for the region, there is a need to learn from experience and put pressure on the financial sector to make its due contribution.

Caliari mentioned two areas in which tax policies have an influence. The first were the transfer pricing, particularly in economies like Uruguay, where a good part of the income comes from exporting commodities. He said that changes are being promoted in the OCDE rules, that when equally applied create inequalities, as Global South countries are not always able to impose some taxes - like transfer prices - on their own. An example given was Brazil that has changed the burden of proof and now requires companies to prove their earnings fall below a certain level in order to be exempted from taxes. These kinds of measures require regional consensus in order to face the OCDE-imposed rules.

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His second topic was the role of tax policies as incentive for diversifying the national productive profile towards more value- and employment-generating activities, with technological knowledge and development, that lead to better redistribution. He reminded the audience that the countries that were able to leave the crisis behind in the shortest term were the Asian ones, because their productive diversification was higher.

The audience raised questions for the panelists on several issues. One of the questions was about deepening the participation of other economies (like social and solidarity economies) in negotiations mechanisms. Minister Brenta said that Social and Solidarity Economies, as well as other alternative ones, are a sector to be developed, and mentioned the creation of a Development Fund with utilities from the Uruguay National Bank (Banco de la Republica Oriental del Uruguay) to fund and recover cooperative or worker-managed enterprises, the passing of the Comprehensive Law on Cooperatives and the creation of the Cooperatives Institute. On the issue of development models and giving value to alternative views, another participant asked about producing non-monetary development indicators. Caliari reported that growth indicators including a notion of welfare and not focused only on product are being discussed. He added that this will impact economic decision-making in resource-scarce contexts.

Another question was about the need for policies against social exclusion. Caliari highlighted the importance of universal policies to guarantee the "social protection floor" he had mentioned earlier. Focalized policies have been proven to increase exclusion. Non-sectorial transfers - and particularly non-conditioned monetary transfers - contribute to reducing exclusion.

Another intervention from the audience focused on existing mechanisms to enforce the Domestic Work Law as similar instruments have been passed in other countries of the region but implementation remains a challenge. Minister Brenta explained that the General Labor Inspection is overseeing it through two mechanisms: analyzing complaints and acting ex-officio. When the house owner does not allow the inspectors in, the law permits them to request a judge to issue a search warrant. Inspectors oversee not only social security coverage but also the existence of other social problems like trafficking. According to Brenta, between 2005 and 2012, the number of registered domestic workers has doubled but still covers only 50% of the total.

In relation to the National Care System, the audience asked about the slow pace of implementing the system due to the possibility of fiscal restrictions and how feasible its implementation would be from a tax perspective. The DGI Director said that economic policies are "like a blanket that usually falls short and is not enough to cover everything" because "there are always fiscal restrictions". Uruguay spends everything it raises so any additional actions imply a fiscal restriction. Ferreri said that, in terms of age brackets, public expenditures are currently focused strongly on those who are 65 years and older. However, poverty has "a child's and a woman's face", and the country's future lies in children. He considered that restrictions are not so much about amounts but rather quality and refocusing, and that in the future the National Care System will be a priority.

Finally, the audience asked a series of questions about the financial sector, starting with some about how heavily taxed is it, if financial transactions are taxed and if other taxes for the sector are being discussed. The Tax Director answered that the Uruguayan financial system is subjected to the general regime and its tax burden is similar to those of other sectors. Ferreri was
asked for his views about Uruguay being a tax haven, and if the country is indeed used by banks to export capital in this way. He stated that Uruguay is not a tax haven and that, in more recent years, progress has been made in imposing direct taxes on the sector, in transparency by flexibilizing bank secrecy, and in the exchange of tax data to avoid evasion that grew from 2 to 20 agreements signed.

The outcomes of this panel will contribute to the report of the United Nations Special Rapporteur on Extreme Poverty and Human Rights, Magdalena Sepúlveda Carmona, on tax policies and the human rights of those living in poverty to be submitted to the 26th session of the United Nations Human Rights Council (June 2014).

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Photos: Ministry of Labor and Social Security (Uruguay) and DAWN.
Translation done by Alejandra Sardá for AWID