Article

Public sector

Tax reform and public deficit adjustment

Content available in
Spanish Catalan

Although the correction in the public deficit over the last few years has been considerable, it is still only half the way there. Since 2009, when the deficit stood at 11.1% of GDP, it fell by 4.0 p. p. to 7.1% by the end of 2013. Consequently, it needs to fall a further 4.1 p. p. to reach at least the level of 3% agreed with Brussels. In this second part of the correction that has yet to be achieved, one of the questions that needs to be answered is how most of the pending fiscal adjustment should be distributed, by increasing revenue or reducing public spending.

A comparison at an international level provides no clear clues as to the appropriate level of public revenue and expenditure. In Spain, revenue for general government as a whole stood at 37.8% of GDP in 2013. This figure is clearly lower than Germany's, at 44.7%, and France's, at 51.8%, but is similar to the 37.7% of the

United Kingdom and clearly higher than the 30.7% of the US. An international comparison provides no clues as to the appropriate level of public expenditure either: some countries spend more, others less. In a nutshell, the decision consists of determining what level of fairness and provision of public goods each country aspires to and how efficiently its public system can provide this. It is therefore necessary for decisions that alter this framework to any great extent or period of time to be accompanied by top rate public debate.

Given this situation, Spain's tax reform is facing a huge challenge: balancing traditional, long-term targets (related to the efficiency and fairness of the system as a whole, already potentially conflictive per se) with other short-term targets (increasing revenue at the same time as stimulating economic growth). The tax reform presented by the government has been extensive, substantially altering almost all the big taxes (see the table for a brief description of the main measures announced). Broadly speaking, the objectives pursued are to achieve a simpler and more transparent system that thereby improves its efficiency as well as to reduce fiscal pressure on people and companies to stimulate the recovery in activity and employment. According to the government's estimates, the reform presented will increase GDP by 0.55 p. p. between 2015 and 2016.

As part of the whole fiscal consolidation process, according to the government's calculations, revenue will increase by about 1% of GDP up to 2017 and will reach 39.0% of GDP. The leading light of this pending adjustment will therefore be public spending, which is planned to fall to 40.1% of GDP the same year. This is vital for the adjustment in the public deficit to continue on the right track.

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