

Should subsidies to urban passenger transport be withdrawn? A dynamic CGE analysis for the Brazilian economy

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Brazilian urban transport services are traditionally subsidized and regulated with a price control mechanisms by public administration. The subsidies for urban transport contribute to set the prices to below the costs of delivering services and increase in its activity levels, benefiting different customer groups. Change in these urban transport subsidies tends to affect households differently, which present a typical position in the structure of expenditure and income. Poorer households spend relatively more by urban transport. The main aim of this paper is attempt the effects of a scenario without urban transport subsidies on Brazilian economy and the structural changes on income and expenditure of the household groups. We used a dynamic Computable General Equilibrium (CGE) model with core database is based on the 2010 Brazilian Social Accounting Matrix (SAM), detailing the income generation and appropriation by different sources and the spending structure, as well as the preferences of 10 representative households by 4 passenger transport services. The model brings innovations by incorporating SAM flows within its theoretical framework and the detailing of the transport markets in Brazil. With the policy of withdrawal of subsidies and tax exemptions, transport tariffs may have readjustments and become more expensive, harming the poorest households. The main results of the simulations indicate that subsidizing public transport is welfare enhancing. Public subsidy for public transport services is an important measure to facilitate the population access to these services.