

Fuel tax, Cross Subsidy and Transport: Assessing the Effects on Income and Consumption Distribution in Brazil

Topic:

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Passenger transport has become a typical item in the household budget in Brazil, and structural changes in this type of service affect households differently. Our paper explores the links between consumption, income and transport in assessing the redistributive and economic effects of the fuel tax in the Brazilian economy, called contribution of intervention in the economic domain (CIDE). To accomplish this task, we developed a dynamic computable general equilibrium model that recognizes a Social Accounting Matrix (SAM). Two scenarios are evaluated: (1) an overall cut of CIDE-fuels to assess its role in economy; (2) the burden of the gasoline tax and reduction of the diesel tax to subsidize public transport services. The main findings indicate a deviation from real GDP above the baseline forecast path, positively affected by internal market and the reduction in income inequality. Typical households in the middle- and lower-income bracket would benefit most from these policy instruments.

Keywords: Fuel tax; cross subsidy; dynamic CGE model; household income distribution; economic growth.

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