Fiscal Incidence: Methodological Hurdles
World Bank
May 10, 2012
Main comments/insights
Nora Lustig

1. Jim Alm and David Philips:
    a. Income: use the most comprehensive definition of income including autoconsumption, imputed rent, alimony, gifts, inheritance, capital gains, sales of durables. Snapshot vs. lifetime. To find out what the Tax Policy Center does, contact Bill Gale, Ler (???) Burman, Eric Toder.
    b. Proposed to do two types of incidence: entitlements and. liabilities (what the "law" says) vs. actual taxes paid and transfers received.
    c. A recommendation from Jim and David is to do a "what if my assumptions are wrong?"
    d. Jim Alm recommended to look at a paper by him and others in EDCC 1992 on tax evasion.
    e. He also recommended to look at Joe Peckman's old book on who bears the burden of taxes.
    f. On John Scott's question about whether one should treat oil revenues as an implicit poll tax (or revenues captured by government from the exploitation of a natural resource), Jim's answer was negative. Concerning "taxes" on a natural resource in the hands of government, the assumption is that the tax is born by the rest of the world in the prices they pay on the natural resource.
2. Dominique Van de Valle:
    a. Average vs. Marginal incidence: Problem with cross-country comparisons is that differences in terrain, demography, etc., affect incidence so how much of the differences between countries is public policy vs. structural characteristics? Marginal incidence can be more informative than average incidence in this respect; compare two points in time to assess the direction of change. For example, even if spending on tertiary education is regressive or slightly progressive in relative terms, is it become more progressive in relative terms over time insinuating that new lower socioeconomic groups have access to education?
    b. Welfare measure: consumption.
    c. Economies of scale and AEU; do sensitivity analysis.
    d. Interactive incidence analysis: Develop a web-based tool so one can simulate different options in terms of economies of scale, AEU, poverty lines, consumption vs. income.
    e. Benefit incidence analysis is usually partial: beyond social spending, rest of government spending is usually not analyzed and there are important nonsocial subsidies explicit or implicit, which may have significant effects on distribution of income (tax breaks, subsidized maternity leave)
    f. Imputing education spending; trying to introduce differences in quality is very hard. It is better to stick with enrollment rates and average public spending per level.
    g. Infrastructure is very hard to impute
    h. Contributory pensions; see Lindert et al's piece from WB.
    i. Health: there is a "consensus". A Brazilian Tanya ??? at WB who is in the HD of LAC will send a few pages on 'best practice'. John Scott is using it. I'll remind Norbert Fiess to ask her.
3. Jose Cuesta:
    a. Presented how to apply the estimation of inequality of opportunity.
    b. Chico recommended that we do something similar to what Roemer, John et al. did on taxes in an article published in the Journal of Public Economics in the early 2000s.
4. Other comments:
    a. Are the differences in Gini and Headcount, etc., between benchmark and sensitivity analysis statistically significant?