



LCSPE Workshop

Fiscal Policy and Equalizing Opportunities: Addressing Methodological Hurdles ***LCSPE Workshop on Fiscal Incidence Analysis***

May 10, 2012, 9am to 5:30pm

Washington, DC

Room: I 8- 300

For VC or audio connections please contact Florencia Liporaci

Fiscal Incidence analysis is concerned with assessing how fiscal policy (taxation and public expenditures) affects different groups of people (such as rich versus poor or men versus woman). Assessing the incidence of taxes is important because those who actually bear the burden of taxes (economic incidence) can be quite different from those who are legally liable to make payments to tax authorities (statutory incidence). Establishing the incidence of government expenditures is equally important as not all expenditures benefit households of different income levels to the same extent, due to differing needs (for instance, poorer households typically have more children and therefore make greater use of education); poor targeting; or difficulties in accessing public services. While tax and incidence analysis provide many important insights in their own right, their combination within fiscal incidence analysis makes for a powerful tool. Fiscal incidence analysis strives to determine the overall progressivity of the budget and to identify the net contributors/ receivers of the entire fiscal system.

As neither tax nor benefit incidence are directly observable, fiscal incidence analysis in practice is subject to a wide debate on measurement and conceptual issues. While practice has evolved from the pioneering works of Musgrave et al. (1951) on tax incidence and Selowsky (1979) and Meerman (1979) on benefits analysis, every methodological innovation has brought its own shortcomings. There is no commonly accepted best practice for fiscal incidence and different measures often yield very different conclusions on the impact of government policies.

The objective of this workshop is to reach a consensus on good practice to assess fiscal incidence in LAC. The workshop is organized along the following four sessions (see agenda attached).



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9.00 -9.15 **Welcome and Introduction - *Auguste Tano Koume, Sector Manager, LCSPE***

9.15-10.45 **Session 1: General Issues**

Introduction: ***Nora Lustig , Professor for Latin American Economics, Tulane University***

Moderator: ***Norbert Fiess, Senior Economist, LCSPE***

- Should analysis be conducted at HH or individual level? Should individuals or households be grouped by income or expenditure? Should households' gains/losses due to fiscal policy be reported as a fraction of income or expenditure? What welfare measure should be used (per capita or equivalized)? What other HH or individual groupings should be considered?
- HH surveys are usually truncated at the top, is this a concern for fiscal incidence and how should it be dealt with?
- What about behavioral assumptions, inter-temporal considerations and identifying counterfactuals?
- Should we adjust fiscal incidence for the impact of monetary and fiscal policy, as well as other government interventions (e.g. price controls, minimum wages, import restrictions? What about fiscal sustainability concerns?

10.45-11.00 ***Coffee Break***

11.00-12.30 **Session 2: Issues Related to Tax Incidence**

Introduction: ***James Alm , Professor of Economics, Tulane University***

David Phillips, Senior Research Economist, Institute for Fiscal Studies

Moderator: ***David Coady, Deputy Division Chief, IMF's Fiscal Affairs Department***

- What is best practice in identifying economic tax incidence? Is the Pechman-Musgrave set of assumptions on tax incidence still relevant?
- Are there alternatives to general equilibrium approaches to account for taxation-induced price changes and deadweight losses caused by behavioral responses?
- When are models of specific behaviors (e.g. consumer demand or labor supply) preferred to GE models that are less detailed at the micro level but allow for more forms of response?
- What about inter-temporal effects (lifetime vs. annual tax incidence)?

12.30 –13.30 ***Luncheon***



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13.30-15.00 Session 3: Issues Related to Benefits Incidence

Introduction: *Dominique van de Valle, Lead Economist, HDNSP*

Moderator: *Louise Cord, Sector Manager, LCSPP*

- How best to impute education spending? Standard benefit analysis relies e.g. on average spending per student, but this does not take into account quality, returns to education, etc. - what are alternative options?
- How best to impute health spending? There is a large degree of heterogeneity in how surveys capture health spending/access to services - what would be the best approach to both get accurate and comparable incidence estimates?)
- How to treat contributory pensions (primary income vs. government transfers)? How to account for incidence of contributory pensions over the life-cycle?
- How best to impute expenditures on public goods, e.g. infrastructure?

15.00-15.30 Coffee Break

15.30-17.00 Session 4: From Fiscal Incidence to Opportunity-Fiscal Incidence

Introduction: *Jose Cuesta, Senior Economist, PRMPS and Jose Molinas, Senior Economist, LCSPP*

Moderator: *Francisco Ferreira, Lead Economist, DECPI*

While traditional benefit-incidence analysis is based on a comparison of average public spending against the distribution of household income, opportunity-benefit incidence (OBI) analysis compares average public spending over the distribution of equal opportunities. Are there particular methodological challenges to implementing OBI? Which circumstances are most relevant/ feasible for OBI?

17.00-17.30 Wrap-up and Closing: *Norbert Fiess and Nora Lustig*