

Abstract for “Measuring Impoverishment: An Overlooked Dimension of Fiscal Incidence”

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The effect of taxes and benefits on the poor is usually measured using standard poverty and inequality indicators, stochastic dominance tests, and measures of progressivity and vertical and horizontal inequity. Here we argue that the equity assessment of a tax and benefit system needs to incorporate another dimension: the extent of impoverishment induced by it. Stochastic dominance tests (Atkinson, 1987; Foster and Shorrocks, 1988) do not take into account individuals' initial position, so it is possible for poverty to unambiguously fall, while at the same time some pre-tax poor are further impoverished by the fiscal system. Thus, standard measures will not necessarily capture the extent of impoverishment caused by a tax and benefit system because decreases in income of some poor may be (more than) compensated by income increases of other poor. We posit that the extent to which a tax system impoverishes the poor (or makes non-poor people poor) is valuable information for the analyst and the policymaker. Policymakers can use this information to modify government interventions or introduce new mechanisms that reduce impoverishment, if not completely eliminate it. We use household survey data from Brazil to illustrate the failures of standard measures to capture impoverishment.