

THE PLATO INDEX: A NEW INTERNATIONAL COMPARATIVE MEASURE OF TAX PROGRESSIVITY

The international comparisons of tax burdens that inform discussions of tax policy use GDP/GNP as the denominator. Thus the distributional incidence ('progressivity') is not compared, nor is the effective income base for direct taxation identified. In fact, few countries have official incidence statistics, nor do international organisations address this issue systematically. This paper puts forward a simplified yet straightforward method of estimating a comparable indicator of direct tax incidence (the Plato Index) that enables robust comparisons between countries and over time.

The paper sets out the method, and calibrates the Plato Index against official incidence statistics. An initial exploration of international data over the 1970-2005 period indicates that (a) tax progressivity has been declining over time in both advanced industrial and emerging market economies; (b) there is still a large variance in progressivity between countries without apparent correlation with growth; and (c) there is considerable scope for greater progressive direct tax collection in emerging market economies.

The new Index has considerable implications for future use in policy debates, where the role of direct taxation in reducing income inequality (by separating primary from secondary distribution) has been downplayed in favour of poverty targeting. The UN has expressed interest in the Index for possible inclusion in the *Human Development Report*.

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