Indicator Proposal Summary Template

Note: This document is provided as a template for the 1-2 page summary that should accompany your Indicator proposal for the 2020 Comprehensive review

Additional information/documentation that should accompany the summary include:
- Draft metadata *(Word file only please)* **– Attached**
- Available data and/or link to where data can be located **– See metadata document**
- Any methodological documents and/or links to these documents **– See metadata document**

Full name of the Indicator: Redistributive Impact of Fiscal Policy

Custodian Agency(ies): World Bank

Goal and target addressed: 10.4

What type of proposal (replacement, refinement, adjustment and addition), for replacement, refinement and adjustment, please list the original indicator and its number: Addition

1. Background and rationale for the indicator proposal

Target 10.4 reads: "Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality."

The sole current indicator for Target 10.4 is: "Labour share of GDP, comprising wages and social protection transfers"

The labour share of GDP does actually not capture "social protection transfers". It measures total compensation of employees. Although that includes social security contributions, it does not reflect social security benefits, nor any taxes and tax-funded transfers. Moreover, the labour share of GDP does not capture the distribution of labour income between rich and poor workers. The labour share summarizes the distribution of compensation to production factors (labour, capital), but it does not measure the redistributive impact of fiscal policies.

The proposed indicator – Redistributive Impact of Fiscal Policy – is the difference between the pre-fiscal and post-fiscal income inequality (as measured by the Gini coefficient). It exactly measures the fiscal component of Target 10.4. It thereby complements the labour component captured by the labour share.

This indicator measures the redistributive impact of fiscal policy. In that sense it is a good measure of governments' progress in tackling inequality. Countries can score well whether their initial level of income inequality is high or low, and even whether their total government spending is high or low since the indicator measures the degree to which government spending translates into inequality reduction rather than the government spending itself.

This indicator enjoys large support among civil society groups following SDG10.

2. Information on how and when the methodology has become an international standard and who is the governing body that approves it

The methodology was developed by the Commitment to Equity Institute (CEQ) at Tulane University for the past 10 years in collaboration with national authorities and is presented in full in the CEQ Handbook. It has been used by both the World Bank and IMF to guide their own programs and policy advice to countries.

3. Data sources and data availability

This methodology relies on both household surveys and national budgets. The former is available for most countries, but with varying frequencies. That is a limitation, as the indicator will not be computable every year for every country. However, that is a limitation faced by several of the existing SDG indicators that also rely on household surveys. The latter (government budget data) exists for all countries for every year. However, it is not always public.

This indicator has already been computed for over 70 countries. That excludes most OECD countries. The OECD produces a similar indicator, but with a different methodology. It is possible to calculate this indicator according to the CEQ methodology for all OECD countries.

4. Confirmation/explanation of joint submission with other partner/co-custodian agencies (if applicable)

The World Bank will collaborate with CEQ to compile the data.

5. Conclusion

The Redistributive Impact of Fiscal Policy indicator is an essential addition to the current battery of indicators for SDG10 as it is a direct measure of government policy effectiveness at reducing the gap between rich and poor within each country.