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ABSTRACT

The Kakwani index of progressivity is commonly used to establish whether the effect of a specific tax or transfer is equalizing. However, in the presence of reranking or the *Lambert conundrum*, a progressive tax could be unequalizing. While it is mathematically possible for counterintuitive results to occur, how common are they in actual fiscal systems? Using a novel dataset that includes fiscal incidence results for 39 countries, we find that the likelihood of the Kakwani index to be progressive (regressive) while the tax or transfer is unequalizing (equalizing) is minimal, except in the case of indirect taxes: in roughly 25 percent of our sample, regressive indirect taxes are *equalizing* (sign-inconsistent cases). Additionally, the likelihood that the index ranks the magnitude of the impact of a tax or a transfer wrongly exists but is also small. Finally, using regression analysis, we find that increasing the size or progressivity of a progressive tax (transfer) is equalizing and statistically robust for sign-consistent cases. For sign-inconsistent cases, the coefficient for the Kakwani index is not statistically significant. In sum, although the Kakwani index could yield interpretations that are inaccurate in actual fiscal systems, the risk seems small except for indirect taxes.

JEL Codes: D31, D63, H22, H23

Key words: Kakwani index, fiscal redistribution, reranking, progressivity, marginal contribution, taxes, transfers, Lambert

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