

The role of taxes and transfers in reducing income inequality ^[1]

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Introduction

This chapter will be published in *Income Inequality: The Canadian Story*, edited by David A. Green, W. Craig Riddell and France St-Hilaire. The Institute for Research on Public Policy, in collaboration with the Canadian Labour Market and Skills Researcher Network, has gathered some of the country's leading experts to provide new evidence on the causes and effects of growing income inequality in Canada and the role of policy.

Abstract

Taxes and transfers play an important role in reducing income inequality in Canada. Previous research has shown that during the 1980s and 1990s increases in market income inequality (earnings, investment income, etc.) were offset by the tax-and-transfer system, which became more redistributive overall and prevented increases in after-tax income inequality up until the mid-1990s. In the latter half of 1990s, redistribution through taxes and government programs declined, coinciding with an increase in income inequality.

In this chapter, Statistics Canada researchers Andrew Heisz and Brian Murphy measure and analyze the redistributive impact of individual transfer programs and federal and provincial income taxes in Canada since 1976. They break down the amount of redistribution achieved by each program — in other words, the amount by which it reduces inequality — into two components: its progressivity (the extent to which transfers target lower-income individuals and taxes increase with income), and its average size (that is, the benefit or tax rate). Of these two, they find that changes in average benefit rates was the main factor in redistribution trends, as the progressivity of most transfer programs remained quite stable over time. With respect to taxes, rate reductions were offset by increases in progressivity as rates were reduced more in the lower income than the higher-income brackets.

Region: Canada ^[3]

Tags: inequality ^[4]

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