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## NEWS RELEASE

### Income gap widened in 1990s after cuts to social assistance and EI

**Montreal** – Taxes and transfers play a key role in reducing income inequality in Canada, says a new study from the IRPP.

In a [prereleased chapter](#) from the forthcoming volume [Income Inequality: The Canadian Story](#), Andrew Heisz and Brian Murphy (Statistics Canada) analyze the redistributive impact of taxes and transfers in Canada over the past four decades.

The authors find that cumulative increases in market income inequality during the 1980s and 1990s recessions were essentially offset by the tax-and-transfer system, which became more redistributive over this period. This changed in the second half of 1990s as income redistribution through government transfer programs declined and income inequality rose.

“In 2011, the tax-and-transfer system reduced market income inequality by 28 percent; this compares with the one-third reduction at the peak of redistribution in 1994,” say the authors.

Overall, cuts to EI and social assistance were the largest factor in the decline in redistribution, following significant reductions in benefit rates in the 1990s. Still, they note that the effects of specific transfers have varied over time. The CPP/QPP and child benefits have become more redistributive. And programs for seniors (CPP/QPP and OAS/GIS) have the largest impact on reducing income inequality today.

The authors point out that the amount of redistribution a transfer program or tax generates depends on its size and its progressivity (the extent to which transfers target lower-income individuals and taxes increase with income). Even though the OAS/GIS program is slightly smaller than the CPP/QPP, it does more to reduce inequality because it is more progressive.

Of course size also matters a lot, they say. “A highly progressive program can become less redistributive if the average benefit rate falls. Social assistance, for example, moved from being one of the most redistributive programs to being the least redistributive as its average benefit rate declined.”

Heisz and Murphy find little has changed in the redistributive impact of taxes. Since 2000, average tax rates have fallen substantially, but they were reduced more in the lower-income than the higher-income brackets; in other words, the tax system became more progressive.

The authors conclude that although addressing inequality is not the only consideration in designing taxes and transfers, understanding the link between progressivity and redistribution will help policy-makers determine which changes in the tax-and-transfer system would have the greatest impact on mitigating rising income inequality.

The chapter, “[The Role of Taxes and Transfers in Reducing Income Inequality](#),” can be downloaded from the Institute’s website ([irpp.org](#)).

[Income Inequality: The Canadian Story](#), edited by David A. Green, W. Craig Riddell and France St-Hilaire, will be the fifth volume of *The Art of the State*. Leading experts provide new evidence on the causes and effects of growing income inequality in Canada and the role of policy.