

Income inequality in Canada: Trends in the Census 1980-2005

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Frenette, Green and Milligan (2007) argue that for many purposes, Census data may perform better than administrative data—in particular in capturing the incomes of those closer to the bottom of the income distribution. In this paper, I build on that previous work with the Census by adding an analysis of top incomes that aligns with the recent literature. I also analyze after-tax incomes using a comprehensive tax calculator which facilitates counterfactual simulations to uncover insights into the important forces driving inequality trends. Finally, I'm also able to include the 2006 Census that was unavailable in the Frenette, Green, and Milligan (2007) analysis.

I have several findings of interest. As other researchers have shown, I find a large increase in inequality in the top half of the income distribution in Canada since 1980, and in particular since 1995. While the income tax system in the 80s was able to 'undo' the increases in pre-tax inequality during that decade, the acceleration of inequality growth since the 1990s has not been tamed by the tax system. The share of income going to those at the top of the distribution has grown markedly since 1995, and this occurs not just for individual market incomes but also family after-tax incomes. Finally, by many measures, inequality in the bottom half of the income distribution has diminished. The primary driver of this change at the bottom has been policy—in particular the growth of refundable tax credits since 1990.