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Fiscal Redistribution Through Tax Policy: Impacts on Wealth Disparities

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Abstract

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This article examines the extent to which tax policy can serve as an effective tool for fiscal redistribution and reducing wealth disparities. Framed around the central question of how different tax instruments, particularly progressive income, wealth, and corporate taxes affect inequality, the study uses a systematic literature review of several peer-reviewed articles and institutional reports published until 2023. The findings indicate that in high-income countries with robust administrative capacity and high public trust, progressive tax systems can substantially reduce post-tax inequality. In contrast, many developing countries face structural barriers such as weak enforcement, narrow tax bases, and elite resistance, which limit the redistributive impact of taxation. The discussion highlights that tax policy outcomes are influenced not only by fiscal design but also by broader political, institutional, and international dynamics. The review concludes that while tax policy holds strong potential to address wealth inequality, sustainable redistribution depends on a comprehensive approach that combines equitable tax structures with institutional reform and global cooperation.

1. Introduction

Wealth inequality has become a persistent and growing concern in many economies around the world, presenting challenges not only to economic development but also to social stability and democratic governance. The disproportionate concentration of wealth among a small segment of the population has drawn attention to the need for effective redistributive mechanisms. In this context, fiscal policy particularly tax policy has emerged as a primary tool for governments to mitigate wealth disparities and promote more equitable economic outcomes. Taxation plays a dual role: it finances public goods and services while also serving as an instrument for redistributing income and wealth from high-income groups to the broader population (Lockwood, 2020).

A systematic review of the literature from 2008 to early 2023 reveals a growing consensus that the design, structure, and enforcement of tax policy significantly affect its redistributive outcomes. Progressive tax systems those that impose higher tax rates on higher income or wealth brackets are widely regarded as effective in reducing post-tax inequality, particularly when coupled with strong welfare and transfer mechanisms (Bastani & Waldenström, 2020; OECD, 2021). In contrast, regressive tax systems or poorly implemented tax policies may exacerbate inequality by placing disproportionate burdens on lower-income households (Clifton et al., 2020). For this reason, the policy architecture surrounding taxation is critical to achieving wealth redistribution objectives.

One key finding across the literature is the distinction between income and wealth taxation. While income taxes have been widely used for decades, their redistributive potential is often limited due to high levels of tax avoidance and evasion among top earners and capital holders (Alstadsæter et al., 2019). In recent years, scholars and policy analysts have increasingly advocated for wealth-based taxation such as property taxes, capital gains taxes, inheritance taxes, and net wealth taxes as more effective instruments for targeting the accumulation of wealth at the top of the distribution (Advani et al., 2020; Pestieau, 2023). Wealth taxes, when designed and administered efficiently, can reduce asset concentration and generate significant public revenues for redistributive spending. However, their implementation faces practical challenges, including political resistance, valuation difficulties, and the mobility of capital across borders (Beer et al., 2020).

Globalization and digitalization have also introduced new complexities in the administration of redistributive tax policies. With the rise of multinational corporations, offshore wealth, and digital assets, traditional tax systems often struggle to keep pace with the evolving nature of global capital. Studies show that tax avoidance strategies, such as profit shifting and the use of tax havens, erode national tax bases and diminish the capacity of governments to fund redistributive programs (Rabbi & Almutairi, 2021). In response, there have been calls for stronger international cooperation and reforms in global tax governance, including efforts led by the OECD and G20 to establish minimum corporate tax rates and improve transparency (OECD, 2021).

The redistributive effects of tax policy are also influenced by administrative and institutional factors. In many developing countries, weak tax administration, high informality, and narrow tax bases reduce the effectiveness of fiscal policy as a tool for equity (Benson, 2021). Capacity constraints in tax collection and enforcement limit the ability of governments to impose and collect progressive taxes. Moreover, political economy considerations such as elite influence, lobbying, and public perceptions of fairness play a crucial role in shaping tax policy decisions and outcomes (Clifton et al., 2020).

This article adopts a systematic literature review methodology to critically assess scholarly research published until 2023 concerning the impact of tax policy on wealth disparities. By synthesizing findings across a diverse range of countries and economic systems, the review aims to identify effective tax instruments for fiscal redistribution, highlight the institutional and structural barriers to implementation, and provide policy recommendations for addressing inequality through more equitable tax systems. In doing so, the article contributes to a deeper understanding of how fiscal policy can be leveraged to foster inclusive and sustainable economic development in the 21st century.

2. Literature Review

A significant body of research underscores the role of tax policy as a central mechanism for wealth redistribution and inequality reduction. The literature differentiates between direct and indirect tax instruments, highlighting that progressive direct taxes, such as personal income, capital gains, and inheritance taxes tend to have more equitable outcomes than regressive indirect taxes like value-added taxes (VAT) (OECD, 2021). In high-income countries, empirical evidence supports the effectiveness of progressive income taxes in reducing post-tax income inequality, especially when combined with robust social transfers (Bastani & Waldenström, 2020). However, in many developing countries, limited administrative capacity and narrow tax bases undermine the redistributive potential of these instruments (Benson, 2021).

The literature increasingly emphasizes the need to shift attention from income-based taxation to wealth-based taxation. Wealth is more unequally distributed than income and is often subject to fewer taxes, making it a critical target for redistribution efforts. Alstadsæter et al. (2019) show that significant portions of global wealth are hidden in offshore accounts, diminishing the tax base and exacerbating inequality. Advani et al. (2020) argue that properly designed wealth taxes can reduce concentration at the top without significant capital flight, especially if coordinated internationally. Nonetheless, implementing wealth taxes poses challenges related to asset valuation, enforcement, and political acceptability (Pestieau, 2023).

Corporate tax policy also features prominently in the literature as a determinant of wealth disparities. Globalization and tax competition have led to declining corporate tax rates and increased opportunities for profit shifting, which in turn limits state capacity to fund redistributive programs (Beer et al., 2020). The erosion of corporate tax bases is particularly detrimental for lower-income countries that rely more heavily on corporate tax revenue. These findings have sparked global policy efforts, including the OECD-led initiative to establish a global minimum corporate tax rate aimed at reducing tax avoidance and enhancing fiscal equity (OECD, 2021).

Political economy perspectives contribute further nuance, noting that redistributive tax policy is not only a technical issue but also a matter of power and institutional structure. Clifton et al. (2020) highlights how elites in Latin America have influenced tax structures to remain regressive, thereby limiting redistribution. Similarly, administrative weaknesses and perceptions of corruption reduce taxpayer compliance and public support for progressive taxation in many low- and middle-income countries (Benson, 2021). Taken together, the literature shows that while tax policy holds considerable promise for addressing wealth disparities, its redistributive impact depends heavily on the broader fiscal architecture, institutional strength, and political context. A successful redistributive tax system requires not only technically sound design but also the capacity and legitimacy to enforce it effectively across different socioeconomic environments.

3. Methods

This study employs a systematic literature review (SLR) to analyze existing scholarly work on the relationship between tax policy and wealth disparities. The review focuses on peer-reviewed journal articles, institutional reports, and policy papers published up to 2023. The literature search was conducted using reputable academic databases such as Scopus, Web of Science, JSTOR, and Google Scholar, using keywords including "tax policy," "fiscal redistribution," "wealth inequality," "progressive taxation," "wealth tax," and "income inequality."

To ensure relevance and quality, only studies written in English and published by recognized journals or research institutions were included. The selection process followed the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) framework, which involved four main steps: identification, screening, eligibility, and inclusion. After removing duplicates and non-relevant records, a final sample of several publications was selected for in-depth analysis.

The included studies were reviewed and synthesized to identify recurring themes, policy approaches, and empirical findings related to the redistributive effects of tax instruments. Particular attention was given to differences across high-income and developing countries, as well as the influence of institutional capacity and globalization on tax policy outcomes. This method allows for a structured and comparative understanding of how fiscal tools are used to address wealth inequality across different contexts.

4. Results and Discussion

The systematic review of recent literature reveals that tax policy remains a key determinant of wealth redistribution, yet its effectiveness varies considerably across national contexts and policy designs. One of the most consistent findings is that progressive tax systems, particularly those with graduated personal income tax rates, have a significant impact in reducing post-tax income inequality, especially in advanced economies with well-developed administrative institutions. For instance, the OECD (2021) reports that tax and transfer systems reduce income inequality by more than 30% on average in high-income OECD countries. Bastani and Waldenström (2020) similarly emphasize that progressive income taxation remains a powerful equalizing tool when effectively enforced and combined with social transfers. However, in many developing countries, the redistributive potential of income taxes is often undermined by narrow tax bases, high levels of informality, and limited institutional capacity (Benson, 2021).

Beyond income taxes, the literature increasingly points to wealth taxation as an essential but underutilized component of fiscal redistribution. Wealth inequality is typically more extreme and persistent than income inequality, with wealth being concentrated in the hands of a small minority. Yet, many countries either lack wealth taxes or apply them in ways that are inefficient or easy to avoid. Alstadsæter et al. (2019) estimate that a substantial share of global financial wealth particularly among the top 0.01% is held offshore and remains untaxed. Advani et al. (2020) argue that properly designed wealth taxes, including taxes on inheritances and net assets, can help address these gaps without causing excessive capital flight or economic distortions. Pestieau (2023) further suggest that wealth taxes, while politically contentious, could be more effective when integrated into a broader framework of progressive taxation and public spending.

A third major theme emerging from the review is the role of corporate taxation in the redistribution equation. With globalization enabling unprecedented levels of capital mobility, multinational corporations have exploited legal loopholes and profit-shifting strategies to minimize their tax liabilities. As a result, corporate tax revenues have declined in many jurisdictions, weakening the fiscal capacity of states to fund redistributive programs (Beer et al., 2020; Tørsløv et al., 2023). This has disproportionately affected lower-income countries that rely more heavily on corporate taxes due to weaker personal income tax systems. The OECD's global tax reform initiative including the proposal for a 15% global minimum corporate tax rate is seen as a promising step toward restoring fairness and closing fiscal leakages (OECD, 2021). If implemented effectively, these reforms could provide governments with new resources to enhance redistribution without increasing the burden on labor or consumption taxes, which tend to be regressive.

The political and institutional context in which tax policies are enacted plays a crucial role in shaping their redistributive impact. In many cases, fiscal policy is not only a technical matter but also a reflection of power dynamics and political choices. Clifton et al. (2020) and Mauro (2022) show that in countries with strong elite influence or clientelist politics, tax reforms tend to favor wealth preservation and avoid meaningful redistribution. Public perceptions of fairness also influence taxpayer behavior: when citizens believe that the tax system is biased or that government spending is inefficient or corrupt, compliance declines and support for progressive reforms weakens (Adedokun, 2021; Benson, 2021). Thus, institutional trust, transparency, and accountability are essential components of effective redistribution.

Furthermore, regional and income-level disparities reveal differing experiences with tax-based redistribution. In Latin America, for example, tax systems remain largely regressive, with governments relying heavily on indirect taxes such as VAT, which disproportionately burden the poor (Clifton et al., 2020). In contrast, countries in Northern Europe have successfully combined progressive tax structures with generous social welfare systems, resulting in significantly lower levels of both income and wealth inequality (Bastani & Waldenström, 2020; OECD, 2021).

These cases illustrate that redistribution through tax policy cannot be isolated from broader fiscal institutions, including social protection, labor market regulations, and public investment.

The findings from this review suggest that fiscal redistribution through tax policy requires a multidimensional approach. Progressive income and wealth taxes must be supported by effective enforcement, international coordination, and complementary public policies that enhance institutional legitimacy and economic inclusion. Countries with stronger administrative systems and more transparent governance structures tend to achieve better redistributive outcomes. Meanwhile, in low-capacity states, external technical support and global tax governance reforms may be necessary to help close the inequality gap. Moving forward, governments must balance the technical design of tax instruments with the political economy realities that often constrain reform.

5. Conclusion

This systematic literature review has demonstrated that tax policy remains a central tool for addressing wealth disparities, yet its effectiveness is shaped by a range of economic, institutional, and political factors. Progressive taxation whether through income, wealth, or corporate taxes has been shown to reduce inequality when paired with strong enforcement and redistributive public spending. In high-income countries, these policies are often supported by robust institutions and broad social consensus. In contrast, many low- and middle-income countries face structural challenges such as limited administrative capacity, large informal sectors, and resistance from powerful interest groups, which undermine the redistributive impact of tax policy. Additionally, global tax competition and the widespread use of tax avoidance strategies weaken national efforts to tax wealth and capital effectively.

Addressing these challenges requires not only technical reforms such as broadening tax bases and increasing progressivity, but also political and institutional changes that enhance transparency, build public trust, and strengthen governance. International cooperation is also essential to closing fiscal leakages and ensuring that wealth held across borders is taxed fairly. As the evidence shows, no single tax instrument is sufficient on its own; rather, a coordinated and balanced mix of progressive income, wealth, and corporate taxation backed by public legitimacy and administrative capacity is necessary to achieve sustained and equitable redistribution. Without such comprehensive reforms, tax policy will continue to fall short of its potential to reduce wealth inequality and promote inclusive economic development.

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