GENERATION squeeze

Written Submission for the Pre-Budget Consultations in Advance of the 2019 Federal Budget.

By: Dr. Paul Kershaw of the University of B.C. on behalf of Generation Squeeze.

Generation Squeeze is a voice for younger Canadians in politics and the market, supported by cutting-edge research
www.gensqueeze.ca

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<u>Recommendations for Economic Growth: Ensuring Canada's Competitiveness</u>

Since the growing ratio of elderly citizens relative to those in the paid workforce dampens economic growth, and enhancing productivity from younger Canadians is necessary to maintain national competitiveness as the population ages, Generation Squeeze recommends:

1. That the government ***report age patterns in its spending and revenue collection since 1976***, when today's aging population started out as young adults.
2. That the government ***report changes in the ability to pay of younger and older Canadians today by comparison with the same age groups four decades earlier*** to support MPs to evaluate the age trends in government spending and revenue collection.
3. That the government devote ***time of one staff person in the Ministry of Finance*** to perform this reporting using existing budget information, and historical data from Statistics Canada. A peer-reviewed, academic methodology to perform this reporting is included as a link to support Finance staff to conduct this work.
4. That the government ***grow annual combined spending on child care and parental leave as of 2022 by at least one-third of the amount it grows annual spending on Old Age Security over the same period.***
5. That the government use the Department of Finance's review of federal tax expenditures as an opportunity to ***review the Age and Pension Income credits*** to confirm they remain the most target-efficient uses of public spending as the budget for old age security grows, as well as ***the tax treatment of housing wealth***. The latter is a growing source of inequality between younger and older Canadians. Revisions to the tax treatment of housing wealth could pay for cuts to income taxes to improve Canadian competitiveness, while narrowing the gap between earnings and housing costs.

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Background

Canada is adapting to an aging population. Whereas there were nearly seven workers for every senior in 1976 when today's aging population started as young adults, there are now four workers and soon there will be fewer than three (Statistics Canada 2014). Population aging slows economic growth, and recent research finds that a 10% increase in the population over age 60 decreases GDP growth per person by 5.5% (Maestas, Mullen & Powell 2016). Such evidence underscores the need for public policy makers to anticipate the health and financial needs of a growing group of retirees while also adapting to new challenges facing younger generations and investing in their productivity to maintain national competitiveness.

Canadians are hindered in planning optimally for these demographic and economic changes because government budget documents do not report spending and revenue trends by age. Whereas the European Union now provides member countries with analyses of intergenerational trends in public finance every three years, currently no senior level of government in Canada provides public finance data broken down by age. **Generation Squeeze recommends that the Canadian government begin reporting age trends in public finance starting in 2019.** Reporting should compare today to 1976 (when today's aging population started out as young adults), and account for inflation and economic growth in line with the four themes identified below. By doing so, age analyses would be integrated as part of the "+" in the government's recent commitment to GBA+ (Gender-Based Analyses+) to inform budget decisions. (For more information on why Generation Squeeze recommends age comparisons in public finance, see: https://www.gensqueeze.ca/why_we_make_generational_comparisons)

A Peer-Reviewed Methodology to Follow

The Generation Squeeze Lab, led by Dr. Paul Kershaw at the University of BC, has prepared a peer-reviewed methodology for the Government of Canada to adapt (see "Intergenerational Justice in Public Finance: A Canadian Case Study" at https://www.gensqueeze.ca/intergenerational_injustice_in_canadian_public_finance). The study examines public finance data in 2016 compared to 1976 in light of four themes:

a) Change in the ratio of social spending for those age 65+ relative to those under age 45
b) Change in taxes paid for OAS and Medical Care for those age 65+
c) Ability to pay of different age groups, now and in the past
d) Sustainability measured as government debt per person under age 45 and the ecological footprint measured per capita

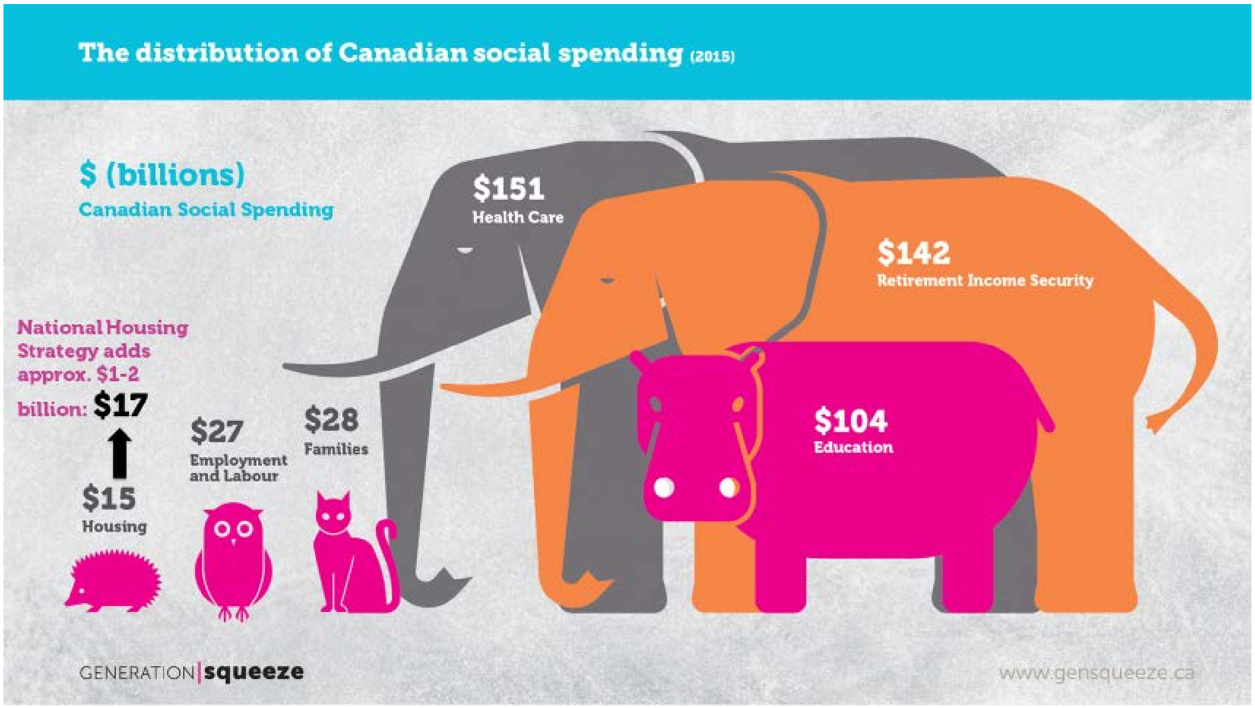
It is possible to update these analyses for the 2019 budget with time from one Finance staff person. The most recent data show:

Spending: 1976-2016

- *Spending has grown faster for those age 65+*. Governments increased annual per capita spending for seniors 4.2 times faster since 1976 than for those under the age of 45.
- *Governments responded to demographic changes for older Canadians more generously than for younger Canadians.* The 4 million increase in seniors today compared to 1976 coincided with a $92 billion increase in annual spending on medical care and retirement security for those over 65. By contrast, the 4.6 million increase in Canadians under age 45 who have postsecondary credentials coincided with little change to postsecondary spending – up $2.7 billion. Similarly, there are 2.3 million more women age 25-44 in the

labour force. Despite the resulting increase in demand for child care, annual spending on this budget line grew approximately $3.6 billion.

- *Social spending on younger Canadians hasn't kept pace with economic growth.* Since 1976, spending per person age 65+ grew 6% faster than economic growth. By contrast, spending per person under age 45 grew 29% slower than economic growth, or $1,052 less per person under age 45. This equals $21.3 billion less in annual spending when multiplied by all the people under age 45 – a sum that represents enough to fund, for example, a high-quality, universal childcare programme twice over, or nearly a 50% increase to the post-secondary budget.
- *Governments allowed health care spending to leave other social spending behind.* Governments have disproportionately used economic growth over the past four decades to invest in medical care. However, new research affirms that health does not start with health care. Health starts with the conditions into which Canadians are born, grow, live, work and age – conditions that are shaped by social spending on income security or major costs like child care, housing, time at home with newborns, education, etc. New research affirms that Canadian governments are more likely to improve life expectancy, and reduce preventable mortality, by ensuring that social spending keeps pace with medical spending (Dutton et al. 2018).



Revenue: 1976-2016

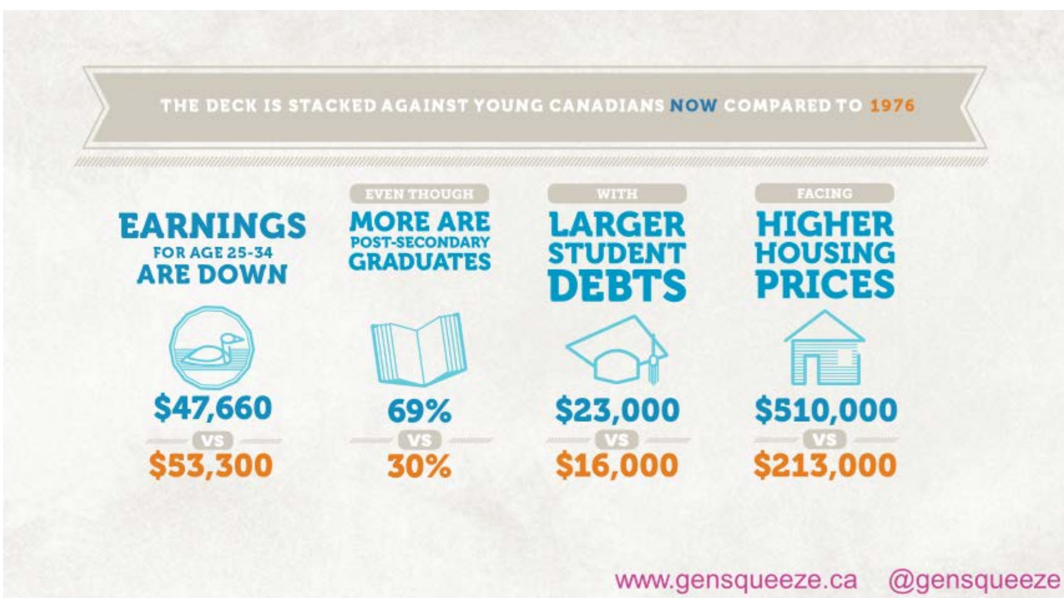
- *Canadian governments have prioritized cuts to income tax rates.* In addition to prioritizing investments in medical care and retirement income, Canadian governments used economic growth since 1976 to reduce income tax rates, particularly for middle and higher earners.
- *Younger Canadians today pay more in income taxes toward the elderly.* Despite the shift to lower income tax rates, the dramatic growth in spending on medical care and old age security means that public finance requires younger Canadians to contribute 22%-62% more in income taxes for the elderly now by comparison with 1976. Not only do these revenue trends leave less fiscal room to adapt to new challenges facing younger residents (like the much larger gap between home prices and median earnings, or climate change),

they require younger citizens to pay thousands of dollars more over their working lives toward benefits for the aging population than the latter paid on behalf of their elders.

Ability to Pay: 1976-2016

Prioritizing larger spending increases for retirees and asking more in taxes for such programs from today's younger Canadians may be appropriate if the latter have a greater ability to pay compared to when today's aging population started out as young adults. However, data reveal that the contemporary aging population has a greater ability to pay than cohorts immediately before and after them.

- *Seniors today have more prosperity on average than did elderly Canadians four decades ago.* They have lower levels of poverty, higher median earnings, and more wealth in their homes.
- *Older Canadians today also generally encountered more favourable socioeconomic circumstances as younger adults in 1976 than do younger Canadians now*. Older Canadians started with higher median earnings, which could stretch further when paying for rent, saving for a down payment, and paying a mortgage.



Sustainability: 1976-2016

- *Young people inherit larger debts today than four decades earlier*. Government debt has grown from $15,000 per person under 45 in 1976 to over $44,000 today.
- Today's seniors reduced their ecological footprint at one-third of the rate that young adults must now do given the risks of climate change.

Age Trends in the 2018 Federal Budget

The 2018 federal budget projects a $16.1 billion annual increase in spending on old age security (OAS) as of 2022 (Government of Canada 2018a, p. 324). By contrast, annual spending on child care is projected to increase $540 million, while spending on parental leave will increase by $330 million (Government of Canada 2018a, pp. 332-335 and 351). Since supporting parental attachment to the labour market and work-life balance are important for enhancing the productivity of today's younger Canadians, ***Generation Squeeze recommends that the federal government grow annual combined spending on child care and parental leave as of 2022 by at least one-third of the amount it grows annual spending on Old Age Security over the same period.***

As the Finance department continues to review federal tax expenditures, attention should be given to the Age credit, Pension Income credit, and Pension Income Splitting credit. These expenditures are projected to cost the federal government, respectively, $3.83 billion, $1.31 billion and $1.415 billion in 2019 (Government of Canada 2018b). Generation Squeeze recommends that the government ***review these expenditures to confirm they remain the most target-efficient uses of public spending as the budget for OAS grows faster than any line item in the federal budget***.

When evidence emerges of intergenerational imbalance in public finance, the search for policy responses should target cleavages between age groups. A current cleavage is the gap between home prices and earnings, which reduces the ability to pay among young adults, while driving wealth accumulation for many seniors. An extensive international literature observes that residential property often enjoys favourable tax treatment, including in Canada. For example, capital gains from the sale of principal residences are not counted as income for tax purposes, representing a federal tax expenditure of $6 billion in 2019 (Government of Canada 2018b), and corresponding reductions for provincial coffers. Simultaneously, annual revenue from municipal property taxation is down $4.4 billion as a share of GDP compared to 1976 (Kershaw 2018). ***Generation Squeeze encourages the federal government to review the tax treatment of high value homes*** as an opportunity to pay for cuts to income taxes, narrow the gap between earnings and housing costs, grow revenue for old age security, and pay for policy investments in younger generations as part of a national growth and competitiveness strategy.

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