

Intelligence MEMOS



From: Parisa Mahboubi
To: Canada's Finance and Employment Ministers
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Re: **TALKING ABOUT THE GENERATIONS**

While large government deficits and debt raise concerns regarding intergenerational fairness, the longterm intergenerational impacts can significantly differ, depending on demographic shifts and future economic policy.

In particular, population aging in Canada has accelerated during the past decade due to declining fertility and improving life expectancy. This demographic transition poses new fiscal challenges since it dampens growth in government revenue while putting pressure on government spending, particularly in healthcare and public pensions.

Generational accounting is a powerful tool for assessing the lifetime fiscal burden on current and future generations, given demographic and economic projections. The method requires estimating the present value of government's current and future net revenues to cover all current and future spending plus net debt. A large imbalance between the net tax burden faced by current and future generations over their lifetimes, in favor of current generations, would mean that existing fiscal policies are unfair and unsustainable.

Using generational accounting, my new C.D. Howe Institute [Commentary](#) shows that the projected lifetime fiscal burdens of the youngest generation (born since 2005) and future generations are very high: higher than those of any other generations, especially those born from the mid-1950s to the 1990s.

Our recently released [calculator tool](#) compares the net payments or benefits made by average Canadians to all levels of government, in the past, and the net payments or benefits you can expect to make or receive in the future. What this tool shows is that younger Canadians face higher lifetime net fiscal burdens, because they will pay debts accumulated by, and services delivered to, growing numbers of older Canadians.

Generally speaking, babyboomers and their children fare well in this scenario, but the grandchildren of babyboomers do not. Looking to the future, we also specifically compare the prospective net tax burden faced by today's newborns with those that will be faced by future generations. (Click [here](#) for a graphical representation.)

Here, the results are less troubling. We find future generations of Canadians are expected to face a slightly lower lifetime tax burden than newborns, implying relative intergenerational balance looking out into the future. However, small changes to the baseline scenario can make that balance tip unfavourably for future generations.

For example, both higher-than-expected interest rates and lower-than-expected population growth would lead to generational imbalance by imposing higher net tax burdens on future generations. Also, failing to restrain the growth of healthcare spending below its recent experience could shift the tax burden to future generations, and lead to a large and likely untenable imbalance.

To ensure future intergenerational fairness and sustainability, policies that improve labour market outcomes of youth, women and immigrants, and that encourage a longer working life, should be supported. Restraining the growth of healthcare spending at a sustainable level is also a must.

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