Population aging, generational equity and the middle-class [1]

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Full report in PDF [2]

Abstract:

Canadian Premiers launched a new Task Force on Aging in 2014. The author links this governmental focus to the issue of intergenerational equity. New empirical evidence is provided for Canada about age patterns in income, cost of living, wealth, debt and government spending, examining trends since 1976. Data reveal diverging age patterns for the "middle class:" declines for younger cohorts and improvements for older Canadians. These market driven patterns have been reinforced by government policy investments. The evidence supports Canadian governments to integrate more attention to generational equity into deliberations about policy adaptations as Canada's population grows older.

Introduction:

At the 2014 Council of the Federation, Canadian Premiers and Territorial leaders announced a new Task Force on Aging. They intend the Task Force to "raise awareness on the changing social and economic needs associated with an aging population and highlight work that provinces and territories are undertaking to address these issues"(Council of the Federation 2014). Their joint press release repeats the now common concern that Canada's population over age 64 will rise from 15 per cent of the national population to 23 per cent over the next two decades. Since Canadian government spending increases with age, this demographic shift has substantial implications for public spending on retirement income subsidies, and especially spending on medical care (for diff erent perspectives about the scale of the impact on public spending, see Barer et al. 1995; Evans et al. 2001; Robson 2010; Ragan 2012). In previous research (Kershaw, 2015), I estimate that Canadian governments currently combine to spend between $33,321 and $40,152 per citizen age 65+, mostly on medical care, the Canada/ Quebec Public Pension plans, Old Age Security and other retirement income subsidies. By contrast, I estimate that annual spending per person under age 45 for grade school, postsecondary, medical care, childcare, parental leave, family tax breaks, Employment Insurance, Workers Compensation, tax breaks for housing, etc. all add up to less than $12,000.

Canada is not alone in adapting to the implications of an aging population. An international literature examines age related trends in public spending as part of a broader conversation about intergenerational justice (eg. Bessant et al. 2011; Kotlikoff and Burns 2012; Bradshaw and Holmes 2013; Vanhuysse 2013). The broader conversation asks not only how do we pay for the aging population, but also examines if there are reasons to reallocate resources to the cohorts that follow in their footsteps. To answer these questions, the literature identifi es the need for objective, empirical information about age patterns in income, costs of living, wealth, debt and public spending. I respond in this paper by providing such data for Canada to inform the new national Task Force on Aging. In doing so, I aim to eschew the politics with which the subject is often treated in the US, where partisans pit older generations against younger generations for political gain (Williamson et al. 2003). I also reject the tendency in Canadian journalism to treat the subject of intergenerational justice in infl ammatory ways that are more likely to sell papers and magazines (eg. McMahon 2014), but less likely to foster meaningful dialogue about pressing matters of fairness for old and young alike.

The age analyses will inform a second political discourse that has gained momentum in recent years - one that queries how the "middle class" is doing in Canada. Federal Opposition parties, especially the Liberals (2013), claim the middle class is "squeezed." The governing Conservatives resist the narrative that the middle class has suffered under their watch, claiming instead that it has never been more affl uent (Conservative Party of Canada 2014). Corak (2014) shows that the two competing stories are both supported by data, implying the choice between them rests largely with one's ideological predilections. The age analyses in this paper will off er an alternate understanding of the relationship between the two stories: the squeeze is real, and primarily impacting Canadians under age 45 (see also Graves 2014), while the typical Canadian age 55 and older enjoys more wealth than previous generations of retirees. It is the older age cohort's gains over the last several decades that drive most of the good news about the affl uence of today's middle class. I develop the paper in six sections. The first briefly examines some methodological decisions that shape the analysis. The second provides data about changes in median earnings since 1976 at the individual level. The third examines similar trends at the household level. The fourth compares changes in earnings relative to trends in the primary cost of living - housing. The fifth examines resulting wealth and debt for different age cohorts. The sixth section summarizes social spending changes since 1976 as they unfold along age lines. I conclude by pointing to key implications for Canadian decision makers.
Region: Canada [3]
Tags: demographics [4]

Links
[1] https://childcarecanada.org/documents/research-policy-practice/15/04/population-aging-generational-equity-and-middle-class
[2]
https://d3n8a8pro7vhmx.cloudfront.net/gensqueeze/pages/107/attachments/original/1428524283/Population_Aging_Generational_Equity_and_the_Middle_Class_2015-

04-01.pdf?1428524283
[3] https://childcarecanada.org/taxonomy/term/7864
[4] https://childcarecanada.org/category/tags/demographics