

DEMOGRAPHICS, TAXES AND THE FUTURE

by Brennan Sorge



In Canada today there are two very important political realities. First, the reduction in our national birth rate and population aging that has resulted (Employment and Social Development Canada, 2015a). Next, the high cost Canadians bear in taxation, and the negative economic effects that come as a result. Last, the link between these two trends, demographics and taxes, must be addressed.

As our population ages, Canadian services, especially medical and pension programs, will face an increase in demand, putting pressure on government finances.

Demographically, Canada continues to see birthrates hovering well below replacement level (the minimum number of children per woman required to sustain a population at its current number). Consequentially, the proportion of elderly individuals in Canada has risen. Employment and Social Development Canada has estimated that the proportion of Canadians over 65 will rise to become 23.7% of our population by 2036 (Employment and Social Development Canada, 2015b). This is a significant rise from its current level of 16.1% (Statistics Canada,

2015). There are profound economic implications associated with this trend. For instance, as our population ages, Canadian services, especially medical and pension programs, will face an increase in demand, putting pressure on government finances.

How will governments across Canada cope with the increasing expenses associated with providing public services to an aging population?



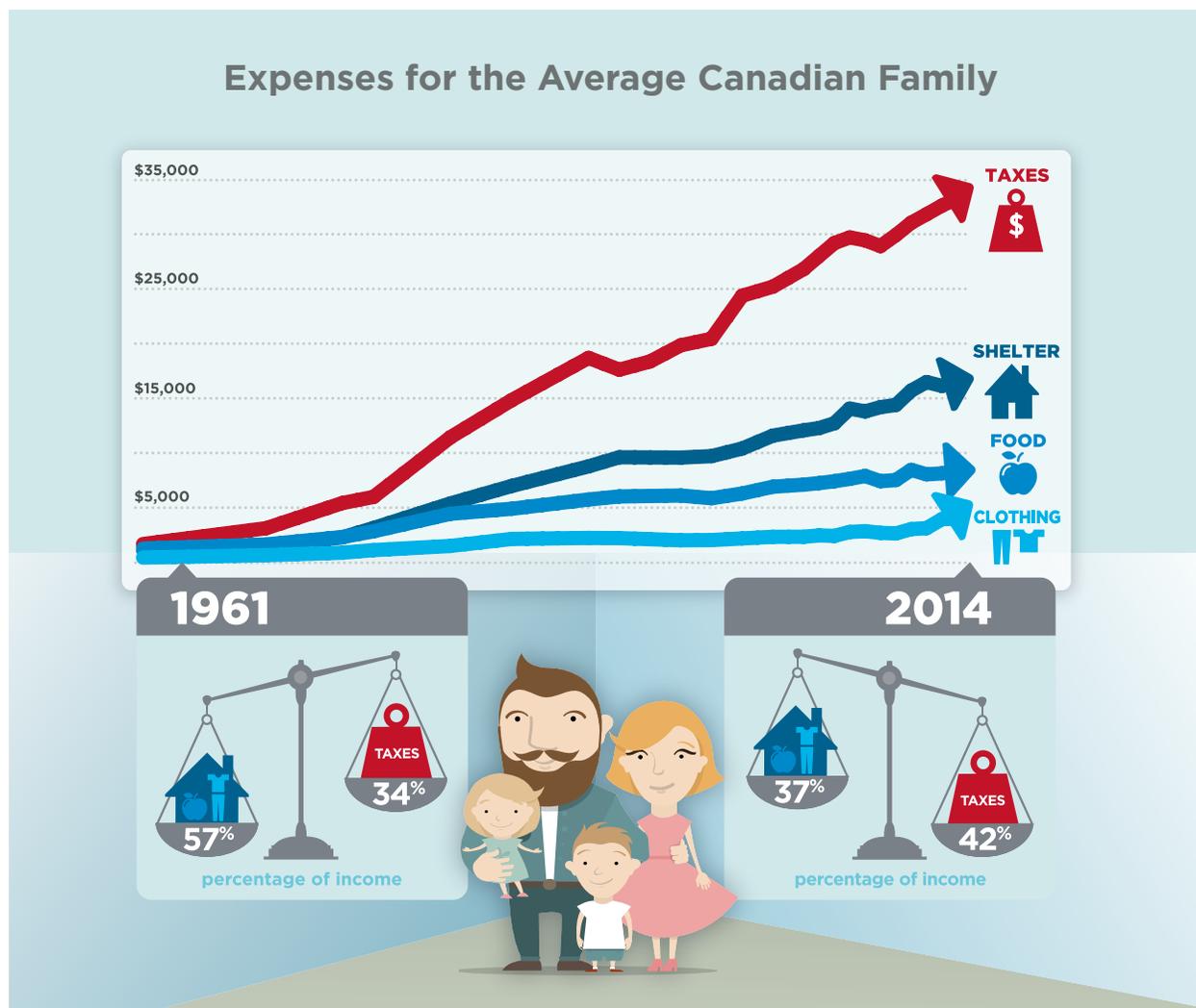
In the past, government has looked to raise extra revenue through increased taxation, which falls primarily on the shoulders of those in the workforce. However, the tax burden faced by Canadian families is already high.

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Since Canadians already pay an average of 42.1% of their income in taxes, it seems unlikely that

this approach can be indefinitely extended (Palacios, Lammam, and Ren, 2015). Also, it is important to recognize that an increase in economic growth would increase revenue. This would help to counter the cost of our aging population.

With this in mind, I want to explore what a future shaped by high taxes and an aging population might look like in the absence of policy reform. In this future, our government would be required to spend substantially more money to sustain services. Yet, it would likely face fierce



opposition to raising taxes due to the already heavy tax burden Canadian families face.

A likely outcome of increased spending would therefore be sustained deficit spending and growth in government debt over time. Such action would also reduce economic growth, which would further deprive our services of needed tax revenue. It would also cause public funding to be diverted to debt servicing rather than to the more useful functions of government. This kind of low growth economy would make finding employment a real struggle for many Canadians, especially for young people just entering the workforce. In such a future, Canadians would eventually realize that many of our programs, in their current forms,

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may become untenable. This is the future Canadians will potentially face if our institutions are left without significant reform.

These problems are not without solutions. Instead, it is more a question of whether or not Canadians are willing to support the necessary reforms needed to address them. With our aging population, we must be prepared to examine our pension system, and to find a model more appropriate for our economy and demography.

We must also recognize the flaws in our health system, and find solutions among the many innovative models employed around the world. The problems of demography and slow growth are far from insurmountable, but they will require the commitment of Canadians to reforming the outdated and inefficient systems in our government. We must ensure that economic growth is sufficient to make up for the costs related to our changing demographics. It is pivotal that Canadians support a policy framework that encourages our economy to be strong and dynamic, and able to cope with the many challenges we face today and in the future. 



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