Intergenerational equity in Canada

Report on a conference

Since 1951, the proportion of Canadians aged 65 and over has grown. The growth in this group, coupled with a gradual decline in the group aged 19 and under, will likely continue well into the next century (see *Demographic trends*).

This demographic circumstance affects relations between older, younger and future generations. For example, in the 1990s older workers are worried about financing their impending retirement. Younger workers are concerned not only about financing their own retirement but also about supporting their predecessors'. Young people entering the labour force are having a difficult time finding full-time or lasting employment. Labour market trends such as declining labour force participation or the polarization of job tenure and of working hours are generally considered another aspect of this problem. These diminishing opportunities could have cumulative effects on the ability of younger generations to support themselves and their families.

The theme of intergenerational equity touches a variety of these social and economic issues, from the transfer of wealth between generations to the direction of these transfers and the relative status of persons in successive generations.

These concerns were the focus of "Intergenerational Equity in Canada," a conference co-sponsored by Statistics Canada and Human Resources Development Canada, and held at Statistics Canada in Ottawa on February 20 and 21, 1997. The conference was organized around eight principal topics and one consultation, which provide the section titles for this report. (See Appendix for a complete list of presentations and presenters.) What follows is a selection of highlights from the conference sessions.

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Impact of government programs across generations

What are the intergenerational effects of government expenditure and taxation decisions? Chantal Hicks' study suggested that the Canadian tax and transfer system aids seniors most, although children also benefit through education transfers.

Brian Murphy affirmed the benefit to the elderly, adding that between 1984 and 1994 those aged 15 to 24 also experienced slight increases in net transfers (government cash transfers less income and payroll taxes). Individuals with low incomes were disproportionately represented in these two age groups. Those aged 40 to 59 saw large decreases in net transfers.

Generational accounting

The technique of generational accounting measures the lifetime net tax burden of present and future generations while anticipating changes to fiscal policy and demographics. It is a long-term measure of fiscal policy preferred by some experts over annual deficit measures.

Philip Oreopoulos presented findings from a study that applied generational accounting to Canadian fiscal policy. While the analysis determined Canada's fiscal policy to be nearing a state of sustainability, the authors cautioned against using generational accounting to draw conclusions about intergenerational equity.

Chris Matier employed simulation models to consider the social welfare implications of reducing transfers from future to current generations. The study found that the effect on current generations varied with how quickly and by what method (lump-sum or wage/tax mixes) this reduction was implemented.

Similarly, Marcel Mérette discussed the effects of government debt reduction across generations, focusing on growth in human capital rather than gross domestic product. This study suggested that young and future generations would benefit most if debt reduction were achieved through taxes on wages or consumption.

Summarizing initial analytical results of a sequence of overlapping birth cohorts, Michael Wolfson noted that cohorts born before 1940 were net beneficiaries of the government taxes and expenditures under study. Redistribution tends to be from men to women, and about half of the population are net gainers. He also noted that inequalities between generations could not be accurately assessed without an understanding of the inequalities within generations.

Structure of labour markets and their interaction with social programs

Garnett Picot addressed the factors underlying low income trends for four generations: children (aged 0 to 14), young adults (25 to 34), the older working-age population (45 to 54) and the elderly (65 and over). Low income is dependent on individual earnings, transfers and family composition. The elderly saw marked decreases in low income rates between the early 1980s and 1995. On the other hand, the relative stability of the other three generations masked an increased reliance on transfers as an income source in the 1980s. Also hidden were the dramatic changes in the Canadian family since

Upcoming publications

Two books are planned for publication. The first will address the use of generational accounting in the Canadian context. The effect of government programs on different generations, the burden this may place on future generations, and the implications for economic growth and inequality are all examined. The book also addresses the limitations of generational accounting as a tool for setting and implementing fiscal policy, and the need for better statistics to help envision the legacy that will be left to future generations.

It is increasingly suggested that the current generation of young Canadians will not be as well-off as their parents. The second book will examine this theme by focusing on how families and labour markets influence the well-being of children and their long-term prospects as adults. Among the issues addressed are the effect of low income during childhood on future earnings during adulthood, the relationship between the income and education of parents and the health and educational attainment of their children, and the effect of parental divorce on the marital and fertility choices that children eventually make. The declining economic status of the young (relative to older) generations is also documented.

Both books are slated for publication in autumn 1997. For more information on these books or the conference contact Miles Corak at (613) 951-9047; Internet: coramil@statcan.ca.

the early 1970s. Because of these demographic changes, the incidence of families with low incomes declined until the early 1990s, then grew, despite transfers.

The declining participation of young men in the workforce was the focus of René Morissette's discussion. The 1990s have seen high youth unemployment, increasing inequality in the distribution of earnings and a widening income gap between younger and older workers. Information from the Labour Force Survey and from income tax data was used to determine, among other conclusions, that since the early 1980s young male workers have been moving more slowly into better paying jobs than had previous cohorts. Noted also were relative decreases in rates of unionization and pension coverage for this group.

Ross Finnie concluded this session with a discussion of the shortfall between market income and low income cutoffs for families between 1982 and 1993. Based on Statistics Canada's Longitudinal Administrative Databank, the study showed that spells of low income, for example, have lengthened while the distribution of family incomes has been polarizing.

Meaning and measurement of intergenerational equity (Panel discussion)

Laurence Kotlikoff talked about the prevalence of generational accounting and its application in 16 countries, much of this with government participation. In his opinion, agencies that are at arm's length from their governments may be the best organizations to carry out generational accounting. The technique does have deficiencies. For example, it lacks general feedbacks and adjustments for unexpected future shifts. But it does provide a way to understand intergenerational income redistribution and a country's patterns of saving. He encouraged the Canadian government to adopt generational accounting.

Arguing against this technique, Lars Osberg said that income and income distribution mattered, both between and within generations. Generational accounting is fundamentally about the split in expenditure between public and private. Public policy will help to define the debate; unbiased statistics will inform it. Most important to the discussion is the transfer of resources within families, a component often ignored in generational accounting.

Focusing as well on generational accounting, John Helliwell contended that six elements would summarize the legacy to be passed from one generation to the next, and that many of these are now missing in the standard generational accounting framework: fiscal deficit and debt; constructed capital (for example, public buildings), infrastructure and knowledge (research and development); human capital (physical and mental health and education); natural resources and physical environment; the institutional environment (for example, legal and welfare systems); and social capital (shared values and activities). Important to these considerations is who accumulates and distributes these assets and liabilities. The list would include governments, families, and multinational agencies. He suggested that both good and bad effects between generations might also be experienced within generations.

Intergenerational income mobility

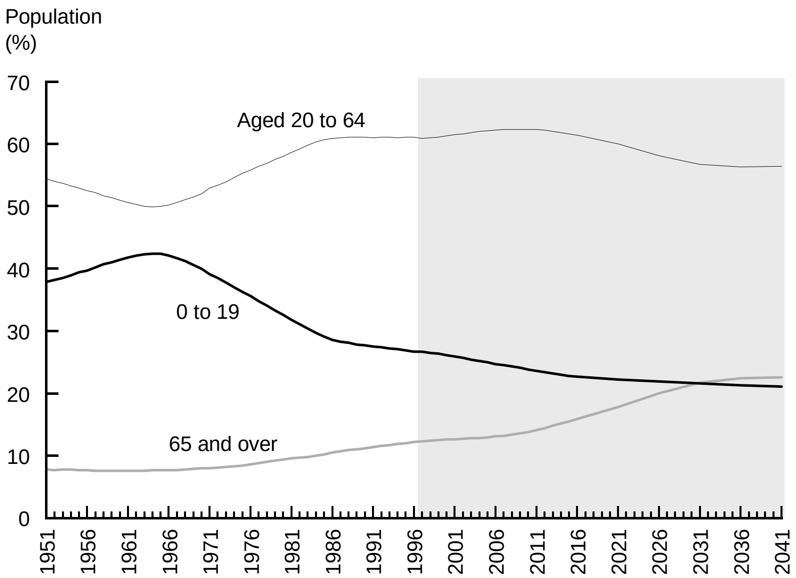
Nicole Fortin and Sophie Lefebvre opened the discussion on intergenerational mobility with an investigation into the private transmission of economic status from fathers to their sons and daughters. According to data from the General Social Surveys of 1986 and 1994, Canadians have experienced greater intergenerational mobility than the British or Americans, although private transfer of resources seems to have been decreasing over time.

Miles Corak analyzed tax data for 1982 to 1994, comparing the incomes of sons and daughters with those of fathers. The results were interpreted using selected social and neighbourhood variables. The findings confirmed that an individual tends to be

Demographic trends

Older people made up about 8% of the total population in 1951 and they maintained that level until 1975. By 1996, however, they had increased to 12%. Meanwhile, those aged 19 and under peaked at 42% in 1964 and 1965, then diminished to just 27% by 1996.

Seniors make up a growing proportion of the population.



Sources: Census of Canada (1951 to 1996); Population Projections for Canada, Provinces and Territories 1993-2016 *(1997 to 2041).*
Note: Statistics Canada produces several population projections. The one shown here is projection number 2, a medium growth scenario.

more successful if his or her father had market income, if the family did not move often, and if there were not many siblings. And while daughters do not make as much money as sons, their incomes are not as strongly influenced by most of the measures examined.

The discussion continued with Céline Le Bourdais' use of General Social Survey data to reconfirm the long-term effects of family instability, especially divorce, on children.

Health and education of children

Tamara Knighton began this segment with an inquiry into parental access to health care services during a child's first year. Using the database from the Linked Census – Manitoba Health Services Insurance Plan Project, the study showed that parents with higher education made greater use of preventive care services; those with lower education made greater use of treatment care services. A similar relationship was seen for parents with high and low incomes. And these differences in use of health care may have cumulative effects on the child.

Laval Lavallée discussed intergenerational transfer of education and literacy. This analysis confirmed that parents' intellectual capital tends to determine the educational achievement of their children. The study also indicated an increasing polarization in educational achievement among families.

Asset and Debt Survey

Mike Sheridan described the proposal for the Asset and Debt Survey (ADS) at Statistics Canada. The most recent survey on assets and debts was in 1984 (Survey of Consumer Finances). The ADS would refresh and expand upon that information as well as measure change due to phenomena such as the increase in lone-parent families and individuals living alone, the recession of the early 1990s, the increased popularity of mutual funds, and the aging population. It would permit more detailed and regional analysis of wealth accumulation in Canada. It should also further understanding of the future value of pensions, of the characteristics of debt and debt holders, and of "positive" (for example, mortgages) versus "negative" debt.

Intergenerational support through the family

With data from the 1990 General Social Survey, Leroy Stone and Ingrid Connidis looked at the patterns of exchanges and supports between parents and children and argued that generational accounting needed to find ways to include "private" transfers. While *perception* of need is crucial to this discussion, the data suggest that parental support often continues well after the children have left home, entered the labour market and begun their own families. Over the long term, parents probably give more to their children than they receive. And, while aging parents do receive increasing support of various kinds from their children, two-thirds of parents aged 75 years and over receive no support from children who do not live with them.

Paul Bernard discussed living arrangements of young people in the 1980s and 1990s, using the annual Survey of Consumer Finances. This study indicates that young people are residing longer with their parents. When they do leave home they live increasingly in non-couple households.

David Cheal presented a study on poverty and dependence at different ages, using data from the 1993 Survey of Labour and Income Dynamics (SLID). The survey focuses on the family circumstances of the individual, rather than on the family or household as a whole, facilitating a closer look at young people who no longer live with their parents. His study suggests that childhood poverty extends into young adulthood, that people whose parents had low incomes have higher rates of financial dependence than other adults, including the elderly.

Directions for policy (Panel discussion)

Bob Baldwin proposed that younger generations should inherit capital stock that provides good employment opportunities; knowledge and skills for participation in society; a bountiful natural environment; and social peace. Important questions related to intergenerational equity thus arise: how will retired people continue to have adequate incomes without imposing too much burden on younger generations? How can Canadians ensure that substandard retirement incomes do not become more and more prevalent?

In discussing intergenerational equity, Susan McDaniel called for more co-operation among the academic disciplines involved in socio-economic studies, as well as more research on how resources are shared within families. Current data do not fully capture the dynamism of intergenerational relations, but longitudinal data, such as SLID, begin to address the problem. She stated that more information was needed on how private intergenerational transfer of resources was changing with shrinking public transfers.

Summing up, Arthur Kroeger talked about the substantial changes to Canadian society in recent decades. Those now retired appear to be continuing to benefit while younger generations may be faring less well than previously. He suggested that this was a time when careful assessment and creative applications of data were crucial in dealing with demanding social issues such as intergenerational equity.

The author wishes to thank Michel Côté for his contribution to this report.

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■ *Reference*

George, M.V. et al. *Population Projections for Canada, Provinces and Territories 1993-2016.* Catalogue no. 91-520-XPB. Ottawa: Statistics Canada, 1994.

Appendix
Presentations and participants

The impact of government programs across generations

Chair:
Andrew Sharpe (Centre for the Study of Living Standards)

The Age Distribution of the Tax/Transfer System in Canada
Chantal Hicks (Statistics Canada)

Impacts of Changing Tax/Transfer Systems on the "Life-time" Distribution of Net Taxes: 1984 to 1996
Brian Murphy (Statistics Canada)

Generational Accounting of Workers' Compensation Unfunded Liabilities
Morley Gunderson (University of Toronto)
Douglas Hyatt (University of Toronto)

Discussants:
James Pesando (University of Toronto)
Paul Lanoie (HEC, University of Montréal)

Generational accounting

Chair:
Ronald Hirshhorn (Consultant)

Applying Generational Accounting to Canada: Issues, Results, and Interpretations
Philip Oreopoulos (University of California at Berkeley)
François Vaillancourt (University of Montréal)

The Economic and Social Welfare Effects of Reducing Transfers from Future to Current Generations
Steven James (Finance Canada)
Chris Matier (Finance Canada)

The Effects of Deficit Financing on Intergenerational Equity and Growth: The Case of Canada
Marcel Mérette (Finance Canada)

Generational Accounting with Heterogeneous Populations
Michael Wolfson (Statistics Canada)
Steve Gribble (Statistics Canada)
Zhengxi Lin (Statistics Canada)
Geoff Rowe (Statistics Canada)

Discussants:
William Scarth (McMaster University)
Alice Nakamura (University of Alberta)
Huw Lloyd-Ellis (University of Toronto)

The structure of labour markets and their interaction with social programs

Chair:
Jean-Pierre Voyer (Human Resources Development Canada)

Changing Labour Market Conditions, Government Transfers, and Poverty among the Young and Old
Garnett Picot (Statistics Canada)
John Myles (University of Florida)
Wendy Pyper (Statistics Canada)

The Declining Labour Market Status of Young Men
René Morissette (Statistics Canada)

Incomes of the Young and Old: Evidence from the Longitudinal Administrative Databank
Ross Finnie (Carleton University)

Discussants:
Dean Lillard (Cornell University)
Ging Wong (Human Resources Development Canada)
David Gray (University of Ottawa)

Panel discussion: The meaning and measurement of intergenerational equity

Chair:
Mike McCracken (Informetrica)

Discussants:
John Helliwell (University of British Columbia)
Laurence Kotlikoff (Boston University)
Lars Osberg (Dalhousie University)

Intergenerational income mobility

Chair:
Allen Zeesman (Human Resources Development Canada)

Intergenerational Income Mobility Using a Parsimonious Occupation Classification System
Nicole Fortin (Stanford University and University of Montréal)
Sophie Lefebvre (*CIRANO*)

How to Get Ahead in Life: Some Correlates of Intergenerational Income Mobility in Canada
Miles Corak (Statistics Canada)
Andrew Heisz (Statistics Canada)

Appendix (concluded)
Presentations and participants

Intergenerational Equity: The Impact of Family Disruption in Childhood on Adult Outcomes in Canada
Céline Le Bourdais (INRS – Urbanisation, University of Quebec)
Nicole Marcil-Gratton (University of Montréal)

Discussants:
David Zimmerman (Williams College)
Guy Lacroix (Laval University)

The health and education of children

Chair:
Brian Ward (Human Resources Development Canada)

The Impact of Socioeconomic Inequity on the Health of Young Children
Jean-Marie Berthelot (Statistics Canada)
Christian Houle (Statistics Canada)
Tamara Knighton (Statistics Canada)
Cameron Mustard (University of Manitoba)

Parents and Children: Education and Labour Market Activities
Patrice de Broucker (Statistics Canada)
Laval Lavallée (Vestimetra International Inc.)

Discussants:
Geoff Dougherty (Montréal Children's Hospital)
Chris Ferrall (Queen's University)

Presentation and consultation on the Asset and Debt Survey

Mike Sheridan (Statistics Canada)

Intergenerational support through the family

Chair:
Suzanne Peters (Canadian Policy Research Networks)

Intergenerational Exchange in Canada: Pattern and Socioeconomic Correlates
Leroy O. Stone (Statistics Canada)
Carolyn Rosenthal (McMaster University)
Ingrid Connidis (University of Western Ontario)

Eternal Youth? Changes in the Living Arrangements of Young People in Canada during the 1980s and 1990s
Dominique Meunier (Institut d'études politiques de Paris)
Johanne Boisjoly (University of Quebec in Rimouski)
Paul Bernard (University of Montréal)
Roger T. Michaud (University of Montréal)

Hidden in the Household: Poverty and Dependence at Different Ages
David Cheal (University of Winnipeg)

Discussants:
Roderic Beaujot (University of Western Ontario)
Ted Wannell (Statistics Canada)
Robin Rowley (McGill University)

Panel discussion: Directions for policy

Chair:
Jim Lahey (Human Resources Development Canada)

Discussants:
Bob Baldwin (Canadian Labour Congress)
Arthur Kroeger (Former Deputy Minister, Government of Canada)
Susan A. McDaniel (University of Alberta)