



The Effect of Population Aging on Economic Growth in Canada

by Ergete Ferede and Bev Dahlby

The proportion of seniors in Canada's population has rapidly increased over the past few decades. Moreover, according to Statistics Canada, the percentage of Canadians 65 years and over is projected to increase even further in the coming years. It is widely recognized that the aging population will significantly strain provincial governments' budgets, with health-care expenditures anticipated to increase rapidly in the coming decades. Canada's ability to finance higher health-care spending and sustain a higher standard of living for the citizens crucially depends on how rapidly output per capita grows in the future.

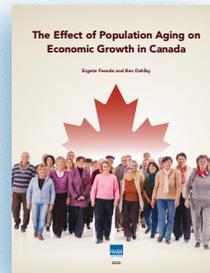
Recent econometric studies, based on data from other countries, have reached contradictory conclusions about the impact of population aging on economic growth, with some finding that it reduces economic growth, while other studies show a positive effect. As well, there have not been any Canadian econometric studies on this crucial issue. The objective of this study is to fill this gap in the literature by empirically investigating the impact of population aging on Canadian per-capita output and the growth of labour productivity based on annual provincial data from 1981 to 2020.

We find that a 10% increase in the share of the population aged 65 years and older is associated with a reduction of the growth rate of real GDP per capita of 0.23 percentage points. This result implies that, in 2021 dollars, Canada's GDP per capita will be lower by \$4,300 by 2043 under Statistics Canada's slow-aging population projection scenario and by \$11,200 under its fast-aging scenario. In

other words, under the fast-aging population projection, real GDP per capita will be about 13% lower in 2043 than in a no-aging state. Our simulations also indicate that the adverse impacts of population aging on economic growth will vary across provinces. Under the fast-aging scenario, by 2043, real GDP per capita will be lower by between \$9,000 in Prince Edward Island to \$21,000 in Newfoundland & Labrador. Alternatively, expressed in percentages, real GDP per capita will be 10.7% lower in Saskatchewan and 16.8% lower in Newfoundland & Labrador in 2043, compared to a no-aging scenario.

An important policy implication of these results is that Canadian policy makers need to embrace multifaceted pro-growth policies to offset the adverse economic and budgetary effects of population aging. An effective policy tool that the federal and provincial governments could adopt is reducing business taxes, such as the corporate income tax. Such a policy choice will help to stimulate

private investment and boost labour productivity and economic growth over time. Policy makers also need to expand the country's labour force by increasing the number of working-age immigrants and expediting their successful integration into the Canadian labour market. Governments can also improve seniors' labour-force participation rates by reducing the marginal tax on their earned labour income and providing them with more opportunities to acquire new skills.



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Estimated loss in per person GDP by 2043 from Canada's aging population

