Questions and answers on canada's economic model

1. The Government of Canada has introduced a transition plan to raise the age of eligibility for Old Age Security from 65 to 67 years. Using the issues discussed in this course, discuss the pros and cons of the government’s plan. Be sure to include a discussion of Canadian demographics and the implications for the OAS system.

Plans to rise the age of eligibility for Old Age Security from 65 to 67 years will make the individuals needy when they retire, and society has an obligation to prevent them from falling into severe poverty. A non-contributory pension scheme, such as Old Age Security, ensures that all seniors have a basic level of income. It can be argued whether the elderly need a special income redistribution program, aside from the fact that Old Age Security is a federal program and therefore the cost of providing income support for the elderly is borne by all Canadians, whereas welfare programs are funded by the provinces.

With the Canadian population aging an increase in the proportion of older people, will reduce the actual labour force in relation to the size of the older population. One would expect there to be fewer people in the labour force to provide support for those in old age. However there are two sides to the increase in age by 2 years. The pros include if the length of retirement decreases, the individual has more working years to accumulate funds. This shows that an individual can earn more money in the extra 2 years before retiring and claiming for the OAS. Another pro factor is that an individual will be able to contribute more to the economy in the additional two years. This will ensure that there are less people to be supported who rely on welfare support and income transfer. Now people are living longer than they did in the past, so increasing the eligibility from 65 to 67 year seems a sensible approach. With people living longer and better health care resources being provided, healthy individuals can earn more money in those two years and save up more money for their retirement. However the flip side to the increase in eligibility is that it will greatly increase the cost of OAS, while simultaneously reducing the proportion of workers who pay taxes to continue funding the program. A greater number of people will retire at 67 and will increase the cost once they start receiving the benefit. A demographic shift to a population which is aging will require a wide system that incorporates a lifestyle that is healthy and action to making connections between more experienced teachers and young Canadians not an increase in the age eligibility. Keeping the non-workers into context increasing the age of eligibility will increase in the number of retires under the poverty line. Two years is a long time for a senior that is relying on receiving OAS at 65 years. Also two fewer years of eligibility will cost money to an individual and will have to use from their retirement savings. The last con deals with the fact that increasing the age limit by 2 years will keep the seniors tied up in the workforce making it difficult for the millennials to enter.

2. Compare the demand for health care services with the demand for education services in Canada. Explain why each of these services are similar in some ways, but quite different in other ways.

The demand for health care is increasing with the aging of the baby boomers. People aged 65 and above comprised of around 14% of the total Canadian population in 2010, and by 2036 it is estimated to be around 25% of the total Canadian population. With the increase of the number of people aged 65 years and above, the demand in health care will also go up. Around 75% of people that are 65 years and above have at least one chronic disease. Senior citizens, overall, have more doctor and hospital visits and they take more prescription drugs. Spending on health care is said to increase by an approximate 4. 5% per year from 2013 to 2018.

Like the increase in demand for health care services, the demand for education services is also going up. With the continuous globalization and an increase of a demand in specialized skill sets, more and more Canadians are looking into higher and specialized education in order to make themselves stand out in the competitive job market. With this there is a greater demand in private and for-profit education, where there is more emphasis on a higher quality of education.

Both the demands for health and education services depend hugely on the increase of population. Both industries are heavily dependent on funds from the government. Because both industries are funded from the government, the advancements are limited causing Canadians to look into private clinics and schools, which cost the consumers but also provide a higher level of service. The main difference between the demand of the two services is that the health care is essential for the well-being of people, whereas education is not a necessity for survival. The difference between education and health is that education produces benefits that later influences an individual to better health outcomes Health is essential for an individual to receive an education. A person can carry on with an existence without education however can’t live without adequate healthcare. Therefore the demand for health care services will be greater than the demand for educational services.

3. Evaluate each of the following statements.

1. Niskanen’s model of bureaucracy implies that the level of bureaucratic output occurs where marginal benefit is equal to marginal cost.

Niskanen’s model of bureaucracy contends that in the market-oriented private division, someone who needs to ascend into a political career does so by expanding the benefits of their organization or the department. The individual’s pay increases with the organization’s benefits. Conversely, civil servants tend to concentrate on such things as perquisites of office, open notoriety, power, and support since open doors for money related increases are insignificant. Niskanen proposed that power, status, thus on are emphatically related with the extent of the official’s financial plan and inferred that the bureaucrat’s goal is to boost their financial plan. Efficiency requires that a unit of output be produced just enough as long as the additional benefit from that output surpasses the extra cost. Subsequently, the effective output is where marginal cost equals marginal benefit, not total cost equals total benefit. An important implication of Niskanen’s model is that bureaucrats have incentives to expend effort on promotional activities to increase the sponsor’s perceptions of the bureau’s benefits. Hence, the bureaucrat’s craving to work as substantial a realm as could be expected under the circumstances prompts to an inefficiently expansive administration.

2. Arrow’s impossibility theorem refers to the result that an income tax system cannot be efficient and levy a positive tax on the last dollar of income earned by the highest-income individual.

Arrow's Impossibility Theorem implies that it is not possible to figure out a decision-making rule that simultaneously satisfies a number of realistic measures. The implication is that democracies are inherently prone to inconsistency regarding public goods and other decisions. The theorem only says that it cannot be guaranteed that society will be able to find a consistent decision making rule. For certain patterns of individual preferences, no problems arise.

The most-preferred level of spending of an individual is a decreasing function of the person's income. That's because a person's income elasticity of demand for the publicly provided good is less than the price elasticity of demand for the publicly provided good. That means everyone with lower income wants more government spending, and everyone with higher income wants less government spending. Arrow's impossibility theorem shows that, given a common criteria there is no suitable tool for the problem of social choice theory to assess the performance of relatively imperfect mechanisms. Majority rule may not always yield an equilibrium however, majority rule will result in choosing policies most favoured by the median voter such policies are not necessarily efficient. This will create inefficiencies within the society as income tax cannot be levied since as Arrow stated it is impossible to find a decision making rule.

4. List and discuss the recommendations made by Courchene and Allan to reform the EI program during the 2008 Canadian recession.

Courchene and Allan made some key recommendations to reform the EI program. The main criticism Courchene and Allan highlighted of the EI

Program was the interregional variability in the ratio of EI beneficiaries to the unemployed. EI benefits are based on the number of hours worked and the unemployment rate of the region where people are working. Workers in high unemployment rate areas need only work 420 hours to obtain EI benefits, while those in low unemployment areas must work 700 hours. Secondly another concern expressed in particular by Courchene and Allan expressed particular concern about Canadians who suffer long spells of unemployment and exhaust their EI benefits. Their first recommendation is that the EI program should go back to insurance principles only, and that there should be uniform qualifying periods and a uniform method of calculating EI benefits. Their view is that rather than be part of EI, benefits such as maternity, parental, sickness, and training should be funded by other programs such as the federal government’s Canada Social Transfer. Courchene and Allan also made the point that no special provisions should be given to frequent users of the EI program, and that employers should not be saddled with higher EI premiums than are employees.

5. Internal government documents project the cost of the OAS system will climb from $36. 5 billion in 2010 to $48 billion in 2015. By 2030-when the number of seniors is expected to climb to 9. 3 million from 4. 7 million now-the cost of the program could reach $108 billion. Explain how these studies have influenced the Government of Canada to introduce a plan to raise the age of eligibility for OAS from 65 to 67 by 2023.

The data provided by the government agencies office say there were four tax payers in the workforce for each senior in 2010, yet by 2030 it will drop to two for each senior.

In order to support the OAS system the age of eligibility needs to rise to keep more workers in the labour force and pay their income taxes. They all say that by delaying OAS the government is delaying the funding. Since the Canadian population is aging and people living a longer life, the number of taxpayers is dwindling, the program is seen as unsustainable in its current form. In order to continue with the support of the program the system needs to be addressed accurately, this has the capacity to undermine Canada’s economic position. It is still distressing knowing as baby boomers start retiring; the cost to the federal income fund of providing public pensions will increase exponentially. By the time the increase in eligibility is fully implemented it will increase net revenues of the federal government but will reduce the provincial revenues. The reform may stimulate some recipients of the OAS who would otherwise have planned to retire at the age of 65 or 66 to delay their retirement.

As life expectancy increases it will make more recipients of the OAS receiving the benefits.

OAS costs will increase as seniors continue to live long and healthy lives. Living longer and healthier means seniors are collecting the OAS benefit for much longer periods than anticipated, significantly increasing the cost of the program. Individuals will be retiring early when they can be working extra and saving for the retirement. In order to insure the fund can be sustainable the government need to increase the age of eligibility. Delaying retirement would make the workforce larger, and seniors can benefit from it by keeping themselves active and giving themselves more years to work to save for retirement in an age of longer lifespans.

That is the reason why numerous countries all over have taken steps to reform public pensions by increasing their ages of eligibility and Canada should not be an outlier. OAS had an unfunded liability with the age of eligibility at 65. The plan to change the eligibility age would reduce the liability of the fund not supported by the government. Keeping this into perspective delaying the eligibility for OAS by two years was a moderate step to ensure that long-term cost of the program diminishes.