

## **Review of Richard Saillant, *A Tale of Two Countries: How the Great Demographic Imbalance Is Pulling Canada Apart*. Halifax: Nimbus, 2016.**

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Fretting about aging and fiscal crises has justly become a small cottage industry in New Brunswick, as it has in Canada and indeed the Western world. While talk of “crisis” may be overblown, in this province there is cause to worry. It is not simply that the population is becoming older. The circumstances surrounding aging in New Brunswick are also concerning.

Richard Saillant, formerly director of the Donald J. Savoie Institute at the Université de Moncton, caused a minor sensation in 2014 with the publication of *Over the Cliff? Acting Now to Avoid New Brunswick's Bankruptcy*. His study contributed to the sense of urgency. If a book can be judged by its cover, then the image of a hapless square province bouncing toward the edge of a cliff tells it all: the province is speeding out of control toward fiscal disaster. In that book, Saillant urges action on rising provincial public debt while there is still time. He notes that debt servicing consumes over \$600 million per year and will rise not just because the total debt will continue to increase but because historically low interest rates have nowhere to go but up. He also argues that the province and other developed economies can look forward only to modest economic growth in the medium term, meaning that governments will not be able to “grow themselves” out of debt. Young people leave the province for opportunity elsewhere; female labour force participation has likely peaked and will by itself no longer contribute to consumption and growth. Baby boomers are now retiring and bringing the halcyon post-war era of high employment, low dependency ratios, and huge consumer spending to a slow end. Federal government transfers, he projects, will slow.

In all, Saillant urged in 2014, the province must reduce spending and raise taxes. By these means it can reduce the deficit, pay down principal, and free itself from the bond markets. This all sounds like a conservative free market agenda. However, this is not Saillant’s position. He favours fiscal rectitude precisely to create the conditions for sustainable social spending. He also favours the province grabbing at economic development opportunities when they arise, including shale gas development, on the assumption that the best welfare program is a good job, and the best source of provincial revenue is in-province taxation.

Saillant’s latest book, *A Tale of Two Countries: How the Great Demographic Imbalance Is Pulling Canada Apart*, continues the argument, with two changes. First, the latest is less about provincial public debt as such and more about aging and its various policy consequences. Second, the book is less about New Brunswick and more about Atlantic Canada in the context of the whole country. *Over the Cliff* reads like an alarm bell. *A Tale of Two Countries* conveys a somewhat more measured message, setting out some practical steps to be taken to adjust to the wave of demographic change. But for reasons described below, a certain bleakness colours the analysis he provides.

Saillant takes his reader through now-familiar statistics showing that Atlantic Canadian provinces are increasingly old, indicating that in 2011 the first baby boomers began to retire, and that “proportionally fewer of us are working to support us all” (xix). In this respect the region differs from the rest of Canada and particularly the Prairies. While 16 per cent of Canadians are over 65, in New

Brunswick that share is 20 per cent and by 2038 will be 33 per cent. The West, in short, is young; the East is old. This is the great demographic imbalance (GDI). Aging is connected to lower employment, increased dependency ratios, slower economic growth, and reduced government revenues. And aging imposes its own extra costs on the welfare system. As they age, seniors require more and more costly health care. Therein lies the problem: aging threatens the social safety net. The consequences, argues Saillant, are “devastating” (144).

The problem implicates the federal government. Saillant sees a Canada-wide fragmentation afoot and cannot resist the conclusion that “eastern and western provinces will continue to pull apart demographically and economically in the years ahead” (45). But the federal government of course is the government of all Canadians and has historically supported the equalization of citizen access to public services regardless of province of residence. Saillant deftly presents a thumbnail history of transfer programs. One of the most important programs is Equalization, the principles of which are enshrined in s. 36 of the *Constitution Act, 1982*. While the federal government has spent less to reduce regional disparities in recent decades, Saillant calls for it to return to its historic role. Specifically, he wants the Equalization Program tweaked to take account of the disparate provincial demographic profile and the corresponding differential costs of public services to meet the needs of the aging provinces. Atlantic Canadian provinces should get a premium on equalization payments to account for the extra costs of caring for an aging population (152).

To be sure, other things need to happen. Provinces must do their share. Saillant draws attention to education spending versus health care spending. The latter is hard to contain for all sorts of reasons. Health care is a “luxury good” (a technical economic term), and policy-makers must realize that demand for health care goes up with income. Rising demand must somehow be managed, and rigid costs must be controlled. But the options are limited since doctors and other specialists are highly mobile—and so Atlantic Canadian compensation packages in health must come close to national figures.

In education, student numbers are in decline, yet the number of teachers and dollars deployed for education are going up. Something is amiss here and needs to change. After all, the supply of teachers far outstrips demand. Saillant suggests that liberal democracies are not good at disciplining their fiscal activities. Says Saillant, they just can't save (65). So true. In New Brunswick, where the government occupies a large portion of economic activity, the temptation for governments to spend is usually irresistible, even when it means further debt.

Given that there will be no easy fix to the demographic issue, Saillant puts great stock on the amendment of the Equalization Program, as indicated above, to deal with its costs. This depends in part on the ability of the old provinces to show the rest of Canada that they are doing things to improve their own circumstances. It also depends on the willingness of the rest of Canada—young Canada—to finance increased transfers to old Canada. Saillant recounts the history of sharing, but knows its limits. After all, he begins the book by remarking on Canada's deeply federal character. Canada resembles more a “loose collection of settlements,” he reminds us, than a unified regime (xx).

Will young Canada help old Canada? On the one hand, provinces are strong in Canada and their governments jealously guard their prerogatives. On the other hand, young people are less attached to place and community than their elders (Angus Reid 36–37). They are less nationalistic and vote for options that afford them opportunities to travel and work abroad. Younger voters in the UK disproportionately voted in 2016 for Britain to remain in the EU (Shuster) so that they could have easier

access to Europe for travel, study, and work. Young Americans, Democrat or Republican, express a more muted patriotism than their elders (Drutman 22). Young people will move for opportunity. If Atlantic Canada depends on young people remaining in or moving to the region to moderate the GDI, it will almost certainly find itself in dire straits.

Canadians are mobile, and indeed enjoy a *Charter* s. 6 right to mobility, even while federal programs like Employment Insurance are structured to encourage Canadians to remain in low-employment regions. A recent study suggests that Canadians speak with much the same accent from coast to coast to coast, and that this can be attributed to a great deal of interprovincial mobility (Canadian Press). It is widely known that young people tend to be the more mobile. This has affected Atlantic Canada dramatically; young people leave the East for opportunity elsewhere and that is where they start their families. There is some migration back to the East but this is primarily among the older segments of the population who left the East many years ago. This latter group worked and paid taxes to other governments and then return to the Atlantic region just when their needs for public services begin to increase. The great empirical question that Saillant's work raises is whether young Canadians, including those who left Atlantic Canada for better prospects, will be willing to support measures to stabilize the fiscal position of the provinces in the east.

Saillant notes that one of the historical sources of central Canadian support for the federal government's transfer to the regions was that in an east-west oriented economy in which manufacturing was concentrated in Ontario and Quebec, central Canadian taxpayer dollars redistributed by Ottawa to the regions would return in the form of purchases of goods from central Canada (120). Central Canada would get something out of the transfer system. This is less and less the case. Manufacturing in central Canada is a shadow of its former self in our globalized context. The Canadian economy is significantly oriented north to south. And Ontario years ago joined other provinces in the receipt of equalization payments. The federal government, to control costs, put a cap on equalization transfers, so money for Ontario means less for the Atlantic provinces. Ontario once upon a time considered itself "Canada" but in the early 1990s, Premier Bob Rae began speaking of Ontario as a "region"—in other words, as a competitor of the other regions for federal largesse.

All this suggests that the ideology of "sharing" that undergirds the transfer system and that supports Saillant's proposal may be weakening, and this is not good news for Atlantic Canada. *A Tale of Two Countries* was meant to be a more balanced, positive analysis of the demographic imbalance in Canada than the more disconcerting *Over the Cliff*. Yet the numbers—to which Saillant, in his sober, hard-headed manner, is very faithful—do not lie. Atlantic Canada is in for a difficult period. Richard Saillant has written a thoughtful, rigorous, yet accessible book that is required reading for anyone who wants to think seriously and soberly about the future of this province and this region.

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