

# STRUGGLING TO SEE WHAT IS IN FRONT OF OUR NOSE

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PRESENTATION TO CABE

DON WRIGHT

NOVEMBER 30, 2021

**To see what is front of one's nose  
need's a constant struggle.**

**George Orwell**

# OUTLINE

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- I. Motivation
- II. 1945 White Paper
- III. Putting the Wheels Back on the Progress Bus
- IV. Discussion

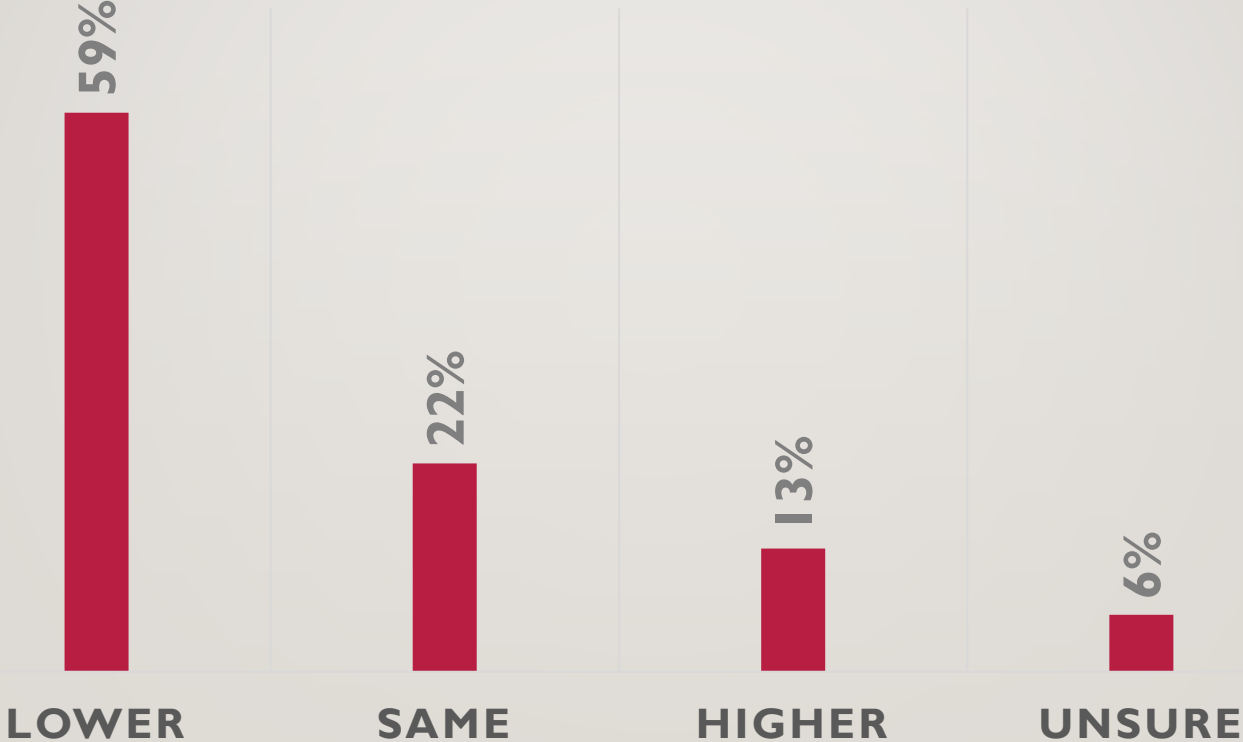
# I. MOTIVATION

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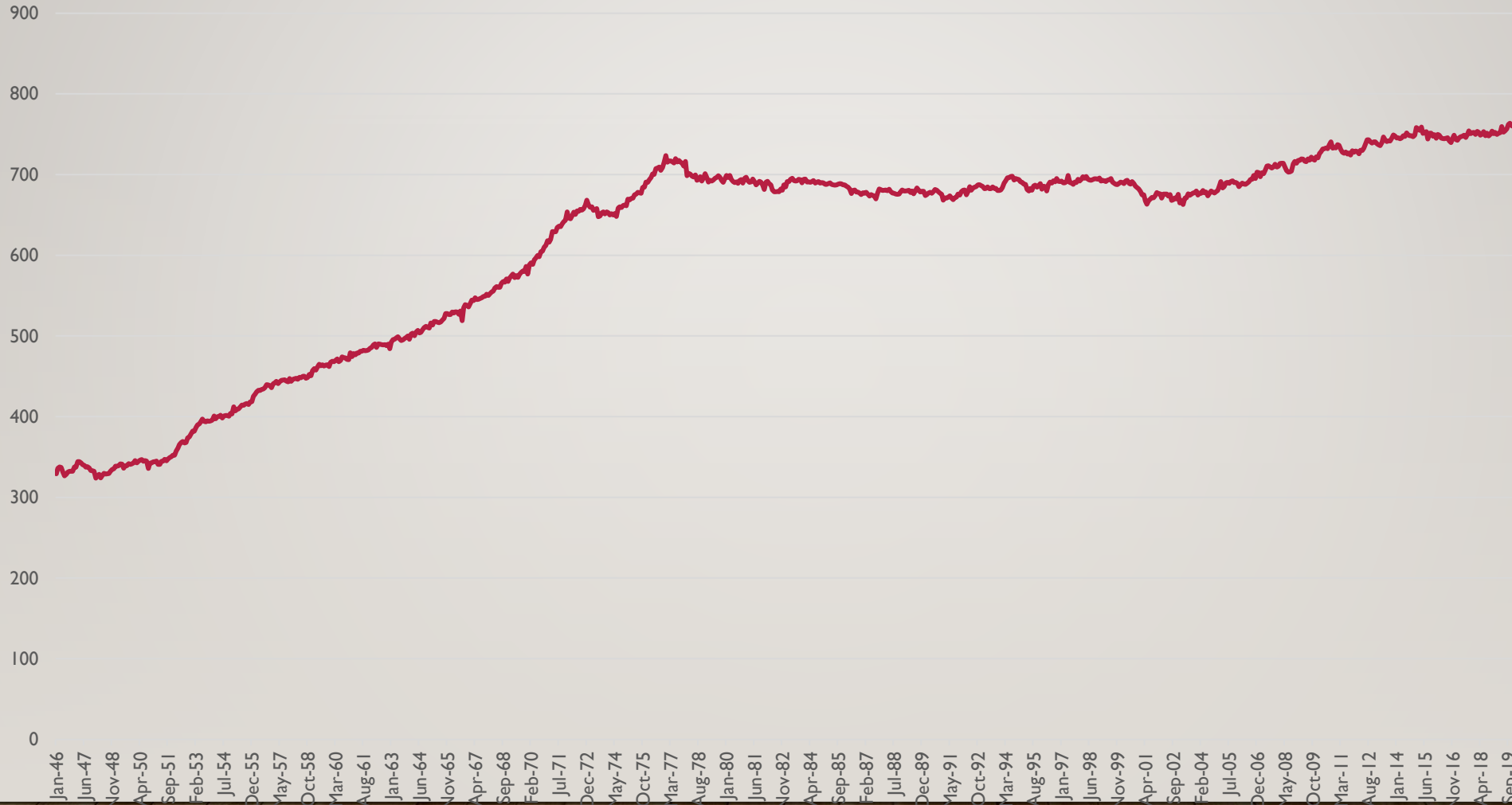
# DO YOU THINK THE NEXT GENERATION OF CANADIANS WILL HAVE A STANDARD OF LIVING THAT IS HIGHER, THE SAME OR LOWER THAN CANADIANS HAVE TODAY?

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Source: Nanos August 2021

# Real Average Weekly Earnings (2002\$)



Source: Project Link – [worthwhile.typepad.com/Stephen/link](http://worthwhile.typepad.com/Stephen/link)

**Isn't it time we started to take  
Canadians' standard of living  
seriously?**



**RHETORIC VS. RESULTS: SHAPING  
POLICY TO BENEFIT CANADA'S MIDDLE  
CLASS**  
BY PPF FELLOW DON WRIGHT

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<https://ppforum.ca/publications/don-wright-middle-class/>



## II. 1945 WHITE PAPER

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CANADIAN WHITE PAPER ON EMPLOYMENT AND INCOME<sup>1</sup>

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The ultimate aim of all reconstruction policies is the extension of opportunity, welfare and security among the Canadian people. Reconstruction must start from the circumstances which result from nearly six years of war; circumstances in which, at the peak, not far from half of the Canadian people derived their occupation and their incomes directly, or indirectly, from government expenditures. The program of reconstruction is, therefore, not a simple matter of striking out for new goals, but a complicated task of combining the demobilization of the armed services and war industry with the rebuilding of an ampler and more stable Canadian economy.

Comprehensive provisions have been made for the demobilization and re-establishment of the members of the armed forces. These provisions will depend for their success on the conditions of civilian life, in which such persons are finally re-established, and particularly on the availability of employment or other gainful occupation.

The central task of reconstruction, in the interest of the armed services and civilians alike, must be to accomplish a smooth, orderly transition from the economic conditions of war to those of peace and to maintain a high and stable level of employment and income. The Government adopts this as a primary object of policy.

This goal can not be achieved by legislation alone, nor by a single device or plan. In this, it is like the wartime stabilization program. Its attainment will require the effective working of a number of compatible policies, all directed to the same end, and each contributing to the success of the others. It will not be enough that it is an object of government policy. It must be an object of national endeavour. The active cooperation of all governments and groups in the country will be essential to success.

In setting as its aim a high and stable level of employment and income, the Government is not selecting a lower target than "full employment." Rather, the Government is mindful that employment and incomes will be subject to fluctuations in the sphere of international trade, which can not be wholly and instantaneously offset, and that seasonal fluctuations, resulting from climate and buying habits, are not to be

<sup>1</sup> This report, having special reference to the initial period of reconstruction, was presented to the Canadian Parliament by the Minister of Reconstruction, Honorable C. D. Howe, in April 1945.

overcome without much patient and resourceful work. The Government is inaugurating policies which break new ground, and is confident that these policies, with full public understanding and support, will achieve, in the immediate postwar period, satisfactory results of decisive importance. In later years, as experience grows, they can be made to yield ever-improving results which will mark a new era in Canadian development.

The specific application of reconstruction policies is set out in this paper in respect of Stage 2 of the war only, as this is the period of immediate urgency and is likewise a period concerning which it is possible to speak with a greater degree of certainty. Stage 2 of the war is the stage beginning at the cessation of hostilities in Europe and extending to the time when complete and final victory has been won in the Pacific. During Stage 2, war expenditures will continue at a high level while those reductions in the armed forces and war industry, and the beginnings of reconstruction, which circumstances permit and require, are being carried out. During this period, the Dominion Government, under its wartime powers, will have the central responsibility and authority for initiating and carrying out reconstruction policies, as well as for the continued prosecution of the war.

For the succeeding period, when final victory has been achieved and when the full long-term policies of reconstruction will be put into effect, it is impossible at this time to lay down detailed policies with the same definiteness. Concentration of attention and effort on the continuing problems of war and the impending problems of Stage 2 of the war have imposed limits on the detailed work which could be done on later programs. Policies will be vitally affected by the international economic arrangements which can be achieved and equally by the financial and administrative agreements reached at the Dominion-Provincial Conference. It is possible, however, to set out the broad lines of long-term reconstruction policy which the Government proposes to follow.

#### I. THE EMPLOYMENT PROBLEM

As of June 1, 1944, it is estimated that the total number of people in remunerative occupations, including service in the armed forces, but excluding women in agriculture, was 5,016,000,

# KEY LESSONS FROM 1945-75

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- “Social contract” based on high productivity, high wages and full employment
- Whole-of-society exercise
  - In particular, an implicit tripartism involving government, business and labour
- Critical role of “creative destruction”

# CRITICAL ROLE OF CREATIVE DESTRUCTION

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- While White Paper didn't use the term, creative destruction was at its core:
  - Importance of investment in R&D
  - Recognition of need to reallocate resources from industry to industry
  - Adjustment assistance and training to facilitate reallocation

# WHAT DRIVES CREATIVE DESTRUCTION

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- Business recognition that its competitiveness is always ephemeral
  - Competitors (current and potential) are:
    - Improving productivity
    - Developing better products
    - Developing better business models
  - Employees may have better alternatives
    - Particularly in a full employment economy

# WHITE PAPER RECOGNIZED A FINE BALANCE

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- Business needs a reasonable prospect of a competitive return on its investment
- But that return had to be earned
- Belief in the invisible hand, not the “invisible hammock”

# III. PUTTING THE WHEELS BACK ON THE PROSPERITY BUS

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# PUTTING THE WHEELS BACK ON THE PROGRESS BUS

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1. Put the standard of living back at the centre of policy
2. Run the labour market “warm”
3. Some nuance on immigration policy, please
4. Pay attention to the arithmetic of the standard of living



# I. PUT THE STANDARD OF LIVING BACK AT THE CENTRE OF POLICY

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# STANDARD OF LIVING AT THE CENTRE OF POLICY

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- This may seem like parenthood, but it really hasn't been for 40 years
- Could anybody really see it in this year's election campaign?
- Challenge of consistent and stable priorities in government
- Possible approaches:
  - A “standard of living lens” on all government initiatives?
  - Establishing a goal of doubling average real wages by 2050?
    - Canada did more than that in the first 30 years after 1945;
    - Why can't we do it again?

## 2. RUNNING THE LABOUR MARKET “WARM”

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# RUNNING THE LABOUR MARKET “WARM”

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- The labour market determines most of the income of most of the population
- This is how we ensure that the benefits of productivity improvements are shared with workers
- This is how we drive creative destruction
- Mandate for Bank of Canada
- Complementary fiscal policy

# SLIGHTLY HETERODOX VIEW

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- Conventional view may have the direction of causation between productivity growth and real wage growth wrong
- Conventional view:
  - High productivity growth  $\rightarrow$  high real wage growth
- Heterodox view:
  - High real wage growth  $\rightarrow$  high productivity growth
  - (What drives creative destruction?)

# IS 2% REALLY THE OPTIMAL RATE OF INFLATION?

	<b>Avg Inflation Rate</b>	<b>Avg Rate of Growth in Real Wages</b>	<b>Avg Rate of Growth in Labour Productivity</b>
1950-73	2.8%	2.9%	3.9%
1973-96	6.0%	0.2%	1.4%
1996-2019	1.9%	0.4%	1.2%

### 3. SOME NUANCE ON IMMIGRATION POLICY, PLEASE

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# CURRENT ECONOMIC ARGUMENTS FOR HIGHER LEVELS OF IMMIGRATION DON'T HOLD UP

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- Doesn't materially help with the aging challenge
- Evidence doesn't support the economies of scale argument
- GDP per capita goes down (Century Initiative/Conference Board)
- Government revenues rise, yes, but so do costs



# IT'S GDP PER CAPITA, STUPID!

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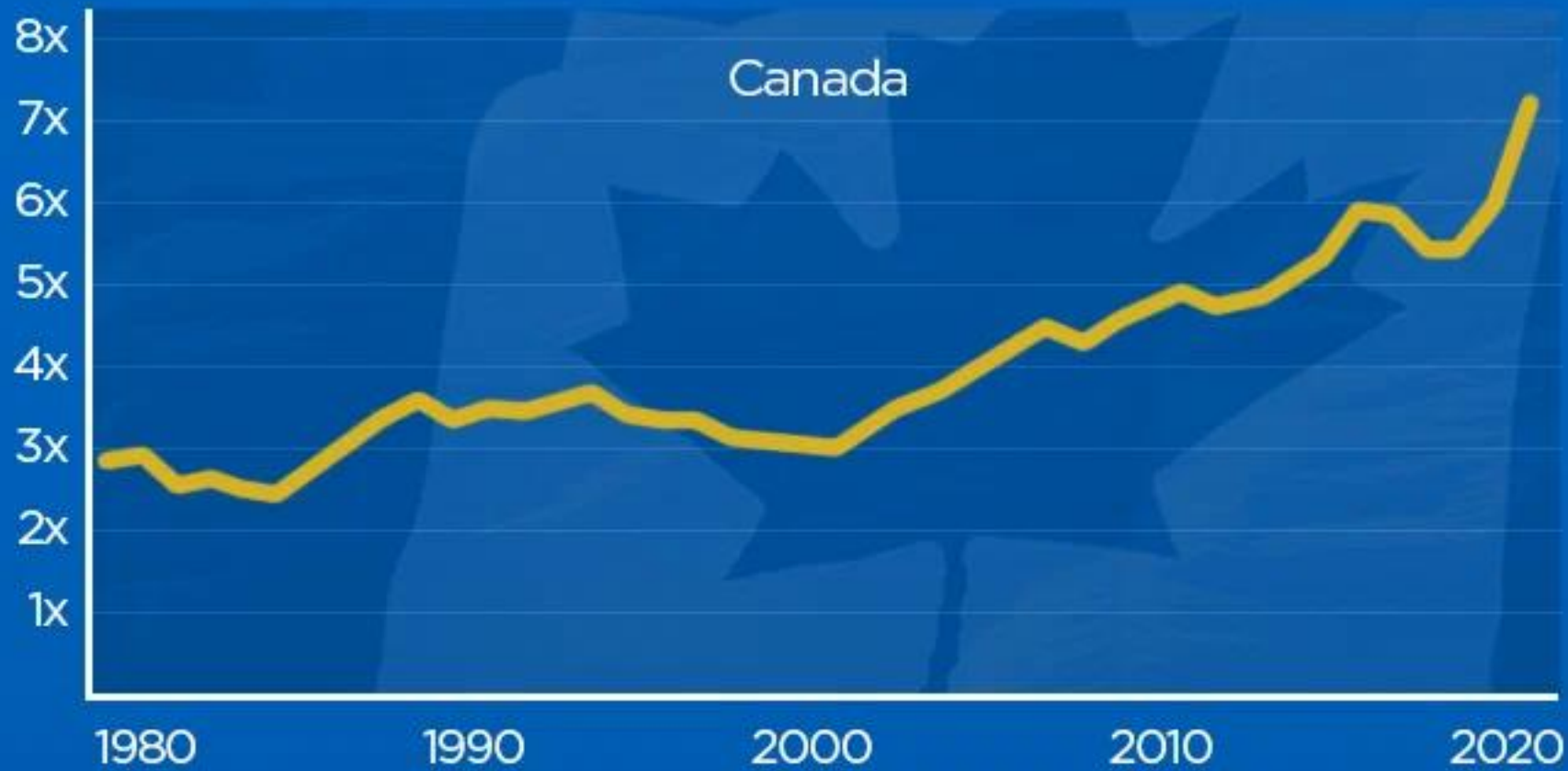
- Natural resources are still an important component of our wealth
- Let's put some Ricardo back into our production function:
  - $Y = f(K, L, N_{NR})$
- I would like to see the production function where  $Y$  grows proportionately more than  $L$ !

# AND WHY DO WE THINK THAT DEMAND DOESN'T MATTER IN THE HOUSING MARKET?

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- Urban land where the population is growing is not in infinite supply
- Think of a “standard of living function”:
  - $SOL = f(Y/L, Nu/L)$
- Should it be such a surprise that the price of housing continues to outstrip income?

# It takes how many times the average household income to buy an average home?



© Global News

Source:  
CREA and Statistics Canada

# THERE ARE ALSO EQUITY CONSIDERATIONS

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- Evidence is very strong that the demographic group most adversely affected by higher immigration is the previous cohort of immigrants
- The age distribution of immigrants is disproportionately 25-40 years old
  - This amplifies the baby boom echo (millennials)
  - An increase in immigration at this time amplifies the challenges millennials are having, particularly in the housing market
  - So, even if there is a valid argument for raising immigration levels, this is being done approximately 10 years prematurely

# BUT MY MOST SIGNIFICANT CONCERN THE BUSINESS ORIENTATION THIS VALIDATES

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- “We can’t find enough workers, so let’s ramp up immigration levels”
- Why so much opposition to giving Canadians a pay raise?
- But there are other responses to a “shortage” of workers
  - Investment in capital and new technology (robots anyone?)
  - Investment in better products and business models
  - Reallocation of resources to higher value activities
- Invisible hand or invisible hammock?
  - I vote for creative destruction!

# THIS IS NOT AN ARGUMENT AGAINST IMMIGRATION

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- But the **level** of immigration should be a legitimate subject for policy debate
- If we are not prepared to have this in reasoned way, we may find that it happens in a populist way

## 4. PAY ATTENTION TO THE ARITHMETIC OF THE STANDARD OF LIVING

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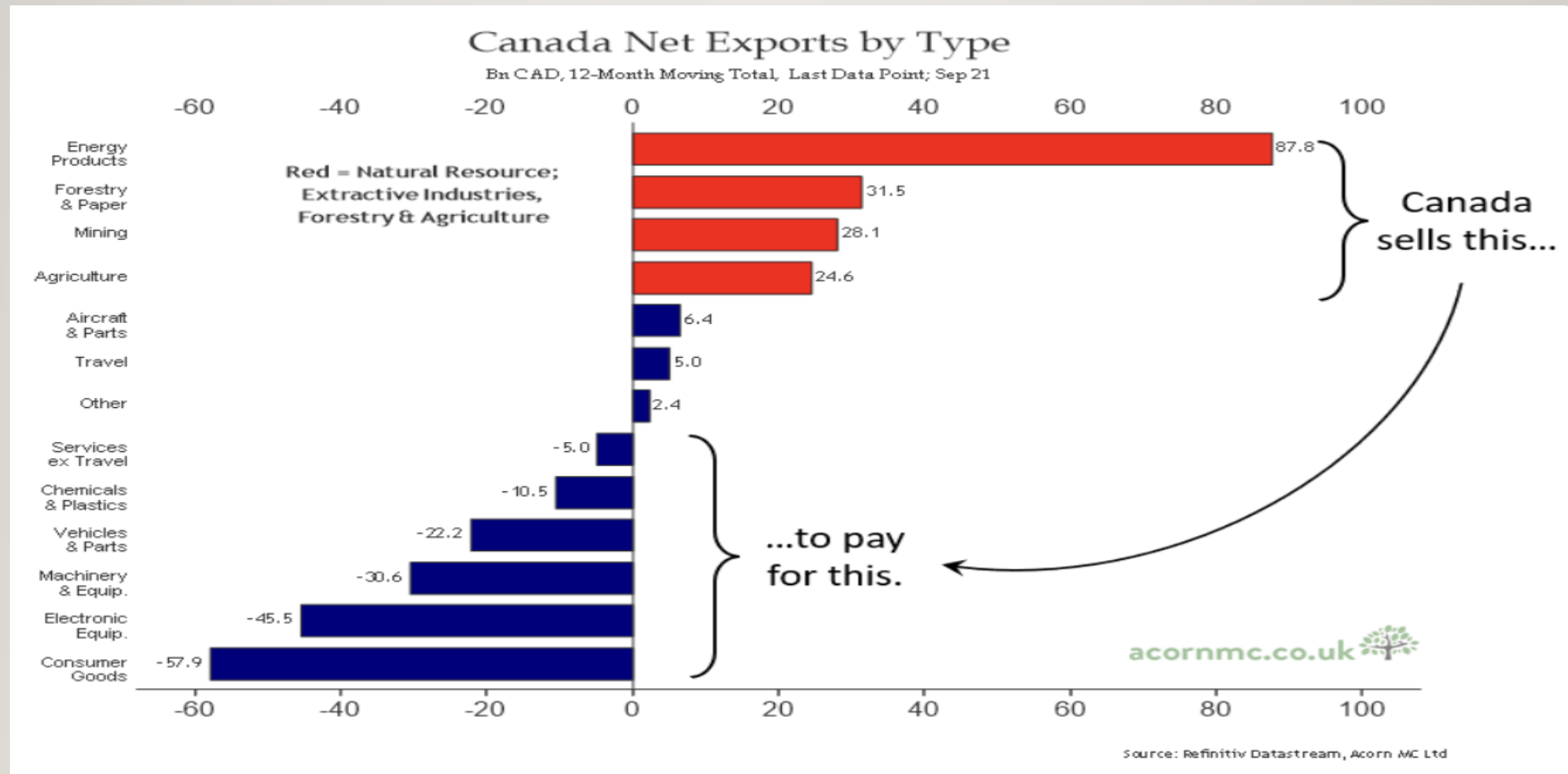
# ARITHMETIC OF THE STANDARD OF LIVING

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- As we make our plans for “building back better” let’s pay attention to:
  - Wages paid by different industries
  - Net government revenue generated by different industries
  - Where Canada has real competitive advantage
- Be cautious about shiny objects
  - Does the arithmetic hold up?
  - Will the rest of the world want to buy what we produce at a price that afford high wages and healthy net government revenues?
- Resource industries pay above average wages and generate more net govt revenue than any other



# OUR CURRENT REALITY



# IV. DISCUSSION

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**THANK YOU**

