

# GRADUALLY AND THEN SUDDENLY

---

APRIL 11, 2024



“How did you go bankrupt?” Bill asked.

“Two ways,” Mike said.

“Gradually and then suddenly.”

Ernest Hemmingway  
The Sun Also Rises



# WHAT I WILL ARGUE

---

- The stagnation of Canada's standard of living is real, and is a clear and present danger to the economic, political and social health of Canada
- There are multiple failures of public policy that have led to this
  - Most significantly, until very recently there seems to have been an almost total complacency about it
- This is particularly unfair to Canadians under the age of 40
- There are solutions, albeit they will require strong political leadership

# I. WHAT HAPPENED TO THE CANADIAN DREAM?

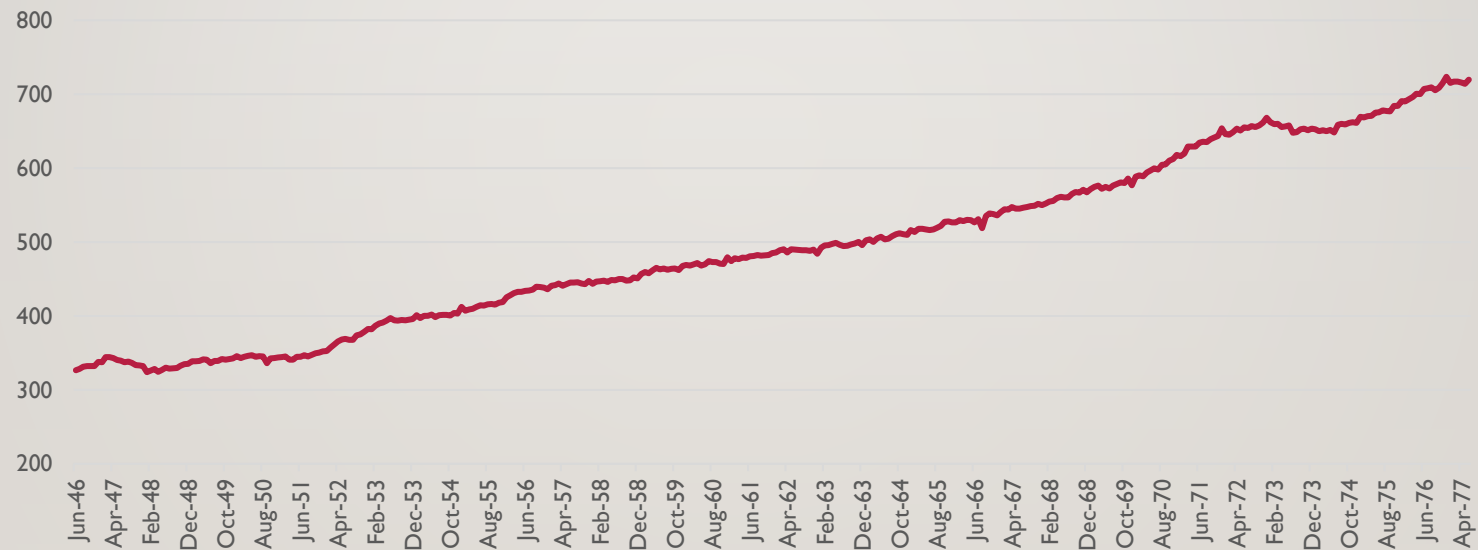
---



# 1946-77: EACH GENERATION WOULD HAVE ROUGHLY TWICE THE STANDARD OF LIVING OF THEIR PARENTS

---

**Real Average Weekly Wages, 1946-77  
2002\$**



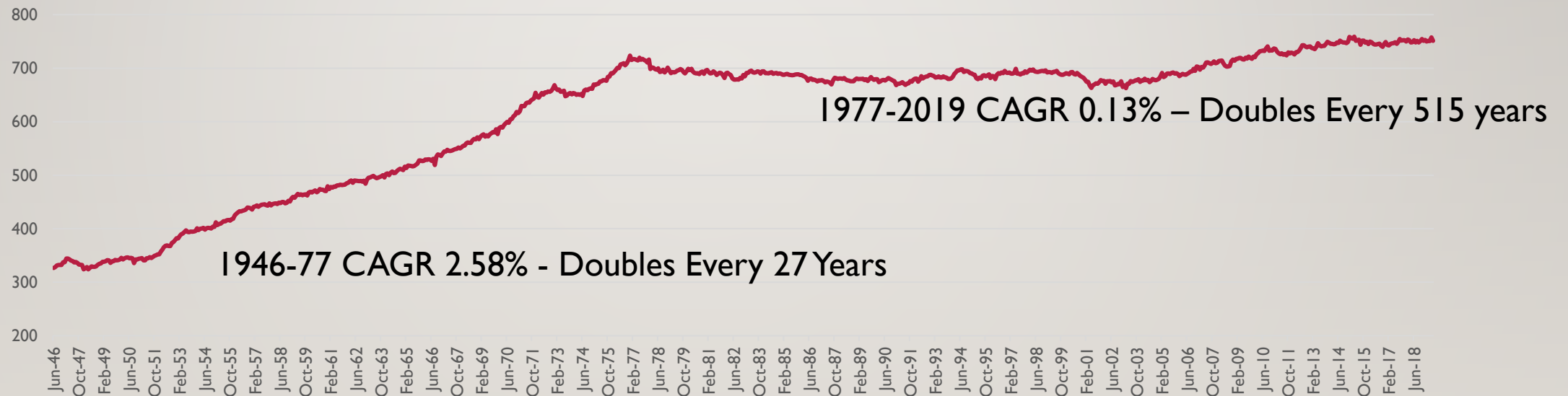
# NOT JUST A RISING PRIVATE MATERIAL STANDARD OF LIVING

---

- Ongoing growth in living standards provided the political ability to expand the role of government
  - People less resentful of taxes when they know they are still becoming better off year over year
  - Expansion of the post-secondary education system
  - Universal health care
  - More generous welfare state
  - Take better care of the environment

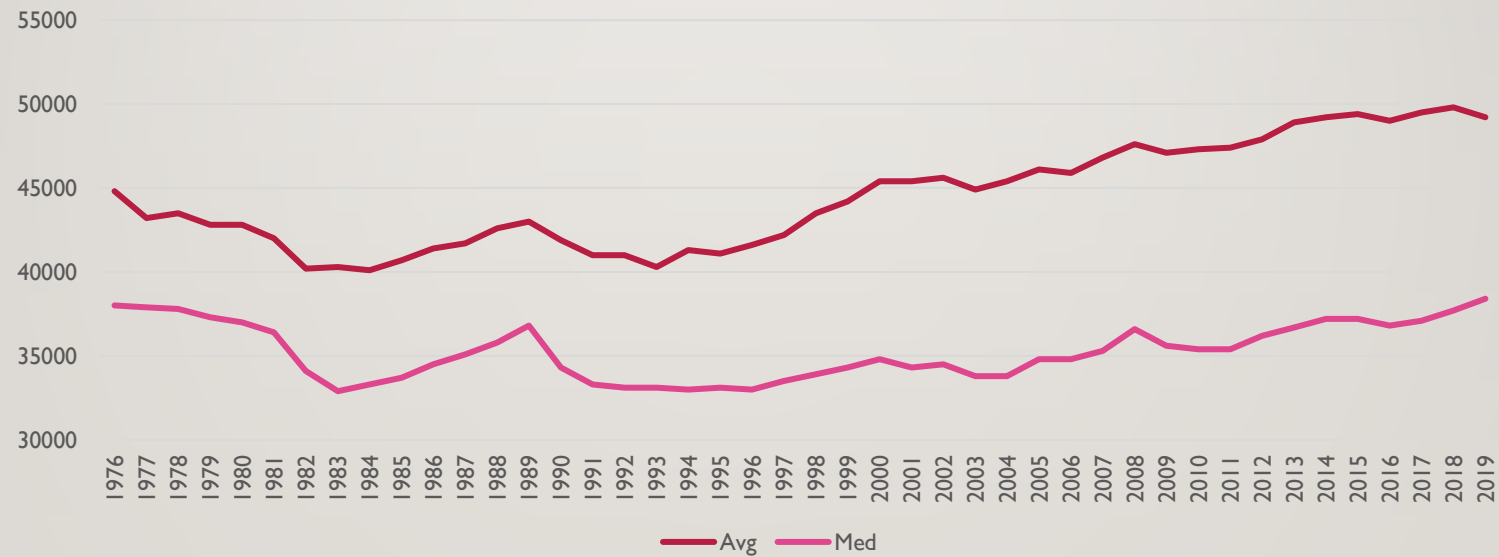
# THEN SOMETHING HAPPENED TO THE PROGRESS MACHINE

Real Average Weekly Wages, 1946-2019  
2002\$



# DISTRIBUTIONAL EFFECTS: AVERAGE UP 10%, MEDIAN UP 1% OVER 43 YEARS

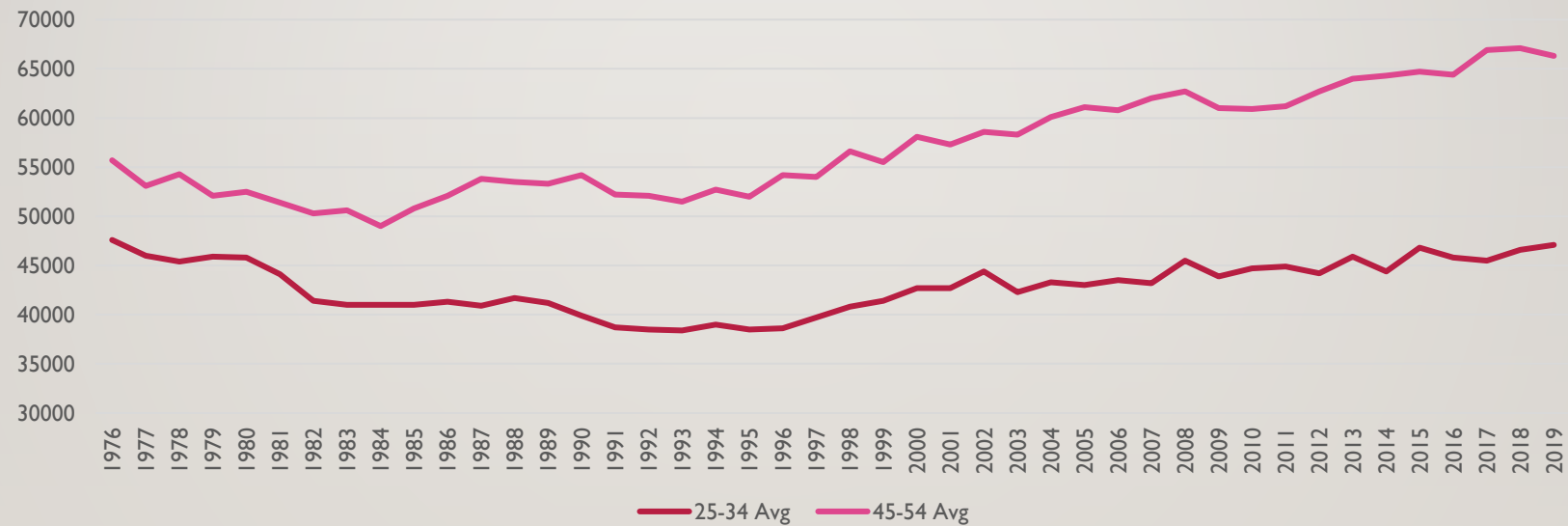
Average and Median Employment Income 1976-2019  
2020\$



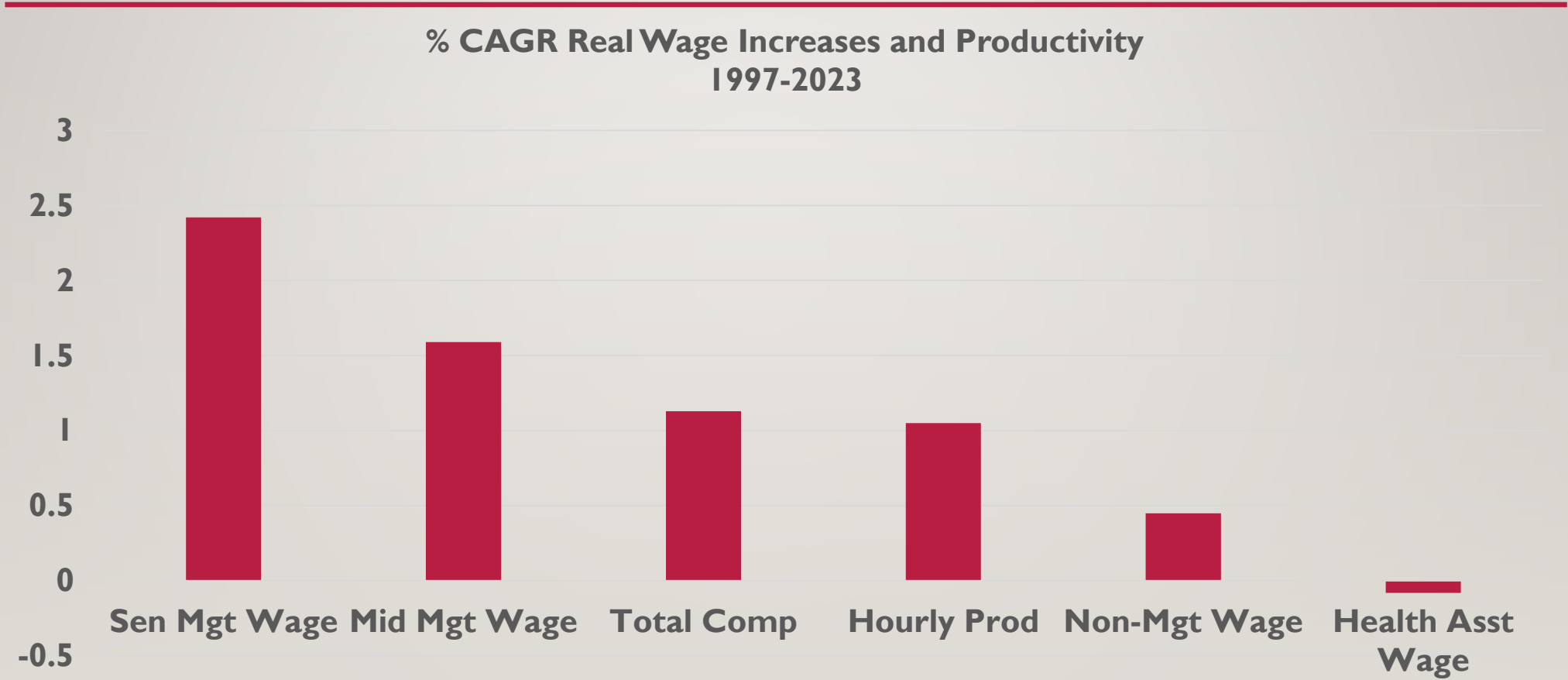


# GENERATIONAL: 45-54 AGE AVERAGE UP 19%, 25-34 AGE DOWN 1%

## Average Individual Employment Income, 1976-2019 2020\$



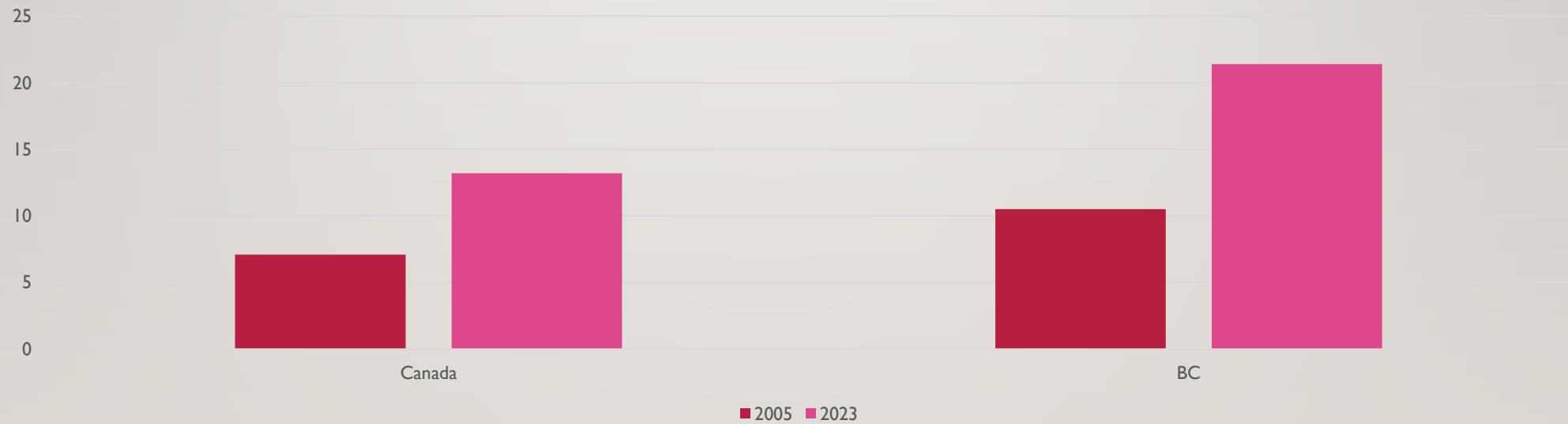
# LET'S TAKE A CLASS PERSPECTIVE ON THIS



# AND THEN THERE IS THE BRUTAL REALITY OF THE HOUSING MARKET

---

Ratio of Benchmark Price of Single Family Home  
to Average Annual Weekly Earnings



## REQUIREMENTS TO PURCHASE A HOME, JANUARY 2022

	Price (\$)	Min. Required Income (\$)	Min. Down Payment (\$)
<b>Greater Vancouver</b>			
<b>Single Family</b>	1,953,000	342,224	390,600
<b>Townhouse</b>	1,029,500	180,399	218,500
<b>Apartment</b>	775,700	135,926	155,140
<b>Fraser Valley</b>			
<b>Single Family</b>	1,569,300	275,099	313,860
<b>Townhouse</b>	796,500	139,571	159,300
<b>Apartment</b>	574,300	100,635	114,860

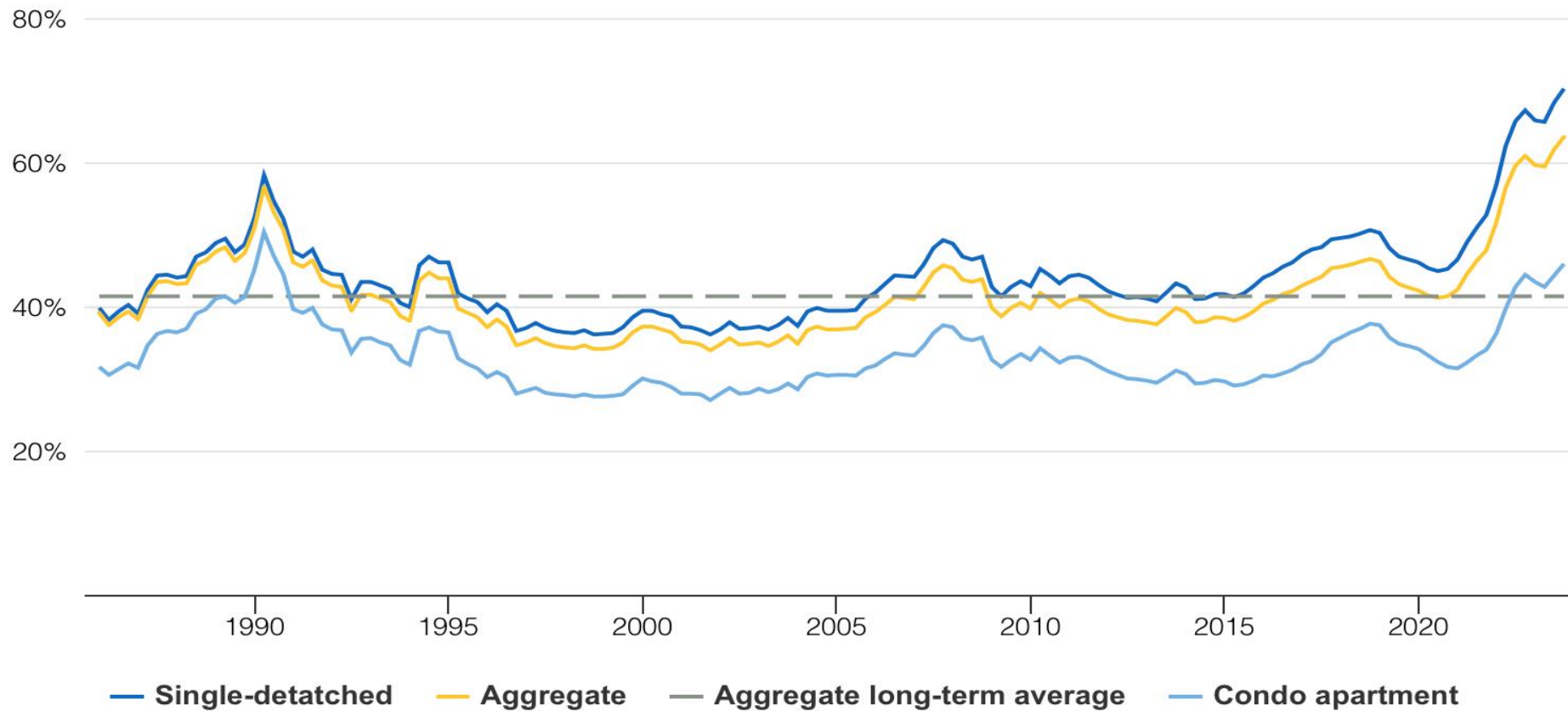
## The share of income a household would need to cover ownership costs (in %)

Canada	Vancouver	Calgary	Edmonton	Toronto	Ottawa	Montreal
63.5	106.3	48.3	36.8	84.8	49.9	53.3

Fourth quarter 2023

### RBC Housing Affordability Measures - Canada

Ownership costs as % of median household income



# NOT SURPRISINGLY, MILLENNIALS ARE HAVING DIFFICULTY IN “LAUNCHING”

---

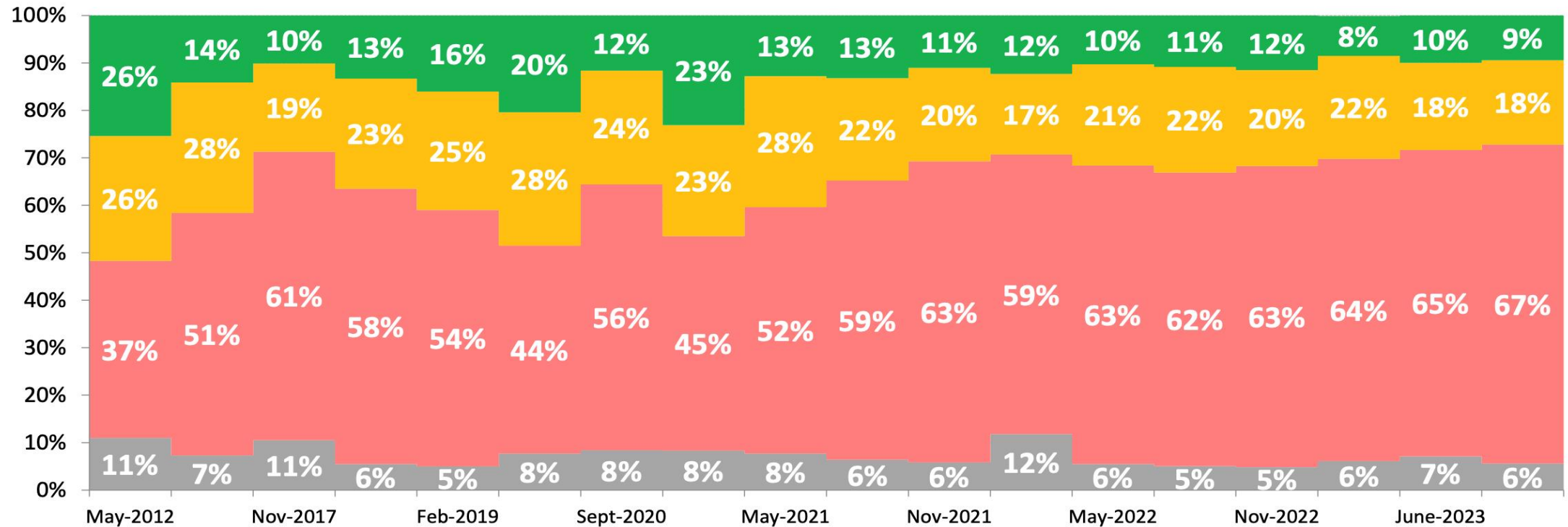


IN LIGHT OF ALL OF THIS,  
IS IT ANY SURPRISE THAT WE SEE THIS ...

---



# Q – 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?



\*Weighted to the true population proportion.  
 \*Charts may not add up to 100 due to rounding.

Higher Same Lower Unsure

Source: Nanos Research, RDD dual frame hybrid telephone and online random survey, September 2<sup>nd</sup> to 4<sup>th</sup>, 2023 n=1044, accurate 3.0 percentage points plus or minus, 19 times out of 20.





# HOUSTON, WE HAVE A GENERATIONAL PROBLEM

---

World Happiness Report:

<https://happiness-report.s3.amazonaws.com/2024/WHR+24.pdf>

- In 2021-23, Canada ranked 15<sup>th</sup> out of 143 (down from 5<sup>th</sup> in 2012-14)
- Difference by age:
  - Over 60 years of age – 8<sup>th</sup>
  - Under 30 years of age – 58<sup>th</sup>

THE ECONOMIC, SOCIAL AND  
POLITICAL IMPLICATIONS OF THIS ARE

...

NOT GREAT!

---



# AND YET, WE SEEM CONTENT, OR AT LEAST COMPLACENT, ABOUT THIS

---

That is what so many of our policies seem to suggest

# FLOOR PLAN OF A NEW “MICRO-APARTMENT” THAT WILL RENT FOR \$1680/MONTH

---



## AND THIS IS WHAT THE FEDERAL MINISTER OF FINANCE HAD TO SAY ABOUT IT:

---

This is the future of housing for “lower and middle income Canadians.” Freeland made a special visit on Monday to the newly opened Victoria, BC rental building containing these micro-apartments, where she touted them as “a prime example of how the federal government is building more homes for everyone, including families, younger Canadians, and persons with disabilities.”



## II. WHAT COULD BE DONE TO TURN THIS AROUND?

---



# THIS IS THE RESULT OF MULTIPLE POLICY FAILURES

---

- If interested, you can check out some of my thinking at:

## **Rhetoric vs. Results: Shaping Policy to Benefit Canada's Middle Class**

By PPF Fellow Don Wright

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

# IMPERATIVES

---

1. Recognize that we really are at the inflection point between gradually and suddenly
2. It's GDP per capita stupid
3. Stop the nonsense about the “worker shortage”
4. Stop being so #\*&@^\$! obtuse about the causes of high house prices
5. Let go of the baby boom derangement syndrome
6. Start paying attention to the simple arithmetic of where our standard of living comes from
7. Pay attention in our industrial policy to the forces of gravity



# I. RECOGNIZE THE INFLECTION POINT BETWEEN GRADUALLY AND SUDDENLY

---

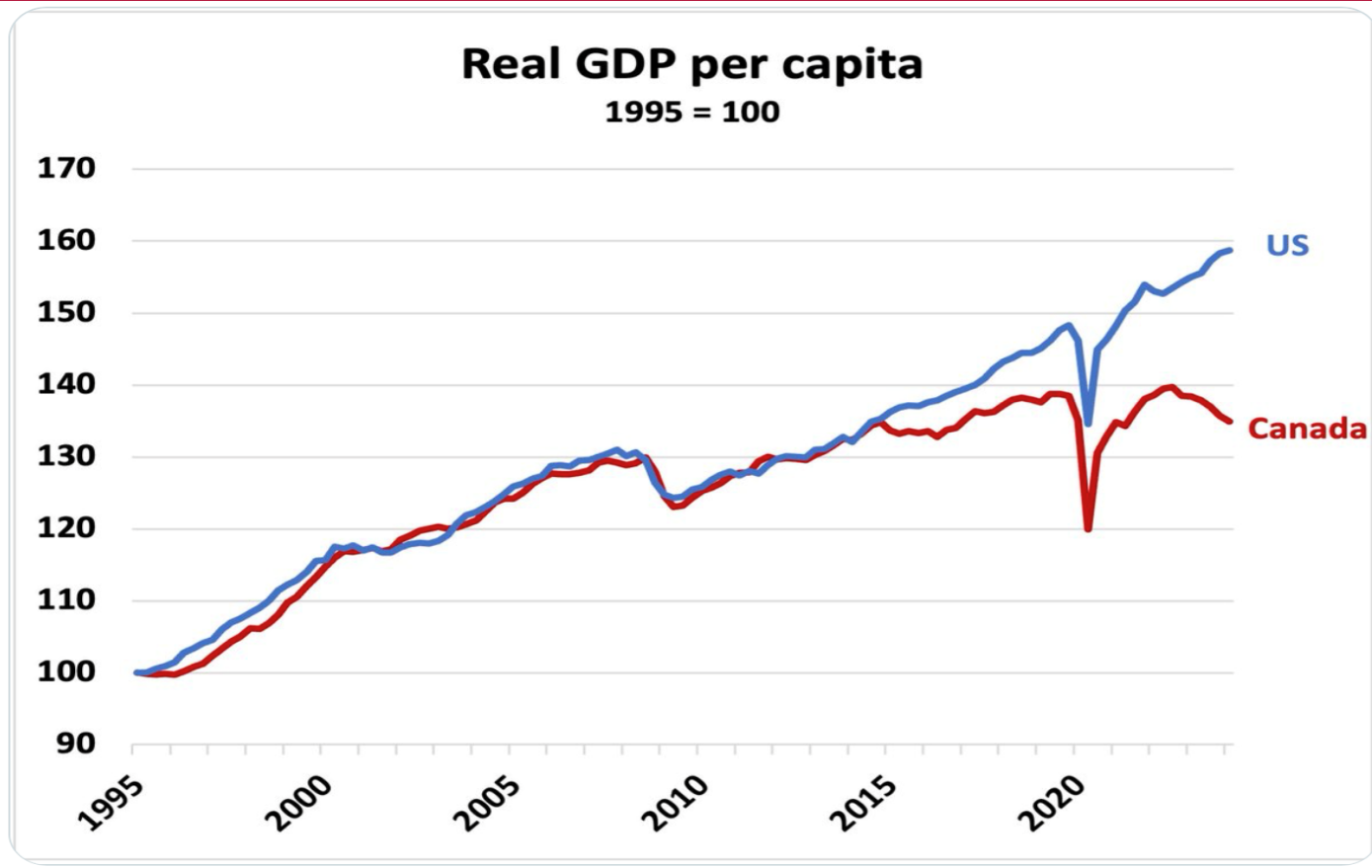
- These trends have been going on for 40+ years
- But the discontent and polarization resulting from it seem to have hit a flashpoint in the last few years
- “It feels like everything is broken in this country right now“, say seven-in-ten Canadians (Leger Poll, February 2024)
  - The reasons given for this were primarily economic – cost of living, standard of living, cost of housing, reduced prospects younger Canadians, etc.

# RECOGNITION IS STARTING TO HAPPEN

---

- Note the sudden interest in the opinion pieces about GDP per capita
  - When I first wrote about it in 2021, I was a bit of a weirdo
- Senior Deputy Governor of the Bank of Canada's recent speech
  - "It's time to break the glass"
- Recent FOI revelation of RCMP report
  - "Declining standard of living is a threat to national security and domestic social and political stability"

## 2. IT'S GDP PER CAPITA STUPID



“PRODUCTIVITY IS NOT EVERYTHING,  
BUT IN THE LONG RUN, IT’S ALMOST EVERYTHING”  
-PAUL KRUGMAN

---



### 3. STOP THE NONSENSE ABOUT THE “WORKER SHORTAGE”

---

- Federal immigration policy seems to have been motivated by a belief that its primary role is to act as a procurement agency of cheap foreign labour for business
  - The “worker shortage” canard
- A shortage of workers or a shortage of employers willing to pay higher wages?

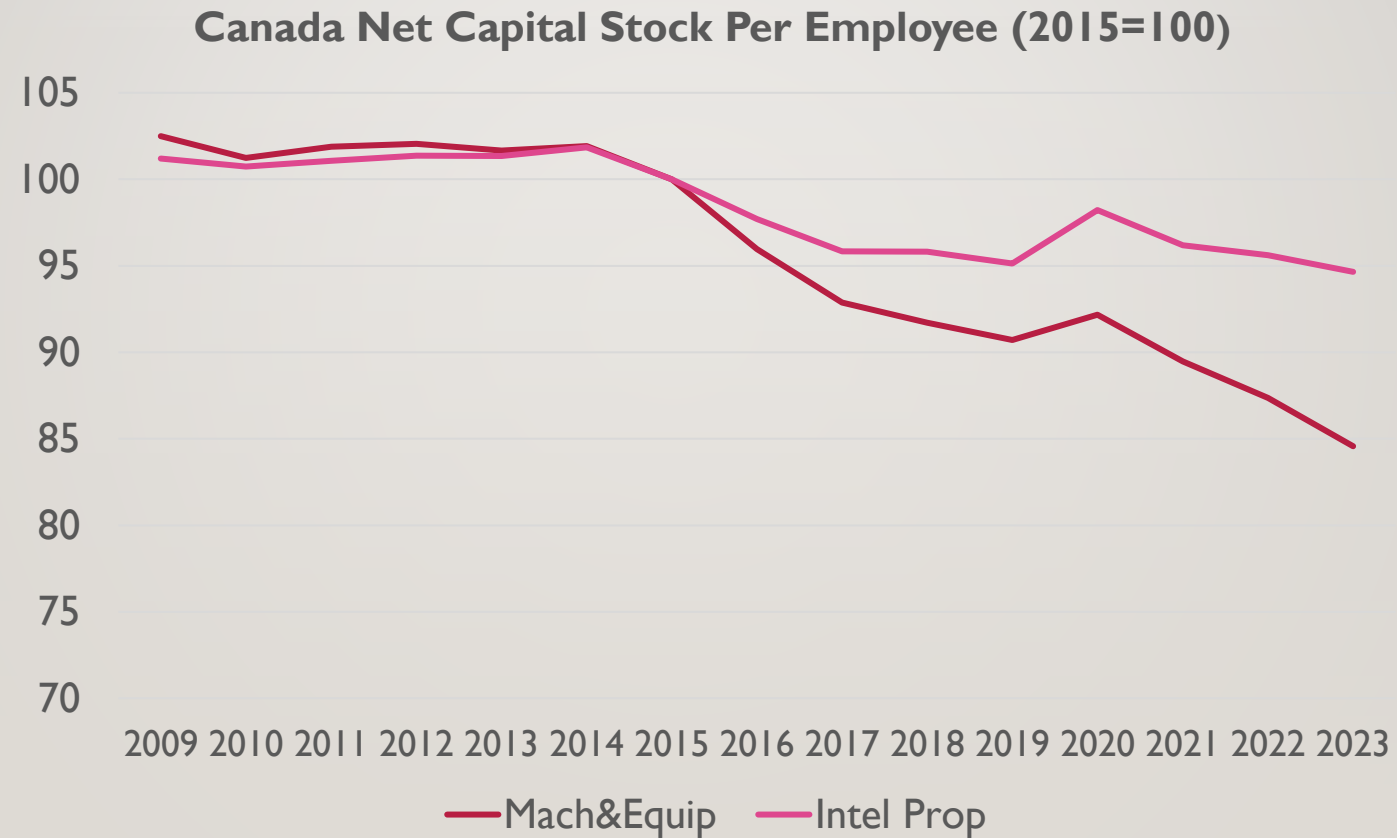
<https://www.theglobeandmail.com/business/commentary/article-about-that-worker-shortage-why-are-governments-helping-drive-down/>

# LETTING GO OF THE “WORKER SHORTAGE” CANARD IS KEY TO IMPROVING PRODUCTIVITY

---

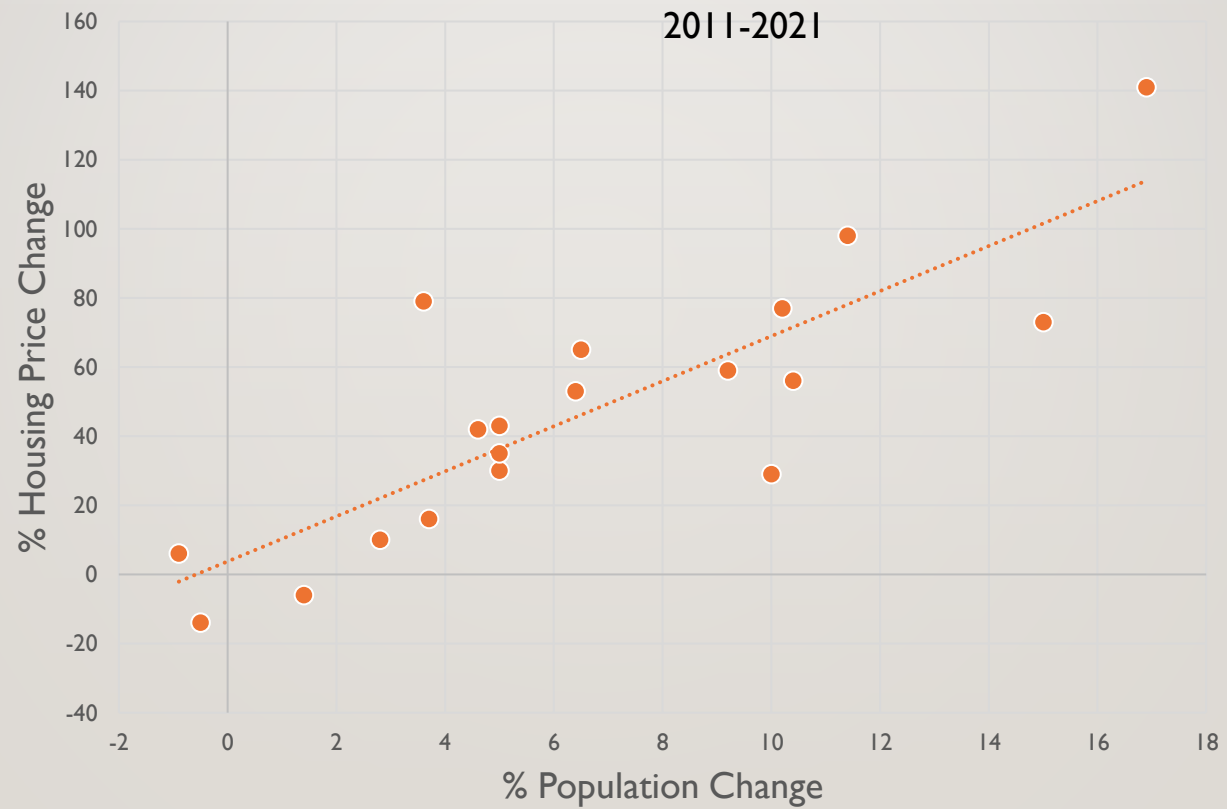
- Businesses need to be driven from the low-wage-low-productivity strategy to a high-wage-high-productivity strategy
- Yes, some won't be able to survive, but that is the force of “creative destruction” that has driven living standards higher for the past 200 years
  - Resources need to flow from low-productivity businesses to high-productivity businesses
- More invisible hand and less invisible hammock!

# SUBSTITUTING LABOUR FOR CAPITAL ISN'T A WINNING PRODUCTIVITY FORMULA



# 4. OBTUSENESS ON THE IMPACT OF HIGHER DEMAND ON THE HOUSING MARKET

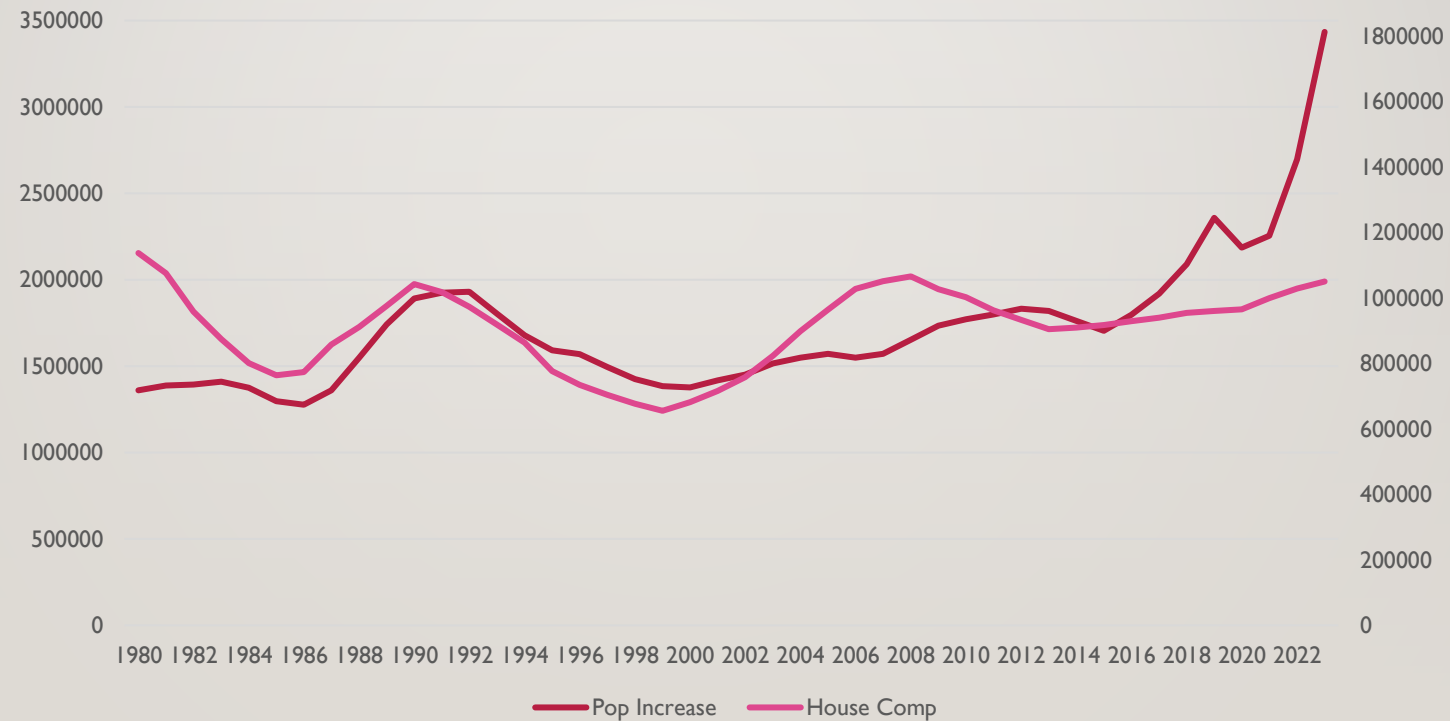
---





# I'M SHOCKED, SHOCKED! TO FIND OUT THERE IS A HOUSING SHORTAGE

5-Year Moving Average Population Increase (LHS)  
and Housing Completions (RHS)



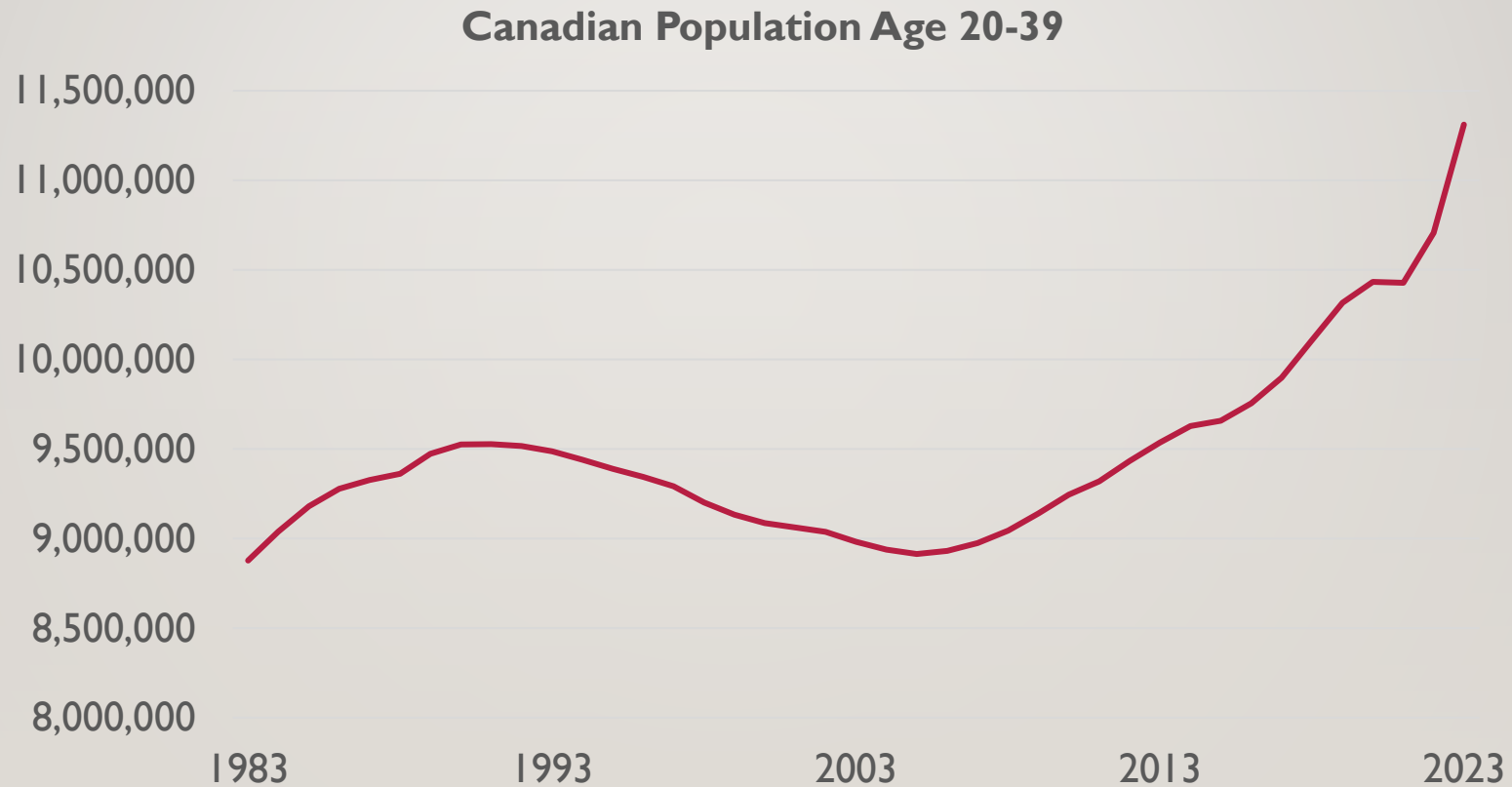
## 5. BABY BOOMER DERANGEMENT SYNDROME

---

- “The Boomers are the largest generation in Canadian history”
- “To avoid the burden of the retiring boomers we have to ramp up immigration”

# THE BOOMERS ARE **NOT** THE LARGEST GENERATION IN CANADIAN HISTORY

---

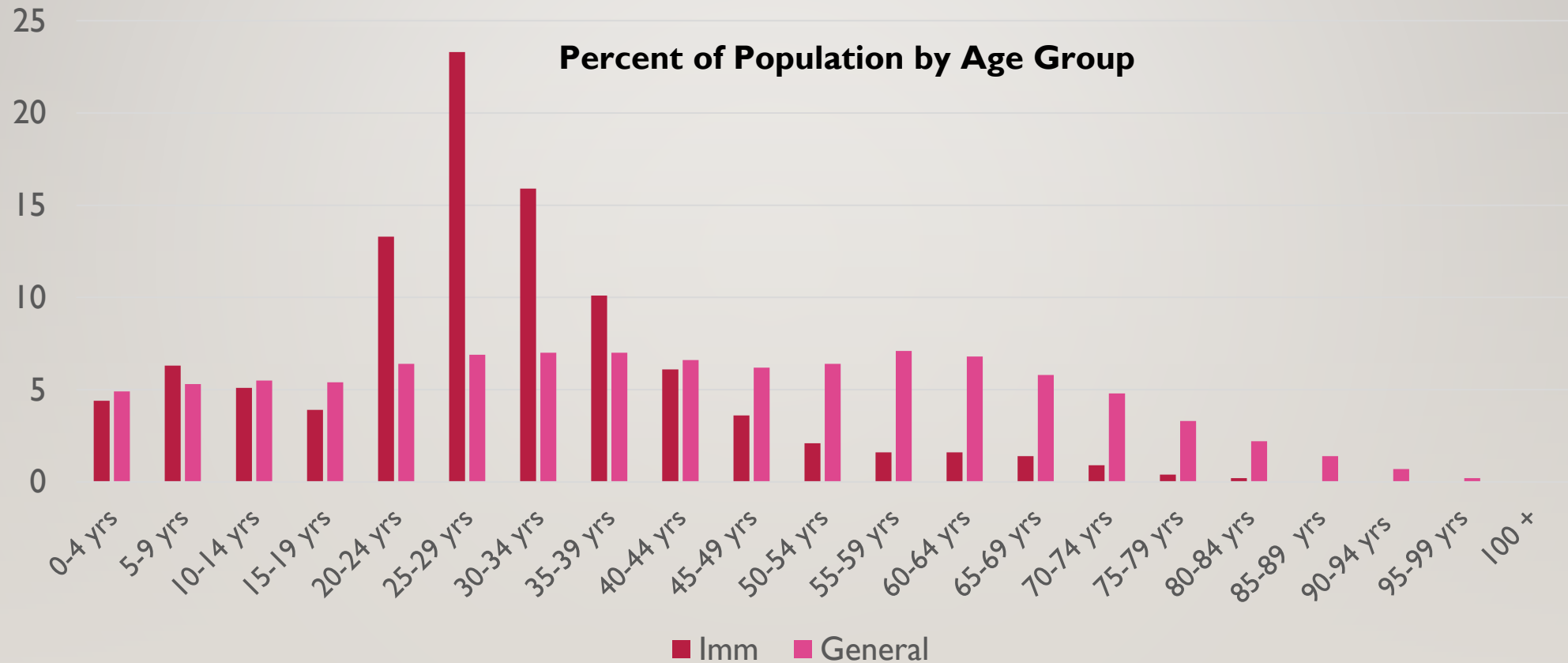


# THE BOOMERS, AND SENIORS MORE GENERALLY ARE A PONZI PROBLEM

---

- To stabilize the Old Age Dependency Ratio (OADR) through increased immigration we would have to increase population geometrically **forever**
  - To 156 million in 2067
  - To 668 million in 2117
  - ...

# CANADIANS 20-39 ARE THE INVOLUNTARY “SUCKERS” IN THIS PONZI SCHEME



# IMPLICATIONS OF THIS

---

- Canadians 20-39 forced to compete:
  - Against extraordinary demand in the housing market
    - I estimate the extraordinary increase in population since 2015 has created a need for an **incremental** million houses
  - Against extraordinary supply in the labour market

# SOLUTIONS TO THE BABY BOOMER PROBLEM

---

- The "Senior's Promise" of the 1960s was a Ponzi Scheme and this needs to be reformed
  - The population pyramid in 1965 was **NEVER** sustainable in perpetuity
    - The CPP reforms of the 1990s mostly fixed this, but there are lingering inequities
    - We still have to worry about the costs of seniors' health care, OAS and assisted living
  - We need to reflect the changes in life expectancy in "normal" retirement age

Life Expectancy at Age 65		
	Male	Female
1971	13.9	17.6
2019	19.6	22.4

Source: OSFI Office of the Chief Actuary

# SOLUTIONS TO THE BABY BOOMER PROBLEM (CON'T)

---

- Getting productivity growth back up to a decent level will cure a lot of ills
  - Tax burden of supporting seniors much more viable if everybody's real pay is going up 2-3% a year

...



## 6. THE SIMPLE ARITHMETIC OF OUR STANDARD OF LIVING

---

- Some industries pay relatively higher wages and generate high **net** government revenue per worker
- Other industries pay relatively low wages and/or generate low **net** government revenue per worker
- (Net government revenue = taxes minus subsidies)
- We should be encouraging more of the former and less of the latter

# 2019/20 EXAMPLE – BRITISH COLUMBIA WAGES

<b>Industries</b>	<b>Average Weekly Wage</b>
<b>Forestry, Fishery, Mining, Quarrying, Oil and Gas</b>	\$1722
<b>Professional, Scientific and Technical Services</b>	\$1392
<b>Transportation and Warehousing</b>	\$1223
<b>Manufacturing</b>	\$1206
<b>Accommodation and Food Services</b>	\$559
<b>Average All Industries</b>	\$1077

# 2019/20 EXAMPLE – BC NET GOVT REVENUE

<b>Sector</b>	<b>Estimated Revenue \$/Employee</b>	<b>Estimated “Profit/Loss” \$/Employee</b>
<b>Energy</b>	58,881	35,481
<b>Film and Media</b>	9,609	-13,791
<b>Forest</b>	56,263	32,863
<b>Mining</b>	38,324	14,924
<b>Other Manufacturing</b>	21,434	-1,966
<b>Technology</b>	24,341	941
<b>Tourism and Food Service</b>	16,468	-6,932

## 7. PAY ATTENTION IN OUR INDUSTRIAL POLICY TO THE FORCES OF GRAVITY

---

- The US economy is always going to be bigger, more dynamic and have more critical mass than the Canadian economy
- We need to factor that into account as we decide which “industries of the future” we bet on
- What types of industries will be naturally “sticky” in Canada?
- What policies can increase this stickiness?

WE NEED TO TAKE THIS SERIOUSLY

IF WE CANNOT RECOVER A SENSE OF  
OPTIMISM ABOUT THE FUTURE, I FEAR THE  
CANADIAN PROJECT IS DOOMED

---



THANK YOU

---

