ECONOMY

Canada needs strong per capita economy growth, but can Morneau deliver?

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Prime Minister Justin Trudeau and Finance Minister Bill Morneau, pictured March 22, 2016, at the Sir John A. Macdonald Building, after releasing the federal budget. *The Hill Times photograph by Jake Wright*

By DAVID CRANE

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TORONTO—In his first budget speech in March, Finance Minister Bill Morneau declared: "what the Canadian middle class needs most is strong economic growth." But we don't just need strong economic growth. We need strong per capita economic growth. But what if he can't deliver?

This is a question confronting not just the Trudeau government, but all three political parties because there is concern that we face a protracted period of weak economic growth. This has huge implications for government revenues and the affordability of our health-care system and other important public goods such as education and social supports. As well, it raises the risk of stagnating incomes and further income inequality when inequality is already too wide, leading to the weakening of trust and social capital as well as greater integrational and social tensions.

These are not trivial issues. They cut to the heart of how well we do as a country, forcing a debate on small government versus larger government, on our ability as a country to set spending priorities, and on the level of confidence Canadians can have in their institutions and sense of fairness in society.

This is why a new analysis by Mike Pennock, a public health epidemiologist in the B.C. Ministry of Health, published by the Ottawa-based and highly regarded Centre for the Study of Living Standards, is must reading even if some of his assumptions can be challenged.

The paper assumes that we face a prolonged period of slower economic growth and asks questions about how this will affect Canadians' sense of well-being. Canadians, it argues, can put up with slower growth provided that we can maintain our public goods and social institutions, our sense of fairness and trust, and deal with inequality. Can we?

Pennock assumes that an aging society, with a continuing decline in the growth of the labour force so that there are fewer people working relative to those not working (children and seniors)combined with weak productivity growth of just 1 per cent a year into the foreseeable future, condemn Canada to dangerously slow economic growth. A weakness in the Pennock paper is that he simply accepts poor productivity which, if he's correct, does mean much poorer economic prospects. In fact he assumes it is futile to push hard to improve economic growth. The innovation agenda matters.

Per capita economic growth has been slowing since the 1970s. In the 1970s, per capita growth averaged 3.3 per cent a year. In the 1980s it fell to 1.7 per cent a year, in the 1990s to 1.3 per cent a year, and in the 2000s so far to 1.0 per cent a year. For the next 20 years, Pennock calculates, this could fall further, to less than 1.0 per cent a year.

Other data illustrates how economic growth has favoured those at the top. Between 1976 and 2010, the top 20 per cent of Canadians saw their after-tax disposable income, adjusted for inflation, increase 27.1 per cent while the lowest 20 per cent saw disposable income rise by 15.9 per cent, though from a much lower base. But for the so-called middle class, those in the fourth, third and second highest income groups, real disposable income rose by a virtual stagnant 14.3 per cent, 6.7 per cent and 9.0 per cent.

Yet Canada has not seen the kind of anger found among voters in Britain's Brexit referendum nor has it seen the level of anger that has led many American voters to support Donald Trump.

Pennock argues that Canada's social structure has led Canadians to have one of the highest "satisfaction with life" scores in the world. Rising incomes from per capita GDP growth are less important, it seems, than the kind of social stability that our education and health care systems, social supports and other public goods, sense of fairness and trust, and commitment to diversity, civil rights and opportunity provide.

Canadians are less materialistic than Americans and many other societies, so a high priority is placed on what our constitution calls "peace, order and good government."

This satisfaction with life—in 2012-14 Canada ranked 18th in per capita GDP but fifth in satisfaction with life-is found in a number of global surveys. On the Social Progress Index, for example, Canada ranks fifth in the world while the U.S. is 16th.

Yet this is at risk and Canada could face a much more fractious future, Pennock warns, which is why I would argue, contrary to Pennock, that we have to go all-out to find ways to improve innovation-led productivity for faster growth so that we have the public revenues to maintain the social institutions and programmes that are at the heart of Canadian well-being. The risks from poor economic growth include a lack of government revenues to support the social institutions we value and which give us satisfaction in life, as well as further widening in income inequality and, which Pennock doesn't address, the low investment returns from weak growth which will make it much harder to save for future retirement.

This matters. "Many of the social institutions which are known to foster well-being, independent of income, require an active public and civil sector," Pennock argues. Spending for good health care and education, social support systems and effective social institutions would appear to matter much more than tax cuts and small government.

This brings us back to a broader debate on the role of government and the appropriate size of government. We have debated this in the past, but largely on ideological rather than evidence-based grounds, Pennock argues. But it is urgent that we have an evidence-based debate because "the outcome of these discussions might have real impacts on the well-being of Canadians."

Let's hope the issues are not too difficult for our MPs.

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