

The truth about Canada's middle class and the next generation^[1]

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EXCERPTS

Notwithstanding our national malaise about the slow performance of Canada's economy since 2008, data show that Canada produces more wealth than ever before. Our economy is more than twice as big as it was in 1976. After adjusting for inflation and population growth, it produces around an extra \$35,000 per household compared to the past. But because many of us aren't feeling better off, people now talk of the "middle class squeeze." This phrase is powerful, and politically useful for those seeking office.

But it also merits careful scrutiny. Talk of the "middle class squeeze" risks distracting attention from the generational reality. It is largely younger generations who are being squeezed out of the middle, while data show that the median older Canadian (yes, the very middle of that older demographic) is doing better than a generation ago when we consider income and wealth.

After adjusting for inflation, Statistics Canada data show that the typical 25-34 year old working full-time is making wages that are 11 percent (or about \$3/hour) lower than the same aged person in 1976. By contrast, the median 55-64 year old is making wages that are up 3 percent. When we look at the household level, the trend is even better for the older demographic. That group is bringing home incomes that are around 20 percent higher than a generation ago.

Income gains are just the tip of the iceberg when it comes to the average person nearing retirement. After adjusting for inflation, average housing values have nearly doubled. For those who bought homes decades ago, higher prices mean more wealth. Statistics Canada data reveal that the median person age 55-64 enjoys household wealth that has risen by around 100 percent compared to a generation ago.

Honey, I squeezed the kids

But what's been good for a generation heading into retirement has been bad for their kids and grandchildren. The typical 25-34 year old working full-time today must save for 10 years to put away a 20 percent down payment for housing in an average school district. That's twice as long as was required for the typical young worker a generation ago, even though today's down payment often purchases a smaller yard, a condo, or requires a longer commute.

Young people's wages are losing ground, despite the fact they are twice as likely to have post-secondary education compared to a generation ago (along with more student debt, because tuition is double what it was in 1976). To cope, we have seen many young people adapt by devoting more time to the labour market, which is a major reason why there has been a dramatic shift toward dual earner households. But after adjusting for inflation, two young people still bring home little more than what one breadwinner often did in the mid-1970s.

The result? Generations under age 45 are squeezed. Squeezed for time at home. Squeezed for money, because they pay higher student debts and housing prices with lower wages. And when they choose to have kids, they are squeezed for child care services, which remain in short supply, and often cost the equivalent of another mortgage. The national response to the squeeze on younger generations has been slow so far. Presently, governments allocate around \$45,000 a year per retiree compared to \$12,000 per person under age 45.

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Policy adaptation

But it is also time to adapt policy again for younger generations facing deep declines in their standard of living. The problem is, markets for wages and housing are difficult to influence. Policy can create minimum wages, and some social housing - fundamentally important parts of our safety net. However, such policies do little to help the typical 38 year old today who has debt that is more than 100 percent of household income because of housing and tuition costs. A generation ago, the norm was around 40 per cent.

So we must look to other policy mechanisms that will reduce time and income pressures as younger Canadians start jobs, homes and families. Although we are not likely to reverse the fact that younger Canadians now earn many thousands of dollars less per year and pay housing prices that are hundreds of thousands of dollars more, there are policy solutions by which we could mitigate these trends. It is time for policy makers to aspire to save Canadians tens of thousands of dollars as young adults so that they can pay down the typical student debt; reduce by years the time it takes to save a down payment or pay a mortgage; benefit from the power of compound interest to save for their own retirement; and afford more time at home with their kids.

Family policy is a prime mechanism to generate this scale of savings. For instance, better benefits for new moms and new dads would ensure that it doesn't cost younger generations the equivalent of a second mortgage when parents share 18 months at home with a new

baby. \$10/day child care would mean parents don't pay another mortgage for services on which they rely to have enough employment time to keep up with the rising cost of living. And since the 2012 federal budget asked younger Canadians to work more years (until age 67) before claiming Old Age Security, changes to employment practices would free workers to have an extra few hours a week at home each year before they retire.

Paying for these policy changes would not require a dramatic change in the generational spending gap. In fact, we could pay for these three changes by increasing the annual public allocation currently made per Canadian under the age of 45 from \$12,000 to \$13,000 - an extra \$1,000 per year - and target this investment to the expensive moment in people's lives when they are starting their homes, jobs, and families. All the while, we could retain annual spending per retiree around where it is now at \$45,000, which is many times higher than it is for younger Canadians.

Policy in action

How will we narrow the generational spending gap to reduce the time, money, and service squeeze on younger Canadians? Fortunately, Canada's older generations show us the answer.

For years now, the Canadian Association of Retired Persons (CARP) has organized on behalf of Boomers and Seniors. CARP's "About Us" page is brilliant, because it makes explicit that research about healthy aging yields more influence over public policy when it is accompanied by 'political clout.' They achieve this political clout by "bringing like-minded people together," in part with the promise to keep "money in their pocket." Accordingly, CARP has built a membership over 300,000 people strong, as it "march[es] to a million" members.

I, for one, am glad that CARP aspires to advocate for my mom and grandmother. But who advocates for younger generations? Inspired by CARP, the Generation Squeeze campaign is preparing its own march to a million supporters so that it can build a powerful organization that speaks for younger Canada - one that is just as large as CARP. Not because there is any interest in working against the interests of our parents and grandparents, but because we can't expect a better generational deal until we create equal generational power. Following CARP, the Generation Squeeze campaign will build political clout for Canadians in their mid-40s and younger by bringing like-minded people together in fun ways, in part with the promise to save them time and money so we reduce the squeeze.

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